

YELP INC
Form 10-Q
May 05, 2014

**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, 2014

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES
EXCHANGE ACT OF 1934**
For the Transition period from _____ to _____

Commission file number: 001-35444

YELP INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

20-1854266
(I.R.S. Employer
Identification No.)

140 New Montgomery Street, 9th Floor
San Francisco, CA
(Address of Principal Executive Offices)

94105
(Zip Code)

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

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

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

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

Large accelerated filer x

Accelerated filer o

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

Smaller reporting company o

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

As of April 25, 2014, there were 61,059,922 shares of registrant's Class A common stock, par value \$0.000001 per share, issued and outstanding and 10,601,908 shares of registrant's Class B common stock, par value \$0.000001 per share, issued and outstanding.

YELP INC.
QUARTERLY REPORT ON FORM 10-Q
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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. Similarly, references to our website refer to both the U.S. and international versions of our website, as well as the versions of our website dedicated to mobile-based browsers.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

YELP INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)
(Unaudited)

	March 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 399,320	\$ 389,764
Accounts receivable (net of allowance for doubtful accounts of \$899 and \$810 at March 31, 2014 and December 31, 2013, respectively)	21,376	21,317
Prepaid expenses and other current assets	9,087	5,752
Total current assets	429,783	416,833
Property, equipment and software, net	33,298	30,666
Goodwill	59,635	59,690
Intangibles, net	4,615	5,235
Restricted cash	3,655	3,247
Other assets	2,488	306
Total assets	\$ 533,474	\$ 515,977
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	\$ 1,578	\$ 3,364
Accrued liabilities	23,992	19,004
Deferred revenue	2,184	2,621
Total current liabilities	27,754	24,989
Long-term liabilities	5,784	4,505
Total liabilities	33,538	29,494
Commitments and contingencies (Note 9)		
Stockholders equity		
Common stock, \$0.000001 par value 500,000,000 shares authorized; 71,552,141 and 70,874,493 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively		
Additional paid-in capital	569,925	553,753
Accumulated other comprehensive income	3,102	3,186
Accumulated deficit	(73,091)	(70,456)
Total stockholders equity	499,936	486,483
Total liabilities and stockholders equity	\$ 533,474	\$ 515,977

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,	
	2014	2013
Net revenue	\$ 76,407	\$ 46,133
Costs and expenses:		
Cost of revenue (exclusive of depreciation and amortization shown separately below)	5,077	3,340
Sales and marketing	45,121	28,194
Product development	13,982	7,236
General and administrative	13,170	8,764
Depreciation and amortization	3,661	2,478
Restructuring and integration		675
Total costs and expenses	81,011	50,687
Loss from operations	(4,604)	(4,554)
Other income (expense), net	(2)	(201)
Loss before income taxes	(4,606)	(4,755)
Benefit (provision) for income taxes	1,971	(44)
Net loss attributable to common stockholders (Class A and B)	\$ (2,635)	\$ (4,799)
Net loss per share attributable to common stockholders (Class A and B)		
Basic	\$ (0.04)	\$ (0.08)
Diluted	\$ (0.04)	\$ (0.08)
Weighted-average shares used to compute net loss per share attributable to common stockholders (Class A and B)		
Basic	71,171	63,733
Diluted	71,171	63,733

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2014	2013
Net loss	\$ (2,635)	\$ (4,799)
Other comprehensive income (loss):		
Foreign currency translation adjustments	(84)	(1,709)
Other comprehensive income (loss)	(84)	(1,709)
Comprehensive loss	\$ (2,719)	\$ (6,508)

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2014	2013
OPERATING ACTIVITIES:		
Net loss	\$ (2,635)	\$ (4,799)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,661	2,478
Provision for doubtful accounts and sales returns	1,186	551
Stock-based compensation	9,456	5,160
Loss on disposal of assets and website development costs	—	50
Excess tax benefit from share-based award activity	(39)	—
Changes in operating assets and liabilities:		
Accounts receivable	(1,249)	(1,204)
Prepaid expenses and other assets	(5,928)	(1,515)
Accounts payable and accrued expenses	5,309	(1,176)
Deferred revenue	(438)	281
Net cash provided by (used in) operating activities	9,323	(174)
INVESTING ACTIVITIES:		
Purchases of property, equipment and software	(4,246)	(943)
Capitalized website and software development costs	(1,592)	(969)
Change in restricted cash	(397)	—
Net cash used in investing activities	(6,235)	(1,912)
FINANCING ACTIVITIES:		
Proceeds from exercise of employee stock options	6,735	1,657
Excess tax benefit from share-based award activity	39	—
Repurchase of common stock	(361)	(81)
Net cash provided by financing activities	6,413	1,576
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	55	(116)
CHANGE IN CASH AND CASH EQUIVALENTS	9,556	(626)
CASH AND CASH EQUIVALENTS Beginning of period	389,764	95,124
CASH AND CASH EQUIVALENTS End of period	\$ 399,320	\$ 94,498
SUPPLEMENTAL DISCLOSURES OF OTHER CASH FLOW INFORMATION:		
Cash paid for income taxes, net of refunds	\$ 115	\$ 13
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Purchases of property and equipment recorded in accounts payable and accruals	\$ 1,880	\$ 1,296
Capitalized website and software development costs recorded in accounts payable and accruals	67	—
Goodwill measurement period adjustment	—	1,153

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See notes to condensed consolidated financial statements.

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

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

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

Yelp connects people with great local businesses. Yelp's users have contributed millions of reviews of almost every type of local business, giving a voice to consumers and bringing word of mouth online. Businesses of all sizes use the Yelp platform to engage with consumers at the critical moment when they are deciding where to spend their money.

Basis of Presentation

The accompanying condensed consolidated financial statements are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and applicable rules and regulations of the U.S. Securities and Exchange Commission (SEC) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements contained in the Company's Annual Report on Form 10-K filed with the SEC on March 3, 2014 (the Annual Report). The condensed consolidated balance sheet as of December 31, 2013 included herein was derived from the audited consolidated financial statements as of that date but does not include all disclosures required by GAAP, including notes to the financial statements.

The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, include all adjustments of a normal recurring nature necessary for the fair presentation of the interim periods presented.

Significant Accounting Policies

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

Principles of Consolidation

These condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

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,

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

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

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This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. On a recurring basis, the Company measures its financial assets at fair value. The Company's investment instruments are classified within Level 1 of the fair value hierarchy because they are valued using quoted prices in active markets.

The following table represents the Company's financial instruments measured at fair value as of March 31, 2014 and December 31, 2013 (in thousands):

	March 31, 2014				December 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Money market funds(1)	\$ 360,718	\$	\$	\$ 360,718	\$ 360,690	\$	\$	\$ 360,690

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

3. ACQUISITIONS

SeatMe, Inc.

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

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

	July 24, 2013
Fair value of purchase consideration:	
Cash:	
Distributed to SeatMe equity holders	\$ 2,057
Held in escrow account	56
Class A common stock:	