YELP INC
Form 10-Q
May 10, 2018

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 March 31, 2018
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 (§232.405 of this chapter) 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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth 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
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 May 1, 2018, there were 83,657,627 shares of registrant's 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 suggests otherwise, references in this Quarterly Report on Form 10-Q (the "Quarterly Report") to "Yelp," the "Company," "we," "us" and "our" refer to Yelp Inc. and, where appropriate, its subsidiaries.
Unless the context otherwise indicates, where we refer in this Quarterly Report to our "mobile application" or "mobile app," we refer to all of our applications for mobile-enabled devices; references to our "mobile platform" refer to both our mobile app and the versions of our website that are optimized for mobile-based browsers. Similarly, references to our "website" refer to versions of our website dedicated to both desktop- and mobile-based browsers, as well as the U.S. and international versions of our website.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report contains forward-looking statements that involve risks, uncertainties and assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Quarterly Report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements are often identified by the use of words such as, but not limited to, “anticipate,” “believe,” “can,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “might,” “plan,” “project,” “seek,” “should,” “target,” “will expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management, which are in turn based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Quarterly Report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section entitled “Risk Factors” included under Part II, Item 1A below. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

NOTE REGARDING METRICS

We review a number of performance metrics to evaluate our business, measure our performance, identify trends in our business, prepare financial projections and make strategic decisions. Please see the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Metrics” for information on how we define our key metrics. Unless otherwise stated, these metrics do not include metrics from Yelp Reservations, Yelp Nowait, Yelp WiFi, our business owner products or Yelp Eat24, which we sold as of October 10, 2017.

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

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

Our measures of traffic and other key metrics may also differ from estimates published by third parties (other than those whose data we use to calculate such metrics) or from similar metrics of our competitors. We are continually seeking to improve our ability to measure these key metrics, and regularly review our processes to assess potential improvements to their accuracy. From time to time, we may discover inaccuracies in our metrics or make adjustments to improve their accuracy, including adjustments that may result in the recalculation of our historical metrics. We believe that any such inaccuracies or adjustments are immaterial unless otherwise stated.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
YELP INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	March 31, 2018	December 31, 2017 [1]
Assets		
Current assets:		
Cash and cash equivalents	$392,335	$547,850
Short-term marketable securities	422,283	273,366
Accounts receivable (net of allowance for doubtful accounts of $10,135 and $8,602 at March 31, 2018 and December 31, 2017, respectively)	75,533	76,173
Prepaid expenses and other current assets	19,975	15,700
Total current assets	910,126	913,089
Long-term marketable securities	14,898	25,032
Property, equipment and software, net	107,889	103,651
Goodwill	109,420	107,954
Intangibles, net	16,009	16,893
Restricted cash	18,800	18,554
Other non-current assets	41,357	40,428
Total assets	$1,218,499	$1,225,601
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$6,620	$9,033
Accrued liabilities	83,413	73,665
Deferred revenue	3,474	3,469
Total current liabilities	93,507	86,167
Long-term liabilities	32,839	30,737
Total liabilities	126,346	116,904
Commitments and contingencies (Note 12)		
Stockholders' equity		
Common stock, $0.000001 par value, 200,000,000 shares authorized – 83,956,890 shares issued and 83,596,510 shares outstanding at March 31, 2018 and 83,724,916 shares issued and outstanding at December 31, 2017	—	—
Additional paid-in capital	1,059,168	1,038,017
Treasury stock	(15,000)	(46)
Accumulated other comprehensive loss	(6,845)	(8,444)
Retained earnings	54,830	79,170
Total stockholders' equity	1,092,153	1,108,697
Total liabilities and stockholders' equity	$1,218,499	$1,225,601

(1) As of January 1, 2018, the Company adopted Accounting Standards Update 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASC 606"), using the full retrospective method. Accordingly, the Company has recast certain amounts in prior periods presented. See Note 1 below for additional discussion.

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2018	2017[1]
Net revenue	$223,074	$198,174
Costs and expenses:		
Cost of revenue (exclusive of depreciation and amortization shown separately below)	14,732	16,914
Sales and marketing	119,641	108,532
Product development	51,493	39,871
General and administrative	32,007	27,166
Depreciation and amortization	10,028	10,151
Restructuring and integration	—	231
Total costs and expenses	227,901	202,865
Loss from operations	(4,827)	(4,691)
Other income, net	2,604	732
Loss before income taxes	(2,223)	(3,959)
Provision for income taxes	(63)	(67)
Net loss attributable to common stockholders	$(2,286)	$(4,026)
Net loss per share attributable to common stockholders		
Basic	$(0.03)	$(0.05)
Diluted	$(0.03)	$(0.05)
Weighted-average shares used to compute net loss per share attributable to common stockholders		
Basic	83,785	79,843
Diluted	83,785	79,843

(1) As of January 1, 2018, the Company adopted ASC 606 using the full retrospective method. Accordingly, the Company has recast certain amounts in the prior period presented. See Note 1 below for additional discussion.

See notes to condensed consolidated financial statements.

3

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

	Three Months Ended March 31,	
	2018	2017[(1)]
Net loss attributable to common stockholders	$(2,286)	$(4,026)
Other comprehensive income:		
Foreign currency translation adjustments	1,569	1,071
Foreign currency adjustments to net income upon liquidation of investment in foreign entities	30	—
Other comprehensive income	1,599	1,071
Comprehensive loss	$(687)	$(2,955)

(1) As of January 1, 2018, the Company adopted ASC 606 using the full retrospective method. Accordingly, the Company has recast certain amounts in the prior period presented. See Note 1 below for additional discussion.

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2018	2017[(1)]
OPERATING ACTIVITIES:		
Net loss attributable to common stockholders	$(2,286)	$(4,026)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	10,028	10,151
Provision for doubtful accounts and sales returns	8,143	5,901
Stock-based compensation	27,734	24,334
Other adjustments	(913)	253
Changes in operating assets and liabilities:		
Accounts receivable	(6,995)	(4,458)
Prepaid expenses and other assets	(5,074)	(1,653)
Accounts payable, accrued expenses and other liabilities	7,652	10,459
Deferred revenue	7	274
Net cash provided by operating activities	38,296	41,235
INVESTING ACTIVITIES:		
Purchases of marketable securities	(280,893)	(73,971)
Maturities of marketable securities	143,000	68,000
Acquisition of a business, net of cash received	—	(30,833)
Purchases of property, equipment and software	(10,927)	(2,452)
Capitalized website and software development costs	(4,698)	(4,208)
Other investing activities	27	29
Net cash used in investing activities	(153,491)	(43,435)
FINANCING ACTIVITIES:		
Proceeds from issuance of common stock for employee stock-based plans	5,682	3,287
Repurchases of common stock	(33,309)	—
Taxes paid related to the net share settlement of equity awards	(12,347)	—
Net cash (used in) provided by financing activities	(39,974)	3,287
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(100)	138
CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(155,269)	1,225
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—Beginning of period	566,404	289,518
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—End of period	$411,135	$290,743
SUPPLEMENTAL DISCLOSURES OF OTHER CASH FLOW INFORMATION:		
Cash paid (refund received) for income taxes, net	$206	$(107)
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Purchases of property, equipment and software recorded in accounts payable, accrued expenses and other liabilities	$2,242	$596
Tax liability related to net share settlement of equity awards included in accrued liabilities	1,092	—
Repurchases of common stock recorded in accrued liabilities	3,684	—

(1) As of January 1, 2018, the Company adopted ASC 606 using the full retrospective method. Accordingly, the Company has recast certain amounts in the prior period presented. See Note 1 below for additional discussion.
Also as of January 1, 2018, the Company adopted Accounting Standards Update No. 2016-18, "Statement of Cash Flows (Subtopic 230): Restricted Cash," and recast the prior period presented. See Note 1 below for additional

discussion.
See notes to condensed consolidated financial statements.

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

1. DESCRIPTION OF BUSINESS AND BASIS FOR PRESENTATION

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

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

Basis of Presentation

The accompanying interim condensed consolidated financial statements are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and the applicable rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on February 28, 2018 (the “Annual Report”).

The unaudited condensed consolidated balance sheet as of December 31, 2017 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 and certain balances which have been restated as a result of the adoption of new accounting pronouncements. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements, except as follows:

Revenue from Contracts with Customers—In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASC 606”), which supersedes the revenue recognition requirements in Revenue Recognition (Topic 605) and requires entities to recognize revenue when they transfer promised goods or services to customers in an amount that reflects the consideration that the entity expects to be entitled to receive in exchange for such goods or services. The Company adopted ASC 606 effective January 1, 2018 using the full retrospective method and, accordingly, has restated each prior reporting period presented. The Company's adoption of ASC 606 resulted in the following adjustments to its previously reported results (in thousands):

	As Previously Reported	Impact of ASC 606 Adoption	As Currently Reported
Income Statement—Three Months Ended March 31, 2017			
Net revenue	$ 197,323	$ 851	$ 198,174
Costs and Expenses:			
Sales and marketing	109,286	(754)	108,532
General and administrative	26,315	851	27,166
Net loss attributable to common stockholders	(4,780)	754	(4,026)
Basic earnings per share	(0.06)	0.01	(0.05)
Diluted earnings per share	(0.06)	0.01	(0.05)
Balance Sheet—As of December 31, 2017			
Allowance for doubtful accounts	7,352	1,250	8,602
Other non-current assets	31,339	9,089	40,428
Retained earnings	70,081	9,089	79,170
Statement of Cash Flows—Three Months Ended March 31, 2017			
Provision for doubtful accounts and sales returns	5,050	851	5,901
Change in accounts receivable	(3,607)	(851)	(4,458)
Change in prepaid expenses and other assets	(899)	(754)	(1,653)

Statement of Cash Flows—In November 2016, FASB issued Accounting Standards Update No. 2016-18, “Statement of Cash Flows (Subtopic 230): Restricted Cash” (“ASU 2016-18”), which requires amounts generally described as restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the total beginning and ending amounts for the periods shown on the statement of cash flows. The Company adopted the standard effective January 1, 2018 and recast the prior reported periods presented. The impact to the change in cash and cash equivalents balance previously reported on the consolidated statement of cash flows is presentation only; changes in restricted cash were previously included within investing activities and are now included in changes to the total cash balance within the condensed consolidated statements of cash flows.

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

Significant Accounting Policies

Except as set forth below, there have been no material changes to the Company's significant accounting policies from those described in the Annual Report.

Revenue Recognition—The Company generates revenue from its advertising products, transactions and other services. The Company recognizes revenue when all of the following criteria are met: the contract with the customer is identified; the performance obligations in the contract are identified; the transaction price is determined; the transaction price is allocated to the performance obligations in the contract; and revenue is recognized when (or as) the Company satisfies these performance obligations. The Company applies the portfolio practical expedient to account for contracts with customers in each category of revenue.

Revenue is recognized net of any taxes collected from customers, which are remitted to governmental authorities. The Company does not typically refund customers for services once it determines the performance obligations of the contract have been satisfied, but will assess any refund requests from customers and partners on a case by case basis. The Company records an allowance for potential future refunds, which is estimated based on historical trends and recorded as a reduction of net revenue.

Advertising. The Company generates advertising revenue primarily through the display of advertising products on its website and mobile app. These arrangements are evidenced by either written or electronic acceptance of a contract that stipulates the types of advertising to be delivered, the timing and pricing. Performance-based advertising placements are priced on a cost-per-click basis, while impression-based advertising placements are priced on a cost per thousand impressions basis. The Company recognizes revenue from the delivery of performance-based ads and impression-based ads in the period of delivery, in each case net of customer discounts, assuming all other revenue recognition criteria are met. The Company also offers businesses premium features in connection with their business listing pages pursuant to fixed monthly fees, and recognizes revenue from such offerings over the service period, assuming all other revenue recognition criteria are met.

The Company also generates advertising revenue through indirect sales of advertising products, such as through reseller contracts that allow partners to sell Yelp Branded Profiles to their clients and the monetization of remnant advertising inventory through third-party ad networks, and recognizes revenue in the period of delivery, assuming all other revenue recognition criteria are met.

Transactions. The Company generates transactions revenue from revenue-sharing partner contracts, the sale of vouchers through the Company's "Yelp Deals" and "Yelp Gift Certificates" products, and, through October 10, 2017, Yelp Eat24 as a standalone product.

The Company's transactions platform provides consumers with the ability to complete food delivery and other transactions through third parties directly on Yelp. The Company earns a per transaction commission fee pursuant to partnership contracts for acting as an agent for these transactions, which it recognizes on a net basis and includes in revenue upon completion of a transaction, assuming all other revenue recognition criteria is met.

Other Services. The Company generates other services revenue through subscription services contracts, such as sales of monthly subscriptions to its Yelp Reservations, Yelp Nowait and Yelp WiFi Marketing products, licensing contracts for access to Yelp data and other non-advertising, non-transaction partnerships. Subscription revenues are recognized ratably over the contract terms beginning on the commencement date of each contract, which is the date the service is made available to customers, assuming all other revenue recognition criteria are met.

Contracts with Multiple Performance Obligations. Contracts with customers can include multiple performance obligations, where revenue is allocated to each performance obligation based on its relative standalone selling price ("SSP"). The Company determines SSP based on the prices of the promised goods or services charged when sold separately to customers, which are determined using contractually stated prices. The various products and services comprising contracts with multiple performance obligations are typically capable of being distinct and accounted for as separate performance obligations.

Estimates and assumptions include determining variable consideration, identifying the nature and timing of satisfaction of performance obligations, and calculating the SSP of performance obligations. The Company allocates revenue to each of the performance obligations included in a contract with multiple performance obligations at the inception of the contract. The Company applies the invoice practical expedient to depict the value transferred to the customer and measure of progress towards completion of its obligations. Because the Company considers contracts month-to-month, variable consideration is resolved at the time of invoicing, which eliminates the use of estimates in determining the transaction price. The Company does not consider the effects of the time value of money as the majority of the Company’s contracts are invoiced on a monthly basis, one month in arrears.

Accounts Receivable, Net, and Payment Terms—The timing of revenue recognition may differ from the timing of invoicing to customers. The Company records an accounts receivable balance when revenue is recognized prior to or at the time of invoicing the customer. Payment terms and conditions vary by contract type and the service being provided. For advertising services, the Company typically invoices customers on a monthly basis, one month in arrears, and payment is collected either at the end of each billing period or up to 30 days after the end of the billing period. For transaction services, the Company's commission fee on each transaction is collected either at the time of the transaction, or up to 30 days after the end of the billing period. For subscription services, the Company typically invoices one month in advance, and payment is collected at the beginning of each billing period.

Allowance for Doubtful Accounts—The Company maintains an allowance for doubtful accounts receivable. The allowance reflects the Company's best estimate of probable losses inherent in the accounts receivable balance. It is based upon historical experience and loss patterns, the number of days that billings are past due, an evaluation of the potential risk of loss associated with delinquent accounts and known delinquent accounts. When new information becomes available that allows the Company to more accurately estimate the allowance, it makes an adjustment, which is considered a change in accounting estimate. The carrying value of accounts receivable approximates their fair value.

Deferred Contract Costs—ASC 606 also modified Subtopic Accounting Standards Codification 340-40, "Other Assets and Deferred Costs—Contracts with Customers," which requires the Company to recognize a deferred cost asset for the incremental costs of obtaining a contract with a customer. The Company classifies certain sales incentive compensation costs as incremental to obtaining the related contract. These costs are capitalized in the period in which they are incurred and amortized on a straight-line basis over the expected customer life of the associated contract. The Company determined to use the straight line basis as the expected benefit will be realized uniformly over the amortization period.The amortization periods for contract costs, which extend up to 41 months, were calculated based on both qualitative and quantitative factors, including product lifecycle attributes and customer retention using historical data. For contract costs with amortization periods of 12 months or less, the Company applies a practical expedient to expense such costs as incurred. The Company assesses deferred contract costs for impairment on a quarterly basis. Amortized contract costs are recorded within sales and marketing expense on the consolidated statements of operations. Deferred contract costs are included within other non-current assets on the Company's consolidated balance sheets (see Note 8).

Deferred Revenue—The Company records deferred revenue when it has received consideration, or has the right to receive consideration, in advance of the transfer of the performance obligations of the contract to the customer.

Recent Accounting Pronouncements Not Yet Effective

In February 2016, FASB issued Accounting Standards Update No. 2016-02, “Leases” (“ASU 2016-02”). The new guidance generally requires an entity to recognize on its balance sheet operating and financing lease liabilities and corresponding right-of-use assets, as well as to recognize the expenses on its statements of operations in a manner similar to that required under current accounting rules. The standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2018 and early adoption is permitted. The new standard requires a modified retrospective transition for existing leases to each prior reporting period presented. Although the Company is in the process of evaluating the impact of adoption of ASU 2016-02 on its consolidated financial statements, the Company currently expects the most significant changes will be related to the recognition of new right-of-use assets and lease liabilities on the Company's consolidated balance sheet for real estate operating leases.

In January 2017, FASB issued Accounting Standards Update No. 2017-04, “Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” (“ASU 2017-04”). This new guidance simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Entities will now perform goodwill impairment tests by comparing fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. The standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2019 and early adoption is permitted. The Company is currently evaluating the impact and timing of the adoption of ASU 2017-04, but expects that it will not have a material impact on its consolidated financial statements.

In March 2017, FASB issued Accounting Standards Update No. 2017-08, “Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities” (“ASU 2017-08”). This new guidance requires entities to amortize purchased callable debt securities held at a premium to the earliest call date. The standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2018 and early adoption is permitted. The Company does not expect the adoption of ASU 2017-08 to have a material impact on its consolidated financial statements.

Principles of Consolidation

These unaudited interim condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated upon 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 condensed consolidated financial statements; therefore, actual results could differ from management’s estimates.

2. CASH, CASH EQUIVALENTS AND RESTRICTED CASH

Cash, cash equivalents and restricted cash as of March 31, 2018 and December 31, 2017 consisted of the following (in thousands):

	March 31, 2018	December 31, 2017
Cash	$163,440	$283,085
Cash equivalents	228,895	264,765
Total cash and cash equivalents	$392,335	$547,850
Restricted cash	$18,800	$18,554
Total cash, cash equivalents and restricted cash	$411,135	$566,404

As of March 31, 2018 and December 31, 2017, the Company had letters of credit collateralized fully by bank deposits which total $18.8 million and $18.6 million, respectively. These letters of credit primarily relate to lease agreements for certain of the Company's offices, which are required to be maintained and issued to the landlords of each facility. Each letter of credit is subject to renewal annually until the applicable lease expires. As the bank deposits have restrictions on their use, they are classified as restricted cash on the Company's condensed consolidated balance sheets.

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

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

The following table represents the Company's financial instruments measured at fair value as of March 31, 2018 and December 31, 2017 (in thousands):

	March 31, 2018				December 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash Equivalents:								
Money market funds	$218,054	$—	$ —	$218,054	$217,838	$—	$ —	$217,838
Commercial paper	—	9,985	—	9,985	—	46,927	—	46,927
Marketable Securities:								
Commercial paper	—	227,619	—	227,619	—	138,412	—	138,412
Corporate bonds	—	89,672	—	89,672	—	69,926	—	69,926
Agency bonds	—	80,861	—	80,861	—	78,913	—	78,913
U.S. government bonds	—	38,609	—	38,609	—	—	—	—
Agency discount notes	—	—	—	—	—	10,989	—	10,989
Total cash equivalents and marketable securities	$218,054	$446,746	$ —	$664,800	$217,838	$345,167	$ —	$563,005

4. MARKETABLE SECURITIES

The amortized cost, gross unrealized gains and losses, and fair value of securities held-to-maturity as of March 31, 2018 and December 31, 2017 were as follows (in thousands):

	March 31, 2018			
Short-term marketable securities:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Commercial paper	$227,630	$ 1	$ (12)	$227,619
Corporate bonds	86,977	—	(282)	86,695
Agency bonds	69,036	—	(70)	68,966
U.S. government bonds	38,640	—	(31)	38,609
Total short-term marketable securities	422,283	1	(395)	421,889
Long-term marketable securities:				
Agency bonds	$11,912	$ —	$ (17)	$11,895
Corporate bonds	2,986	—	(9)	2,977
Total long-term marketable securities	$14,898	$ —	$ (26)	$14,872
Total marketable securities	$437,181	$ 1	$ (421)	$436,761

	December 31, 2017			
Short-term marketable securities:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Commercial paper	$138,412	$ 1	$ (1)	$138,412
Corporate bonds	45,006	—	(41)	44,965
Agency bonds	78,958	—	(45)	78,913
Agency discount bonds	$10,990	$ —	$ (1)	$10,989
Total short-term marketable securities	$273,366	$ 1	$ (88)	$273,279
Long-term marketable securities:				
Corporate bonds	$25,032	$ —	$ (71)	$24,961
Total long-term marketable securities	$25,032	$ —	$ (71)	$24,961
Total marketable securities	$298,398	$ 1	$ (159)	$298,240

The following tables present gross unrealized losses and fair values for those securities that were in an unrealized loss position as of March 31, 2018 and December 31, 2017, aggregated by investment category and the length of time that the individual securities have been in a continuous loss position (in thousands):

	March 31, 2018					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate bonds	$89,672	$ (291)	$ —	$ —	$89,672	$ (291)
Agency bonds	80,861	(87)	—	—	80,861	(87)
U.S. government bonds	38,609	(31)	—	—	38,609	(31)
Commercial paper	18,866	(12)	—	—	18,866	(12)
Total	$228,008	$ (421)	$ —	$ —	$228,008	$ (421)

	December 31, 2017					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Agency bonds	$78,913	$ (45)	$ —	$ —	$78,913	$ (45)
Corporate bonds	62,927	(112)	—	—	62,927	(112)
Agency discount notes	10,989	(1)	—	—	10,989	(1)
Commercial paper	3,975	(1)	—	—	3,975	(1)
Total	$156,804	$ (159)	$ —	$ —	$156,804	$ (159)

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 months ended March 31, 2018 and 2017, the Company did not recognize any other-than-temporary impairment loss.

5. PROPERTY, EQUIPMENT AND SOFTWARE, NET

Property, equipment and software, net as of March 31, 2018 and December 31, 2017 consisted of the following (in thousands):

	March 31, 2018	December 31, 2017
Capitalized website and internal-use software development costs	$87,860	$81,710
Leasehold improvements	77,892	74,236
Computer equipment	34,889	32,450
Furniture and fixtures	17,093	16,435
Telecommunication	4,197	3,996
Software	1,212	1,212
Total	223,143	210,039
Less accumulated depreciation	(115,254)	(106,388)
Property, equipment and software, net	$107,889	$103,651

Depreciation expense was approximately $9.1 million and $8.2 million for the three months ended March 31, 2018 and 2017, respectively.

6. GOODWILL AND INTANGIBLE ASSETS

The Company’s goodwill is the result of its acquisitions of other businesses, and represents the excess of purchase consideration over the fair value of assets and liabilities acquired. The Company performed its annual goodwill impairment analysis during the three months ended September 30, 2017 and concluded that goodwill was not impaired, as the fair value of each reporting unit exceeded its carrying value.

The changes in carrying amount of goodwill during the three months ended March 31, 2018 were as follows (in thousands):

Balance as of December 31, 2017	$107,954
Effect of currency translation	1,466
Balance as of March 31, 2018	$109,420

Intangible assets at March 31, 2018 and December 31, 2017 consisted of the following (dollars in thousands):

	March 31, 2018			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life
Business relationships	$9,918	$ (1,139)	$8,779	10.1 years
Developed technology	7,832	(2,443)	5,389	3.8 years
Content	4,087	(3,747)	340	1.6 years
Domains and data licenses	2,869	(1,976)	893	2.0 years
Trademarks	877	(360)	517	1.9 years
User relationships	146	(55)	91	2.0 years
Total	$25,729	$ (9,720)	$16,009	

	December 31, 2017			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life
Business relationships	$9,918	$ (896)	$9,022	10.3 years
Developed technology	7,832	(2,071)	5,761	4.1 years
Content	4,005	(3,610)	395	1.8 years
Domain and data licenses	2,869	(1,847)	1,022	2.2 years
Trademarks	877	(287)	590	2.2 years
User relationships	146	(43)	103	2.2 years
Total	$25,647	$ (8,754)	$16,893	

Amortization expense was $0.9 million and $1.9 million for the three months ended March 31, 2018 and 2017, respectively. As of March 31, 2018, the estimated future amortization of purchased intangible assets for (i) the remaining nine months of 2018, (ii) each of the succeeding four years, and (iii) thereafter is as follows (in thousands):

Year Ending December 31,	Amount
2018 (from April 1, 2018)	$2,649
2019	3,277
2020	2,402
2021	2,262
2022	1,045
Thereafter	4,374
Total amortization	$16,009

7. ACQUISITIONS AND DISPOSALS

Nowait, Inc.

On February 28, 2017, the Company acquired Nowait, Inc. (“Nowait”). In connection with the acquisition, all outstanding capital stock and options and warrants to purchase capital stock of Nowait — including the 20% equity investment in Nowait the Company acquired in July 2016 — were converted into the right to receive an aggregate of approximately $39.8 million in cash. Of the total amount of consideration paid in connection with the acquisition, $7.9 million is being held in escrow for a two-year period after the closing to secure the Company’s indemnification rights. The key purpose underlying the acquisition was to secure waitlist system and seating tool technology. The Company utilized an income approach to determine the valuation of the Company’s existing equity investment in Nowait as of the acquisition date. The carrying value of the Company’s investment approximated its fair value.

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 Nowait’s operations included in the Company’s consolidated financial statements from February 28, 2017. The final purchase price allocation is as follows (in thousands):

	February 28, 2017
Fair value of purchase consideration	
Cash:	
Distributed to Nowait stockholders	$31,892
Held in escrow account	7,945
Total purchase consideration	39,837
Fair value of net assets acquired:	
Cash and cash equivalents	$1,004
Intangible assets	12,670
Goodwill	25,959
Other assets	1,065
Total assets acquired	40,698
Liabilities assumed	(861)
Total liabilities assumed	(861)
Net assets acquired	$39,837

Estimated useful lives and the amount assigned to each class of intangible assets acquired are as follows (dollars in thousands):

Intangible Asset Type	Amount Assigned	Useful Life
Enterprise restaurant relationships	$ 8,500	12.0 years
Acquired technology	2,900	5.0 years
Trademarks	610	3.0 years
Local restaurant relationships	600	5.0 years
User relationships	60	3.0 years
Weighted average		9.6 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 key restaurant vertical by allowing consumers to move more quickly from search and discovery to transacting at a local business. None of the goodwill is deductible for tax purposes.

The Company recorded zero and $0.1 million acquisition-related transaction costs for the three months ended March 31, 2018 and 2017, respectively, which were included in general and administrative expenses in the accompanying condensed consolidated statement of operations.

The condensed consolidated statements of operations for the three months ended March 31, 2018 and 2017 include $1.2 million and $0.2 million of revenue attributable to the Nowait product, respectively, and $0.8 million of net loss for the three months ended March 31, 2017. The Company completed its integration of Nowait's operations into those of the Company during the three months ended December 31, 2017 and, as such, determining Nowait's contribution to the net loss of the Company for the three months ended March 31, 2018 is impracticable.

Turnstyle Analytics Inc.

On April 3, 2017, the Company acquired all of the equity interests in Turnstyle Analytics Inc. (“Turnstyle”) for approximately $20.6 million, approximately $1.0 million of which represents compensation cost due to a continuous service requirement, and the remainder of which represents purchase consideration. Of the total consideration paid in connection with the acquisition, $3.1 million is being held in escrow for an 18-month period after the closing to secure the Company’s indemnification rights. The key factor underlying the acquisition was to obtain a customer retention and loyalty product in the form of a location-based marketing and analytics platform that provides Wi-Fi as a digital marketing tool to expand its product offerings for local businesses.

The acquisition was accounted for as a business combination in accordance with ASC 805, with the results of Turnstyle’s operations included in the Company’s consolidated financial statements from April 3, 2017. The Company’s allocation of the purchase price is preliminary as the amounts related to identifiable intangible assets 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):

	April 3, 2017
Fair value of purchase consideration	
Cash:	
Distributed to Turnstyle stockholders	$16,648
Held in escrow account	3,093
Total purchase consideration	$19,741
Fair value of net assets acquired:	
Cash and cash equivalents	$30
Intangible assets	4,252
Goodwill	16,048
Other assets	250
Total assets acquired	20,580
Deferred tax liability	(450)
Liabilities assumed	(389)
Total liabilities assumed	(839)
Net assets acquired	$19,741

Estimated useful lives and the amount assigned to each class of intangible assets acquired are as follows (dollars in thousands):

Intangible Asset Type	Amount Assigned	Useful Life
Acquired technology	$ 3,250	5.0 years
Business relationships	672	5.0 years
Trademarks	250	3.0 years
User relationships	80	3.0 years
Weighted average		4.9 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 expand its product offerings to local businesses through the Turnstyle marketing and analytics platform. None of the goodwill is deductible for tax purposes.

No acquisition costs were recognized in the three months ended March 31, 2018 or 2017.

The condensed consolidated statements of operations for the three months ended March 31, 2018 include $0.7 million of revenue attributable to Yelp Wifi Marketing, the Turnstyle product. The Company completed its integration of Turnstyle's operations into those of the Company during the three months ended December 31, 2017 and, as such, determining Turnstyle's contribution to the net loss of the Company for the three months ended March 31, 2018 is

impracticable.
Eat24, LLC

15

On October 10, 2017, pursuant to the terms of a Unit Purchase Agreement, dated as of August 3, 2017 (the “Purchase Agreement”), by and among the Company, Eat24, LLC, a wholly-owned subsidiary of the Company ("Eat24"), Grubhub Inc. (“Grubhub”) and Grubhub Holdings Inc. (“Purchaser”), a wholly-owned subsidiary of Grubhub, the Company completed the sale of all of the outstanding equity interests in Eat24 to the Purchaser (the “Disposal”). Immediately prior to the closing of the Disposal, the Company transferred certain assets to Eat24, which consisted of assets that were material to or necessary for the operation of the Eat24 business that were not then owned by Eat24. The Company entered into a Marketing Partnership Agreement (“Partnership Agreement”) with the Purchaser concurrently with the Purchase Agreement. The purpose of the Disposal was to further capitalize on the Company's strong market position of connecting people with local businesses by selling Eat24 to the Purchaser, which has a strong presence in online and mobile food ordering, and entering into the Partnership Agreement, pursuant to which the Company earns a fee on all food orders placed through the Grubhub restaurant network, including Eat24 restaurants, that originate on the Company's Platform.

The Company received $251.7 million in cash at closing; the Purchaser paid the remaining $28.8 million of the purchase price into an escrow account, which will be held for an 18-month period after closing to secure the Purchaser's rights of indemnification under the Purchase Agreement and is presented on the Company's consolidated balance sheets as an Other non-current asset (see Note 8). The Company received $1.0 million in additional purchase consideration on December 14, 2017 as a net working capital adjustment. As a result of the sale, the Company recognized a pre-tax gain of $164.8 million during the three months ended December 31, 2017, which is included in gain on disposal of a business unit in the Company's consolidated statement of operations, which is net of $0.3 million in disposal related costs. Prior to the Disposal, Eat24 was its own reporting unit and $110.8 million of goodwill associated with the Eat24 reporting unit was derecognized and included with the net assets disposed. Due to the Company's adoption of ASC 606 on January 1, 2018 (see Note 1), the gain recognized on the sale of Eat24 decreased by $1.1 million to $163.7 million. This decrease in the gain recognized was a result of higher net assets of Eat24 as of the closing date as a result of the adoption of ASC 606, which related to the recognition of capitalized contract costs.

The Disposal was accounted for as an asset group disposal in accordance with Accounting Standards Codification 360, "Property, Plant, and Equipment." The results of Eat24's operations are included in the Company's consolidated financial statements through October 10, 2017. The loss before provision for income taxes attributable to Eat24 for the three months ended March 31, 2017 was $3.8 million.

The Company acquired Eat24 on February 9, 2015. The final disbursement from the escrow account created to secure indemnification obligations related to the acquisition was completed in the three months ended March 31, 2018.

8. OTHER NON-CURRENT ASSETS

Other non-current assets as of March 31, 2018 and December 31, 2017 consisted of the following (in thousands):

	March 31, 2018	December 31, 2017
Escrow deposit	$28,750	$ 28,750
Deferred contract costs	9,683	9,089
Other	2,924	2,589
Total other non-current assets	$41,357	$ 40,428

The escrow deposit is the funds held in escrow related to the disposal of Eat24 (see Note 7), which will be held for an 18-month period after closing to secure the Purchaser's rights of indemnification under the Purchase Agreement. The remaining other non-current assets are primarily deferred tax assets.

Deferred contract costs as of March 31, 2018 and December 31, 2017, and changes in deferred contract costs during the three months ended March 31, 2018, were as follows (in thousands):

16

	Three Months Ended March 31, 2018
Balance, beginning of period	$9,089
Less: amortization recorded in sales and marketing expense	(2,535)
Add: costs deferred on new contracts	3,129
Balance, end of period	$9,683

9. CONTRACT BALANCES

The allowance for doubtful accounts as of March 31, 2018, and changes in the allowance for doubtful accounts during the three months ended March 31, 2018, were as follows (in thousands):

	Three Months Ended March 31, 2018
Balance, beginning of period	$8,602
Add: bad debt expense	7,636
Less: write-offs, net of recoveries	(6,103)
Balance, end of period	$10,135

Contract liabilities include deferred revenue on the consolidated balance sheets when the Company has received consideration, or has the right to receive consideration, in advance of the transfer of the performance obligations of the contract to the customer.

As of March 31, 2018, deferred revenue was $3.5 million, the majority of which is expected to be recognized as revenue in the subsequent three-month period ending June 30, 2018. Changes in deferred revenue during the three months ended March 31, 2018 were as follows (in thousands):

	Three Months Ended March 31, 2018
Balance, beginning of period	$3,469
Less: Recognition of deferred revenue from beginning balance	(2,179)
Add: Net increase in current period contract liabilities	2,184
Balance, end of period	$3,474

No other contract assets or liabilities are recorded on the Company's condensed consolidated balance sheets as of March 31, 2018 and December 31, 2017.

10. ACCRUED LIABILITIES

Accrued liabilities as of March 31, 2018 and December 31, 2017 consisted of the following (in thousands):

	March 31, 2018	December 31, 2017
Accrued tax liabilities	$32,063	$ 32,617
Accrued compensation	27,098	17,725

Accrued sales and marketing	6,549	3,458
Other accrued expenses	17,703	19,865
Total accrued liabilities	$83,413	$ 73,665

11. LONG-TERM LIABILITIES

17

Long-term liabilities as of March 31, 2018 and December 31, 2017 consisted of the following (in thousands):

	March 31, 2018	December 31, 2017
Deferred rent	$28,944	$ 26,904
Other long-term liabilities	3,895	3,833
Total long-term liabilities	$32,839	$ 30,737

Other long-term liabilities primarily comprise deferred tax liabilities.

12. COMMITMENTS AND CONTINGENCIES

Office Facility Leases—The Company leases its office facilities under operating lease agreements that expire from 2018 to 2029. 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 $12.0 million and $9.8 million for the three months ended March 31, 2018 and 2017, respectively.

The Company has subleased certain office facilities under operating lease agreements that expire in 2021. The Company recognizes sublease rentals as a reduction in rental expense on a straight-line basis over the lease period. Sublease rental income was $0.7 million and $0.5 million for the three months ended March 31, 2018 and 2017, 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.

On January 18, 2018, a putative class action lawsuit alleging violations of the federal securities laws was filed in the U.S. District Court for the Northern District of California, naming as defendants the Company and certain of its officers. The lawsuit alleges violations of the Exchange Act by the Company and its officers for allegedly making materially false and misleading statements regarding its business and operations on February 9, 2017. The plaintiff seeks unspecified monetary damages and other 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.

Under the Purchase Agreement, the Company agreed to indemnify the Purchaser and certain related parties against certain losses arising out of Purchaser's acquisition of Eat24, including, but not limited to, any breach or inaccuracy of any representation or warranty made by the Company or Eat24 in the Purchase Agreement. The Company's indemnification obligations are subject to the terms and conditions set forth in the Purchase Agreement, and are capped at the purchase price received by the Company in the Disposal.

In addition, the Company has entered into indemnification agreements with directors and certain officers and employees that will require the Company to, among other things, indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers or employees.

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

13. STOCKHOLDERS’ EQUITY

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

	March 31, 2018		December 31, 2017	
	Shares Authorized	Shares Issued	Shares Authorized	Shares Issued
Stockholders' equity:				
Common stock, $0.000001 par value	200,000,000	83,956,890	200,000,000	83,724,916
Undesignated Preferred Stock	10,000,000	—	10,000,000	—

Stock Repurchase Program

On July 31, 2017, the Company's board of directors authorized a stock repurchase program under which the Company may repurchase up to $200.0 million of its outstanding common stock. The Company may purchase shares at management's discretion in the open market, in privately negotiated transactions, in transactions structured through investment banking institutions, or a combination of the foregoing.

During the three months ended March 31, 2018, the Company repurchased on the open market 910,332 shares for an aggregate purchase price of $37.0 million, of which $33.3 million was paid in cash for 821,968 shares during the three months ended March 31, 2018. As of March 31, 2018, the Company had a treasury stock balance of 360,380 shares, which were excluded from our outstanding share count, and subsequently retired in April 2018.

Equity Incentive Plans

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

Stock Options

Stock options granted under the 2012 Plan are granted at a price per share not less than the fair value of a share of the Company's common stock at date of grant. Options granted to date generally vest over a three- or four-year period, on one of four schedules: (a) 25% vesting at the end of one year and the remaining shares vesting monthly thereafter; (b) 10% vesting over the first year, 20% vesting over the second year, 30% vesting over the third year and 40% vesting over the fourth year; (c) ratably on a monthly basis; or (d) 35% vesting over the first year, 40% vesting over the second year and 25% vesting over the third year. Options granted are generally exercisable for up to 10 years. The Company issues new shares when stock options are exercised.

A summary of stock option activity for the three months ended March 31, 2018 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 - December 31, 2017	7,078,932	$ 22.70	5.56	$ 145,613
Granted	671,250	43.58		
Exercised	(313,437)	18.13		
Canceled	(44,397)	49.20		
Outstanding - March 31, 2018	7,392,348	$ 24.63	5.81	$ 136,698

Options vested and exercisable as of March 31, 2018	5,642,395	$ 20.94	4.84	$ 125,460

Aggregate intrinsic value represents the difference between the closing price of the Company's common stock as quoted on the New York Stock Exchange on a given date and the exercise price of outstanding, in-the-money options. The total intrinsic value of options exercised was approximately $8.0 million and $4.9 million for the three months ended March 31, 2018 and 2017, respectively.

The weighted-average grant date fair value of options granted was $18.78 and $15.53 per share for the three months ended March 31, 2018 and 2017, respectively.

As of March 31, 2018, total unrecognized compensation costs related to unvested stock options was approximately $26.7 million, which is expected to be recognized over a weighted-average time period of 2.8 years.

RSUs

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

A summary of RSU activity for the three months ended March 31, 2018 is as follows:

	Restricted Stock Units	
	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested - December 31, 2017	7,249,205	$ 34.57
Granted	1,278,021	43.88
Released	(783,737)	35.81
Canceled	(289,851)	34.88
Unvested - March 31, 2018	7,453,638	$ 36.02

As of March 31, 2018, the Company had approximately $253.1 million of unrecognized stock-based compensation expense related to RSUs, which is expected to be recognized over the remaining weighted-average vesting period of approximately 2.7 years.

Employee Stock Purchase Plan

The ESPP allows eligible employees to purchase shares of the Company's 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 common stock on the last day of the offering period, based on the closing sales price of the Company's common stock as quoted on the New York Stock Exchange on such date.

There were no shares purchased by employees under the ESPP in the three months ended March 31, 2018 or 2017. The Company recognized $0.6 million and $0.6 million of stock-based compensation expense related to the discounted share price provided to employees under the ESPP in the three months ended March 31, 2018 and 2017, respectively.

Stock-Based Compensation

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

	Three Months Ended March 31,	
	2018	2017
Cost of revenue	$1,030	$981
Sales and marketing	7,518	6,868
Product development	13,435	11,208
General and administrative	5,751	5,277
Total stock-based compensation	$27,734	$24,334

The Company capitalized $1.8 million and $1.4 million of stock-based compensation expense as website development costs in the three months ended March 31, 2018 and 2017, respectively.

14. OTHER INCOME, NET

Other income, net for the three months ended March 31, 2018 and 2017 consisted of the following (in thousands):

	Three Months Ended March 31,	
	2018	2017
Interest income, net	$2,624	$680
Transaction (loss) gain on foreign exchange	(26)	15
Other non-operating income, net	6	37
Other income, net	$2,604	$732

15. 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 recorded an income tax provision of $0.1 million in each of the three months ended March 31, 2018 and 2017, in both periods due to $0.1 million in U.S. state and foreign income tax expense, offset by immaterial net discrete tax benefits.

Accounting for income taxes for interim periods generally requires the provision for income taxes to be determined by applying an estimate of the annual effective tax rate for the full fiscal year to "Ordinary" income or loss (income or loss before income taxes excluding unusual or infrequently occurring discrete items) for the reporting period. For the three months ended March 31, 2018, a discrete effective tax rate method was used in jurisdictions where a small change in estimated Ordinary income has a significant impact on the annual effective tax rate. The primary difference between the effective tax rate and the federal statutory tax rate relates to the valuation allowances on certain of the Company’s net operating losses, foreign tax rate differences and stock-based compensation expense. Jurisdictions where no benefit is recorded on forecasted losses were excluded from the consolidated effective tax rate. As of March 31, 2018, the total amount of gross unrecognized tax benefits was $20.4 million, $19.5 million of which is subject to a full valuation allowance and would not affect the Company’s effective tax rate if recognized. As of March 31, 2018, the Company had an immaterial amount related to the accrual of interest and penalties. During the three months ended March 31, 2018, the Company’s gross unrecognized tax benefits increased by $2.2 million, an immaterial amount which would affect the Company’s effective tax rate if recognized.

On December 22, 2017, the U.S. Tax Cuts and Jobs Act (the "Tax Act") was signed into law. The Tax Act makes broad and complex changes to the U.S. tax code that impact the Company's provision for income taxes, including, but not limited to, reducing the U.S. federal corporate tax rate from 35.0% to 21.0% (the "Tax Rate Reduction"), and requiring a one-time Deemed Repatriation Tax (the "Transition Tax") on certain un-repatriated earnings of foreign subsidiaries. However, because the Company has a net cumulative deficit on the earnings and profits of its foreign subsidiaries, it is not subject to the Transition Tax.

Prior to the effectiveness of the Tax Act, the Company did not recognize a deferred tax liability related to un-remitted foreign earnings because such earnings were expected to be reinvested indefinitely. Although the Company is not subject to the Transition Tax, an actual repatriation from its non-U.S. subsidiaries could still be subject to additional foreign withholding taxes and U.S. state taxes. However, it remains the Company’s intention to reinvest the earnings from its non-U.S. subsidiaries. As of March 31, 2018, the Company estimates that it had $2.4 million of cumulative earnings upon which U.S. income taxes had not been provided. Determination of the amount of unrecognized deferred tax liability with respect to unremitted foreign earnings, if any, is not practicable.

In March 2018, FASB issued Accounting Standards Update No. 2018-05, "Income Taxes Topic (740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118" ("ASU 2018-05") to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. The Company's accounting for the Tax Act was incomplete as of the quarter ended March 31, 2018. For the three months ended March 31, 2018, the Company did not make any measurement-period adjustments related to the Transition Tax and the re-measurement of deferred taxes and valuation allowance due to the Tax Rate Reduction previously estimated. Since ongoing guidance and accounting interpretation for the Tax Act are expected over the next nine months, the Company considers the accounting of other areas of the Tax Act to be incomplete as the Company continues to gather additional information and evaluate the provisions of the Tax Act and the application of ASU 2018-05. The Company expects to finalize the analysis and record any adjustments to provisional estimates within the measurement period in accordance with ASU 2018-05. Any subsequent adjustment to these amounts will be recorded to current tax expense in the quarter of 2018 when the analysis is complete.

In addition, the Company is subject to the continuous examination of its income tax returns by the Internal Revenue Service and other tax authorities. The Company's federal and state income tax returns for fiscal years subsequent to 2003 remain open to examination. In the Company's most significant foreign jurisdictions — Canada, Ireland, the United Kingdom and Germany — the tax years subsequent to 2010 remain open to examination. The Company regularly assesses the likelihood of adverse outcomes resulting from examinations to determine the adequacy of its provision for income taxes, and monitors the progress of ongoing discussions with tax authorities and the impact, if any, of the expected expiration of the statute of limitations in various taxing jurisdictions. The Company believes that an adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs. Although the timing of the resolution or closure of audits is not certain, the Company believes it is reasonably possible that its unrecognized tax benefits could be reduced by an immaterial amount over the 12 months following December 31, 2017.

16. NET LOSS PER SHARE

Basic earnings per share is computed using the weighted-average number of outstanding shares of common stock during the period. Diluted earnings per share is computed using the weighted-average number of outstanding shares of common stock and, when dilutive, potential shares of common stock outstanding during the period. Potential common shares consist of the incremental shares of common stock issuable upon the exercise of stock options, shares issuable upon the vesting of RSUs and, to a lesser extent, purchase rights related to the ESPP.

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

	Three Months Ended March 31,	
	2018	2017
Net loss attributable to common stockholders	$(2,286)	$(4,026)
Basic Shares:		
Weighted-average shares outstanding	83,785	79,843
Diluted Shares:		
Weighted-average shares outstanding to compute diluted net loss per share	83,785	79,843
Net loss per share attributable to common stockholders		
Basic	$(0.03)	$(0.05)
Diluted	$(0.03)	$(0.05)

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

	Three Months Ended March 31,	
	2018	2017
Stock options	7,392	8,598
Restricted stock units	7,454	7,556
Employee stock purchase plan	86	85

17. INFORMATION ABOUT REVENUE AND GEOGRAPHIC AREAS

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

The Company has one business activity and there are no segment managers who are held accountable for operations, operating results or plans for levels or components below the consolidated unit level. Accordingly, the Company has determined that it has a single operating and reporting segment. Revenue by geography is based on the billing address of the customer.

Net Revenue

The following table presents the Company's net revenue disaggregated by major product line for the periods presented (in thousands):

	Three Months Ended March 31,	
	2018	2017
Net revenue by product:		
Advertising	$214,043	$177,900
Transactions	3,839	18,065
Other services	5,192	2,209
Total net revenue	$223,074	$198,174

During the three months ended March 31, 2018 and 2017, no individual customer accounted for 10% or more of consolidated net revenue.

The following table presents the Company's net revenue disaggregated by major geographic region for the periods indicated (in thousands):

	Three Months Ended March 31,	
	2018	2017
United States	$219,924	$194,761
All other countries	3,150	3,413
Total net revenue	$223,074	$198,174

Long-Lived Assets

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

	March 31, 2018	December 31, 2017
United States	$105,431	$100,990
All other countries	2,458	2,661
Total long-lived assets	$107,889	$103,651

23

18. RESTRUCTURING AND INTEGRATION

The following table presents the Company’s restructuring and integration costs for the periods indicated (in thousands):

	Three Months Ended March 31,	
	2018	2017
Restructuring and integration	$ —	$ 231

On November 2, 2016, the Company announced plans to significantly reduce sales and marketing activities in markets outside of the United States and Canada. The restructuring plan was completed by December 31, 2017. The Company incurred zero and $0.2 million for the three months ended March 31, 2018 and 2017, respectively, in restructuring and integration costs associated with this plan related to severance costs for affected employees. No additional expense related to this restructuring plan is expected. No goodwill, intangible assets or other long-lived assets were impaired as a result of the restructuring plan. There were no remaining unpaid amounts related to this plan as of March 31, 2018 or December 31, 2017.

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

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

Overview

As the leading local business review site in the United States, we offer consumers unmatched local business information, as well as a convenient platform on which they can discover, engage and transact with local businesses to meet their everyday needs. Our value proposition to businesses is simple: we provide the opportunity to connect with the millions of purchase-intent driven consumers through our ad products; messaging features, such as Request-A-Quote; our transactions platform; and our retention tools, such as Yelp Wifi Marketing, among other ways.

We derive substantially all of our revenue from the sale of advertising products. In the three months ended March 31, 2018, our net revenue was $223.1 million, which represented an increase of 13% from the three months ended March 31, 2017, and we recorded a net loss of $2.3 million and adjusted EBITDA of $32.9 million in the three months ended March 31, 2018. Our net revenue for the three months March 31, 2018 reflects our adoption of the new revenue recognition standard, Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASC 606"), on January 1, 2018. Although our adoption of ASC 606 did not significantly change our revenue recognition practices and policies, it impacted our previously reported net revenue, costs and expenses, net loss, EBITDA and adjusted EBITDA, and our financial results for the three months ended March 31, 2017 presented below have been updated to reflect ASC 606 accordingly. Please refer to Note 1 in our condensed consolidated financial statements for additional information regarding our adoption of ASC 606.

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 investing for long-term growth in our key strategies:

- Driving Monetization. By March 31, 2018, a majority of our sales force had begun selling advertising plans without fixed durations (referred to as "non-term contracts"), leading to a record increase in our paying advertising accounts for the quarter. We plan to continue exploring ways to make our sales process more efficient and to improve our ability to attract and retain advertisers.
-

Strengthening Our Competitive Position in the Restaurant Category. Our restaurants category receives the most traffic and reviews of any category on our platform, and allows us to attract and retain a large consumer audience with relatively low acquisition costs. In the three months ended March 31, 2018, we completed the integration of Grubhub's restaurant network onto our mobile app, further strengthening our position in this important category. The resulting increase in the number and quality of restaurants offerings available to users of our mobile app drove an acceleration in the volume of food orders placed through Yelp.

- Generating Strong Usage and Engagement. Given the importance of the restaurants category, we are particularly focused on creating a compelling user experience to attract more new users and drive engagement on Yelp. In addition to substantially expanding the number of diners seated via Yelp in the three months ended March 31, 2018, we are taking advantage of our rich review content to provide app users with personalized recommendations and engaging editorial content.
- Building Out Our Home & Local Services Offering. Searches, ad clicks and review contributions for our home & local services category grew faster than for any other category in the three months ended March 31, 2018, driven in large part by our Request-A-Quote feature. We plan to continue refining Request-A-Quote in the remainder of 2018.

During the remainder of 2018, we expect to continue investing in sales and marketing, including the expansion of our sales force, and capital expenditures, including increasing our office space and upgrading our technology and infrastructure to improve the ability of our platform to handle projected increases in usage and to enable the release of new features and solutions. As a result of this investment policy, we expect that our operating expenses will continue to increase for the foreseeable future.

As of March 31, 2018, we had 5,386 full-time employees, comprising 5,257 salaried employees and 129 non-salaried support staff, which represents an increase of 24% compared to March 31, 2017.

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. Unless otherwise stated, these metrics do not include metrics for Yelp Reservations, Yelp Nowait, Yelp WiFi Marketing, our business owner products, or Yelp Eat24, which we sold on October 10, 2017.

Reviews

Number of reviews represents the cumulative number of reviews submitted to Yelp since inception, as of the period end, including reviews that were not recommended or had been removed from our platform. In addition to the text of the review, each review includes a rating of one to five stars. We include reviews that are not recommended and that have been removed because all of them are either currently accessible on our platform or were accessible at some point in time, providing information that may be useful to users to evaluate businesses and individual reviewers.

Because our automated recommendation software continually reassesses which reviews to recommend based on new information that becomes available, the "recommended" or "not recommended" status of reviews may change over time. Reviews that are not recommended or that have been removed do not factor into a business’s overall star rating. By clicking on a link on a reviewed business’s page on our website, users can access the reviews that are not currently recommended for the business, as well as the star rating and other information about reviews that were removed for violation of our terms of service.

As of March 31, 2018, approximately 144.2 million reviews were available on business listing pages, including approximately 33.3 million reviews that were not recommended, after 11.2 million reviews had been removed from our platform, either by us for violation of our terms of service or by the users who contributed them. The following table presents the number of cumulative reviews as of the dates indicated (in thousands):

	As of March 31,	
	2018	2017
Reviews	155,328	127,478

Traffic

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

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

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

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

We anticipate that our mobile traffic will be the driver of our growth for the foreseeable future.

The following table presents our traffic for the periods indicated (in thousands):

	Three Months Ended March 31,	
	2018	2017
Desktop Unique Visitors	73,668	78,167
Mobile Website Unique Visitors	69,901	73,192
App Unique Devices	30,115	25,827

As previously reported, a portion of our desktop traffic, as measured by Google Analytics, since the third quarter of 2016 has been attributable to a single robot. Because the traffic from this robot does not represent valid consumer traffic, we have adjusted the number of desktop unique visitors we are reporting above to remove such traffic to provide greater accuracy and transparency. For additional information, please see the risk factor included under Part II, Item 1A under the heading “We rely on data from both internal tools and third parties to calculate certain of our performance metrics. Real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business.”

Claimed Local Business Locations

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

	As of March 31,	
	2018	2017
Claimed Local Business Locations	4,439	3,559

Paying Advertising Accounts

Paying advertising accounts comprise all business accounts from which we recognized advertising revenue in a given three-month period. As with our advertising revenue classification, paying advertising accounts excludes subscription services customers that are not also advertising customers. The following table presents the number of paying advertising accounts during the periods presented (in thousands):

	Three Months Ended March 31,	
	2018	2017
Paying Advertising Accounts	177	139

Results of Operations

The following table sets forth our results of operations for the periods indicated and as a percentage of net revenue for those periods. The period-to-period comparison of financial results is not necessarily indicative of the results of operations to be anticipated for the full year 2018 or any future period.

	Three Months Ended March 31,			
	2018		2017	
	Amount	% of revenue	Amount	% of revenue
	(in thousands, except percentages)			
Net revenue by product:				
Advertising	$214,043	96 %	$177,900	90 %
Transactions	3,839	2	18,065	9
Other services	5,192	2	2,209	1
Total net revenue	$223,074	100 %	$198,174	100 %
Costs and expenses:				
Cost of revenue (exclusive of depreciation and amortization shown separately below)	14,732	7 %	16,914	9 %
Sales and marketing	119,641	54	108,532	55
Product development	51,493	23	39,871	20
General and administrative	32,007	14	27,166	13
Depreciation and amortization	10,028	4	10,151	5
Restructuring and integration	—	—	231	—
Total costs and expenses	227,901	102	202,865	102
Loss from operations	(4,827)	(2)	(4,691)	(2)
Other income, net	2,604	1	732	—
Loss before income taxes	(2,223)	(1)	(3,959)	(2)
Provision for income taxes	(63)	—	(67)	—
Net loss attributable to common stockholders	$(2,286)	(1)%	$(4,026)	(2)%

Net Revenue
We generate revenue from our advertising products, transactions and other services. Total net revenue increased $24.9 million, or 13%, in the three months ended March 31, 2018 compared to the three months ended March 31, 2017.
Advertising. We generate advertising revenue from the sale of our advertising products — including enhanced listing pages and performance and impression-based advertising in search results and elsewhere on our platform — to businesses of all sizes. Advertising revenue also includes revenue generated from resale of our advertising products by certain partners and monetization of remnant advertising inventory through third-party ad networks.
Advertising revenue increased $36.1 million, or 20%, in the three months ended March 31, 2018 compared to the three months ended March 31, 2017, primarily due to a significant increase in the number of customers purchasing advertising plans and, to a lesser extent, increases in revenue from existing advertisers. The growth in customers was driven by purchases of non-term contracts, as we both expanded our sales force and increased the portion of our sales force selling non-term contracts. Although we have observed higher turnover rates for customers on non-term contracts, which provide advertisers with the ability to cancel their ad campaigns at any time, the increase in revenue associated with the increase in advertising accounts more than offset the impact from cancellations in the three months ended March 31, 2018. We expect our advertising revenue to continue to increase, as our sales force focuses on both increasing the number of paying advertising accounts and growing revenue generated from existing advertisers.
Transactions. We generate revenue from various transactions with consumers, including transactions placed through our partner integrations, the sale of Yelp Deals and Gift Certificates, and, through October 10, 2017, Yelp Eat24 transactions. Following our sale of Eat24 to Grubhub on October 10, 2017, we generate revenue from transactions placed through the Grubhub restaurant network, including Eat24 restaurants, that originate on Yelp pursuant to our partnership agreement with Grubhub.
Our partnership integrations are revenue-sharing arrangements that provide consumers with the ability to complete food ordering and delivery transactions, order flowers and book spa and salon appointments, among others, through third parties directly on Yelp. We earn a fee for acting as an agent for transactions placed through these integrations,

which we record on a net basis and include in revenue upon completion of a transaction.

Prior to the completion of our sale of Eat24, we generated revenue from our Yelp Eat24 business through arrangements with restaurants in which restaurants paid a commission percentage fee on orders placed through the Yelp Eat24 platform, which we recorded on a net basis. However, as described above, we no longer recognize revenue from Yelp Eat24 as a standalone product and instead earn fees on food orders placed through the Grubhub restaurant network that originate on Yelp. Although we expect the revenue we generate under the Grubhub arrangement to grow over time as new restaurants are added to Grubhub's restaurant network, we expect it to continue to be lower than the revenue previously generated by Yelp Eat24 for the foreseeable future. Accordingly, our sale of Eat24 has resulted in a reduction in our transactions revenue and slowing of our overall net revenue growth following the sale.

Transactions revenue decreased $14.2 million, or 79%, in the three months ended March 31, 2018 compared to the three months ended March 31, 2017. The decrease was primarily the result of the sale of Eat24 in October 2017, partially offset by revenue earned from our partnership with Grubhub.

Other Services. We generate revenue through our Yelp Reservations and Yelp Nowait products, the Yelp WiFi Marketing analytics platform, licensing payments for access to Yelp data through our Yelp Knowledge program and other non-advertising related partnerships.

Other services revenue increased $3.0 million, or 135%, in the three months ended March 31, 2018 compared to the three months ended March 31, 2017. The increase was primarily due to revenue from Yelp Nowait and Yelp WiFi Marketing, as a result of our acquisitions of Nowait, Inc. ("Nowait") and Turnstyle Analytics Inc. ("Turnstyle") in February and April 2017, respectively, as well as increases in revenue from the Yelp Knowledge programs and Yelp Reservations. We expect our other services revenue to continue to increase, as our sales force focuses on increasing the number of subscriber accounts and expanding other partnerships.

Cost of Revenue

Our cost of revenue consists primarily of credit card processing fees, web hosting costs and employee costs (including stock-based compensation expense) for our infrastructure teams related to the operation of our website and mobile app. It also includes confirmation services costs associated with Yelp Reservations, Yelp Nowait and Yelp WiFi Marketing, confirmation and delivery services associated with Yelp Eat24 prior to its sale, as well as video production costs for our advertising customers.

Cost of revenue decreased $2.2 million, or 13%, in the three months ended March 31, 2018 compared to the three months ended March 31, 2017. The decrease was primarily attributable to:

- a decrease of $1.5 million in merchant fees related to credit card transactions as a result of a decline in transactions revenue following the sale of Eat24;
- a decrease of $1.1 million in confirmation services and third-party food delivery costs due to the decline in number of transactions following the sale of Eat24, partially offset by confirmation services costs associated with Yelp Nowait and Yelp WiFi Marketing as a result of our acquisitions of Nowait and Turnstyle; and
- a decrease of $0.5 million in set up and creative design costs, consisting primarily of video production costs, as a result of our transition to selling non-term advertising contracts, which do not provide businesses with the option to add videos to their accounts.

These decreases were partially offset by an increase of $0.9 million in website infrastructure expense, which primarily consists of website hosting costs and employee costs, due to increases in the number of visitors to our website and employees supporting the website infrastructure. We expect cost of revenue associated with our advertising customers to increase in 2018 as we increase the number of customers, offset by a reduction in cost of revenue associated with our transactions business as a result of our disposal of Eat24.

Sales and Marketing

Our sales and marketing expenses primarily consist of employee costs (including commission expense, amortized commission expense and stock-based compensation expense) for our sales and marketing employees. In addition, sales and marketing expenses include business and consumer acquisition marketing, community management, branding and advertising costs, as well as allocated facilities and other supporting overhead costs.

Sales and marketing expenses increased $11.1 million, or 10%, in the three months ended March 31, 2018 compared to the three months ended March 31, 2017. The increase was primarily attributable to:

-

$11.9 million in additional employee costs resulting from increases in headcount, including an increase in stock-based compensation expense of $0.7 million, as we expanded our sales organization to increase the number of paying advertising accounts and grow revenue from existing customers in the United States and Canada;

- an increase of $2.4 million in our commission expenses (including amortized commission expense) as a result of improved sales team performance against their targets; and
- an increase of $2.7 million in facilities and other overhead allocations as we leased additional office space and incurred additional overhead costs for our expanding headcount.

The increase was partially offset by a decrease of $5.9 million in marketing and advertising costs, primarily due to the cessation of Yelp Eat24 marketing activities.

Our sale of Eat24 in October 2017 resulted in an initial reduction in our sales and marketing expenses as we ceased marketing activities related to Yelp Eat24 and over 300 Yelp Eat24 sales and marketing employees transferred to Grubhub. However, we expect our sales and marketing expenses to continue to increase as we expand our communities, increase the number of advertising and subscription accounts and continue to build the Yelp brand in the United States and Canada. We expect the majority of sales and marketing expense increases for the foreseeable future to be related to hiring sales employees.

Product Development

Our product development expenses primarily consist of employee costs (including stock-based compensation expense) for our engineers, product management and information technology personnel. In addition, product development expenses include consulting costs, as well as allocated facilities and other supporting overhead costs.

Product development expenses increased $11.6 million, or 29%, in the three months ended March 31, 2018 compared to the three months ended March 31, 2017. The increase was primarily attributable to:

- $10.5 million in additional salaries and benefits associated with an increase in headcount, including an increase in stock-based compensation expense (net of capitalized stock-based compensation expense) of $2.2 million; and
- increases in facilities and other overhead allocations of $1.1 million as we leased additional office space and incurred additional costs for our expanding headcount.

We believe that continued investment in research and development of new features, software development tools and code modification is important to attaining our strategic objectives and, as a result, we expect product development expenses to continue to increase for the foreseeable future. Although our sale of Eat24 has reduced our product development expenses associated with that product, we have redeployed the associated internal resources elsewhere within our organization and, as a result, the sale has not had a material impact on our overall product development expenses as a result.

General and Administrative

Our general and administrative expenses primarily consist of employee costs (including stock-based compensation expense) for our executive, finance, user operations, legal, human resources and other administrative employees. Our general and administrative expenses also include bad debt expense, outside consulting, legal and accounting services, as well as facilities and other supporting overhead costs.

General and administrative expenses increased $4.8 million, or 18%, in the three months ended March 31, 2018 compared to the three months ended March 31, 2017. The increase was primarily attributable to:

- $2.1 million in additional employee costs associated with an increase in headcount, including an increase in stock-based compensation expense of $0.5 million; and
- an increase in bad debt expense of $2.1 million due to continued growth in advertising revenue.

We expect bad debt expense to increase as our advertising revenue continues to grow. Our other general and administrative costs should also increase for the foreseeable future as we continue to expand our business. The sale of Eat24 has not had a material impact on our general and administrative costs, as those resources were redeployed elsewhere within our organization.

Depreciation and Amortization

Depreciation and amortization expense primarily consists of depreciation on computer equipment, software, leasehold improvements, capitalized website and software development costs, and amortization of purchased intangible assets.

Depreciation and amortization expense decreased $0.1 million, or 1%, in the three months ended March 31, 2018 compared to the three months ended March 31, 2017 as a result of a decrease of $1.0 million in amortization related to our intangibles, primarily due to the disposal of intangible assets in the sale of Eat24, offset by an increase of $0.9 million in depreciation and amortization expense related to our property, equipment and capitalized website and software development costs as a result of our investments to support our increase in headcount across the organization.

We expect depreciation expense to increase for the foreseeable future as we continue to expand our technology infrastructure and lease additional office space. Amortization expense is likely to be lower for the foreseeable future as a result of the disposal of intangible assets in our sale of Eat24.

Restructuring and Integration

On November 2, 2016, we announced plans to significantly reduce sales and marketing activities in markets outside of the United States and Canada. The restructuring plan was completed by December 31, 2017. We incurred $0.2 million in restructuring and integration costs in the three months ended March 31, 2017 associated with this plan related to severance costs for affected employees. We incurred no further expenses for this plan in the three months ended March 31, 2018 and do not expect to incur any additional expenses in the future. No goodwill, intangibles or other long-lived assets were impaired as a result of the restructuring plan.

Other Income, Net

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

Other income, net increased by $1.9 million, or 256%, in the three months ended March 31, 2018 compared to the three months ended March 31, 2017, primarily driven by an increase in interest income resulting from significant increases in marketable securities and cash held in interest-bearing accounts due in particular to proceeds received on the sale of Eat24.

Provision for Income Taxes

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.

The tax provision for the three months ended March 31, 2018 was consistent with that of the three months ended March 31, 2017. In each period, we recognized a tax provision of $0.1 million that primarily consisted of foreign income tax provision on year-to-date losses, offset by immaterial net discrete tax benefits.

Liquidity and Capital Resources

As of March 31, 2018, we had cash and cash equivalents of $392.3 million. Cash and cash equivalents consist of cash, money market funds and investments with original maturities of less than three months. Our cash held internationally as of March 31, 2018 was $7.7 million. We did not have any outstanding bank loans or credit facilities in place as of March 31, 2018. Our investment portfolio comprises 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 the 2012 Employee Stock Purchase Plan, as amended (“ESPP”). In addition, in the fourth quarter of 2017, we completed our sale of Eat24 to Grubhub and received a total of $252.7 million in cash, with an additional $28.8 million currently being held in escrow for an 18-month period after closing to secure our indemnification obligations in connection with the sale.

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, our anticipated repurchases of common stock pursuant to our stock repurchase program, payment of taxes related to the net share settlement of equity awards as well as purchases of property, equipment and software 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.

30

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

Cash Flows

The following table summarizes our cash flows for the periods indicated (in thousands):

	Three Months Ended March 31,	
	2018	2017
Condensed Consolidated Statements of Cash Flows Data:		
Cash provided by operating activities	$38,296	$41,235
Cash used in investing activities	(153,491)	(43,435)
Cash (used in) provided by financing activities	(39,974)	3,287

Operating Activities. We generated $38.3 million of cash from operating activities during the three months ended March 31, 2018, primarily resulting from our net loss of $2.3 million, which included non-cash depreciation and amortization expenses of $10.0 million, non-cash stock-based compensation expense of $27.7 million and non-cash provision for doubtful accounts and sales returns of $8.1 million. In addition, significant changes in our operating assets and liabilities resulted from the following:

- an increase in accounts receivable of $7.0 million due to an increase in billings for advertising plans, particularly for customers paying in-arrears, as well as the timing of payments from these customers;
- an increase in prepaid expenses and other assets of $5.1 million, primarily driven by an increase in the purchase of prepaid software licenses and prepayments relating to certain cost of revenue related vendors; and
- an increase in accounts payable, accrued expenses and other liabilities of $7.7 million, primarily driven by an increase in accrued compensation costs, particularly vacation and commission costs, as well as the timing of invoices from and payments to vendors, particularly sales and marketing related vendors.

We generated $41.2 million of cash in operating activities in the three months ended March 31, 2017, primarily resulting from our net loss of $4.0 million, which included non-cash depreciation and amortization expenses of $10.2 million, non-cash stock-based compensation expense of $24.3 million and non-cash provision for doubtful accounts and sales returns of $5.9 million. In addition, significant changes in our operating assets and liabilities resulted from the following:

- increase in accounts receivable of $4.5 million due to an increase in billings for advertising plans, primarily for customers paying in-arrears, as well as the timing of payments from these customers; and
- increase in accounts payable, accrued expenses and other liabilities of $10.5 million, primarily driven by an increase in accrued compensation costs, particularly vacation and other employee-related expenses, as well as the timing of invoices from and payments to vendors, particularly sales and marketing-related vendors.

Investing Activities. Our primary investing activities in the three months ended March 31, 2018 consisted of purchases of marketable securities, purchases of property and equipment to support the ongoing build-out of leasehold improvements for our new facilities in San Francisco and New York, the purchase of technology hardware to support our growth in headcount and internally developed software to support website and mobile app development, website operations and our corporate infrastructure. Purchases of property, equipment and software may vary from period to period due to the timing of the expansion of our offices, operations and website and internal-use software and development. We expect our investment in property and equipment, leasehold assets and the development of software to increase in 2018 compared to 2017.

We used $153.5 million of cash in investing activities during the three months ended March 31, 2018. Cash used in investing activities during this period primarily related to purchases of marketable securities of $280.9 million, expenditures related to website and internally developed software of $4.7 million and purchases of property, equipment and software of $10.9 million to support the growth in our business. Cash used in investing activities was offset by the maturity of $143.0 million of investment securities held-to-maturity.

We used $43.4 million of cash in investing activities during the three months ended March 31, 2017. Cash used in investing activities during this period primarily related to purchases of marketable securities of $74.0 million, an increase in expenditures related to website and internally developed software of $4.2 million, purchases of property, equipment and software of $2.5 million to support the growth in our business, and our acquisition of Nowait for net cash consideration of $30.8 million, which includes intangible assets of $12.7 million. Cash used in investing was offset by $68.0 million of maturities of investment securities held-to-maturity.

Financing Activities. During the three months ended March 31, 2018, we used $40.0 million for financing activities, consisting of $33.3 million to repurchase shares of common stock pursuant to our stock repurchase program and $12.3 million to pay taxes related to the net share settlement of equity awards for our employees, offset by $5.7 million in cash generated from the issuance of common stock upon exercise of stock options.

During the three months ended March 31, 2017, we generated $3.3 million from financing activities from the issuance of common stock upon the exercise of stock options.

Stock Repurchase Program

In July 2017, our board of directors authorized a stock repurchase program under which we may repurchase up to $200 million of our outstanding common stock. We may purchase shares at our discretion in the open market, privately negotiated transactions, in transactions structured through investment banking institutions, or a combination of the foregoing. The program is not subject to any time limit and may be modified, suspended or discontinued at any time. The amount and timing of repurchases are subject to a variety of factors, including liquidity, cash flow and market conditions.

During the three months ended March 31, 2018, we repurchased on the open market approximately 0.8 million shares for an aggregate purchase price of $33.3 million, which was paid in cash. As of March 31, 2018, we had a treasury stock balance of approximately 0.4 million shares, which were excluded from our outstanding share count as of that date and subsequently retired in April 2018. We funded these repurchases, and expect to fund any future repurchases under the stock repurchase program, with cash available on our balance sheet.

Net Share Settlement of Equity Awards

In 2018, we began settling the employee tax liabilities associated with the vesting of RSUs through net share withholding — rather than selling a portion of the vested shares to cover taxes, as we had previously — for all employees. As a result, we paid $12.3 million of employee taxes in cash during the three months ended March 31, 2018. We expect that this will result in an increase in cash used in financing activities going forward.

Non-GAAP Financial Measures

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). However, we have also disclosed below EBITDA and adjusted EBITDA , which are non-GAAP financial measures. We have included EBITDA and adjusted EBITDA 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 EBITDA and adjusted EBITDA can provide a useful measure for period-to-period comparisons of our primary business operations. Accordingly, we believe that EBITDA and adjusted EBITDA 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. In our filings with the SEC prior to this Quarterly Report, we also disclosed non-GAAP net income, another non-GAAP financial measure. However, management believes EBITDA and adjusted EBITDA to be more useful measures for evaluating our performance, and will not provide non-GAAP net income going forward as a result.

EBITDA and adjusted EBITDA 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, EBITDA and adjusted EBITDA should not be viewed as substitutes for, or superior to, net loss prepared in accordance with GAAP as a measure of profitability or liquidity. Some of these limitations are:

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and EBITDA and adjusted EBITDA do not reflect all cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- EBITDA and adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs;
- adjusted EBITDA does not consider the potentially dilutive impact of equity-based compensation;
- EBITDA and adjusted EBITDA do not reflect the impact of the recording or release of valuation allowances;
- adjusted EBITDA does not take into account any restructuring and integration costs; and
- other companies, including companies in our industry, may calculate EBITDA and adjusted EBITDA differently, which reduces their usefulness as comparative measures.

Because of these limitations, you should consider EBITDA and adjusted EBITDA alongside other financial performance measures, including net loss and our other GAAP results. The tables below present reconciliations of EBITDA and adjusted EBITDA to net loss, the most directly comparable GAAP financial measure in each case, for each of the periods indicated. Net loss was $2.3 million and $4.0 million in the three months ended March 31, 2018 and 2017, respectively.

EBITDA. EBITDA is a non-GAAP financial measure that we calculate as GAAP net loss, adjusted to exclude: provision for income taxes; other income, net; and depreciation and amortization. EBITDA was $5.2 million and $5.5 million for the three months ended March 31, 2018 and 2017, respectively.

Adjusted EBITDA. Adjusted EBITDA is a non-GAAP financial measure that we calculate as GAAP net loss, adjusted to exclude: provision for income taxes; other income, net; depreciation and amortization; stock-based compensation expense; and restructuring and integration costs. Adjusted EBITDA was $32.9 million and $30.0 million for the three months ended March 31, 2018 and 2017, respectively.

The following is a reconciliation of EBITDA and adjusted EBITDA to GAAP net loss (in thousands):

	Three Months Ended March 31,	
	2018	2017
Reconciliation of GAAP net loss to EBITDA and adjusted EBITDA:		
GAAP net loss	$(2,286)	$(4,026)
Provision for income taxes	63	67
Other income, net	(2,604)	(732)
Depreciation and amortization	10,028	10,151
EBITDA	5,201	5,460
Stock-based compensation	27,734	24,334
Restructuring and integration costs	—	231
Adjusted EBITDA	$32,935	$30,025

Off Balance Sheet Arrangements

We did not have any off balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the U.S. Securities and Exchange Commission ("SEC") under the Securities Act, in the three months ended March 31, 2018 or 2017.

Contractual Obligations

We lease various office facilities, including our corporate headquarters in San Francisco, California, under operating lease agreements that expire from 2018 to 2029. 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 March 31, 2018, we had no material long-term purchase obligations outstanding with vendors or third parties other than obligations related to the fit out of certain leasehold properties and purchases of website hosting services. The following table summarizes our future minimum payments under non-cancelable operating leases and purchase obligations for equipment and office facilities as of March 31, 2018:

	Payments Due by Period				
	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
Operating lease obligations	$320,905	$50,351	$105,955	$80,921	$83,678
Purchase obligations	$144,922	$34,147	$59,775	$51,000	$—

The contractual commitment amounts in the table above are associated with binding agreements and do not include obligations under contracts that we can cancel without a significant penalty. In addition, as of March 31, 2018, our total liability for uncertain tax positions was $3.6 million of the total unrecognized benefit of $20.4 million. We are not reasonably able to estimate the timing of future cash flow related to this liability. As a result, this amount is not included in the contractual obligations table above.

We have subleased certain office facilities under operating lease agreements that expire in 2021. The terms of these lease agreements provide for rental receipts on a graduated basis. We recognize sublease rentals on a straight-line basis over the lease periods reflected as a reduction in rental expense. As of March 31, 2018, our future minimum rental receipts to be received under non-cancelable subleases were $5.8 million.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have operations both within the United States and internationally, and we are exposed to market risks in the ordinary course of business. These risks include primarily interest rate, foreign exchange risks and inflation, and have not changed materially from the market risks we were exposed to in the year ended December 31, 2017.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2018. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2018, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the three months ended March 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On January 18, 2018, a putative class action lawsuit alleging violations of the federal securities laws was filed in the U.S. District Court for the Northern District of California, naming as defendants us and certain of our officers. The lawsuit alleges violations of the Exchange Act by us and our officers for allegedly making materially false and misleading statements regarding our business and operations on February 9, 2017. The plaintiff seeks unspecified monetary damages and other relief.

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

ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, including those described below, which could adversely affect our business, financial condition, results of operations, cash follows and the trading price of our common stock. You should carefully consider the risks and uncertainties described below before making an investment decision.

We have marked with an asterisk (*) those risks described below that reflect substantive changes from the risks described in our Annual Report on Form 10-K for the year ended December 31, 2017.

Risks Related to Our Business and Industry

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

We derive substantially all of our revenue from the sale of our advertising products. Because traffic to our platform determines the number of ads we are able to show, affects the value of those ads to businesses and influences the content creation that drives further traffic, slower traffic growth rates may harm our business and financial results. Our traffic could be adversely affected by factors including:

- Reliance on Internet Search Engines. As discussed in greater detail below, we rely on Internet search engines to drive traffic to our platform. However, the display, including rankings, of unpaid search results can be affected by a number of factors, many of which are not in our direct control, and may change frequently. Although Internet search engine results have allowed us to attract a large audience with low organic traffic acquisition costs to date, if they fail to drive sufficient traffic to our platform in the future, we may need to increase our marketing spend to acquire additional traffic. We cannot assure you that the value we ultimately derive from any such additional traffic would exceed the cost of acquisition, and any increase in marketing expense may harm our operating results as a result.

- Quality of Our Content. Our ability to attract consumer traffic depends on the quantity and quality of the content contributed by our users. Our ability to provide consumers with valuable content may be harmed:

  - if our users do not contribute content that is helpful or reliable;
  - if our users remove content they previously submitted; and
  - as a result of user concerns that they may be harassed or sued by the businesses they review, instances of which have occurred in the past and may occur again in the future.

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

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

-

Our Recommendation Software. If our automated software does not recommend helpful content or recommends unhelpful content, consumers may reduce or stop their use of our platform. While we have designed our technology to avoid recommending content that we believe to be unreliable or otherwise unhelpful, we cannot guarantee that our efforts will be successful. For example, if robots, shills or other spam accounts are able to contribute a significant amount of recommended content, or consumers perceive a significant amount of our recommended content to be from such accounts, our traffic and revenue could be negatively affected. Although we do not believe content from these sources has had a material impact to date, if our automated software recommends a substantial amount of such content in the future, our ability to provide high quality content would be harmed and the consumer trust essential to our success could be undermined.

- Content Scraping. From time to time, other companies copy information from our platform without our permission, through website scraping, robots or other means, and publish or aggregate it with other information for their own benefit. This may make them more competitive and may decrease the likelihood that consumers will visit our platform to find the local businesses and information they seek. This may also result in increases to our reported traffic metrics that do not represent increases in consumer usage of our platform. For example, we discovered that a portion of our desktop traffic has been attributable to a single robot since the third quarter of 2016, which does not represent valid consumer traffic. Though we strive to detect and prevent this third-party conduct, we may not be able to detect it in a timely manner and, even if we could, may not be able to prevent it. In some cases, particularly in the case of third parties operating outside of the United States, our available remedies may be inadequate to protect us against such conduct.

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

- Review Concentration. Our restaurant and shopping categories together accounted for approximately 38% of the businesses that had received reviews and approximately 56% of the reviews available on our platform as of March 31, 2018. Although these categories generate a substantial portion of our traffic, if the high concentration of reviews generates a perception that our platform is primarily limited to these categories, our traffic may not increase to the extent otherwise possible.

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

- High Penetration Rates. We have already entered most major geographic markets within the United States and Canada, and we do not expect to pursue expansion in other international markets in the foreseeable future. Further expansion in smaller markets may not yield similar results or sustain our growth.

We anticipate that our traffic growth rate will continue to slow over time, and potentially decrease in certain periods, as our business matures. As our traffic growth rate slows, our success will become increasingly dependent on our ability to increase levels of user engagement on our platform, which may be negatively impacted if:

- users engage with other products, services or activities as an alternative to our platform;
- there is a decrease in the perceived quality of the content contributed by our users;
- we fail to introduce new and improved products or features, or we introduce new products or features that do not effectively address consumer needs or otherwise alienate consumers;
- technical or other problems negatively impact the availability and reliability of our platform or otherwise affect the user experience;
- users have difficulty installing, updating or otherwise accessing our platform as a result of actions by us or third parties that we rely on to distribute our products;
-

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

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

*We generate substantially all of our revenue from advertising. If we fail to maintain and expand our base of advertisers, our revenue and our business will be harmed.

Our ability to maintain and expand our advertiser base depends on factors including:

- Acceptance of Online Advertising. We believe that the continued growth and acceptance of our online advertising products will depend on the perceived effectiveness and acceptance of online advertising models generally, which is outside of our control. Many advertisers still have limited experience with online advertising and, as a result, may continue to devote significant portions of their advertising budgets to traditional, offline advertising media, such as newspapers or print yellow pages directories.

- Competitiveness of Our Products. We must deliver ads in an effective manner at prices that compare favorably to those of our competitors. The widespread adoption of any technologies that make it more difficult for us to deliver ads, such as ad-blocking programs, could decrease our value proposition to businesses and reduce demand for our products. We may also be unable to attract new advertisers if our products are not compelling or we fail to innovate and introduce enhanced products meeting advertiser expectations. For example, in their current form, our ad products may be most attractive to businesses with higher than average ratings and numbers of reviews. As a result, businesses with lower ratings and fewer reviews may not purchase our ad products, or may abandon them if they do not believe our ad products are effective.

- Availability and Accuracy of Analytics. We must convince existing and prospective advertisers alike that our advertising products offer them a material benefit and can generate a competitive return relative to other alternatives. To do so, we must provide accurate analytics and measurement solutions that demonstrate the effectiveness and value of our advertising products compared to those of our competitors.

- Traffic Quality. The success of our advertising program depends on delivering positive results to our advertising customers. Low-quality or invalid traffic, such as robots, spiders and the mechanical automation of clicking, may be detrimental to our relationships with advertisers and could adversely affect our advertising pricing and revenue. For example, in 2017 we discovered that a portion of our desktop traffic since the third quarter of 2016 had been, and continues to be, attributable to a single robot. While we do not believe the traffic from this robot represents a material amount of our overall reported traffic or has impacted our ad delivery, our initial delay and any future delays in detecting and removing such invalid traffic may harm our reputation among advertisers. Similarly, if we fail to detect and prevent click fraud or other invalid clicks on ads, the affected advertisers may experience or perceive a reduced return on their investments, which could lead to dissatisfaction with our products, refusals to pay, refund demands or withdrawal of future business.

- Perception of Our Platform. Our ability to compete effectively for advertiser budgets depends on our reputation and perceptions regarding our platform. For example, because we make the consumer experience our highest priority, unless we believe that a review violates our terms of service, we will allow the review to remain on our platform even if the business disputes its accuracy. Certain advertisers may therefore perceive our policies as an impediment to their success, which may harm our ability to attract and retain advertisers. The ratings and reviews that businesses receive from our users may also affect their advertising decisions. Favorable ratings and reviews, on the one hand, could be perceived as obviating the need to advertise. Unfavorable ratings and reviews, on the other, could discourage businesses from advertising to an audience that they perceive as hostile or cause them to form a negative opinion of our products and user base.

- Macroeconomic Conditions. Adverse macroeconomic conditions can have a negative impact on the demand for advertising, particularly with respect to online advertising products. We rely heavily on small and medium-sized businesses, which often have limited advertising budgets and may view online advertising as lower priority than offline advertising. Such businesses have also historically experienced high failure rates and may be disproportionately affected by economic downturns. As a result, we must continually add new advertisers to replace advertisers who do not renew their advertising due to factors outside of our control, such as declining advertising budgets, closures and bankruptcies.

As is typical in our industry, our advertisers generally do not have long-term obligations to purchase our products. In fact, an increasing portion of our advertisers have the ability to cancel their ad campaigns at any time, which may negatively impact advertiser retention and our ability to maintain and expand our advertiser base. In addition, the negative impact of attrition on our financial results may be greater with respect to advertisers who are billed in arrears, as the vast majority of our advertisers now are, if they fail to make payment on ads that have already been delivered.
*Our ability to increase our revenue depends on our ability to introduce successful new products and services, including products and services outside of our historical core business. Our ongoing investment in such products and services involves significant risks, could disrupt our current operations and may not produce the long-term benefits that we expect.

Our industry is rapidly evolving and intensely competitive; our ability to compete successfully and increase our revenue depends on our ability to deliver innovative, relevant and useful products to our customers in a timely manner. As a result, we have invested and expect to continue to invest in new products and services, including products and services outside of our historical core business, such as our planned investments in Yelp Reservations, Yelp Nowait and Yelp WiFi Marketing in 2018. Such investments may not prioritize short-term financial results and may involve significant risks and uncertainties, including distracting management and reducing investment in our core business. Any resulting new products and services may fail to generate sufficient revenue, operating margin or other value to justify our investments in them, thereby harming our ability to generate revenue both directly and indirectly as a result of foregoing the opportunity for higher investment in our core advertising business, in other product lines and other initiatives.

Consumers are increasingly accessing online services through a variety of platforms other than desktop computers, including mobile devices. If we are unable to operate effectively on such devices or our products for such devices are not compelling, our business could be adversely affected.

The number of people who access information about local businesses through devices other than desktop computers, including mobile phones, tablets, handheld computers, voice-assisted speakers, automobiles and television set-top devices, is increasing dramatically. We anticipate that growth in use of our mobile platform in particular will be the driver of our growth for the foreseeable future and that usage through desktop computers may continue to decline. As a result, we must continue to drive adoption of and user engagement on our mobile platform, and our mobile app in particular. If we are unable to drive continued adoption of and engagement on our mobile app, our business may be harmed and we may be unable to decrease our reliance on traffic from Google and other search engines.

In order to attract and retain engaged users of our mobile platform and on other alternative devices, the products and services we introduce on such devices must be compelling. However, the functionality and user experience associated with some alternative devices, such as smaller screen size or lack of a screen, may make the use of our platform and products through such devices more difficult than through a desktop computer. In addition, we expect that the ways in which users engage with our platform will continue to change over time as users increasingly engage via alternative devices. This may make it more difficult to develop products that consumers find useful or provide them with the information they seek, and may also negatively affect our content if users do not continue to contribute high quality content through such devices.

As new devices and platforms are continually being released, it is also difficult to predict the problems we may encounter in adapting our products and services — and developing competitive new products and services — to them, and we may need to devote significant resources to the creation, support and maintenance of such products. Our success will be dependent on the interoperability of our products with a range of technologies, systems, networks and standards that we do not control, such as mobile operating systems like Android and iOS. We may not be successful in developing products that operate effectively with these technologies, systems, networks and standards or in creating, maintaining and developing relationships with key participants in related industries, some of which may be our competitors. If we experience difficulties or increased costs in integrating our products into alternative devices, or if manufacturers elect not to include our products on their devices, make changes that degrade the functionality of our products, give preferential treatment to competitive products or prevent us from delivering advertising, our user growth and operating results may be harmed. This risk may be exacerbated by the frequency with which users change or upgrade their devices; in the event users choose devices that do not already include or support our platform or do not install our products when they change or upgrade their devices, our traffic and user engagement may be harmed.

In addition, the market for advertising products on mobile and other devices remains a rapidly evolving market. As new devices and platforms are released, users may begin consuming content in a manner that is more difficult to monetize. Similarly, as advertising products for mobile and other platforms develop, demand may increase for products that we do not offer or that may alienate our user base, which we must balance against our commitment to prioritizing the quality of user experience over short-term monetization. If we are not able to balance these competing considerations successfully to develop compelling advertising products, advertisers may stop or reduce their advertising with us and we may not be able to generate meaningful revenue from alternative devices despite the expected growth in their usage.

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

Our success depends in part on our ability to attract users through unpaid Internet search results on search engines like Google and Bing. The number of users we attract from search engines to our website (including our mobile website) is due in large part to how and where information from and links to our website are displayed on search engine result pages. The display, including rankings, of unpaid search results can be affected by a number of factors, many of which are not in our direct control, and may change frequently. For example, a search engine may change its ranking algorithms, methodologies or design layouts. As a result, links to our platform may not be prominent enough to drive traffic to our platform, and we may not know how or otherwise be in a position to influence the results.

For example, Google has previously made changes to its algorithms and methodologies that may be contributing to the slowing of our traffic growth rate. Google also previously announced that the rankings of sites showing certain types of app install interstitials could be penalized on its mobile search results pages. While we believe the type of interstitial we currently use is not being penalized, the parameters of Google’s policy may change from time to time, be poorly defined and be inconsistently interpreted. As a result, Google may unexpectedly penalize our app install interstitials, which may cause links to our mobile website to be featured less prominently in Google’s mobile search results page, and traffic to both our mobile website and mobile app may be harmed as a result. We cannot predict the long-term impact of these changes.

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

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

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

If we fail to further develop our domestic markets effectively, our revenue and business will be harmed.

In the fourth quarter of 2016, we wound down our international sales and marketing operations and reallocated the associated resources primarily to our U.S. and Canadian markets. As a result, our continued growth depends on our ability to further develop our U.S. and Canadian communities and operations. However, our communities in many of the largest markets in the United States and Canada are in a relatively late stage of development, and further development of smaller markets may not yield similar results. If we are not able to develop these markets as we expect, or if we fail to address the needs of those markets, our business will be harmed.

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

The markets for information regarding local businesses and advertising are intensely competitive and rapidly changing, and we expect competition to intensify further in the future with the emergence of new technologies and market entrants. We compete for consumer traffic with traditional, offline business guides and directories as well as online providers of local and web search. We also compete for a share of businesses’ overall advertising budgets with traditional, offline media companies and other Internet marketing providers.

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

Certain competitors could also use strong or dominant positions in one or more markets to gain competitive advantage against us in areas in which we operate, including by:

- integrating review platforms or features into products they control, such as search engines, web browsers or mobile device operating systems;
- making acquisitions;
- changing their unpaid search result rankings to promote their own products;
- refusing to enter into or renew licenses on which we depend;
- limiting or denying our access to advertising measurement or delivery systems;
- limiting our ability to target or measure the effectiveness of ads; or
- making access to our platform more difficult.

These risks may be exacerbated by the trend in recent years toward consolidation among online media companies, potentially allowing our larger competitors to offer bundled or integrated products that feature alternatives to our platform.

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

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

We rely on relationships with various third parties to grow our business, including strategic partners and technology and content providers. For example, we rely on third parties for data about local businesses, mapping functionality, payment processing and administrative software solutions. We also rely on partnership integrations for various transactions available through Yelp, including Grubhub for food-ordering services. Identifying, negotiating and maintaining relationships with third parties require significant time and resources, as does integrating their data, services and technologies onto our platform. For example, the integration of the remainder of Grubhub's restaurant network onto our desktop website and the ongoing maintenance of the integration once complete may require significant time, resources and expense, and may divert the attention of our management and employees from other aspects of our business operations. Any delays in completing the Grubhub partnership integration may increase the amount of resources we devote to it, which could adversely affect our business. Once fully integrated, there can be no assurance that we will be able to realize the intended benefits of the Grubhub partnership.

It is possible that these third-party providers and strategic partners may not be able to devote the resources we expect to the relationships. We may also have competing interests and obligations with respect to certain of our partners, which may make it difficult to maintain, grow or maximize the benefit for each partnership. For example, our entry into the online reservations space with our acquisition of SeatMe, Inc. in 2013 put us in competition with OpenTable, which led to the end of our partnership with OpenTable in 2015. Our focus on integrating additional partners to expand our transaction capabilities may exacerbate this risk. If our relationships with our partners and providers deteriorate, we could suffer increased costs and delays in our ability to provide consumers and advertisers with content or similar services. We have had, and may in the future have, disagreements or disputes with our partners about our respective contractual obligations, which could result in legal proceedings or negatively affect our brand and reputation.

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

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

Our success will depend, in part, on our ability to expand our product offerings and grow our business in response to changing technologies, user and advertiser demands and competitive pressures. In some circumstances, we may determine to do so through the acquisition of complementary businesses or technologies rather than through internal development. For example, in February 2017, we acquired Nowait to obtain waitlist system and seating tool technology and in April 2017, we acquired Turnstyle to obtain a wifi-based marketing tool for customer retention and loyalty. Similarly, we may pursue business strategies that include the sale of one or more of our existing business lines or technologies, as we did with our sale of Eat24 to Grubhub in connection with establishing a long-term partnership with Grubhub. We have limited experience as a company in the complex processes of acquiring and selling businesses and technologies. The pursuit of potential future acquisitions or sales may divert the attention of management and cause us to incur expenses in identifying, investigating and pursuing transactions, whether or not they are consummated.

Acquisitions that are consummated could result in dilutive issuances of equity securities or the incurrence of debt, which could adversely affect our results of operations. The incurrence of debt in particular could result in increased fixed obligations or include covenants or other restrictions that would impede our ability to manage our operations. In addition, any transactions we announce could be viewed negatively by users, businesses or investors. We may also fail to accurately forecast the financial impact of a transaction, including tax and accounting charges.

We may also discover liabilities or deficiencies associated with the companies or assets we acquire that we did not identify in advance, which may result in significant unanticipated costs. For example, in 2015, two lawsuits were filed against us by former Eat24 employees alleging that Eat24 failed to comply with certain labor laws prior to the acquisition. The effectiveness of our due diligence review and our ability to evaluate the results of such due diligence are dependent upon the accuracy and completeness of statements and disclosures made by the companies we acquire or their representatives, as well as the limited amount of time in which acquisitions are executed. In the case of any business or assets that we sell, the buyer may identify liabilities or deficiencies that were previously unknown to us. We may be obligated to indemnify the buyer for such liabilities or deficiencies, which may result in unanticipated costs that significantly reduce the purchase price we receive for the business or assets. For example, we agreed to indemnify Grubhub and certain related parties against certain losses arising out of Grubhub's purchase of Eat24, including, but not limited to, any breach or inaccuracy of any representation or warranty made by us or Eat24 in the purchase agreement. While Grubhub's right to recover for many claims is limited to the portion of the purchase price being held in escrow, certain claims are only capped at the total purchase price.

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

- integrating operations, strategies, services, sites and technologies of an acquired company;
- managing the post-transaction business effectively;
- retaining and assimilating the employees of an acquired company;
- retaining our remaining employees following the disposition of a business;
-

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

- difficulties in the assimilation of corporate cultures;
- implementing and retaining uniform standards, controls, procedures, policies and information systems; and

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

Any inability to integrate services, sites and technologies, operations or personnel in the case of an acquisition, or to transfer or transition services, sites and technologies, operations or personnel in the case of a disposition, in an efficient and timely manner could harm our results of operations. Transition activities for both acquisitions and dispositions are complex and require significant time and resources, and we may not manage the process successfully, particularly if we are managing multiple integrations or transitions concurrently. For example, we agreed to provide Grubhub with transition services following the closing of our sale of Eat24, which will require resources and management attention that would otherwise be available for other aspects of our business operations; if we do not provide these services at the level or on the timing agreed upon, we may be liable to Grubhub.

Our ability to integrate complex acquisitions is unproven, particularly with respect to companies that have significant operations or that develop products with which we do not have prior experience. We expect to invest resources to support any future acquisitions, which will result in ongoing operating expenses and may divert resources and management attention from other areas of our business. We cannot assure you that these investments will be successful. Even if we are able to integrate the operations of any acquired company or transfer the operations of any business we sell successfully, we may not realize the full benefits of synergies, cost savings, innovation and operational efficiencies that may be possible from the transaction, or we may not achieve these benefits within a reasonable period of time.

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

We have developed a strong brand that we believe has contributed significantly to the success of our business. Maintaining, protecting and enhancing the “Yelp” brand are critical to expanding our base of users and advertisers and increasing the frequency with which they use our solutions. Our ability to do so will depend largely on our ability to maintain consumer trust in our products and in the quality and integrity of the user content and other information found on our platform, which we may not do successfully. We dedicate significant resources to these goals, including through our automated recommendation software, our consumer alerts program and our efforts to remove content from our platform that violates our terms of service.

Despite these efforts, we cannot guarantee that each of the approximately 110.9 million reviews on our platform that had been recommended and that had not been removed as of March 31, 2018 is useful or reliable, or that consumers will trust the integrity of our content. For example, if our recommendation software does not recommend helpful content or recommends unhelpful content, consumers and businesses alike may stop or reduce their use of our platform and products. Some consumers and businesses have alternately expressed concern that our technology either recommends too many reviews, thereby recommending some reviews that may not be legitimate, or too few reviews, thereby not recommending some reviews that may be legitimate. If consumers do not believe our recommended reviews to be useful and reliable, they may seek other services to obtain the information for which they are looking, and may not return to our platform as often in the future, or at all. This would negatively impact our ability to retain and attract users and advertisers and the frequency with which they use our platform.

Moreover, the actions of our partners may affect our brand if users do not have a positive experience transacting through our partnership integrations. If others misuse our brand or pass themselves off as being endorsed or affiliated with us, it could harm our reputation and our business could suffer. For example, we have encountered instances of reputation management companies falsely representing themselves as being affiliated with us when soliciting customers; this practice could be contributing to the perception that business owners can pay to manipulate reviews, rankings and ratings. Our website and mobile app also serve as a platform for expression by our users, and third parties or the public at large may also attribute the political or other sentiments expressed by users on our platform to us, which could harm our reputation.

In addition, negative publicity about our company, including our technology, sales practices, personnel, customer service, litigation, strategic plans or political activities could diminish confidence in our brand and the use of our products. Certain media outlets have previously reported allegations that we manipulate our reviews, rankings and ratings in favor of our advertisers and against non-advertisers. Although we have taken action to combat this perception, our reputation and brand, and our traffic and business in turn, may suffer if negative publicity about our company persists or if users otherwise perceive that our content is manipulated or biased. Allegations and complaints regarding our business practices, and any resulting negative publicity, may also result in increased regulatory scrutiny of our company. In addition to requiring management time and attention, any regulatory inquiry or investigation could itself result in further negative publicity regardless of its merit or outcome.

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

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

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

As our business matures, we make periodic changes and adjustments to our organization in response to various internal and external considerations, including market opportunities, the competitive landscape, new and enhanced products, acquisitions, sales performance, increases in headcount and cost levels. In some instances, these changes have resulted in a temporary lack of focus and reduced productivity, which may occur again in connection with any future changes to our organization and may negatively affect our results of operations. For example, it may take time for our sales, customer success and other organizations to adapt to selling and supporting advertising contracts with flexible cancellation terms, which we are increasingly offering. Similarly, any significant changes to the way we structure compensation of our sales organization may be disruptive and may affect our ability to generate revenue.

To manage our growth, we may need to improve our operational, financial and management systems and processes, which may require significant capital expenditures and allocation of valuable management and employee resources, as well as subject us to the risk of over-expanding our operating infrastructure. For example, it can be difficult to train thousands of sales employees across multiple offices according to the same business standards, practices and laws, and we have been the subject of lawsuits alleging that we have failed to do so. For example, we are the subject of a putative class action lawsuit alleging that our sales force does not properly disclose that calls may be monitored or recorded for quality assurance. However, if we fail to scale our operations successfully and increase productivity, the quality of our platform and efficiency of our operations could suffer, which could harm our brand, results of operations and business.

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

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

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

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

Our future also depends on our continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. Qualified individuals are in high demand and we expect to continue to face significant competition from other companies in hiring such personnel, particularly in the San Francisco Bay Area, where our headquarters is located and where the cost of living is high. Identifying, recruiting, training and integrating new hires will require significant time, expense and attention; as a result, we may incur significant costs to attract them before we can validate their productivity. As we continue to mature, the incentives to attract, retain and motivate employees provided by our equity awards may not be as effective as in the past, and if we issue significant equity to attract additional employees or to retain our existing employees, we would incur substantial additional stock-based compensation expense and the ownership of our existing stockholders would be further diluted. Volatility in the price of our common stock may also make it more difficult or costly in the future to use equity compensation to motivate, incentivize and retain our employees. If we fail to manage our hiring needs effectively, our efficiency and ability to meet our forecasts, as well as employee morale, productivity and retention, could suffer, and our business and operating results could be adversely affected.

Risks Related to Our Technology

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

It is important to our success that users in all geographies be able to access our platform at all times. If our platform is unavailable when users attempt to access it or it does not load as quickly as they expect, users may seek other services to obtain the information for which they are looking, and may not return to our platform as often in the future, or at all. This would negatively impact our ability to attract users and advertisers and increase the frequency with which they use our platform.

We have previously experienced, and may experience in the future, service disruptions, outages and other performance problems. Such performance problems may be due to a variety of factors, including those set forth below; however, in some instances, we may not be able to identify the cause or causes of these performance problems within an acceptable period of time.

- Infrastructure Changes and Capacity Constraints. We may experience capacity constraints due to an overwhelming number of users accessing our platform simultaneously. It may become increasingly difficult to maintain and improve the availability of our platform, especially during peak usage times, as our products become more complex and our traffic increases.

- Human or Software Errors. Our products and services are highly technical and complex, and may contain errors or vulnerabilities that could result in unanticipated downtime for our platform. Users may also use our products in unanticipated ways that may cause a disruption in service for other users attempting to access our platform. We may encounter such difficulties more frequently as we acquire companies and incorporate their technologies into our service.

- Catastrophic Occurrences. Our systems are vulnerable to damage or interruption from earthquakes, fires, floods, power losses, telecommunications failures, terrorist attacks and similar events. Our U.S. corporate offices and one of the facilities we lease to house our computer and telecommunications equipment are located in the San Francisco Bay Area, a region known for seismic activity. Acts of terrorism, which may be targeted at metropolitan areas that have higher population densities than rural areas, could cause disruptions in our or our advertisers' businesses or the economy as a whole.

We may not have sufficient protection or recovery plans in certain circumstances, such as natural disasters affecting the San Francisco Bay Area, and our business interruption insurance may be insufficient to compensate us for losses that may occur. Our disaster recovery program contemplates transitioning our platform and data to a backup center in the event of a catastrophe. Although this program is functional, if our primary data center shuts down, there will be a period of time that our services will remain shut down while the transition to the back-up data center takes place. During this time, our platform may be unavailable in whole or in part to our users.

We expect to continue to make significant investments to maintain and improve the availability of our platform and to enable rapid releases of new features and products. To the extent that we do not effectively address capacity constraints, upgrade our systems as needed and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology, our business and operating results may be harmed.

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

Our industry is prone to cyber-attacks by third parties seeking unauthorized access to our data or users' data, or to disrupt our ability to provide our services. Any failure to prevent or mitigate security breaches could expose us to the risk of loss or misuse of private user and business information, which could result in potential liability and litigation. We may be a particularly compelling target for such attacks as a result of our brand recognition.

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

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

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

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

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

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

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

Effective trade secret, copyright, trademark, patent and domain name protection is expensive to develop and maintain, both in terms of initial and ongoing registration requirements and expenses and the costs of defending our rights. Seeking protection for our intellectual property, including trademarks and domain names, is an expensive process and may not be successful, and we may not do so in every location in which we operate. Similarly, the process of obtaining patent protection is expensive and time consuming, and we may not be able to prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. Even if issued, there can be no assurance that these patents will adequately protect our intellectual property, as the legal standards relating to the validity, enforceability and scope of protection of patent and other intellectual property rights are uncertain. Litigation may become necessary to enforce our patent or other intellectual property rights, protect our trade secrets or determine the validity and scope of proprietary rights claimed by others. For example, we may incur significant costs in enforcing our trademarks against those who attempt to imitate our "Yelp" brand. Any litigation of this nature, regardless of outcome or merit, could result in substantial costs and diversion of management and technical resources, any of which could adversely affect our business and operating results.

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

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

Risks Related to Our Financial Statements and Tax Matters

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

You should not rely on the revenue growth of any prior quarterly or annual period, or the net income we realize from time to time, as an indication of our future performance. Although our revenues have grown rapidly in the last several years, increasing from $12.1 million in 2008 to $850.8 million in 2017, our revenue growth rate has declined in recent periods as a result of a variety of factors, including the maturation of our business and the gradual decline in the number of major geographic markets within the United States and Canada to which we have not already expanded. While our decision to focus our sales and marketing resources primarily on the United States and Canada may result in some cost savings, it also limits the markets from which we generate revenue and our ability to expand internationally in the future. Similarly, while our sale of Eat24 has resulted in some cost savings, it has also resulted in a substantial reduction in our transactions revenue, which will not be fully offset by revenue from our Grubhub partnership. We cannot predict the impact of these plans on our long-term prospects or the impact that fully outsourcing food ordering on our platform may have on our brand and reputation.

Historically, our costs have increased each year and we expect our costs to increase in future periods as we continue to expend substantial financial resources on:

- sales and marketing;

- our technology infrastructure;
- product and feature development;
- market development efforts;
- strategic opportunities, including commercial relationships and acquisitions;
- our stock repurchase program; and
- general administration, including legal and accounting expenses related to being a public company.

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

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

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

- increase the number of users of our website and mobile app and the number of reviews and other content on our platform;
- attract and retain new advertising clients, many of which may have limited or no online advertising experience, which may become more difficult as an increasing portion of our advertisers have the ability to cancel their advertising plans at any time;
- forecast revenue and adjusted EBITDA accurately, which is made more difficult by the large percentage of our revenue derived from performance-based advertising and the flexible cancellation terms we are increasingly offering, as well as appropriately estimate and plan our expenses;
- continue to earn and preserve a reputation for providing meaningful and reliable reviews of local businesses;
- effectively adapt our products and services to mobile and other alternative devices as usage of such devices continues to increase;
- successfully compete with existing and future providers of other forms of offline and online advertising;
- successfully compete with other companies that are currently in, or may in the future enter, the business of providing information regarding local businesses;
- successfully manage our growth;
- successfully develop and deploy new features and products;
- manage and integrate successfully any acquisitions of businesses, solutions or technologies;
- avoid interruptions or disruptions in our service or slower than expected load times;
- develop a scalable, high-performance technology infrastructure that can efficiently and reliably handle increased usage, as well as the deployment of new features and products;
- hire, integrate and retain talented sales and other personnel;
- effectively manage rapid growth in our sales force, other personnel and operations; and
- effectively identify, engage and manage third-party partners and service providers.

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

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

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

- changes in the products we offer, such as our sale of Eat24 and the related long-term partnership with Grubhub;
- changes in our pricing policies and terms of contracts, whether initiated by us or as a result of competition;
- changes in the markets in which we operate, such as the wind down of our international sales and marketing operations to focus on our core markets of the United States and Canada;
- cyclicality and seasonality, which may become more pronounced as our growth rate slows;
- the effects of changes in search engine placement and prominence;
- the adoption of any laws or regulations that adversely affect the growth, popularity or use of the Internet, such as the repeal of Internet neutrality regulations in the United States;
- the success of our sales and marketing efforts;
- costs associated with defending intellectual property infringement and other claims and related judgments or settlements;
- interruptions in service and any related impact on our reputation;
- changes in advertiser budgets or the market acceptance of online advertising solutions;
- changes in consumer behavior with respect to local businesses;
- changes in our tax rates or exposure to additional tax liabilities, including as a result of the U.S. Tax Cuts and Jobs Act;
- the impact of macroeconomic conditions, including the resulting effect on consumer spending at local businesses and the level of advertising spending by local businesses;
- new accounting pronouncements or changes in existing accounting standards and practices, such as our adoption on January 1, 2018 of Accounting Standards Update 2014-09, “Revenue from Contracts with Customers” (refer to Note 1 of our condensed consolidated financial statements for additional information on the new guidance and its impact on us); and
- the effects of natural or man-made catastrophic events.

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

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

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

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

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

We intend to continue to invest in our business and may require or otherwise seek additional funds to respond to business challenges, including the need to develop new features and products, enhance our existing services, improve our operating infrastructure and acquire complementary businesses and technologies. In addition, in July 2017, our board of directors authorized the repurchase of up to $200 million of our common stock and, in 2018, we began settling employee tax liabilities associated with the vesting of RSUs through net share withholding for our U.S.-based employees, which will require us to cover such taxes with cash from our balance sheet. As a result, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through future issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of our common stock. Any future debt financing we secure could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. We may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and respond to business challenges could be significantly impaired, and our business may be harmed.

We may have exposure to greater than anticipated tax liabilities.

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

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

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

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

Tax laws are dynamic and subject to change as new laws are passed and new interpretations of the law are issued or applied. Our current practices, existing corporate structure and intercompany arrangements have been implemented in a manner we believe is in compliance with current prevailing tax laws. However, the tax benefits that we intend to eventually derive could be undermined due to changing tax laws or new interpretations of existing laws that are inconsistent with previous interpretations or positions taken by taxing authorities on which we have relied.

In particular, the U.S. Tax Cuts and Jobs Act (the "Tax Act"), which was enacted on December 22, 2017, made broad and complex changes to the U.S. tax code, including, among other things, reducing the federal corporate tax rate. Although we have provisionally concluded that the Tax Act had no net impact on our financial statements for the three months ended March 31, 2018, this conclusion may change as a result of changes in interpretations of the Tax Act, any legislative action to address questions that arise under the Tax Act, any changes in accounting standards for income taxes or related interpretations in response to the Tax Act, or any updates or changes to estimates that we used to calculate the impact of the Tax Act. We currently anticipate finalizing and recording any such adjustments no later than December 22, 2018. Please refer to Note 15 in our condensed consolidated financial statements for additional information regarding the Tax Act's impact on us.

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

Our business and results of operations may be harmed if we are deemed responsible for the collection and remittance of state sales taxes for food orders placed through our platform.

If we are deemed an agent for the order-enabled restaurants on our platform under state tax law, we may be deemed responsible for collecting and remitting sales taxes directly to certain states. It is possible that one or more states could seek to impose sales, use or other tax collection obligations on us with regard to such food sales. These taxes may be applicable to past sales, including sales completed through Eat24 prior to its sale, for which we may have indemnification obligations to Grubhub. A successful assertion that we should be collecting additional sales, use or other taxes or remitting such taxes directly to states could result in substantial tax liabilities for past sales and additional administrative expenses, which would harm our business and results of operations.

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

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

In addition, certain of our other key metrics — the number of our desktop unique visitors and mobile website unique visitors — are calculated based on data from third parties. While these numbers are based on what we believe to be reasonable calculations for the applicable periods of measurement, our third-party providers periodically encounter difficulties in providing accurate data for such metrics as a result of a variety of factors, including human and software errors. We expect these challenges to continue to occur, and potentially to increase as our traffic grows. For example, we discovered that a portion of our desktop traffic, as measured by Google Analytics, since the third quarter of 2016 has been attributable to a single robot. Because the traffic from this robot does not represent valid consumer traffic, we determined that our reported desktop unique visitors metric for the third quarter of 2016, fourth quarter of 2016 and first quarter of 2017 were overstated, and have adjusted them to provide greater accuracy and transparency. Our reported number of desktop unique visitors for subsequent periods also reflect adjustments to the numbers provided by Google Analytics to account for this robot, and we expect to continue to make similar adjustments in the future if we determine that our traffic metrics are materially impacted by robot or other invalid traffic.

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

Our measures of traffic and other key metrics may differ from estimates published by third parties (other than those whose data we use to calculate our key metrics) or from similar metrics of our competitors. We are continually seeking to improve our ability to measure these key metrics, and regularly review our processes to assess potential improvements to their accuracy. However, the improvement of our tools and methodologies could cause inconsistency between current data and previously reported data, which could confuse investors or raise questions about the integrity of our data. If our users, advertisers, partners and stockholders do not perceive our metrics to be accurate representations, or if we discover material inaccuracies in our metrics, our reputation may be harmed.

Risks Related to Regulatory Compliance and Legal Matters

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

We currently face, and we expect to face from time to time in the future, allegations that we have violated the rights of third parties, including patent, trademark, copyright and other intellectual property rights, and the rights of current and former employees, users and business owners. For example, various businesses have sued us alleging that we manipulate Yelp reviews in order to coerce them and other businesses to pay for Yelp advertising.

The nature of our business also exposes us to claims relating to the information posted on our platform, including claims for defamation, libel, negligence and copyright or trademark infringement, among others. For example, businesses have in the past claimed, and may in the future claim, that we are responsible for the defamatory reviews posted by our users. We expect claims like these to continue, and potentially increase in proportion to the amount of content on our platform. In some instances, we may elect or be compelled to remove the content that is the subject of such claims, or may be forced to pay substantial damages if we are unsuccessful in our efforts to defend against these claims. For example, recently enacted legislation in Germany may impose significant fines for failure to comply with certain content removal and disclosure obligations. If we elect or are compelled to remove content from our platform, our products and services may become less useful to consumers and our traffic may decline, which would have a negative impact on our business. This risk may increase if Congressional efforts to restrict the protections afforded us by Section 230 of the Communications Decency Act are successful. This risk may also be greater in certain jurisdictions outside of the United States where our protection from such liability may be unclear.

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

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

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

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

The application and interpretation of these laws and regulations are often uncertain, particularly in the new and rapidly evolving industry in which we operate. For example, we rely on laws limiting the liability of providers of online services for activities of their users and other third parties. These laws are currently being tested by a number of claims, including actions based on invasion of privacy and other torts, unfair competition, copyright and trademark infringement and other theories based on the nature and content of the materials searched, the ads posted or the content provided by users. There have also been various Congressional efforts to restrict the scope of the protections available to online platforms under Section 230 of the Communications Decency Act, and our current protections from liability for third-party content in the United States could decrease or change as a result.

It is also possible that the interpretation and application of various laws and regulations may conflict with other rules or our practices, such as industry standards to which we adhere, our privacy policies and our privacy-related obligations to third parties (including, in certain instances, voluntary third-party certification bodies). Similarly, our business could be adversely affected if new legislation or regulations are adopted that require us to change our current practices or the design of our platform, products or features. For example, regulatory frameworks for privacy issues are currently in flux worldwide, and are likely to remain so for the foreseeable future due to increased public scrutiny of the practices of companies offering online services with respect to personal information of their users. The U.S. government, including the Federal Trade Commission and the Department of Commerce, and many state governments are reviewing the need for greater regulation of the collection, processing, storage and use of information about consumer behavior on the Internet, including regulation aimed at restricting certain targeted advertising practices. In April 2016, the European Commission approved a new safe harbor program, the E.U.-U.S. Privacy Shield, covering the transfer of personal data from the European Union to the United States, and a new general data protection regulation is expected to take effect in the European Union in May 2018, each of which may be subject to varying interpretations and evolving practices, which would create uncertainty for us and possibly result in significantly greater compliance burdens for companies such as us with users and operations in Europe. Changes like these could increase our administrative costs and make it more difficult for consumers to use our platform, resulting in less traffic and revenue. Such changes could also make it more difficult for us to provide effective advertising tools to businesses on our platform, resulting in fewer advertisers and less revenue.

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

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

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

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

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

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

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

Risks Related to Ownership of Our Common Stock

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

The trading price of our common stock has been, and is likely to continue to be, highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. During 2017, our common stock’s daily closing price ranged from $27.38 to $47.58, and was $44.50 on May 1, 2018. In addition to the factors discussed in this “Risk Factors” section and elsewhere in this Quarterly Report, factors that may cause volatility in our share price include:

- actual or anticipated fluctuations in our financial condition and operating results;
- changes in projected operating and financial results;
- actual or anticipated changes in our growth rate relative to our competitors;
- repurchase of our common stock pursuant to our stock repurchase program, which could also cause our stock price to be higher that it would be in the absence of such a program and could potentially reduce the market liquidity for our stock;
- announcements of changes in strategy, such as the announcement of our plan to wind down our international sales and marketing operations to focus on our core U.S. and Canadian markets;
- announcements of technological innovations or new offerings by us or our competitors;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital-raising activities or commitments;
- additions or departures of key personnel;
-

actions of securities analysts who cover our company, such as publishing research or forecasts about our business (and our performance against such forecasts), changing the rating of our common stock or ceasing coverage of our company;
- investor sentiment with respect to our competitors, business partners and industry in general;

- any disruption to the proper operation of our network infrastructure or compromise of our security measures;
- reporting on our business by the financial media, including television, radio and press reports and blogs;
- fluctuations in the value of companies perceived by investors to be comparable to us;
- changes in the way we measure our key metrics;
- sales of our common stock;
- changes in laws or regulations applicable to our solutions;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares; and
- general economic and market conditions such as recessions or interest rate changes.

Furthermore, the stock markets have recently experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. For example, on January 18, 2018, we and certain of our officers were sued in a putative class action lawsuit alleging violations of the federal securities laws for allegedly making materially false and misleading statements. We may be the target of additional litigation of this type in the future as well. Securities litigation against us could result in substantial costs and divert our management's time and attention from other business concerns, which could harm our business.

We cannot guarantee that our stock repurchase program will be fully consummated or that it will enhance long-term stockholder value. Share repurchases could also increase the volatility of the trading price of our stock and could diminish our cash reserves.

In July 2017, our board of directors authorized the repurchase of up to $200 million of our common stock, which we commenced in August 2017 and does not have an expiration date. Although our board of directors has authorized this repurchase program, the program does not obligate us to repurchase any specific dollar amount or to acquire any specific number of shares. We cannot guarantee that the program will be fully consummated or that it will enhance long-term stockholder value. The program could affect the trading price of our stock and increase volatility, and any announcement of a termination of this program may result in a decrease in the trading price of our stock. In addition, this program could diminish our cash reserves.

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

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

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

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

- authorize our board of directors to issue, without further action by the stockholders, up to 10,000,000 shares of undesignated preferred stock;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;
- specify that special meetings of our stockholders can be called only by our board of directors, the Chair of our board of directors or our Chief Executive Officer;
-

establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our board of directors;

- establish that our board of directors is divided into three classes, with directors in each class serving three-year staggered terms;
- prohibit cumulative voting in the election of directors;
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum; and
- require the approval of our board of directors or the holders of a supermajority of our outstanding shares of capital stock to amend our bylaws and certain provisions of our amended and restated certificate of incorporation.

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

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware will be the exclusive forum for the adjudication of certain disputes, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the sole and exclusive forum for:

- any derivative action or proceeding brought on our behalf;
- any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of Yelp to us or our stockholders;
- any action asserting a claim against us arising pursuant to any provision of the General Corporation Law of the State of Delaware, our amended and restated certificate of incorporation or our amended and restated bylaws; and
- any action asserting a claim against us that is governed by the internal affairs doctrine.

This exclusive-forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees, which may discourage lawsuits against us and our directors, officers, and other employees. If a court were to find this exclusive-forum provision to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving the dispute in other jurisdictions, which could harm our business.

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

Sales of a substantial number of shares of our common stock in the public market, particularly sales by our directors, officers, employees and significant stockholders, or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. As of March 31, 2018, we had 83,596,510 shares of common stock outstanding.

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

Issuer Purchases of Equity Securities

The following table summarizes our stock repurchase activity for the three months ended March 31, 2018 (in thousands except for price per share):

Period	Total Number of Shares Purchased(1)	Weighted-Average Price Paid per Share(2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Program
January 1 - January 31, 2018	—	—	—	$ 187,382
February 1 - February 28, 2018	550	39.99	550	$ 165,389
March 1 - March 31, 2018	360	41.62	360	$ 150,389

(1) On July 31, 2017, our board of directors authorized a stock repurchase program under which we may repurchase up to $200 million of our outstanding common stock, which we commenced in August 2017 and does not have an expiration date. The timing of and number of shares repurchased depend on a variety of factors, including liquidity, cash flow and market conditions. See "Liquidity and Capital Resources—Stock Repurchase Program" included under Part I, Item 2 in this Quarterly Report for further details.

(2) Average price paid per share includes costs associated with the repurchases.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

.

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
2.1	Agreement and Plan of Merger, dated February 28, 2017, by and among Yelp Inc., Nowait, Inc., Beagle Acquisition Corp. and Shareholder Representative Services LLC, as Stockholders' Agent.	8-K	001-35444	2.1	3/6/2017	
2.2	Share Purchase Agreement, dated April 3, 2017, by and among Yelp Inc., 10036773 Canada Inc., Turnstyle Analytics Inc., the shareholders of Turnstyle Analytics Inc., the vested option holders of Turnstyle Analytics Inc., 500 Startups IV, L.P. and Fortis Advisors LLC, as Securityholders' Agent.	8-K	001-35444	2.1	4/7/2017	
2.3	Unit Purchase Agreement, dated as of August 3, 2017, by and among Yelp Inc., Eat24, LLC, Grubhub Inc. and Grubhub Holdings Inc.	10-Q	001-35444	2.3	8/9/2017	
3.1	Amended and Restated Certificate of Incorporation of Yelp Inc.	8-A/A	001-35444	3.2	9/23/2016	
3.2	Amended and Restated Bylaws of Yelp Inc.	S-1/A	333-178030	3.4	2/3/2012	
4.1	Reference is made to Exhibits 3.1 and 3.2.					
4.2	Form of Common Stock Certificate.	8-A/A	001-35444	4.1	9/23/2016	
31.1	Certification pursuant to Rule 13a-14(a)/15d-14(a).					X
31.2	Certification pursuant to Rule 13a-14(a)/15d-14(a).					X
32.1†	Certifications of Chief Executive Officer and Chief Financial Officer.					X
101.INS	XBRL Instance Document.					X
101.SCH	XBRL Taxonomy Extension Schema Document.					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.					X
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.					X

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

SIGNATURES

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

	YELP INC.
Date: May 10, 2018	/s/ Charles Baker
	Charles Baker
	Chief Financial Officer
	(Principal Financial and Accounting Officer and Duly Authorized Signatory)

59