YELP INC
Form 10-Q
November 06, 2017

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 September 30, 2017
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 October 31, 2017, there were 82,889,825 shares of registrant's 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 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. 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 Eat24, Yelp Reservations, Yelp Nowait, Turnstyle or from our business owner products.

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)

	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$362,401	$272,201
Short-term marketable securities	195,768	207,332
Accounts receivable (net of allowance for doubtful accounts of $7,000 and $4,992 at September 30, 2017 and December 31, 2016, respectively)	68,483	68,725
Prepaid expenses and other current assets	15,694	12,921
Assets held for sale	143,873	—
Total current assets	786,219	561,179
Property, equipment and software, net	94,348	92,440
Intangibles, net	17,815	32,611
Goodwill	107,186	170,667
Restricted cash	18,595	17,317
Other non-current assets	2,952	10,992
Total assets	$1,027,115	$885,206
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable – trade	$2,269	$2,003
Accounts payable – merchant share	878	18,352
Accrued liabilities	48,320	36,730
Deferred revenue	3,667	3,314
Liabilities held for sale	25,170	—
Total current liabilities	80,304	60,399
Long-term liabilities	21,515	17,621
Total liabilities	101,819	78,020
Commitments and contingencies (Note 12)		
Stockholders' equity		
Common stock, $0.000001 par value - 200,000,000 and 200,000,000 shares authorized, 82,741,466 and 79,429,833 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	—	—
Additional paid-in capital	1,001,633	892,983
Accumulated other comprehensive loss	(9,107)	(15,576)
Accumulated deficit	(67,230)	(70,221)
Total stockholders' equity	925,296	807,186
Total liabilities and stockholders' equity	$1,027,115	$885,206

See notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net revenue	$222,380	$186,232	$628,567	$518,273
Costs and expenses:				
Cost of revenue (exclusive of depreciation and amortization shown separately below)	19,312	14,594	54,282	44,759
Sales and marketing	113,041	99,274	327,559	289,304
Product development	45,834	36,369	127,793	101,689
General and administrative	26,694	24,876	78,969	70,109
Depreciation and amortization	10,656	9,159	31,470	25,912
Restructuring and integration	35	—	286	—
Total costs and expenses	215,572	184,272	620,359	531,773
Income (loss) from operations	6,808	1,960	8,208	(13,500)
Other income, net	1,371	327	2,933	952
Income (loss) before income taxes	8,179	2,287	11,141	(12,548)
Provision for income taxes	(232)	(217)	(417)	(385)
Net income (loss) attributable to common stockholders (1)	$7,947	$2,070	$10,724	$(12,933)
Net income (loss) per share attributable to common stockholders (1)				
Basic	$0.10	$0.03	$0.13	$(0.17)
Diluted	$0.09	$0.02	$0.12	$(0.17)
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders (1)				
Basic	82,259	77,521	81,041	76,627
Diluted	87,433	82,917	86,097	76,627

(1) The structure of the Company’s common stock changed during the year ended December 31, 2016. Refer to Note 13 for details.

See notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income (loss)	$7,947	$2,070	$10,724	$(12,933)
Other comprehensive income:				
Foreign currency translation adjustments	1,866	674	6,469	1,469
Other comprehensive income	1,866	674	6,469	1,469
Comprehensive income (loss)	$9,813	$2,744	$17,193	$(11,464)

See notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2017	2016
OPERATING ACTIVITIES:		
Net income (loss)	$10,724	$(12,933)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	31,470	25,912
Provision for doubtful accounts and sales returns	13,448	12,139
Stock-based compensation	75,007	62,396
Other adjustments	411	1,314
Changes in operating assets and liabilities:		
Accounts receivable	(16,971)	(24,167)
Prepaid expenses and other assets	(2,106)	3,638
Accounts payable, accrued expenses and other liabilities	15,628	13,193
Deferred revenue	350	295
Net cash provided by operating activities	127,961	81,787
INVESTING ACTIVITIES:		
Purchases of marketable securities	(179,557)	(221,771)
Maturities of marketable securities	191,000	212,500
Purchase of cost-method investment	—	(8,000)
Acquisitions of businesses, net of cash received	(50,544)	—
Purchases of property, equipment and software	(7,892)	(17,798)
Capitalized website and software development costs	(12,236)	(10,596)
Other investing activities	(1,209)	(927)
Net cash used in investing activities	(60,438)	(46,592)
FINANCING ACTIVITIES:		
Proceeds from issuance of common stock for employee stock-based plans	29,556	18,055
Cash used for common stock repurchases	(7,743)	—
Net cash provided by financing activities	21,813	18,055
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	864	28
CHANGE IN CASH AND CASH EQUIVALENTS	90,200	53,278
CASH AND CASH EQUIVALENTS—Beginning of period	272,201	171,613
CASH AND CASH EQUIVALENTS—End of period	$362,401	$224,891
SUPPLEMENTAL DISCLOSURES OF OTHER CASH FLOW INFORMATION:		
Cash paid for income taxes, net	$82	$688
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Purchases of property, equipment and software recorded in accounts payable, accrued expenses and other liabilities	$3,555	$4,373
Goodwill measurement period adjustment	(178)	146

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, 2016, filed with the SEC on March 1, 2017 (the "Annual Report"). The unaudited condensed consolidated balance sheet as of December 31, 2016 included herein was derived from the audited consolidated financial statements as of that date, but does not include all disclosures required by GAAP, including certain notes to the financial statements.

The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements.

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.

Stock Repurchases—The Company accounts for repurchases of its common stock by recording the cost to repurchase those shares to treasury stock, a separate component of stockholders' equity. Upon retirement, the carrying amount of treasury shares is removed with a corresponding reduction to par value of common stock, with any excess of the cost incurred to repurchase shares over their par value recorded as an adjustment to accumulated deficit on the date of retirement.

Assets and Liabilities Held for Sale—The Company considers an asset to be held for sale when: management approves and commits to a formal plan to actively market the asset for sale at a reasonable price in relation to its fair value; the asset is available for immediate sale in its present condition; an active program to locate a buyer and other actions required to complete the sale have been initiated; the sale of the asset is expected to be completed within one year; and it is unlikely that significant changes will be made to the plan. Upon designation as held for sale, the Company records the carrying value of the assets at the lower of its carrying value or its estimated fair value, less costs to sell. The Company ceases to record depreciation and amortization expense associated with assets upon their designation as held for sale.

Recent Accounting Pronouncements Not Yet Effective

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-09 "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 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 in exchange for such goods or services. As currently issued and amended, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company will adopt this standard effective January 1, 2018.

The new standard permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of the initial application of the guidance recognized at the date of adoption (modified retrospective method). The Company currently anticipates adopting the standard using the full retrospective method and does not anticipate a significant change in revenue recognition from the previous standard. The Company currently expenses contract acquisition costs as incurred and expects that the requirement to defer incremental contract acquisition costs and recognize them over the contract period or expected customer life will result in the recognition of deferred costs on its balance sheets. The Company is still in the process of completing its analysis on the impact this guidance will have on its consolidated financial statements, related disclosures and its internal controls over financial reporting. The Company does not expect that this guidance will have a material impact on its consolidated financial statements, with the exception of contract acquisition costs, which will be deferred and amortized over the expected life of the contract, rather than recognized in the period in which they are incurred.

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. The Company is currently evaluating the impact of the adoption of ASU 2016-02 on its consolidated financial statements.

In August 2016, FASB issued Accounting Standards Update No. 2016-15, “Statement of Cash Flows (Subtopic 230)” (“ASU 2016-15”). The new guidance provides clarity around the cash flow classification for specific issues in an effort to reduce the current and potential future diversity in practice. The standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2017 and early adoption is permitted. The Company is currently evaluating the impact of the adoption of ASU 2016-15 on its consolidated financial statements and anticipates adopting this standard for the first interim period within the annual reporting period beginning after December 15, 2017.

In November 2016, FASB issued Accounting Standards Update No. 2016-18, “Statement of Cash Flows (Subtopic 230)” (“ASU 2016-18”). The new guidance requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. The standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2017 and early adoption is permitted. The Company is currently evaluating the impact of the adoption of ASU 2016-18 on its consolidated financial statements and anticipates adopting this standard for the first interim period within the annual reporting period beginning after December 15, 2017.

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 AND CASH EQUIVALENTS

Cash and cash equivalents as of September 30, 2017 and December 31, 2016 consisted of the following (in thousands):

	September 30, 2017	December 31, 2016
Cash and cash equivalents		
Cash	$196,234	$119,778
Cash equivalents	166,167	152,423
Total cash and cash equivalents	$362,401	$272,201

As of September 30, 2017 and December 31, 2016, the Company had letters of credit collateralized fully by bank deposits which total $18.6 million and $17.3 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.

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 September 30, 2017 and December 31, 2016 (in thousands):

	September 30, 2017				December 31, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash Equivalents:								
Money market funds	$158,171	$—	$ —	$158,171	$152,423	$—	$ —	$152,423
Commercial paper	—	7,996	—	7,996	—	—	—	—
Short-term Marketable Securities:								
Agency bonds	—	127,953	—	127,953	—	152,394	—	152,394
Commercial paper	—	41,818	—	41,818	—	45,894	—	45,894
Agency discount notes	—	15,949	—	15,949	—	—	—	—
Corporate bonds	—	9,993	—	9,993	—	9,006	—	9,006
Total cash equivalents and short-term marketable securities	$158,171	$203,709	$ —	$361,880	$152,423	$207,294	$ —	$359,717

4. MARKETABLE SECURITIES

The amortized cost, gross unrealized gains and losses, and fair value of securities held-to-maturity, all of which mature within one year, as of September 30, 2017 and December 31, 2016 were as follows (in thousands):

	September 30, 2017			
Short-term marketable securities:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Agency bonds	$128,005	$ 1	$ (53)	$127,953
Commercial paper	41,817	1	—	41,818
Agency discount notes	15,948	1	—	15,949
Corporate bonds	9,998	—	(5)	9,993
Total marketable securities	$195,768	$ 3	$ (58)	$195,713

	December 31, 2016			
Short-term marketable securities:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Agency bonds	$152,429	$ 18	$ (53)	$152,394
Commercial paper	45,894	—	—	45,894
Corporate bonds	9,009	—	(3)	9,006
Total marketable securities	$207,332	$ 18	$ (56)	$207,294

The following tables present gross unrealized losses and fair values for those securities that were in an unrealized loss position as of September 30, 2017 and December 31, 2016, aggregated by investment category and the length of time that the individual securities have been in a continuous loss position (in thousands):

	September 30, 2017					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Agency bonds	$122,948	$ (53)	$ —	$ —	$122,948	$ (53)
Corporate bonds	9,993	(5)	—	—	9,993	(5)
Total	$132,941	$ (58)	$ —	$ —	$132,941	$ (58)

	December 31, 2016					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Agency bonds	$92,018	$ (53)	$ —	$ —	$92,018	$ (53)
Corporate bonds	8,006	(3)	—	—	8,006	(3)
Total	$100,024	$ (56)	$ —	$ —	$100,024	$ (56)

The Company periodically reviews its investment portfolio for other-than-temporary impairment. The Company considers such factors as the duration, severity and reason for the decline in value, and the potential recovery period. The Company also considers whether it is more likely than not that it will be required to sell the securities before the recovery of their amortized cost basis, and whether the amortized cost basis cannot be recovered as a result of credit losses. During the three and nine months ended September 30, 2017 and 2016, the Company did not recognize any other-than-temporary impairment loss.

5. PROPERTY, EQUIPMENT AND SOFTWARE, NET

Property, equipment and software, net as of September 30, 2017 and December 31, 2016 consisted of the following (in thousands):

	September 30, 2017	December 31, 2016
Capitalized website and internal-use software development costs	$77,327	$61,515
Leasehold improvements	64,209	60,101
Computer equipment	31,504	28,551
Furniture and fixtures	15,150	14,162
Telecommunication	3,852	3,457
Software	1,201	1,079
Total	193,243	168,865
Less accumulated depreciation	(98,895)	(76,425)
Property, equipment and software, net	$94,348	$92,440

Depreciation expense was approximately $9.2 million and $7.5 million for the three months ended September 30, 2017 and 2016, respectively, and approximately $25.8 million and $20.8 million for the nine months ended September 30, 2017 and 2016, respectively.

6. INTANGIBLE ASSETS AND GOODWILL

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 nine months ended September 30, 2017 were as follows (in thousands):

Balance as of December 31, 2016	$	170,667
Additions upon business combinations	42,007	
Goodwill measurement period adjustment	(178	)
Effect of currency translation	5,458	
Goodwill reclassified to assets held for sale	(110,768	)
Balance as of September 30, 2017	$	107,186

Goodwill associated with asset group held for sale consisted of Eat24, LLC, a wholly owned subsidiary of the Company ("Eat24"), reclassified as assets held for sale as of September 30, 2017. Refer to Note 9 for details.

Intangible assets at September 30, 2017 and December 31, 2016 consisted of the following (dollars in thousands):

	September 30, 2017			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life
Business relationships	$9,919	$ (655)	$9,264	10.5 years
Developed technology	7,834	(1,752)	6,082	4.3 years
Domains and data licenses	2,869	(1,719)	1,150	2.5 years
Trademarks	999	(285)	714	2.4 years
Content	3,961	(3,476)	485	1.9 years
User relationships	146	(26)	120	2.5 years
Total	$25,728	$ (7,913)	$17,815	

	December 31, 2016			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life
Business relationships	$17,400	$ (2,741)	$14,659	10.1 years
Developed technology	9,280	(4,122)	5,158	3.1 years
Domains and data licenses	2,804	(1,340)	1,464	3.0 years
Trademarks	3,338	(1,861)	1,477	2.1 years
Content	3,674	(2,581)	1,093	2.0 years
User relationships	12,000	(3,240)	8,760	5.1 years
Advertiser relationships	1,549	(1,549)	—	0.0 years
Total	$50,045	$ (17,434)	$32,611	

Amortization expense was $1.4 million and $1.7 million for the three months ended September 30, 2017 and 2016, respectively, and $5.7 million and $5.1 million for the nine months ended September 30, 2017 and 2016, respectively.

As of September 30, 2017, the estimated future amortization of purchased intangible assets for (i) the remaining three months of 2017, (ii) each of the succeeding four years, and (iii) thereafter is as follows (in thousands):

Year Ending December 31,	Amount
2017 (from October 1, 2017)	$920
2018	3,534
2019	3,278
2020	2,402
2021	2,262
Thereafter	5,419
Total amortization	$17,815

7. ACQUISITIONS

Nowait, Inc.

On February 28, 2017, the Company acquired Nowait, Inc. (“Nowait”). In connection with the acquisition, all outstanding capital stock and warrants to purchase capital stock of Nowait — including the 20% equity investment in Nowait the Company acquired in July 2016 (see Note 8) — were converted into the right to receive an aggregate of approximately $40 million in cash. Of the total amount of consideration paid in connection with the acquisition, $8 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

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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 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):

	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.

For the three months ended September 30, 2017, the Company recorded no acquisition-related transaction costs and for the nine months ended September 30, 2017, the Company recorded acquisition-related transaction costs of approximately $0.1 million, 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 and nine months ended September 30, 2017 include $1.3 million and $2.6 million of revenue attributable to Nowait, respectively, and $1.9 million and $5.1 million of net loss attributable to Nowait, respectively.

Turnstyle Analytics Inc.

On April 3, 2017, the Company acquired all of the equity interests in Turnstyle Analytics Inc. (“Turnstyle”) for approximately $21 million, approximately $1 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 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.

For the three and nine months ended September 30, 2017, the Company recorded acquisition-related transaction costs of zero and $0.3 million, 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 and nine months ended September 30, 2017 include $0.4 million and $0.8 million of revenue attributable to Turnstyle, respectively, and $4.0 million and $4.6 million of net loss attributable to Turnstyle, respectively.

Pro Forma Financial Information

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The unaudited pro forma financial information in the tables below summarizes the combined results of operations for (a) the Company and Nowait, (b) the Company and Turnstyle, and (c) the Company with Nowait and Turnstyle, as though the respective combinations had occurred as of January 1, 2016, and includes the accounting effects resulting from the acquisitions, including amortization charges from acquired intangible assets and changes in depreciation due to differing asset values and depreciation lives.

The unaudited pro forma financial information, as presented below, is for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved if the combinations had taken place as of January 1, 2016 (in thousands, except per share data):

Nowait, Inc.

	Pro Forma Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net revenue	$222,380	$187,334	$629,341	$521,442
Net income (loss)	7,947	588	9,682	(18,824)
Basic net income (loss) per share attributable to common stockholders	0.10	0.01	0.12	(0.25)
Diluted net income (loss) per share attributable to common stockholders	0.09	0.01	0.11	(0.25)

Turnstyle Analytics Inc.

	Pro Forma Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net revenue	$222,380	$186,539	$628,894	$519,031
Net income (loss)	7,947	1,560	10,578	(14,377)
Basic net income (loss) per share attributable to common stockholders	0.10	0.02	0.13	(0.19)
Diluted net income (loss) per share attributable to common stockholders	0.09	0.02	0.12	(0.19)

Combined

	Pro Forma Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net revenue	$222,380	$187,641	$629,668	$522,199
Net income (loss)	7,947	78	9,536	(20,268)
Basic net income (loss) per share attributable to common stockholders	0.10	—	0.12	(0.26)
Diluted net income (loss) per share attributable to common stockholders	0.09	—	0.11	(0.26)

8. OTHER NON-CURRENT ASSETS

Other non-current assets as of September 30, 2017 and December 31, 2016 consisted of the following (in thousands):

	September 30, 2017	December 31, 2016
Cost-method investments	$ —	$ 8,000
Other	2,952	2,992
Total other non-current assets	$ 2,952	$ 10,992

Cost-method investments represent the Company’s investment in the preferred stock of Nowait, which was completed on July 15, 2016. The Company acquired the entirety of Nowait on February 28, 2017 and the Company's original investment of $8.0 million was returned to it in the three months ended March 31, 2017 in connection with the acquisition. The remaining other non-current assets are primarily deferred tax assets.

9. ASSET GROUP HELD FOR SALE

On August 3, 2017, the Company and Eat24 entered into a Unit Purchase Agreement (the "Purchase Agreement") with Grubhub Inc. ("Grubhub") and Grubhub Holdings, Inc. ("Purchaser"), a wholly owned subsidiary of Grubhub. Pursuant to the Purchase Agreement, the Purchaser agreed to acquire all of the outstanding equity interests in Eat24 from the Company for $287.5 million in cash upon the terms and subject to the conditions set forth in the Purchase Agreement (the "Disposition"). The Company also agreed to transfer certain assets to Eat24 immediately prior to the closing of the Disposition, consisting of assets that are material to or necessary for the operation of Eat24 that were not then owned by Eat24. As a result, the assets and liabilities of Eat24 — including the assets to be transferred to Eat24 immediately prior to closing — were classified as held for sale in the three months ended September 30, 2017, and are separately identified on the condensed consolidated balance sheet as of September 30, 2017. No impairment charges were recorded as a result of this accounting treatment.

The Disposition was completed on October 10, 2017 (see Note 19). Because the Disposition had not yet been consummated as of September 30, 2017, the condensed consolidated statements of operations for the three and nine months ended September 30, 2017 include revenue and expenses attributable to Eat24 and do not include any gain or loss associated with the Disposition. Losses before provision for income taxes attributable to Eat24 for the three and nine months ended September 30, 2017 and 2016 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Loss before provision for income taxes	$(2,656)	$(1,292)	$(11,037)	$(2,783)

The condensed consolidated balance sheet as of September 30, 2017 includes the following Eat24 assets and liabilities (in thousands):

	September 30, 2017
Assets held for sale	
Accounts receivable, net	$ 5,319
Prepaid expenses and other current assets	749
Property and equipment, net	656
Goodwill	110,768
Intangible assets, net	26,381
Total assets held for sale	$ 143,873
Liabilities held for sale	
Accounts payable – trade	$ 1,016
Accounts payable – merchant share	18,845
Accrued liabilities	5,309
Total liabilities held for sale	$ 25,170

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10. ACCRUED LIABILITIES

Accrued liabilities as of September 30, 2017 and December 31, 2016 consisted of the following (in thousands):

	September 30, 2017	December 31, 2016
Accrued compensation and related	$ 22,114	$ 12,892
Accrued marketing	3,819	4,633
Accrued tax liabilities	3,300	5,456
Other accrued expenses	19,087	13,749
Total accrued liabilities	$ 48,320	$ 36,730

11. LONG-TERM LIABILITIES

Long-term liabilities as of September 30, 2017 and December 31, 2016 consisted of the following (in thousands):

	September 30, 2017	December 31, 2016
Deferred rent	$ 20,017	$ 16,896
Other long-term liabilities	1,498	725
Total long-term liabilities	$ 21,515	$ 17,621

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 2017 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 $11.4 million and $9.3 million for the three months ended September 30, 2017 and 2016, respectively, and $31.0 million and $26.9 million for the nine months ended September 30, 2017 and 2016, 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 $0.5 million and $0.5 million for the three months ended September 30, 2017 and 2016, respectively, and $1.5 million and $1.5 million for the nine months ended September 30, 2017 and 2016, respectively.

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

In August 2014, two putative class action lawsuits alleging violations of federal securities laws were filed in the U.S. District Court for the Northern District of California, naming as defendants the Company and certain of its officers. The lawsuits allege violations of the Exchange Act by the Company and certain of its officers for allegedly making materially false and misleading statements regarding the Company's business and operations between October 29, 2013 and April 3, 2014. These cases were subsequently consolidated and, in January 2015, the plaintiffs filed a consolidated complaint seeking unspecified monetary damages and other relief. Following the court's dismissal of the consolidated complaint on April 21, 2015, the plaintiffs filed a first amended complaint on May 21, 2015. On November 24, 2015, the court dismissed the first amended complaint with prejudice, and entered judgment in the Company's favor on December 28, 2015. The plaintiffs have appealed this decision to the U.S. Court of Appeals for the Ninth Circuit, which heard the appeal on September 11, 2017. The Ninth Circuit has not yet issued a decision.

On April 23, 2015, a putative class action lawsuit was filed by former Eat24 employees in the Superior Court of California for San Francisco County, naming as defendants the Company and Eat24. The lawsuit asserts that the defendants failed to permit meal and rest periods for certain current and former employees working as Eat24 customer support specialists, and alleges violations of the California Labor Code, applicable Industrial Welfare Commission Wage Orders and the California Business and Professions Code. The plaintiffs seek monetary damages in an unspecified amount and injunctive relief. On May 29, 2015, plaintiffs filed a first amended complaint asserting an additional cause of action for penalties under the Private Attorneys General Act. In January

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2016, the Company reached a preliminary agreement to settle this matter, which the court preliminarily approved on June 27, 2016. The settlement received final court approval on December 5, 2016 and the $0.6 million settlement amount was paid on February 8, 2017.

On June 24, 2015, a former Eat24 sales employee filed a lawsuit, on behalf of herself and a putative class of current and former Eat24 sales employees, against Eat24 in the Superior Court of California for San Francisco County. The lawsuit alleges that Eat24 failed to pay required wages, including overtime wages, allow meal and rest periods and maintain proper records, and asserts causes of action under the California Labor Code, applicable Industrial Welfare Commission Wage Orders and the California Business and Professions Code. The plaintiff seeks monetary damages and penalties in unspecified amounts, as well as injunctive relief. On August 3, 2015, the plaintiff filed a first amended complaint asserting an additional cause of action for penalties under the Private Attorneys General Act. In January 2016, the Company reached a preliminary agreement to settle this matter, which the court preliminarily approved on August 29, 2016. The settlement received final court approval on February 1, 2017 and the $0.2 million settlement amount was paid on March 29, 2017.

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 Disposition.

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.

Payroll Tax Audit—In June 2015, the U.S. Internal Revenue Service (“IRS”) began a payroll tax audit of the Company for 2013 and 2014. The Company has assessed the estimated range of such loss and, as of September 30, 2017, a liability of $0.5 million has been recorded. The Company expects the audits and any related assessments to be finalized in 2018.

13. STOCKHOLDERS’ EQUITY

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 September 30, 2017, the Company repurchased on the open market and subsequently retired 185,592 shares for an aggregate purchase price of approximately $7.7 million.

Elimination of Dual-Class Common Stock Structure

On September 22, 2016, all outstanding shares of the Company’s Class A common stock and Class B common stock automatically converted into a single class of common stock (the “Conversion”) pursuant to the terms of the Company’s amended and restated certificate of incorporation. On September 23, 2016, the Company filed a certificate with the Secretary of State of the State of Delaware effecting the retirement and cancellation of the Class A common stock and Class B common stock. This certificate of retirement had the additional effect of eliminating the authorized Class A and Class B shares, thereby reducing the Company’s total number of authorized shares of common stock from 500,000,000 to 200,000,000.

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

	September 30, 2017		December 31, 2016	
	Shares Authorized	Shares Issued and Outstanding	Shares Authorized	Shares Issued and Outstanding
Stockholders' equity:				
Common stock, $0.000001 par value	200,000,000	82,741,466	200,000,000	79,429,833
Undesignated Preferred Stock	10,000,000	—	10,000,000	—

Equity Incentive Plans

The Company has outstanding awards under three equity incentive plans: the Amended and Restated 2005 Equity Incentive Plan (the "2005 Plan"), the 2011 Equity Incentive Plan (the "2011 Plan") and the 2012 Equity Incentive Plan, as amended (the "2012 Plan"). In July 2011, the Company 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 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 nine months ended September 30, 2017 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, 2016	8,018,941	$ 21.71	6.10	$ 147,673
Granted	920,850	34.60		
Exercised	(1,216,110)	19.85		
Canceled	(210,770)	47.08		
Outstanding - September 30, 2017	7,512,911	$ 22.88	5.85	$ 162,770
Options vested and exercisable as of September 30, 2017	5,904,796	$ 20.32	5.05	$ 143,342

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 $9.8 million and $10.2 million for the three months ended September 30, 2017 and 2016, respectively, and $20.2 million and $14.9 million for the nine months ended September 30, 2017 and 2016, respectively.

The weighted-average grant date fair value of options granted was $13.31 and $13.16 per share for the three months ended September 30, 2017 and 2016, respectively, and $15.35 and $9.60 per share for the nine months ended

September 30, 2017 and 2016, respectively.

As of September 30, 2017, total unrecognized compensation costs related to unvested stock options was approximately $21.3 million, which is expected to be recognized over a weighted-average time period of 2.5 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 nine months ended September 30, 2017 is as follows:

	Restricted Stock Units	
	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested - December 31, 2016	7,090,465	$ 32.43
Granted	3,762,717	35.14
Released	(2,086,837)	33.63
Canceled	(1,188,887)	33.34
Unvested - September 30, 2017	7,577,458	$ 33.30

As of September 30, 2017, the Company had approximately $234.7 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 2.8 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 September 30, 2017 or 2016. Employees purchased 228,299 shares and 200,953 shares under the ESPP during the nine months ended September 30, 2017 and 2016, respectively, at weighted-average purchase prices of $23.73 per share and $22.26 per share, respectively. The Company recognized $0.5 million and $0.4 million of stock-based compensation expense related to the discounted share price provided to employees under the ESPP in the three months ended September 30, 2017 and 2016, respectively, and $1.5 million and $1.1 million in the nine months ended September 30, 2017 and 2016, 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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Cost of revenue	$993	$764	$2,931	$1,572
Sales and marketing	7,305	7,191	21,434	20,376
Product development	11,976	9,284	34,428	25,727
General and administrative	5,035	5,321	16,214	14,721
Total stock-based compensation	$25,309	$22,560	$75,007	$62,396

The Company capitalized $1.5 million and $1.3 million of stock-based compensation expense as website development costs in the three months ended September 30, 2017 and 2016, respectively, and $4.6 million and $3.3 million in the nine months ended September 30, 2017 and 2016, respectively.

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14. OTHER INCOME, NET

Other income, net for the three and nine months ended September 30, 2017 and 2016 consisted of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest income, net	$991	$478	$2,431	$1,203
Transaction gain (loss) on foreign exchange	323	(93)	377	(66)
Other non-operating income (loss), net	57	(58)	125	(185)
Other income, net	$1,371	$327	$2,933	$952

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 $0.2 million for each of the three months ended September 30, 2017 and 2016, and an income tax provision of $0.4 million for each of the nine months ended September 30, 2017 and 2016. The tax provision for the nine months ended September 30, 2017 is due to $0.4 million in U.S. state and foreign income tax expense. The tax provision for the nine months ended September 30, 2016 is due to $0.3 million in U.S. federal and state and foreign income tax provision and $0.1 million of discrete expense.

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 (pretax income or loss excluding unusual or infrequently occurring discrete items) for the reporting period. For the three and nine months ended September 30, 2017, 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, meals and entertainment, tax credits, and stock-based compensation expense. Jurisdictions where no benefit is recorded on forecasted losses were excluded from the consolidated effective tax rate. As of September 30, 2017, the total amount of gross unrecognized tax benefits was $13.6 million, $12.8 million of which is subject to a full valuation allowance and would not affect the Company’s effective tax rate if recognized. As of September 30, 2017, the Company had an immaterial amount related to the accrual of interest and penalties. During the three and nine months ended September 30, 2017, the Company’s gross unrecognized tax benefits increased by $1.3 million and $3.3 million, respectively, an immaterial amount of which would affect the Company’s effective tax rate if recognized.

In addition, the Company is subject to the continuous examination of its income tax returns by the IRS 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, 2016.

It is the intention of the Company to permanently reinvest the earnings from its foreign subsidiaries. The Company does not provide for U.S. income taxes of foreign subsidiaries as such earnings are to be reinvested indefinitely. As of September 30, 2017, the Company estimates $2.7 million of cumulative foreign earnings upon which U.S. income taxes have not been provided.

16. NET INCOME (LOSS) PER SHARE

Basic and diluted net loss per share attributable to common stockholders for periods prior to the Conversion are presented in conformity with the “two-class method” required for participating securities. Prior to the Conversion, shares of Class A and Class B common stock were the only outstanding equity in the Company. The rights of the holders of Class A and Class B common stock were identical, except with respect to voting and conversion. Each share of Class A common stock was entitled to one vote per share and each share of Class B common stock was entitled to ten votes per share. Shares of Class B common stock were convertible into Class A common stock at any time at the option of the stockholder, and were automatically converted upon sale or transfer to Class A common stock, subject to certain limited exceptions, and in connection with certain other conversion events. Under the two-class method, basic net loss per share is computed using the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is computed using the weighted-average number of shares of common stock and, if dilutive, potential shares of common stock outstanding during the period. The Company's potential shares of common stock consist of the incremental shares of common stock issuable upon the exercise of stock options, shares issuable upon the vesting of RSUs and unvested shares subject to RSAs (if any), and purchases related to the ESPP. The dilutive effect of these potential shares of common stock is reflected in diluted earnings per share by application of the treasury stock method. The computation of the diluted net loss per share of Class A common stock assumes the conversion of Class B common stock, while the diluted net loss per share of Class B common stock does not assume the conversion of Class B common stock.

The undistributed earnings are allocated based on the contractual participation rights of the Class A and Class B common stock as if the earnings for the year have been distributed. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. Further, as the conversion of Class B common stock is assumed in the computation of the diluted net loss per share of Class A common stock, the undistributed earnings are equal to net loss for that computation.

On September 22, 2016, the Company's Class A and Class B common stock converted into a single class of common stock. Because shares of Class A and Class B common stock were outstanding during the three and nine months ended September 30, 2016, the Company has disclosed earnings per common share for both classes of common stock for those reporting periods. Basic and diluted net loss per share attributable to common stockholders for periods after the Conversion, including the current reporting period, are presented based on the number of shares of common stock then outstanding.

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

	Three Months Ended September 30,		
	2017	2016	
	Common stock	Class A	Class B
Net income attributable to common stockholders	$7,947	$1,869	$201
Basic Shares:			
Weighted-average shares outstanding	82,259	69,978	7,543
Basic net income per share attributable to common stockholders:	$0.10	$0.03	$0.03

	Three Months Ended September 30,		
	2017	2016	
	Common stock	Class A	Class B
Diluted net income per share attributable to common stockholders:			
Numerator:			
Allocation of undistributed earnings for basic computation	$7,947	$1,869	$201
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	—	201	—
Reallocation of undistributed earnings to Class B shares	—	—	39
Allocation of undistributed earnings	$7,947	$2,070	$240
Denominator:			
Number of shares used in basic calculation	82,259	69,978	7,543
Weighted-average effect of dilutive securities Conversion of Class B to	—	7,543	—

Class A shares			
Stock options	3,253	3,526	2,246
Restricted stock units	1,921	1,870	—
Number of shares used in diluted calculation	87,433	82,917	9,789
Diluted net income per share attributable to common stockholders	$0.09	$0.02	$0.02

	Nine Months Ended September 30, 2017	2016	
	Common stock	Class A	Class B
Net income (loss) attributable to common stockholders	$10,724	$(11,639)	$(1,294)
Basic Shares:			
Weighted-average shares outstanding	81,041	68,961	7,666
Basic net income (loss) per share attributable to common stockholders:	$0.13	$(0.17)	$(0.17)

	Nine Months Ended September 30, 2017	2016	
	Common stock	Class A	Class B
Diluted net income (loss) per share attributable to common stockholders:			
Numerator:			
Allocation of undistributed earnings (losses)	$10,724	$(11,639)	$(1,294)
Denominator:			
Number of shares used in basic calculation	81,041	68,961	7,666
Weighted-average effect of dilutive securities			
Stock options	3,179	—	—
Restricted stock units	1,877	—	—
Number of shares used in diluted calculation	86,097	68,961	7,666
Diluted net income (loss) per share attributable to common stockholders	$0.12	$(0.17)	$(0.17)

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Stock options	1,793	1,406	1,911	3,139
Restricted stock units and awards	871	1,240	978	2,414

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

In reports filed prior to its Annual Report, the Company classified revenue from its “local” products — consisting of business listing and advertising products sold directly to businesses and Yelp Reservations — as local revenue, and classified revenue generated through partner arrangements, including resale of advertising products by certain partners, and monetization of remnant advertising inventory through third-party ad networks as other services revenue.

The Company now classifies revenue from all of its business listing and advertising products, including advertising and listings sold by partners, as advertising revenue. As a result, revenue generated through ad resales and monetization of remnant advertising inventory through third-party ad networks is now classified as advertising revenue rather than other services revenue, and revenue from Yelp Reservations, a subscription service, is recognized as other services revenue. All disclosures relating to revenue by product have been updated to this revised classification for all periods presented.

The following table presents the Company's net revenue by product line for the periods presented (in thousands) reflecting the changes to its revenue categories described above:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net revenue by product:				
Advertising	$199,595	$168,950	$563,246	$468,695
Transactions	18,524	15,910	55,024	45,926
Other services	4,261	1,372	10,297	3,652
Total net revenue	$222,380	$186,232	$628,567	$518,273

For purposes of comparison, the following table presents the Company's net revenue by product line for the periods presented (in thousands) based on the revenue categories in effect prior to the three months ended December 31, 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net revenue by product:				
Local	$194,293	$163,571	$547,988	$453,567
Transactions	18,524	15,910	55,024	45,926
Other services	9,563	6,751	25,555	18,780
Total net revenue	$222,380	$186,232	$628,567	$518,273

During the three and nine months ended September 30, 2017 and 2016, no individual customer accounted for 10% or more of consolidated net revenue.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
United States	$218,735	$182,290	$618,086	$507,403
All other countries	3,645	3,942	10,481	10,870
Total net revenue	$222,380	$186,232	$628,567	$518,273

Long-Lived Assets

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

	September 30, 2017	December 31, 2016
United States	$ 91,087	$ 89,362
All other countries	3,261	3,078
Total long-lived assets	$ 94,348	$ 92,440

18. RESTRUCTURING AND INTEGRATION

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Restructuring and integration	$ 35	$ —	$ 286	$ —

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 substantially completed by December 31, 2016. The Company incurred zero and $0.3 million for the three and nine months ended September 30, 2017, respectively, in restructuring and integration costs associated with this plan related to severance costs for affected employees. The Company expects the remaining $0.2 million accrued restructuring and integration costs as of September 30, 2017 to be paid during the three months ending December 31, 2017. Any additional expense related to this restructuring plan incurred in the future is expected to be immaterial. No goodwill, intangible assets or other long-lived assets were impaired as a result of the restructuring plan.

19. SUBSEQUENT EVENTS

Sale of Eat24, LLC

On October 10, 2017, the Company completed its sale of all of the outstanding equity interests in Eat24 to the Purchaser pursuant to the Purchase Agreement (see Note 9). Immediately prior to the closing of the Disposition, the Company transferred certain assets to Eat24, which consisted of assets that are material to or necessary for the operation of the Eat24 business that were not then owned by Eat24.

The Company received approximately $251.7 million in cash at closing, representing the $287.5 million purchase price less a $7.0 million estimated working capital adjustment and $28.8 million paid 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. The purchase price remains subject to certain customary post-closing adjustments pursuant to the Purchase Agreement. The Company expects to recognize a gain associated with the sale of Eat24. The amount of that gain will be determined once the post-closing adjustments to the purchase price are finalized, and will be recorded during the three month period ending December 31, 2017. The tax impact of the gain will be less than the statutory tax rate due to the utilization of net operating losses and tax credits.

The Company recorded a valuation allowance against all of its U.S. deferred tax assets as of December 31, 2015, which it intends to maintain in full until there is sufficient evidence to support the reversal of all or some portion of the allowance. Based on the Company's earnings for the nine months ended September 30, 2017, anticipated future earnings, and the sale of Eat24, the Company believes there is a reasonable possibility that, within the 12 months following September 30, 2017, sufficient positive evidence may become available to support the reversal of a significant portion of the valuation allowance. Release of the valuation allowance would result in the recognition of certain deferred tax assets and a decrease to income tax expense during the period in which the release is recorded. However, the timing and amount of any valuation allowance release are subject to the level of profitability that the Company is able to achieve. Management will evaluate the Company's ability to realize its net deferred tax assets and the related valuation allowance on a quarterly basis.

Grubhub Partnership

Upon the closing of the Disposition (see Note 9), the Marketing Partnership Agreement (“Partnership Agreement”) entered into by the Company and Purchaser concurrently with the Purchase Agreement became effective. Under the Partnership Agreement, the Company agreed to integrate Grubhub’s restaurant network into the Yelp Platform to allow users of the Company’s website and mobile app to place orders for delivery or pickup through Grubhub’s food-ordering marketplace. The Partnership Agreement has an initial term of five years, and may renew for an additional two years upon the mutual agreement of the Company and Purchaser.

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

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

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

- Network Effect. We plan to invest in marketing and product development aimed at both attracting more, and increasing the engagement of, consumers as we look to leverage our brand and benefit from network dynamics in Yelp communities. For example, in August 2017, we agreed to enter into a strategic partnership with Grubhub Holdings Inc., a wholly owned subsidiary of Grubhub Inc. ("Grubhub"), to expand our online ordering capabilities by integrating Grubhub's restaurant network onto the Yelp Platform ("Grubhub Partnership"). When implemented, we expect this integration to provide our users with a wider selection of restaurants and better delivery options, while improving our per-order profitability. The partnership became effective upon the closing of the sale of our Eat24 business to Grubhub on October 10, 2017 and we currently expect to have Grubhub's restaurant network integrated onto the Yelp Platform by mid-2018.
- Enhance Monetization. We plan to continue to invest in initiatives to enhance our monetization opportunities in the United States and Canada. Initiatives we have invested in, and plan to continue to invest in, include aggressively growing our sales force and broadening our sales strategy, as well as expanding the Yelp Platform and business owner products and tools. For example, in the third quarter of 2017, we began scaling our Yelp WiFi Marketing and Yelp Nowait offerings, contributing to the tripling of other services revenue compared to the third quarter of 2016.

Our overall strategy is to invest for long-term growth. During the remainder of 2017, we expect to continue investing heavily in our sales and marketing efforts by growing our sales force, continuing our advertiser retention efforts and continuing our advertising campaigns, as well as to begin integrating Grubhub's restaurant network onto the Yelp Platform.

As of September 30, 2017, we had 5,281 full-time employees, comprising 5,036 salaried employees and 245 non-salaried support staff, which represents an increase of 16% compared to September 30, 2016. On October 10, 2017, 357 employees who worked primarily on Eat24 transferred their employment to Grubhub in connection with our sale of Eat24.

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 repurchased on the open market and subsequently retired 185,592 shares for an aggregate purchase price of approximately $7.7 million during the three months ended September 30, 2017. We funded these repurchases, and expect to fund any future repurchases under the stock repurchase program, with cash available on our balance sheet.

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 Eat24, Yelp Reservations, Yelp Nowait, Yelp WiFi Marketing or from our business owner products.

Reviews

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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 September 30, 2017, approximately 132.0 million reviews were available on business listing pages, including approximately 31.1 million reviews that were not recommended, after 10.1 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:

	As of September 30,	
	2017	2016
	(in thousands)	
Reviews	142,036	115,259

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:

	Three Months Ended September 30,	
	2017	2016
	(in thousands)	
Desktop Unique Visitors	83,592	71,409
Mobile Website Unique Visitors	73,508	72,040

App Unique Devices	30,162	24,900

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

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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:

	As of September 30,	
	2017	2016
	(in thousands)	
Claimed Local Business Locations	3,975	3,192

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:

	Three Months Ended September 30,	
	2017	2016
	(in thousands)	
Paying Advertising Accounts	155	132

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

EBITDA, adjusted EBITDA and non-GAAP net income have limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results as reported under GAAP. In particular, EBITDA, adjusted EBITDA and non-GAAP net income should not be viewed as substitutes for, or superior to, net income (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, adjusted EBITDA and non-GAAP net income 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 and non-GAAP net income do not consider the potentially dilutive impact of equity-based compensation;
- EBITDA and adjusted EBITDA do not reflect the impact of valuation allowance recording or release;
- EBITDA, adjusted EBITDA and non-GAAP net income do not take into account any restructuring costs; and
- other companies, including companies in our industry, may calculate EBITDA, adjusted EBITDA and non-GAAP net income differently, which reduces their usefulness as comparative measures.

Because of these limitations, you should consider EBITDA, adjusted EBITDA and non-GAAP net income alongside other financial performance measures, including various cash flow metrics, net loss and our other GAAP results. The tables below present reconciliations of net income (loss) to EBITDA, adjusted EBITDA and non-GAAP net income, the most directly comparable GAAP financial measure in each case, for each of the periods indicated. Net income (loss) was $7.9 million and $2.1 million in the three months ended September 30, 2017 and 2016, respectively, and $10.7 million and ($12.9 million) in the nine months ended September 30, 2017 and 2016, respectively.

EBITDA and Adjusted EBITDA

EBITDA is a non-GAAP financial measure that we calculate as net income (loss), adjusted to exclude: provision for income taxes; other income, net; depreciation and amortization; and restructuring and integration costs. EBITDA was $17.5 million and $11.1 million for the three months ended September 30, 2017 and 2016, respectively, and $40.0 million and $12.4 million for the nine months ended September 30, 2017 and 2016, respectively.

Adjusted EBITDA is a non-GAAP financial measure that we calculate as net income (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 $42.8 million and $33.7 million for the three months ended September 30, 2017 and 2016, respectively, and $115.0 million and $74.8 million for the nine months ended September 30, 2017 and 2016, respectively.

The following is a reconciliation of net income (loss) to EBITDA and adjusted EBITDA:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)		(in thousands)	
Reconciliation of GAAP net income (loss) to EBITDA and adjusted EBITDA:				
GAAP net income (loss)	$7,947	$2,070	$10,724	$(12,933)
Provision for income taxes	232	217	417	385
Other income, net	(1,371)	(327)	(2,933)	(952)
Depreciation and amortization	10,656	9,159	31,470	25,912
Restructuring and integration costs	35	—	286	—
EBITDA	17,499	11,119	39,964	12,412
Stock-based compensation	25,309	22,560	75,007	62,396
Adjusted EBITDA	$42,808	$33,679	$114,971	$74,808

Non-GAAP Net Income

Non-GAAP net income is a non-GAAP financial measure that we calculate as net income (loss), adjusted to exclude: stock-based compensation expense; amortization of intangibles; restructuring and integration costs; and the tax effect of stock-based compensation, amortization of intangibles, restructuring and integration costs and valuation allowance. Non-GAAP net income was $25.4 million and $18.4 million for the three months ended September 30, 2017 and 2016, respectively, and $63.3 million and $36.9 million for the six months ended September 30, 2017 and 2016, respectively. The following is a reconciliation of net income (loss) to non-GAAP net income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)		(in thousands)	
Reconciliation of GAAP net income (loss) to non-GAAP net income:				
GAAP net income (loss)	$7,947	$2,070	$10,724	$(12,933)
Stock-based compensation	25,309	22,560	75,007	62,396
Amortization of intangible assets	1,441	1,706	5,719	5,148
Restructuring and integration costs	35	—	286	—
Tax adjustments (1)	(9,327)	(7,927)	(28,454)	(17,723)
Non-GAAP net income	$25,405	$18,409	$63,282	$36,888

(1) Includes tax effects of stock-based compensation, amortization of intangibles, restructuring and integration, and valuation allowance.

Results of Operations

The following tables set forth our results of operations for the periods indicated 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 2017 or any future period.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(as a percentage of net revenue)			
Consolidated Statements of Operations Data:				
Net revenue by product:				
Advertising	90 %	90 %	89 %	90 %
Transactions	8	9	9	9
Other services	2	1	2	1
Total net revenue	100 %	100 %	100 %	100 %
Costs and expenses:				
Cost of revenue (exclusive of depreciation and amortization shown separately below)	9 %	8 %	9 %	9 %
Sales and marketing	51	53	52	56
Product development	21	20	20	20
General and administrative	12	13	13	14
Depreciation and amortization	5	5	5	5
Total costs and expenses	98	99	99	104
Income (loss) from operations	2	1	1	(4)
Other income (expense), net	1	—	—	—
Income (loss) before income taxes	3	1	1	(4)
Benefit from (provision for) income taxes	—	—		—
Net income (loss)	3 %	1 %	1 %	(4)%

Three and Nine Months Ended September 30, 2017 and 2016

Net Revenue

We generate revenue from our advertising products, transactions and other services.

Advertising. We generate advertising revenue from our advertising programs, which consist of enhanced listing pages and performance and impression-based advertising in search results and elsewhere on our website and mobile app. 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.

Transactions. We generate revenue from various transactions with consumers, including through Platform transactions, the sale of Yelp Deals and Gift Certificates and, through the closing of its sale to Grubhub on October 10, 2017, Yelp Eat24.

Our Platform partnerships are revenue-sharing arrangements that provide consumers with the ability to complete food delivery transactions, order flowers and book spa and salon appointments, among others, through third parties directly on Yelp. We earn a fee on our Platform partnerships for acting as an agent for these transactions, which we record on a net basis and include in revenue upon completion of a transaction.

Yelp Deals allow merchants to promote themselves and offer discounted goods and services on a real-time basis to consumers directly on our website and mobile app. We earn a fee on Yelp Deals for acting as an agent in these transactions, which we record on a net basis and include in revenue upon a consumer’s purchase of a deal. Gift Certificates allow merchants to sell full-priced gift certificates directly to consumers through their business listing pages. We earn a fee based on the amount of the Gift Certificate sold, which we record on a net basis and include in revenue upon a consumer’s purchase of the Gift Certificate.

Yelp Eat24 generates revenue through arrangements with restaurants, in which restaurants pay a commission percentage fee on orders placed through the Yelp Eat24 platform, which we record on a net basis. We completed our planned sale of Eat24 to Grubhub on October 10, 2017 and, as a result, will not recognize revenue from Yelp Eat24 as a standalone product after that date. Following the sale, we will earn fees on food orders placed through the Grubhub restaurant network, including Eat24 restaurants, that originate on the Yelp Platform under our Grubhub partnership arrangement. We expect the revenue generated under the

Grubhub arrangement to be lower than the revenue generated by Yelp Eat24 in the near to medium term, particularly before the remainder of the Grubhub restaurant network is fully integrated onto the Yelp Platform, which is currently targeted to occur by mid-2018. Accordingly, we expect our sale of Eat24 will result in a reduction in our transaction services revenue and slowing of our total net revenue growth following the sale.

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.

The following table illustrates the composition of our net revenue for the periods indicated:

	Three Months Ended September 30,		2016 to 2017 % Change	Nine Months Ended September 30,		2016 to 2017 % Change
	2017	2016		2017	2016	
	(in thousands)			(in thousands)		
Net revenue by product:						
Advertising	$199,595	$168,950	18 %	$563,246	$468,695	20 %
Transactions	18,524	15,910	16	55,024	45,926	20
Other services	4,261	1,372	211	10,297	3,652	182
Total net revenue	$222,380	$186,232	19 %	$628,567	$518,273	21 %
Percentage of total net revenue by product:						
Advertising	90 %	90 %		89 %	90 %	
Transactions	8	9		9	9	
Other services	2	1		2	1	
Total net revenue	100 %	100 %		100 %	100 %	

Total net revenue increased $36.1 million, or 19%, in the three months ended September 30, 2017 compared to the three months ended September 30, 2016, and $110.3 million, or 21%, in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016.

Advertising revenue increased $30.6 million, or 18%, in the three months ended September 30, 2017 compared to the three months ended September 30, 2016, and $94.6 million, or 20%, in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The increase in both periods was due to a significant increase in the number of customers purchasing advertising plans as we expanded our sales force to reach more businesses, as well as to an increase in revenue from existing advertisers. The growth was driven primarily by purchases of cost-per-click advertising and a majority of ad clicks were delivered on mobile in the three and nine months ended September 30, 2017.

Transactions revenue increased $2.6 million, or 16%, in the three months ended September 30, 2017 compared to the three months ended September 30, 2016, and $9.1 million, or 20%, in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The increase in both periods was primarily the result of increased transactions from Yelp Eat24.

Other services revenue increased $2.9 million, or 211%, in the three months ended September 30, 2017 compared to the three months ended September 30, 2016, and $6.6 million, or 182%, in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The increase in both periods 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.

Cost of Revenue

Our cost of revenue consists primarily of credit card processing fees and web hosting costs, as well as salaries, benefits and stock-based compensation expense for our infrastructure teams related to the operation of our website and mobile app. It also includes costs related to confirmation and delivery services associated with Yelp Eat24 as well as video production for our advertisers. Following our sale of Eat24 in October 2017, we expect an initial reduction in our cost of revenue associated with credit card transactions, as well as confirmation and delivery services.

	Three Months Ended September 30, 2017	2016	2016 to 2017 % Change	Nine Months Ended September 30, 2017	2016	2016 to 2017 % Change
	(in thousands)			(in thousands)		
Cost of revenue	$19,312	$14,594	32%	$54,282	$44,759	21%
Percentage of net revenue	9 %	8 %		9 %	9 %	

Cost of revenue increased $4.7 million, or 32%, in the three months ended September 30, 2017 compared to the three months ended September 30, 2016, and $9.5 million, or 21%, in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The increases in the three and nine months ended September 30, 2017 were primarily attributable to increases in confirmation services and third-party food delivery costs associated with Yelp Eat24 of $1.4 million and $3.7 million, respectively, due to an increased number of transactions. Website infrastructure expense increased $2.1 million and $3.0 million in the three and nine months ended September 30, 2017, respectively. The increase in the three months ended September 30, 2017 was primarily due to website hosting costs, while the increase in the nine months ended September 30, 2017 was due to an increase in employee-related costs associated with employees supporting the hosting of the website, offset by lower server hosting costs achieved from improved pricing from key website hosting vendors. Merchant fees related to credit card transactions increased by $1.0 million and $3.3 million in the three and nine months ended September 30, 2017, respectively, primarily due to growth in advertising and transactions revenue.

Sales and Marketing

Our sales and marketing expenses primarily consist of salaries (including employer payroll taxes), benefits, travel expense and incentive compensation expense, including 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, insurance, business taxes and other supporting overhead costs.

In connection with our sale of Eat24 to Grubhub in October 2017, we ceased marketing activities related to Yelp Eat24 and 344 Eat24 sales and marketing employees transferred to Grubhub. While we have redeployed the remaining sales employees and resources previously associated with Eat24 within our organization, we expect the Eat24 sale to result in an initial reduction in our sales and marketing expenses. However, we continue to expect our sales and marketing expenses 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, as well as to costs incurred with various third-party media outlets and other advertising channels.

	Three Months Ended September 30, 2017	2016	2016 to 2017 % Change	Nine Months Ended September 30, 2017	2016	2016 to 2017 % Change
	(in thousands)			(in thousands)		
Sales and marketing	$113,041	$99,274	14%	$327,559	$289,304	13%
Percentage of net revenue	51 %	53 %		52 %	56 %	

Sales and marketing expenses increased $13.8 million, or 14%, in the three months ended September 30, 2017 compared to the three months ended September 30, 2016, and $38.3 million, or 13%, in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The increases in the three and nine months ended September 30, 2017 were primarily attributable to $11.2 million and $30.4 million, respectively, in additional salaries, benefits, travel and other related expenses resulting from increases in headcount, including increases of $0.1 million and $1.1 million, respectively, in stock-based compensation expense, as we expanded our sales organization to take advantage of the market opportunity in the United States and Canada. As a result of ongoing marketing campaigns, marketing and advertising costs increased $3.4 million in the nine months ended September 30, 2017. Marketing and advertising costs in the three months ended September 30, 2017 were consistent with those in the same period in the prior year. In addition, we experienced increases in facilities, insurance, business taxes and other related allocations of $2.6 million and $4.9 million in the three and nine months ended September 30, 2017, respectively, as a result of the increases in headcount.

Product Development

Our product development expenses primarily consist of salaries (including employer payroll taxes), benefits, travel expense and stock-based compensation expense for our engineers, product management and information technology personnel. In addition, product development expenses include outside services and consulting costs, as well as allocated facilities, insurance, business taxes and other supporting overhead costs. We believe that continued investment in features, software development tools and code modification is important to attaining our strategic objectives and, as a result, we expect product development expenses to continue to increase for the foreseeable future. Although our sale of Eat24 will reduce our product development expenses associated with the Eat24 product, we have redeployed the associated internal resources elsewhere within our organization and do not expect the sale to have a material impact on our overall product development expenses as a result.

	Three Months Ended September 30, 2017	2016	2016 to 2017 % Change	Nine Months Ended September 30, 2017	2016	2016 to 2017 % Change
	(in thousands)			(in thousands)		
Product development	$45,834	$36,369	26%	$127,793	$101,689	26%
Percentage of net revenue	21 %	20 %		20 %	20 %	

Product development expenses increased $9.5 million, or 26%, in the three months ended September 30, 2017 compared to the three months ended September 30, 2016, and $26.1 million, or 26%, in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The increases in the three and nine months ended September 30, 2017 were primarily attributable to $8.0 million and $20.7 million, respectively, in additional salaries and benefits expenses associated with increases in headcount, including increases of $2.7 million and $8.7 million, respectively, in stock-based compensation expense (net of capitalized stock-based compensation expense). In addition, we experienced increases in the three and nine months ended September 30, 2017 in facilities, insurance, business taxes and other related allocations of $1.1 million and $4.9 million, respectively, also as a result of the increases in headcount.

General and Administrative

Our general and administrative expenses primarily consist of salaries (including employer payroll taxes), benefits, travel expense and stock-based compensation expense for our executive, finance, user operations, legal, human resources and other administrative employees. Our general and administrative expenses also include outside consulting, legal and accounting services, as well as facilities, insurance, business taxes and other supporting overhead costs not allocated to other departments. We expect our general and administrative costs to increase for the foreseeable future as we continue to expand our business, and do not expect our sale of Eat24 to have a material impact on our general and administrative costs.

	Three Months Ended September 30, 2017	2016	2016 to 2017 % Change	Nine Months Ended September 30, 2017	2016	2016 to 2017 % Change
	(in thousands)			(in thousands)		
General and administrative	$26,694	$24,876	7%	$78,969	$70,109	13%
Percentage of net revenue	12 %	13 %		13 %	14 %	

General and administrative expenses increased $1.8 million, or 7%, in the three months ended September 30, 2017 compared to the three months ended September 30, 2016, and $8.9 million, or 13%, in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The increases in the three and nine months ended September 30, 2017 were primarily attributable to $1.1 million and $5.5 million, respectively, in additional salaries, benefits, travel and related expenses associated with increases in headcount, including increases of

$1.5 million in stock-based compensation expense for the nine months ended September 30, 2017. Stock-based compensation expense in the three months ended September 30, 2017 was consistent with expense in the same period in the prior year. Bad debt expense remained relatively consistent in the three months ended September 30, 2017 compared to the prior year, decreasing by $0.1 million due to improved collection rates from advertising customers even as advertising revenue increased over the same period. Bad debt expense increased by $1.8 million in the nine months ended September 30, 2017 as a result of lower collection rates from advertising customers, particularly during the three months ended March 31, 2017.

Depreciation and Amortization

Depreciation and amortization expenses primarily consist of depreciation on computer equipment, software, leasehold improvements, capitalized website and software development costs and amortization of purchased intangible assets. We expect depreciation expense to increase for the foreseeable future as we continue to expand our technology infrastructure. Amortization expense is likely to be lower for the foreseeable future as a result of the disposition of intangible assets in our sale of Eat24 to Grubhub in October 2017.

	Three Months Ended September 30,		2016 to 2017 % Change	Nine Months Ended September 30,		2016 to 2017 % Change
	2017	2016		2017	2016	
	(in thousands)			(in thousands)		
Depreciation and amortization	$10,656	$9,159	16%	$31,470	$25,912	21%
Percentage of net revenue	5 %	5 %		5 %	5 %	

Depreciation and amortization expenses increased $1.5 million, or 16%, in the three months ended September 30, 2017 compared to the three months ended September 30, 2016, and $5.6 million, or 21%, in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The increases were primarily the result of our investments in expanding our technology infrastructure and capital assets to support our increase in headcount across the organization. In the three and nine months ended September 30, 2017, depreciation and amortization expenses related to our fixed assets and capitalized website and software development costs increased $1.8 million and $5.0 million, respectively. In addition, amortization related to our intangibles increased by $0.6 million in the nine months ended September 30, 2017 primarily due to the intangibles acquired in the Nowait and Turnstyle acquisitions. Amortization costs decreased by $0.3 million for the three months ended September 30, 2017, as intangibles associated with the Eat24 asset group held for sale were no longer amortized.

Restructuring and Integration

	Three Months Ended September 30,		2016 to 2017 % Change	Nine Months Ended September 30,		2016 to 2017 % Change
	2017	2016		2017	2016	
	(in thousands)			(in thousands)		
Restructuring and integration	$35	$ —	N/A	$286	$ —	N/A
Percentage of net revenue	0 %	0 %		0 %	0 %	

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 substantially completed by December 31, 2016. We incurred $0.3 million for the nine months ended September 30, 2017, in restructuring and integration costs associated with this plan related to severance costs for affected employees. We expect the remaining $0.2 million accrued restructuring and integration costs as of September 30, 2017 to be paid during the three months ended December 31, 2017. Any additional expense related to this restructuring plan incurred in the future is expected to be immaterial. No goodwill, intangible assets 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.

	Three Months Ended September 30,	2016 to 2017 % Change	Nine Months Ended September 30,	2016 to 2017 % Change

	2017	2016		2017	2016	
	(in thousands)			(in thousands)		
Other income	$1,371	$327	319%	$2,933	$952	208%
Percentage of net revenue	1 %	0 %		0 %	0 %	

Other income, net increased by $1.0 million in the three months ended September 30, 2017 compared to the three months ended September 30, 2016, and $2.0 million in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016, primarily driven by increases in interest income earned on marketable investments.

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, and the realization of net operating loss carryforwards. Upon the closing of our sale of Eat24 on October 10, 2017, we received approximately $251.7 million in cash. We expect the tax impact on the gain associated with the Eat24 disposition to be less than the statutory tax rate due to the utilization of net operating losses and tax credits.

	Three Months Ended September 30,		2016 to 2017 % Change	Nine Months Ended September 30,		2016 to 2017 % Change
	2017	2016		2017	2016	
	(in thousands)			(in thousands)		
Provision for income taxes	$(232)	$(217)	7%	$(417)	$(385)	8%
Percentage of net revenue	0 %	0 %		0 %	0 %	

The tax provision for the three and nine months ended September 30, 2017 and September 30, 2016 remained consistent with the same periods in the prior year.

For the three months ended September 30, 2017, we recognized a tax provision of $0.2 million that primarily consisted of foreign tax provision on year-to-date losses. For the three months ended September 30, 2016, we recognized a tax provision of $0.2 million primarily as a result of an additional tax expense due to increased annual effective tax rate.

For the nine months ended September 30, 2017, we recognized a tax provision of $0.4 million that was primarily the result of foreign tax provision on year-to-date losses as well as discrete expense for federal and state tax amortization of the Company’s indefinite lived intangibles and stock-based compensation. For the nine months ended September 30, 2016, we recognized a tax provision of $0.4 million that primarily consisted of foreign income tax provision on year-to-date pre-tax loss, and discrete expense related to stock-based compensation.

Liquidity and Capital Resources

As of September 30, 2017, we had cash and cash equivalents of $362.4 million. Cash and cash equivalents consist of both cash and money market funds. Our cash held internationally as of September 30, 2017 was $6.5 million. We did not have any outstanding bank loans or credit facilities in place as of September 30, 2017. 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, on October 10, 2017, we completed our planned sale of Eat24 to Grubhub and received $251.7 million in cash at closing, with an additional $28.8 million 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 and anticipated purchases of property and equipment for at least the next 12 months. However, this estimate is based on a number of assumptions that may prove to be wrong and we could exhaust our available cash and cash equivalents earlier than presently anticipated. We may require or otherwise seek additional funds in the next 12 months to respond to business challenges, including the need to develop new features and products or enhance existing services, improve our operating infrastructure or acquire complementary businesses and technologies, and, accordingly, we may need to engage in equity or debt financings to secure additional funds.

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

Cash Flows

The following table summarizes our cash flows for the periods indicated:

	Nine Months Ended September 30,	
	2017	2016
	(in thousands)	
Consolidated Statements of Cash Flows Data:		
Purchases of property, equipment, and software	$(7,892)	$(17,798)
Depreciation and amortization	31,470	25,912
Cash provided by operating activities	127,961	81,787
Cash used in investing activities	(60,438)	(46,592)
Cash provided by financing activities	21,813	18,055

Operating Activities. We generated $128.0 million of cash from operating activities during the nine months ended September 30, 2017, primarily resulting from our net income of $10.7 million, which included non-cash depreciation and amortization expenses of $31.5 million, non-cash stock-based compensation expense of $75.0 million and non-cash provision for doubtful accounts and sales returns of $13.4 million. In addition, significant changes in our operating assets and liabilities resulted from the following:

- an increase in accounts receivable of $17.0 million due to an increase in billings for advertising plans, as well as the timing of payments from these customers; and
- an increase in accounts payable, accrued expenses and other liabilities of $15.6 million, primarily driven by an increase in the restaurant payable, accrued vacation and accrued commissions as well as the timing of invoices and payments to cost of revenue- and sales and marketing-related vendors.

We generated $81.8 million of cash in operating activities in the nine months ended September 30, 2016, primarily resulting from our net loss of $12.9 million, which included non-cash depreciation and amortization expenses of $25.9 million, non-cash stock-based compensation expense of $62.4 million and non-cash provision for doubtful accounts and sales returns of $12.1 million. In addition, significant changes in our operating assets and liabilities resulted from the following:

- an increase in accounts receivable of $24.2 million due to an increase in billings for advertising plans, as well as the timing of payments from these customers;
- an increase in accounts payable, accrued expenses and other liabilities of $13.2 million, primarily driven by an increase in restaurant revenue share liability, accrued vacation and employee related expenses, and the timing of invoices and payments to vendors particularly marketing related; and
- a decrease in prepaid and other assets of $3.6 million primarily due to the collection of non-trade receivables of $6.3 million, offset by a $2.7 million increase in vendor prepayments and other assets.

Investing Activities. Our primary investing activities in the nine months ended September 30, 2017 consisted of purchases of marketable securities, our acquisitions of Nowait and Turnstyle, purchases of property and equipment to support the ongoing build-out of leasehold improvements for our new facilities in San Francisco and other locations, the purchase of technology hardware to support our growth in headcount and software to support website and mobile app development, website operations and our corporate infrastructure. Purchases of property, 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 used $60.4 million of cash in investing activities during the nine months ended September 30, 2017.

Cash used in investing activities primarily related to purchases of marketable securities of $179.6 million, expenditures related to website and internally developed software of $12.2 million, and purchases of property, equipment and software of $7.9 million to support the growth in our business, as well as our acquisition of Nowait for net cash consideration of $30.8 million, which included intangible assets of $12.7 million, and our acquisition of Turnstyle for net cash consideration of $19.7 million, which included intangible assets of $4.3 million. Cash used in investing activities was offset by the maturity of $191.0 million of investment securities held-to-maturity.

We used $46.6 million of cash in investing activities during the nine months ended September 30, 2016. Cash used in investing activities primarily related to purchases of marketable securities of $221.8 million, an increase in expenditures related to website and internally developed software of $10.6 million, purchases of property, equipment and software of $17.8 million to support the growth in our business, our investment of $8.0 million in the preferred stock of Nowait and purchases of intangible data licenses of $0.2 million. In addition, as part of our lease agreements for additional office space, we were obligated to deliver additional letters of credit, which resulted in an increase of $0.8 million in restricted cash. Cash used in investing was offset by $212.5 million of maturities of investment securities held-to-maturity.

Financing Activities. During the nine months ended September 30, 2017 and 2016, we generated $29.6 million and $18.1 million, respectively, in financing activities from the issuance of common stock upon the exercise of stock options and the sale of common stock under the ESPP. Cash provided by financing activities during the nine months ended September 30, 2017 was offset by $7.7 million in repurchases of common stock.

Stock Repurchase Program

In July 2017, our board of directions 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 September 30, 2017, we repurchased on the open market and subsequently retired approximately 186 thousand shares for an aggregate purchase price of approximately $7.7 million. We funded these repurchases, and expect to fund any future repurchases under the stock repurchase program, with cash available on our balance sheet.

Off Balance Sheet Arrangements

We do not have any off-balance sheet arrangements as defined in Regulation S-K, Item 303(a)(4)(ii).

Contractual Obligations

We lease various office facilities, including our corporate headquarters in San Francisco, California, under operating lease agreements that expire from 2017 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 September 30, 2017, 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 or 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 September 30, 2017:

	Payments Due by Period				
	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
	(in thousands)				
Operating lease obligations	$341,083	$47,523	$103,053	$87,519	$102,988
Purchase obligations	$44,373	$27,972	$16,003	$398	$—

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 September 30, 2017, our total liability for uncertain tax positions was $0.5 million of the total unrecognized benefit of $13.6 million. We are not reasonably able to estimate the timing of future cash flow related to this liability. As a result, this amount is not included in the contractual obligations table above.

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 September 30, 2017, our future minimum rental receipts to be received under non-cancelable subleases were $6.8 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.

Interest Rate Fluctuation

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

Our cash and cash equivalents consist of cash and money market funds. We do not have any long-term borrowings. Because our cash and cash equivalents have a relatively short maturity, their fair value is relatively insensitive to interest rate changes. We believe a hypothetical 10% increase in the interest rates as of September 30, 2017 would not have a material impact on our cash and cash equivalents portfolio.

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

Foreign Currency Exchange Risk

We have foreign currency risks related to our revenue and operating expenses denominated in currencies other than the U.S. dollar, principally in the British pound sterling, the Canadian dollar and the Euro. The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. Although we have experienced and will continue to experience fluctuations in net income (loss) as a result of transaction gains (losses), net related to revaluing certain cash balances, trade accounts receivable balances and intercompany balances that are denominated in currencies other than the U.S. dollar, we believe a hypothetical 10% strengthening/(weakening) of the U.S. dollar against the British pound sterling, Canadian dollar or Euro, either alone or in combination with each other, would not have a material impact on our results of operations. In the event our foreign sales and expenses increase as a proportion of our overall sales and expenses, our operating results may be more greatly affected by fluctuations in the exchange rates of the currencies in which we do business. At this time, we do not enter into derivatives or other financial instruments in an attempt to hedge our foreign currency exchange risk, though we may in the future. It is difficult to predict the impact hedging activities would have on our results of operations.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition or results of operations.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2017. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2017, 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 September 30, 2017 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

In August 2014, two putative class action lawsuits alleging violations of federal securities laws were filed in the U.S. District Court for the Northern District of California, naming as defendants us and certain of our officers. The lawsuits allege violations of the Exchange Act by us and our officers for allegedly making materially false and misleading statements regarding our business and operations between October 29, 2013 and April 3, 2014. These cases were subsequently consolidated and, in January 2015, the plaintiffs filed a consolidated complaint seeking unspecified monetary damages and other relief. Following the court's dismissal of the consolidated complaint on April 21, 2015, the plaintiffs filed a first amended complaint on May 21, 2015. On November 24, 2015, the court dismissed the first amended complaint with prejudice, and entered judgment in our favor on December 28, 2015. The plaintiffs have appealed this decision to the U.S. Court of Appeals for the Ninth Circuit, which heard the appeal on September 11, 2017. The Ninth Circuit has not yet issued a decision.

On April 23, 2015, a putative class action lawsuit was filed by former Eat24 employees in the Superior Court of California for San Francisco County, naming as defendants us and Eat24. The lawsuit asserts that we failed to permit meal and rest periods for certain current and former employees working as Eat24 customer support specialists, and alleges violations of the California Labor Code, applicable Industrial Welfare Commission Wage Orders and the California Business and Professions Code. The plaintiffs seek monetary damages in an unspecified amount and injunctive relief. On May 29, 2015, plaintiffs filed a first amended complaint asserting an additional cause of action for penalties under the Private Attorneys General Act. In January 2016, we reached a preliminary agreement to settle this matter, which the court preliminarily approved on June 27, 2016. The settlement received final court approval on December 5, 2016 and the $0.6 million settlement amount was paid on February 8, 2017.

On June 24, 2015, a former Eat24 sales employee filed a lawsuit, on behalf of herself and a putative class of current and former Eat24 sales employees, against Eat24 in the Superior Court of California for San Francisco County. The lawsuit alleges that Eat24 failed to pay required wages, including overtime wages, allow meal and rest periods and maintain proper records, and asserts causes of action under the California Labor Code, applicable Industrial Welfare Commission Wage Orders and the California Business and Professions Code. The plaintiff seeks monetary damages and penalties in unspecified amounts, as well as injunctive relief. On August 3, 2015, the plaintiff filed a first amended complaint asserting an additional cause of action for penalties under the Private Attorneys General Act. In January 2016, we reached a preliminary agreement to settle this matter, which the court preliminarily approved on August 29, 2016. The settlement received final court approval on February 1, 2017 and the $0.2 million settlement amount was paid on March 29, 2017.

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, 2016.

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 impression- and click-based advertising. 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. As a result, our ability to grow our business depends on our ability to increase traffic to and user engagement on our platform. 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, including our mobile app. 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. 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 be in a position to influence the results. 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 expenses, which could harm our operating results.

- 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.
- Review Concentration. Our restaurant and shopping categories together accounted for approximately 40% of the businesses that had been reviewed on our platform and approximately 55% of the cumulative reviews as of September 30, 2017. If the high concentration of reviews in these categories generates a perception that our platform is primarily limited to these categories, traffic may not increase or 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.
- 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 reported desktop traffic from the third quarter of 2016 through the first quarter of 2017 was attributable to a single robot, 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.
- Internet Access. The adoption of any laws or regulations that adversely affect the growth, popularity or use of the Internet, including laws impacting Internet neutrality, 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.

We also anticipate that our traffic growth rate will continue to slow over time, and potentially decrease in certain periods, as our business matures and we achieve higher penetration rates. In particular, 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. That our traffic growth has slowed in recent quarters even as we have expanded our operations is a reflection of this trend. As our traffic growth rate slows, our success will become increasingly dependent on our ability to increase levels of user engagement on our platform. This dependence may increase as the portion of our revenue derived from performance-based advertising increases. A number of factors may negatively affect our user engagement, including 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.

*Consumers are increasingly using mobile devices to access online services. If our mobile platform and mobile advertising products are not compelling, or if we are unable to operate effectively on mobile devices, our business could be adversely affected.

The number of people who access information about local businesses through mobile devices, including smartphones, tablets and handheld computers, has increased dramatically over the past few years and is expected to continue to increase. Although many consumers access our platform both on their mobile devices and through personal computers, we have seen substantial growth in mobile usage. We anticipate that growth in use of our mobile platform will be the driver of our growth for the foreseeable future and that usage through personal 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, the mobile products and services we introduce must be compelling. However, the ways in which users engage with our platform and consume content has changed over time, and we expect it will continue to do so as users increasingly engage via mobile. This may make it more difficult to develop mobile 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 on their mobile devices. In addition, building an engaged base of mobile users may also be complicated by the frequency with which users change or upgrade their mobile services. In the event users choose mobile devices that do not already include or support our mobile app or do not install our mobile app when they change or upgrade their devices, our traffic and user engagement may be harmed.

Our success is also dependent on the interoperability of our mobile products with a range of mobile 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 the mobile industry, some of which may be our competitors. Any changes that degrade the functionality of our mobile products, give preferential treatment to competitive products or prevent us from delivering advertising could adversely affect mobile usage and monetization. As new mobile devices and platforms are released, it is difficult to predict the problems we may encounter in developing products for these alternative devices and platforms, and we may need to devote significant resources to the creation, support and maintenance of such products. If we experience difficulties in the future integrating our mobile app into mobile devices, or we face increased costs to distribute our mobile app, our user growth and operating results could be harmed.

In addition, the mobile market remains a rapidly evolving market with which we have limited experience. As new devices and platforms are released, users may begin consuming content in a manner that is more difficult to monetize. Similarly, as mobile advertising products develop, demand may increase for products that we do not offer or that may alienate our user base. Although we currently deliver ads on both our mobile app and mobile website, with 70% of ad clicks delivered on mobile in the three months ended September 30, 2017, our continued success depends on our efforts to innovate and introduce enhanced mobile solutions. If our efforts to develop compelling mobile advertising products are not successful — as a result of, for example, the difficulties detailed above — advertisers may stop or reduce their advertising with us. At the same time, we must balance advertiser demands against our commitment to prioritizing the quality of user experience over short-term monetization. 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. If we are not able to balance these competing considerations successfully, we may not be able to generate meaningful revenue from our mobile products despite the expected growth in mobile 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, particularly in our international markets where we have less content and more competitors. We believe this headwind on our ability to achieve prominent display of our content in international unpaid search results disrupted the network effect we expected in our international markets based on what we experienced domestically, whereby increases in content led to increases in traffic. This was a contributing factor to our decision to reallocate our international sales and marketing resources. 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. For example, in January 2017, Google broadened the categories of interstitials that may be penalized. 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, Google + Local, with certain of its products, including search. 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 more than half of the visits to our website during the three months ended September 30, 2017, 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 our users fail to contribute high quality content or their contributions are not valuable to other users, our traffic and revenue could be negatively affected.

Our success in attracting users depends on our ability to provide consumers with the information they seek, which in turn depends on the quantity and quality of the content contributed by our users. We believe that as the depth and breadth of the content on our platform grow, our platform will become more widely known and relevant to broader audiences, thereby attracting new consumers to our service. However, if we are unable to provide consumers with the information they seek, they may stop or reduce their use of our platform, and traffic to our website and on our mobile app will decline. If our user traffic declines, our advertisers may stop or reduce the amount of advertising on our platform and our business could be harmed. Our 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;
- 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; and
- as users increasingly contribute content through our mobile platform, because content contributed through mobile devices tends to be shorter than desktop contributions.

Similarly, 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. 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 brand and 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.

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

Our ability to grow our business depends on our ability to maintain and expand our advertiser base. To do so, we must convince existing and prospective advertisers alike that our advertising products offer a material benefit and can generate a competitive return relative to other alternatives. Our ability to do so 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. For example, if ad-blocking programs that affect the delivery of online advertising gain further visibility or traction, the perceived value of online advertising, and that of our advertising products in turn, may be harmed. 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. We may 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. At the same time, we must balance advertiser demands against our commitment to providing a good user experience. 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. In addition, we must provide accurate analytics and measurement solutions that demonstrate the value of our advertising products compared to those of our competitors. Similarly, if the pricing of our advertising products does not compare favorably to those of our competitors, advertisers may reduce their advertising with us or choose not to advertise with us at all. The widespread adoption of any technologies that make it more difficult for us to deliver ads, such as ad-blocking programs, could also decrease our value proposition to businesses and reduce demand for our products.
- 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, we discovered that, beginning in the third quarter of 2016, a portion of our desktop traffic has been 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 delay in detecting and removing such 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, we may face challenges expanding our advertiser base in businesses outside the restaurant and shopping categories if businesses believe that consumers perceive the utility of our platform to be limited to finding businesses in these categories. 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 be disproportionately affected by economic downturns. In addition, such business may view online advertising as lower priority than offline advertising.

As is typical in our industry, our advertisers generally do not have long-term obligations to purchase our products. Their decisions to renew depend on the degree of satisfaction with our products as well as a number of factors that are outside of our control, including their ability to continue their operations and spending levels. Small and medium-sized local businesses in particular have historically experienced high failure rates. As a result, we may experience attrition in our advertisers in the ordinary course of business resulting from several factors, including losses to competitors, declining advertising budgets, closures and bankruptcies. In addition, 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. 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. In addition, our phase out of our brand advertising products, which had been an additional source of revenue for us, may make us more susceptible to fluctuations and attrition from small and medium-sized businesses. To grow our business, we must continually add new advertisers to replace advertisers who choose not to renew their advertising, or who go out of business or otherwise fail to fulfill their advertising contracts with us, which we may not be able to do.

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 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 Wi-Fi 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;

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- 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, as was the case with Nowait and Turnstyle. 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. For example, Turnstyle operates a business that is new to us, and we are in the early stages of developing the structures and expertise needed to support this business. We plan to invest resources to support this and 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.

*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 partners for various transactions available through the Yelp Platform, including Booker for spa and salon appointments, Locu for menu data, BloomNation for flower deliveries and, beginning in October 2017, Grubhub for food-ordering services, among others. Identifying, negotiating and maintaining relationships with third parties require significant time and resources, as does integrating their data, services and technologies onto our platform. The integration of the remainder of Grubhub's restaurant network onto the Yelp Platform, in particular, 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 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 our partners in particular, 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 in 2015. Our focus on integrating additional partners to expand the Yelp Platform 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 on the Yelp Platform 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 face competition for both local business directory traffic and advertiser spending, and expect competition to increase in the future.

The market for information regarding local businesses and advertising is intensely competitive and rapidly changing. With the emergence of new technologies and market entrants, competition is likely to intensify in the future. We compete for consumer traffic with traditional, offline local business guides and directories, Internet search engines, such as Google and Bing, review and social media websites and various other online service providers. These competitors may include regional review websites that may have strong positions in particular countries. We also compete with these companies for the content of contributors, and may experience decreases in both traffic and user engagement if our competitors offer more compelling environments.

Although advertisers are allocating an increasing amount of their overall marketing budgets to online advertising, such spending lags behind growth in Internet and mobile usage generally, making the market for online advertising intensely competitive. We compete for a share of local businesses' overall advertising budgets with traditional, offline media companies and service providers, as well as Internet marketing providers. Many of these companies have established marketing relationships with local businesses, and certain of our online competitors have substantial proprietary advertising inventory and web traffic that may provide a significant competitive advantage.

Certain competitors could 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. This risk 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.

Our competitors may also 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. Traditional television and print media companies, for example, have large established audiences and more traditional and widely accepted advertising products. 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.

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.

*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, primarily through our automated recommendation software, sting operations targeting the buying and selling of reviews, our consumer alerts program, coordination with consumer protection agencies and law enforcement, and, in certain egregious cases, taking legal action against business we believe to be engaged in deceptive activities. We also endeavor to remove content from our platform that violates our terms of service.

Despite these efforts, we cannot guarantee that each of the 100.9 million reviews on our platform that had been recommended and that had not been removed as of September 30, 2017 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.

Consumers may also believe that the reviews, photos and other user content contributed by our Community Managers or other employees are influenced by our advertising relationships or are otherwise biased. Although we take steps to prevent this from occurring by, for example, identifying Community Managers as Yelp employees on their account profile pages and explaining their role on our platform, the designation does not appear on the page for each review contributed by the Community Manager and we may not be successful in our efforts to maintain consumer trust. Similarly, the actions of our partners may affect our brand if users do not have a positive experience on the Yelp Platform. 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 rumors 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. In order to demonstrate that our automated recommendation software applies in a nondiscriminatory manner to both advertisers and non-advertisers, we allow users to access reviews that are both recommended and not recommended by our software. We have also allowed businesses to comment publicly on reviews so that they can provide a response. Nevertheless, our reputation and brand, the traffic to our website and mobile app and our business may suffer if negative publicity about our company persists or if users otherwise perceive that 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, such as Nowait and Turnstyle in February 2017 and April 2017, respectively, 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 U.S. and Canadian 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, account management 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. For example, in 2016 we appointed a new Chief Financial Officer, and our long-time Chief Operating Officer stepped down from his position. If our senior management team, including our Chief Financial Officer or any other new hires that we may make, 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. Identifying, recruiting, training and integrating new hires will require significant time, expense and attention, and qualified individuals are in high demand; as a result, we may incur significant costs to attract them before we can validate their productivity. Volatility in the price of our common stock may 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. We have previously experienced, and may experience in the future, service disruptions, outages and other performance problems. Such performance problems may be due to a variety of factors, including infrastructure changes, human or software errors and capacity constraints due to an overwhelming number of users accessing our platform simultaneously. Our products and services are highly technical and complex, and may contain errors or vulnerabilities that could result in unanticipated downtime for our platform and harm to our reputation and business. 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. It may also 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 user traffic increases.
In some instances, we may not be able to identify the cause or causes of these performance problems within an acceptable period of time. If our platform is unavailable when users attempt to access it or it does not load as quickly

as they expect, users may seek other services to obtain the information for which they are looking, and may not return to our platform as often in the future, or at all. This would negatively impact our ability to attract users and advertisers and increase the frequency with which they use our platform. We expect to continue to make significant investments to maintain and improve the availability of our platform and to enable rapid releases of new features and products. To the extent that we do not effectively address capacity constraints, upgrade our systems as needed and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology, our business and operating results may be harmed.

Our systems are also vulnerable to damage or interruption from catastrophic occurrences such as earthquakes, fires, floods, power losses, telecommunications failures, terrorist attacks and similar events. Our U.S. corporate offices and one of the facilities we lease to house our computer and telecommunications equipment are located in the San Francisco Bay Area, a region known for seismic activity. In addition, acts of terrorism, which may be targeted at metropolitan areas that have higher population 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.

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

Our platform involves the storage and transmission of user and business information, some of which may be private, and security breaches could expose us to a risk of loss of this information, which could result in potential liability and litigation. Computer viruses, break-ins, malware, phishing attacks, attempts to overload servers with denial-of-service or other attacks and similar disruptions from unauthorized use of computer systems have become more prevalent in our industry, have occurred on our systems in the past and are expected to occur periodically on our systems in the future. We may be a particularly compelling target for such attacks as a result of our brand recognition. User and business owner accounts and listing pages could 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.

Although none of the disruptions we have experienced to date have had a material effect on our business, any future disruptions could lead to interruptions, delays or website shutdowns, causing loss of critical data or the unauthorized disclosure or use of personally identifiable or other confidential information. Even if we experience no significant shutdown or no critical data is lost, obtained or misused in connection with an attack, the occurrence of such attack or the perception that we are vulnerable to such attacks may harm our reputation, our ability to retain existing users and our ability to attract new users. 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.

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 will not necessarily prevent illegal or improper use of our payment systems, or the theft, loss or misuse of payment information, however. 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 use open source software in our products and will use open source software in the future. From time to time, we may face claims from third parties claiming ownership of, or demanding release of, the open source software or derivative works that we developed using such software (which could include our proprietary source code), or otherwise seeking to enforce the terms of the applicable open source license. These claims could result in litigation and could require us to purchase a costly license or cease offering the implicated solutions unless and until we can re-engineer them to avoid infringement. This re-engineering process could require significant additional research and development resources. In addition to risks related to license requirements, use of certain open source software can lead to greater risks than use of third-party commercial software 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.

Since our inception, we have incurred significant operating losses and, as of September 30, 2017, we had an accumulated deficit of approximately $67.2 million. Although our revenues have grown rapidly in the last several years, increasing from $12.1 million in 2008 to $713.1 million in 2016, 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, they also limit the markets from which we generate revenue and our ability to expand internationally in the future. Similarly, our sale of Eat24 will result in some cost savings, but will also result in a substantial reduction in our 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.

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. 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 monetize our mobile products as usage continues to migrate toward mobile devices;
- 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, such as Nowait and Turnstyle;
- 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 laws impacting Internet neutrality;
- 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;
- the impact of macroeconomic conditions, including the resulting effect on consumer spending at local businesses and the level of advertising spending by local businesses; and
- the effects of natural or man-made catastrophic events.

*Our reported financial results may be adversely affected by new accounting pronouncements or changes in existing accounting standards and practices.

We prepare our financial statements in conformity with accounting principles generally accepted in the U.S. (“GAAP”). These accounting principles are subject to interpretation or changes by the Financial Accounting Standards Board (“FASB”) and the SEC. New accounting pronouncements and varying interpretations of accounting standards and practices have occurred in the past and are expected to occur in the future. New accounting pronouncements or a change in the interpretation of existing accounting standards or practices may have a significant effect on our reported financial results. In May 2014, FASB issued Accounting Standards Update 2014-09, “Revenue from Contracts with Customers,” which will supersede existing revenue guidance under GAAP and which we will adopt on January 1, 2018. The new guidance requires companies to recognize revenue when they transfer promised goods or services to customers, in an amount that reflects the consideration that the company expects to be entitled to in exchange for such goods or services. We are still in the process of evaluating the impact of the new revenue standard; however, we do not expect that this guidance will have a material impact on our consolidated financial statements, with the exception of contract acquisition costs, which will be deferred and amortized over the expected life of the contract rather than recognized in the period in which they are incurred. Refer to Note 1 of our condensed consolidated financial statements for additional information on the new guidance and its potential impact on us.

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

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

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 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. 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 current U.S. administration and key members of Congress have made public statements indicating that tax reform is a priority, resulting in uncertainty not only with respect to the future corporate tax rate, but also the U.S. tax consequences of income derived from income related to intellectual property earned overseas in low tax jurisdictions. Certain changes to U.S. tax laws, including limitations on the ability to defer U.S. taxation on earnings outside of the United States until those earnings are repatriated to the United States, as well as changes to U.S. tax laws that may be enacted in the future, could affect the tax treatment of our foreign earnings. In addition, 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 IRS 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 restaurants on the Yelp Platform.

If we are deemed an agent for the restaurants on the Yelp 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 Yelp 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 key metrics — the number of our desktop unique visitors and mobile website unique visitors — are calculated relying 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, 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. 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. 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.

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. It is difficult to predict how existing laws will be applied to our business, and if our business grows and evolves and our solutions are used in a greater number of countries, we will also become subject to laws and regulations in additional jurisdictions, which may be inconsistent with the laws of the jurisdictions to which we are currently subject. For example, the risk related to liability for third-party actions may be greater in certain jurisdictions outside the United States where our protection from such liability may be unclear.

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. The European Commission recently 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 by 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 2016, our common stock's daily closing price ranged from $15.23 to $42.16, and was $46.72 on October 31, 2017. 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;
- 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, in August 2014, we and certain of our officers were sued in two similar putative class action lawsuits 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

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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 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.

*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 September 30, 2017, we had 82,741,466 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 share repurchase activity for the three months ended September 30, 2017 (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	Approximate Dollar Value of Shares that May

			as Part of Publicly Announced Plans or Programs	Yet Be Purchased Under the Plans or Program
July 1 - July 31, 2017	—	—	—	$ 200,000
August 1 - August 31, 2017	186	41.72	186	$ 192,253
September 1 - September 30, 2017	—	—	—	$ 192,253

(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

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		Incorporated by Reference				Filed Herewith
Exhibit Number	Exhibit Description	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	4/7/2016	
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 Securities and Exchange Commission and are not to be incorporated by reference into any filing of Yelp Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

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: November 3, 2017	/s/ Charles Baker
	Charles Baker
	Chief Financial Officer
	(Principal Financial and Accounting Officer and Duly Authorized Signatory)