

**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, 2019

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)

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value \$0.000001 per share	YELP	New York Stock Exchange LLC

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 every Interactive Data File required to be submitted 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 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	☐	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, 2019, there were 70,201,693 shares issued and outstanding of the registrant’s common stock, par value \$0.000001 per share.

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,” “would” and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management, which are in turn based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Quarterly Report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section titled “*Risk Factors*” included under Part II, Item 1A below. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

NOTE REGARDING METRICS

We review a number of performance metrics to evaluate our business, measure our performance, identify trends in our business, prepare financial projections and make strategic decisions. Please see the section titled “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Metrics*” for information on how we define our key metrics. Unless otherwise stated, these metrics do not include metrics from Yelp Reservations, Yelp Waitlist or 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. Although we take steps to exclude such activity and, as a result, do not believe it has had a material impact on our reported metrics, our efforts may not successfully account for all such activity.

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, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 123,402	\$ 332,764
Short-term marketable securities	258,414	423,096
Accounts receivable (net of allowance for doubtful accounts of \$7,779 and \$8,685 at September 30, 2019 and December 31, 2018, respectively)	101,441	87,305
Prepaid expenses and other current assets	16,042	17,104
Total current assets	499,299	860,269
Long-term marketable securities	34,964	—
Property, equipment and software, net	113,935	114,800
Operating lease right-of-use assets	207,852	—
Goodwill	103,459	105,620
Intangibles, net	10,778	13,359
Restricted cash	22,127	22,071
Other non-current assets	36,355	59,444
Total assets	\$ 1,028,769	\$ 1,175,563
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 3,139	\$ 6,540
Accrued liabilities	71,739	54,522
Operating lease liabilities — current	57,013	—
Deferred revenue	4,222	3,843
Total current liabilities	136,113	64,905
Operating lease liabilities — long-term	186,056	—
Other long-term liabilities	4,036	35,140
Total liabilities	326,205	100,045
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Common stock, \$0.000001 par value, 200,000,000 shares authorized – 70,199,923 and 81,996,839 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	—	—
Additional paid-in capital	1,220,048	1,139,462
Accumulated other comprehensive loss	(13,297)	(11,021)
Accumulated deficit	(504,187)	(52,923)
Total stockholders' equity	702,564	1,075,518
Total liabilities and stockholders' equity	\$ 1,028,769	\$ 1,175,563

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,	
	2019	2018	2019	2018
Net revenue	\$ 262,474	\$ 241,096	\$ 745,371	\$ 699,033
Costs and expenses:				
Cost of revenue (exclusive of depreciation and amortization shown separately below)	16,514	14,177	45,754	43,618
Sales and marketing	127,655	121,759	374,016	362,054
Product development	56,661	53,764	169,302	158,046
General and administrative	39,703	30,302	101,927	90,892
Depreciation and amortization	12,391	10,713	36,507	31,250
Total costs and expenses	252,924	230,715	727,506	685,860
Income from operations	9,550	10,381	17,865	13,173
Other income, net	3,063	3,921	11,645	9,950
Income before income taxes	12,613	14,302	29,510	23,123
(Provision for) benefit from income taxes	(2,552)	684	(5,781)	281
Net income attributable to common stockholders	\$ 10,061	\$ 14,986	\$ 23,729	\$ 23,404
Net income per share attributable to common stockholders				
Basic	\$ 0.14	\$ 0.18	\$ 0.31	\$ 0.28
Diluted	\$ 0.14	\$ 0.17	\$ 0.30	\$ 0.26
Weighted-average shares used to compute net income per share attributable to common stockholders				
Basic	70,773	84,008	75,975	83,865
Diluted	73,712	88,724	79,315	89,271

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	\$ 10,061	\$ 14,986	\$ 23,729	\$ 23,404
Other comprehensive loss:				
Foreign currency translation adjustments	(2,134)	(193)	(2,276)	(1,811)
Foreign currency adjustments to net income upon liquidation of investment in foreign entities	—	—	—	30
Other comprehensive loss	(2,134)	(193)	(2,276)	(1,781)
Comprehensive income	\$ 7,927	\$ 14,793	\$ 21,453	\$ 21,623

See Notes to Condensed Consolidated Financial Statements.

YELP INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2019
(In thousands, except share data)
(Unaudited)

	Common Stock		Additional	Treasury	Accumulated Other	Retained	Total
	Shares	Amount	Paid-In	Stock	Comprehensive	Earnings	Stockholders'
			Capital		Loss	(Accumulated Deficit)	Equity
Balance as of June 30, 2018	83,792,697	\$ —	\$ 1,086,727	\$ —	\$ (10,032)	\$ 21,739	\$ 1,098,434
Issuance of common stock upon exercises of employee stock options	237,981	—	5,614	—	—	—	5,614
Issuance of common stock upon vesting of restricted stock units ("RSUs")	504,681	—	—	—	—	—	—
Issuance of common stock for employee stock purchase plan	—	—	—	—	—	—	—
Stock-based compensation (inclusive of capitalized stock-based compensation)	—	—	30,380	—	—	—	30,380
Shares withheld related to net share settlement of equity awards	—	—	(13,522)	—	—	—	(13,522)
Purchases of treasury stock	—	—	—	(6,205)	—	—	(6,205)
Retirement of common stock	(160,338)	—	—	6,205	—	(6,205)	—
Foreign currency adjustments	—	—	—	—	(193)	—	(193)
Net income	—	—	—	—	—	14,986	14,986
Balance as of September 30, 2018	<u>84,375,021</u>	<u>\$ —</u>	<u>\$ 1,109,199</u>	<u>\$ —</u>	<u>\$ (10,225)</u>	<u>\$ 30,520</u>	<u>\$ 1,129,494</u>
Balance as of June 30, 2019	71,931,789	\$ —	\$ 1,194,486	\$ (5,952)	\$ (11,163)	\$ (430,916)	\$ 746,455
Issuance of common stock upon exercises of employee stock options	225,364	—	4,615	—	—	—	4,615
Issuance of common stock upon vesting of RSUs	527,233	—	—	—	—	—	—
Issuance of common stock for employee stock purchase plan	—	—	—	—	—	—	—
Stock-based compensation (inclusive of capitalized stock-based compensation)	—	—	31,140	—	—	—	31,140
Shares withheld related to net share settlement of equity awards	—	—	(10,193)	—	—	—	(10,193)
Purchases of treasury stock	—	—	—	(77,380)	—	—	(77,380)
Retirement of common stock	(2,484,463)	—	—	83,332	—	(83,332)	—
Foreign currency adjustments	—	—	—	—	(2,134)	—	(2,134)
Net income	—	—	—	—	—	10,061	10,061
Balance as of September 30, 2019	<u>70,199,923</u>	<u>\$ —</u>	<u>\$ 1,220,048</u>	<u>\$ —</u>	<u>\$ (13,297)</u>	<u>\$ (504,187)</u>	<u>\$ 702,564</u>

See Notes to Condensed Consolidated Financial Statements.

YELP INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (CONTINUED)
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2019
(In thousands, except share data)
(Unaudited)

	Common Stock		Additional	Treasury	Accumulated Other	Retained	Total
	Shares	Amount	Paid-In	Stock	Comprehensive	Earnings	Stockholders'
			Capital		Loss	(Accumulated Deficit)	Equity
Balance as of December 31, 2017	83,724,916	\$ —	\$ 1,038,017	\$ (46)	\$ (8,444)	\$ 79,170	\$ 1,108,697
Issuance of common stock upon exercises of employee stock options	737,986	—	14,696	—	—	—	14,696
Issuance of common stock upon vesting of RSUs	1,470,127	—	—	—	—	—	—
Issuance of common stock for employee stock purchase plan	195,987	—	7,139	—	—	—	7,139
Stock-based compensation (inclusive of capitalized stock-based compensation)	—	—	90,567	—	—	—	90,567
Shares withheld related to net share settlement of equity awards	—	—	(41,220)	—	—	—	(41,220)
Purchases of treasury stock	—	—	—	(72,008)	—	—	(72,008)
Retirement of common stock	(1,753,995)	—	—	72,054	—	(72,054)	—
Foreign currency adjustments	—	—	—	—	(1,781)	—	(1,781)
Net income	—	—	—	—	—	23,404	23,404
Balance as of September 30, 2018	<u>84,375,021</u>	<u>\$ —</u>	<u>\$ 1,109,199</u>	<u>\$ —</u>	<u>\$ (10,225)</u>	<u>\$ 30,520</u>	<u>\$ 1,129,494</u>
Balance as of December 31, 2018	81,996,839	\$ —	\$ 1,139,462	\$ —	\$ (11,021)	\$ (52,923)	\$ 1,075,518
Issuance of common stock upon exercises of employee stock options	399,320	—	8,276	—	—	—	8,276
Issuance of common stock upon vesting of RSUs	1,510,144	—	—	—	—	—	—
Issuance of common stock for employee stock purchase plan	288,529	—	7,537	—	—	—	7,537
Stock-based compensation (inclusive of capitalized stock-based compensation)	—	—	97,810	—	—	—	97,810
Shares withheld related to net share settlement of equity awards	—	—	(33,037)	—	—	—	(33,037)
Purchases of treasury stock	—	—	—	(474,993)	—	—	(474,993)
Retirement of common stock	(13,994,909)	—	—	474,993	—	(474,993)	—
Foreign currency adjustments	—	—	—	—	(2,276)	—	(2,276)
Net income	—	—	—	—	—	23,729	23,729
Balance as of September 30, 2019	<u>70,199,923</u>	<u>\$ —</u>	<u>\$ 1,220,048</u>	<u>\$ —</u>	<u>\$ (13,297)</u>	<u>\$ (504,187)</u>	<u>\$ 702,564</u>

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2019	2018
Operating Activities		
Net income attributable to common stockholders	\$ 23,729	\$ 23,404
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	36,507	31,250
Provision for doubtful accounts	15,259	19,285
Stock-based compensation	91,006	85,732
Noncash lease cost	31,379	—
Deferred income taxes	(673)	—
Other adjustments	(2,559)	(2,793)
Changes in operating assets and liabilities:		
Accounts receivable	(29,395)	(24,956)
Prepaid expenses and other assets	(2,312)	(2,085)
Operating lease liabilities	(31,002)	—
Accounts payable, accrued liabilities and other liabilities	17,329	(13,722)
Net cash provided by operating activities	149,268	116,115
Investing Activities		
Purchases of marketable securities	(396,648)	(572,788)
Maturities of marketable securities	530,597	460,800
Release of escrow deposit	28,750	—
Purchases of property, equipment and software	(29,950)	(33,937)
Other investing activities	383	64
Net cash provided by (used in) investing activities	133,132	(145,861)
Financing Activities		
Proceeds from issuance of common stock for employee stock-based plans	15,813	21,835
Repurchases of common stock	(474,993)	(71,993)
Taxes paid related to the net share settlement of equity awards	(32,784)	(41,081)
Net cash used in financing activities	(491,964)	(91,239)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	258	197
Change in cash, cash equivalents and restricted cash	(209,306)	(120,788)
Cash, cash equivalents and restricted cash — Beginning of period	354,835	566,404
Cash, cash equivalents and restricted cash — End of period	\$ 145,529	\$ 445,616
Supplemental Disclosures of Other Cash Flow Information		
Cash paid for income taxes, net of refunds	\$ 5,702	\$ 28,820
Supplemental Disclosures of Noncash Investing and Financing Activities		
Purchases of property, equipment and software recorded in accounts payable and accrued liabilities	\$ 1,856	\$ 2,393
Tax liability related to net share settlement of equity awards included in accrued liabilities	\$ 896	\$ 1,679
Operating lease right-of-use assets obtained in exchange for new operating lease liabilities	\$ 6,325	\$ —

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 consumers with great local businesses. Yelp's trusted local platform delivers significant value to both consumers and businesses by helping each discover and interact with the other: its content and transaction capabilities help consumers save time and money, while its advertising and other products help businesses gain visibility and engage with its large audience of purchase-oriented consumers.

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, 2018, filed with the SEC on March 1, 2019 (the "Annual Report").

The unaudited condensed consolidated balance sheet as of December 31, 2018 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, except as set forth under "Recently Adopted Accounting Pronouncements" below.

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.

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.

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.

Leases—The Company leases its office facilities under operating lease agreements that expire from 2019 to 2029, some of which include options to renew at the Company's sole discretion. If exercised, such options would extend the lease terms by up to ten years. Additionally, certain lease agreements contain options to terminate the leases, which require 6 to 12 months prior written notice to the landlord. The Company does not have any finance lease agreements.

The Company recognizes on its condensed consolidated balance sheet operating lease liabilities representing the present value of future lease payments, and an associated operating lease right-of-use asset for any operating lease with a term greater than one year. The Company recognizes the amortization of the right-of-use asset each month within lease expense. The Company has elected to use the practical expedient for short-term leases, and therefore does not record operating lease right-of-use assets or lease liabilities associated with leases with durations of 12 months or less.

When recording the present value of lease liabilities, a discount rate is required. The Company has concluded that the rates implicit in the various operating lease agreements are not readily determinable. As a result, the Company instead uses its incremental borrowing rate, which is calculated based on hypothetical borrowings to fund each respective lease over the lease term, as of the lease commencement date, assuming that borrowings are secured by the various leased properties. The incremental borrowing rates are determined based on an assessment of the Company's implied credit rating, using ratings scales from reputable rating agencies that consider a number of qualitative and quantitative factors. Market rates are derived as of the lease commencement dates with reference to companies with the same debt rating that operate in a similar industry to the Company.

The Company does not recognize its renewal options as part of its right-of-use assets and lease liabilities until it is reasonably certain that it will exercise such renewal options.

Recently Adopted Accounting Pronouncements

Lease Accounting—In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-02, "Leases (Topic 842)" ("ASC 842"). ASC 842 supersedes the previous accounting guidance for leases included within Accounting Standards Codification 840, "Leases" ("ASC 840"). The new guidance generally requires an entity to recognize on its balance sheet operating and finance lease liabilities and corresponding right-of-use assets, as well as to recognize the associated lease expenses on its statements of operations in a manner similar to that required under ASC 840.

The Company adopted and began applying ASC 842 on January 1, 2019 in accordance with Accounting Standards Update No. 2018-11, "Targeted Improvements to ASC 842" using a modified retrospective approach. Based on its lease portfolio in place at the time of adoption, the Company determined that a cumulative-effect adjustment to the opening balance of accumulated deficit was not needed because there was no difference between the operating lease expense recorded to its condensed consolidated statement of operations following its adoption of ASC 842 and the amount that would have been recorded under ASC 840. The Company will continue to disclose comparative reporting periods prior to January 1, 2019 under ASC 840.

The Company has elected to use the practical expedient available under ASC 842 to not record operating lease right-of-use assets or lease liabilities associated with leases with durations of 12 months or less. The Company will record those leases on a straight line basis to its consolidated statements of operations over the lease terms. The Company recorded operating lease right-of-use assets and lease liabilities for all of its leases that met the definition of a lease under ASC 842 and that had terms of greater than 12 months upon its adoption of ASC 842.

The Company has elected not to take the package of practical expedients permitted under the transition guidance within the new standard, which allows an entity to not reassess whether any expired or existing contracts contain leases, the lease classification for any expired or existing leases, and treatment of initial direct costs for any existing leases. Additionally, the Company did not elect the hindsight practical expedient to determine the lease terms for existing leases.

The most significant changes as a result of ASC 842 were the Company's recognition on its condensed consolidated balance sheet upon adoption on January 1, 2019 of operating lease right-of-use assets of \$233.0 million, current operating lease liabilities of \$55.2 million and long-term operating lease liabilities of \$212.5 million. These balances consist of the Company's office lease portfolio and, to a much lesser extent, its computer equipment lease portfolio. The Company de-recognized deferred rent liabilities associated with its office lease portfolio of \$34.8 million upon adoption.

Callable Debt Securities—In March 2017, the 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 Company adopted ASU 2017-08 effective January 1, 2019 using the modified retrospective method. The Company does not hold any callable debt securities at a premium upon the adoption date, and, accordingly, no adjustment to opening retained earnings was required.

Non-employee Share-Based Payment Accounting—In June 2018, the FASB issued Accounting Standards Update No. 2018-07, "Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting" ("ASU 2018-07"). This new guidance changes the accounting for non-employee share-based payments to align with the accounting for employee stock compensation. The Company adopted ASU 2018-07 effective January 1, 2019, and the adoption did not have a material impact on its consolidated financial statements.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income—In February 2018, the FASB issued Accounting Standards Update No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU 2018-02"). This new guidance permits a company to reclassify the income tax effects of the U.S. Tax Cuts and Jobs Act on items within accumulated other comprehensive income to retained earnings. ASU 2018-02 is effective for all entities for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. The Company adopted ASU 2018-02 effective January 1, 2019 and elected to not reclassify the income tax effects of the U.S. Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings.

Recent Accounting Pronouncements Not Yet Effective

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). This guidance requires certain types of financial instruments, including trade receivables and held-to-maturity investments measured at amortized cost, to be presented at the net amount expected to be collected based on historical events, current conditions and forecast information. 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 impact on the Company's consolidated financial statements will depend on the composition and credit quality of its financial instruments, the historical credit loss activity of that portfolio, and reasonable and supportable economic forecast and conditions at the time of adoption. Considering such factors as of September 30, 2019, the adoption of ASU 2016-13 would not have a material impact on its consolidated financial statements.

In January 2017, the 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. Under the new standard, entities will perform goodwill impairment tests by comparing fair value of a reporting unit with its carrying amount, and will 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 does not expect the adoption of ASU 2017-04 to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued Accounting Standards Update No. 2018-13, "Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement" ("ASU 2018-13"), which amends Accounting Standards Codification 820, "Fair Value Measurement." ASU 2018-13 modifies the disclosure requirements for fair value measurements by removing, modifying and adding certain disclosures. 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 does not expect the adoption of ASU 2018-13 to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued Accounting Standards Update No. 2018-15, "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract" ("ASU 2018-15"). This new guidance requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in Accounting Standards Codification 350-40 to determine which implementation costs to defer and recognize as an asset. ASU 2018-15 generally aligns the guidance on recognizing implementation costs incurred in a cloud computing arrangement that is a service contract with that for implementation costs incurred to develop or obtain internal-use software, including hosting arrangements that include an internal-use software license. ASU 2018-15 is effective for the first interim period within annual reporting periods beginning after December 15, 2019 and early adoption is permitted. The Company is currently assessing the impact of ASU 2018-15 on its consolidated financial statements.

2. CASH, CASH EQUIVALENTS AND RESTRICTED CASH

Cash, cash equivalents and restricted cash as of September 30, 2019 and December 31, 2018 consisted of the following (in thousands):

	September 30, 2019	December 31, 2018
Cash	\$ 31,729	\$ 81,055
Cash equivalents	91,673	251,709
Total cash and cash equivalents	\$ 123,402	\$ 332,764
Restricted cash	22,127	22,071
Total cash, cash equivalents and restricted cash	\$ 145,529	\$ 354,835

As of September 30, 2019 and December 31, 2018, the Company had letters of credit collateralized fully by bank deposits that totaled \$22.1 million and \$22.1 million, respectively. These letters of credit primarily relate to lease agreements for certain of the Company's offices, which are required to be maintained and issued to the landlords of each facility. Each letter of credit is subject to renewal annually until the applicable lease expires. As the bank deposits have restrictions on their use, they are classified as restricted cash on the Company's condensed consolidated balance sheets.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's investments in money market accounts are recorded as cash equivalents at fair value on the condensed consolidated balance sheets. 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, U.S. government bonds and agency bonds are classified within Level 2 of the fair value hierarchy because they have been valued using inputs other than quoted prices in active markets that are observable directly or indirectly.

The following table represents the fair value of the Company's financial instruments, including those measured at fair value on a recurring basis and those held-to-maturity, as of September 30, 2019 and December 31, 2018 (in thousands):

	September 30, 2019				December 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash equivalents:								
Money market funds	\$ 91,673	\$ —	\$ —	\$ 91,673	\$ 221,173	\$ —	\$ —	\$ 221,173
Commercial paper	—	—	—	—	—	30,536	—	30,536
Marketable securities:								
Commercial paper	—	129,500	—	129,500	—	175,070	—	175,070
Corporate bonds	—	85,154	—	85,154	—	131,496	—	131,496
Agency bonds	—	79,210	—	79,210	—	50,846	—	50,846
U.S. government bonds	—	—	—	—	—	65,502	—	65,502
Total cash equivalents and marketable securities	<u>\$ 91,673</u>	<u>\$ 293,864</u>	<u>\$ —</u>	<u>\$ 385,537</u>	<u>\$ 221,173</u>	<u>\$ 453,450</u>	<u>\$ —</u>	<u>\$ 674,623</u>

4. MARKETABLE SECURITIES

The amortized cost, gross unrealized gains and losses, and fair value of marketable securities classified as held-to-maturity as of September 30, 2019 and December 31, 2018 were as follows (in thousands):

	September 30, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term marketable securities:				
Commercial paper	\$ 129,454	\$ 50	\$ (4)	\$ 129,500
Corporate bonds	74,865	247	—	75,112
Agency bonds	54,095	118	(1)	54,212
Total short-term marketable securities	258,414	415	(5)	258,824
Long-term marketable securities:				
Agency bonds	25,000	2	(4)	24,998
Corporate bonds	9,964	78	—	10,042
Total long-term marketable securities	34,964	80	(4)	35,040
Total marketable securities	\$ 293,378	\$ 495	\$ (9)	\$ 293,864

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash equivalents:				
Commercial paper	\$ 30,536	\$ —	\$ —	\$ 30,536
Total cash equivalents	30,536	—	—	30,536
Short-term marketable securities:				
Commercial paper	175,070	—	—	175,070
Corporate bonds	131,626	8	(138)	131,496
U.S. government bonds	65,513	—	(11)	65,502
Agency bonds	50,887	—	(41)	50,846
Total short-term marketable securities	423,096	8	(190)	422,914
Total marketable securities	\$ 453,632	\$ 8	\$ (190)	\$ 453,450

The following tables present gross unrealized losses and fair values for those securities that were in an unrealized loss position as of September 30, 2019 and December 31, 2018, aggregated by investment category and the length of time that the individual securities have been in a continuous loss position (in thousands):

	September 30, 2019					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Commercial paper	\$ 41,817	\$ (4)	\$ —	\$ —	\$ 41,817	\$ (4)
Agency bonds	19,994	(5)	—	—	19,994	(5)
Total	\$ 61,811	\$ (9)	\$ —	\$ —	\$ 61,811	\$ (9)

	December 31, 2018					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate bonds	\$ 121,566	\$ (138)	\$ —	\$ —	\$ 121,566	\$ (138)
U.S. government bonds	65,502	(11)	—	—	65,502	(11)
Agency bonds	50,846	(41)	—	—	50,846	(41)
Total	\$ 237,914	\$ (190)	\$ —	\$ —	\$ 237,914	\$ (190)

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, 2019 and 2018, the Company did not recognize any other-than-temporary impairment losses.

5. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets as of September 30, 2019 and December 31, 2018 consisted of the following (in thousands):

	September 30, 2019	December 31, 2018
Prepaid expenses	\$ 11,970	\$ 9,436
Other current assets	4,072	7,668
Total prepaid expenses and other current assets	\$ 16,042	\$ 17,104

6. PROPERTY, EQUIPMENT AND SOFTWARE, NET

Property, equipment and software, net as of September 30, 2019 and December 31, 2018 consisted of the following (in thousands):

	September 30, 2019	December 31, 2018
Capitalized website and internal-use software development costs	\$ 133,551	\$ 108,590
Leasehold improvements	85,983	83,811
Computer equipment	43,276	40,801
Furniture and fixtures	18,372	17,839
Telecommunication	4,855	4,691
Software	2,217	1,651
Total	288,254	257,383
Less accumulated depreciation	(174,319)	(142,583)
Property, equipment and software, net	\$ 113,935	\$ 114,800

Depreciation expense was approximately \$11.6 million and \$9.8 million for the three months ended September 30, 2019 and 2018, respectively, and approximately \$33.9 million and \$28.6 million for the nine months ended September 30, 2019 and 2018, respectively.

7. GOODWILL AND INTANGIBLE ASSETS

The Company's goodwill is the result of its acquisitions of other businesses, and represents the excess of purchase consideration over the fair value of assets acquired and liabilities assumed. The Company performed its annual goodwill impairment analysis as of August 31, 2019 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, 2019 were as follows (in thousands):

Balance as of December 31, 2018	\$ 105,620
Effect of currency translation	(2,161)
Balance as of September 30, 2019	<u>\$ 103,459</u>

Intangible assets at September 30, 2019 and December 31, 2018 consisted of the following (dollars in thousands):

	September 30, 2019			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life
Business relationships	\$ 9,918	\$ (2,598)	\$ 7,320	8.8 years
Developed technology	7,832	(4,640)	3,192	2.5 years
Content	3,750	(3,750)	—	0.0 years
Domains and data licenses	2,869	(2,699)	170	1.6 years
Trademarks	877	(798)	79	0.4 years
User relationships	146	(129)	17	0.5 years
Total	<u>\$ 25,392</u>	<u>\$ (14,614)</u>	<u>\$ 10,778</u>	

	December 31, 2018			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life
Business relationships	\$ 9,918	\$ (1,868)	\$ 8,050	9.4 years
Developed technology	7,832	(3,562)	4,270	3.1 years
Content	3,873	(3,696)	177	0.8 years
Domain and data licenses	2,869	(2,359)	510	1.5 years
Trademarks	877	(579)	298	1.2 years
User relationships	146	(92)	54	1.2 years
Total	<u>\$ 25,515</u>	<u>\$ (12,156)</u>	<u>\$ 13,359</u>	

Amortization expense was \$0.8 million and \$0.9 million for the three months ended September 30, 2019 and 2018, respectively, and \$2.6 million and \$2.7 million for the nine months ended September 30, 2019 and 2018, respectively. As of September 30, 2019, the estimated future amortization of purchased intangible assets for (i) the remaining three months of 2019, (ii) each of the succeeding five years, and (iii) thereafter was as follows (in thousands):

Year Ending December 31,	Amount
2019 (from October 1, 2019)	\$ 696
2020	2,402
2021	2,262
2022	1,045
2023	714
2024	708
Thereafter	2,951
Total amortization	<u>\$ 10,778</u>

8. LEASES

The components of lease cost as of September 30, 2019 were as follows (in thousands):

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease cost	\$ 13,544	\$ 40,878
Short-term lease cost (12 months or less)	291	938
Sublease income	(1,475)	(2,764)
Total lease cost, net	<u>\$ 12,360</u>	<u>\$ 39,052</u>

The Company will continue to disclose comparative reporting periods prior to January 1, 2019 under ASC 840.

During the three and nine months ended September 30, 2018, the Company recognized rent expense, net of sublease rental income, on a straight-line basis over the lease period. Rent expense, net, was \$13.7 million and \$37.7 million for the three and nine months ended September 30, 2018, respectively.

The Company has subleased certain office facilities under operating lease agreements that expire in 2025. The sublease agreements do not contain any options to renew. The Company recognizes sublease rental income as a reduction in rent expense on a straight-line basis over the lease period. Sublease rental income was \$0.5 million and \$1.7 million for the three and nine months ended September 30, 2018.

The Company does not combine lease and non-lease components; its lease agreements provide specific allocations of the Company's obligations between lease and non-lease components. As a result, the Company was not required to exercise any judgment in determining such allocations. The Company's leases and subleases do not include any variable lease payments, residual value guarantees, related-party leases, or restrictions or covenants which would limit or prevent the Company's right to obtain substantially all of economic benefits from use of the respective assets during the lease term.

Supplemental cash flow information related to leases for the nine months ended September 30, 2019 was as follows (in thousands):

	September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 42,323

As of September 30, 2019, maturities of lease liabilities for (i) the remaining three months of 2019, (ii) each of the succeeding five years, and (iii) thereafter were as follows (in thousands):

Year Ending December 31,	Operating Leases
2019 (from October 1, 2019)	\$ 14,495
2020	59,435
2021	52,055
2022	44,712
2023	41,652
2024	39,420
Thereafter	37,112
Total minimum lease payments	288,881
Less imputed interest	(45,812)
Present value of lease liabilities	<u>\$ 243,069</u>

As of December 31, 2018, maturities of lease liabilities for (i) each of the succeeding five years and (ii) thereafter were as follows (in thousands):

Year Ending December 31,	Operating Leases
2019	\$ 56,703
2020	59,009
2021	51,429
2022	43,603
2023	40,517
Thereafter	69,980
Total minimum lease payments	\$ 321,241

As of September 30, 2019, the weighted-average remaining lease term and weighted-average discount rate were as follows:

	September 30, 2019
Weighted-average remaining lease term (years) — operating leases	5.8
Weighted-average discount rate — operating leases	6.0%

In October 2019, the Company entered into a lease agreement for an office facility in London, U.K., which expires in 2030 and we expect to classify as an operating lease. The Company expects to record \$15 million of operating lease cost over the life of the lease.

9. OTHER NON-CURRENT ASSETS

Other non-current assets as of September 30, 2019 and December 31, 2018 consisted of the following (in thousands):

	September 30, 2019	December 31, 2018
Deferred tax assets	\$ 19,076	\$ 17,240
Deferred contract costs	13,993	12,345
Escrow deposit	—	28,750
Other non-current assets	3,286	1,109
Total other non-current assets	\$ 36,355	\$ 59,444

The escrow deposit as of December 31, 2018 consisted of the funds held in escrow in connection with the Company's sale of its wholly owned subsidiary, Eat24, LLC ("Eat24") to Grubhub Holdings Inc. ("Purchaser") in October 2017. A portion of the purchase price was held in escrow for an initial 18-month period after closing to secure the Purchaser's rights of indemnification in the transaction. Following the expiration of the escrow period in April 2019, the deposit was released to the Company.

Deferred contract costs as of September 30, 2019 and December 31, 2018, and changes in deferred contract costs during the nine months ended September 30, 2019, were as follows (in thousands):

	Nine Months Ended September 30, 2019
Balance, beginning of period	\$ 12,345
Add: costs deferred on new contracts	10,236
Less: amortization recorded in sales and marketing expenses	(8,588)
Balance, end of period	\$ 13,993

10. CONTRACT BALANCES

The allowance for doubtful accounts as of September 30, 2019 and 2018 and changes in the allowance for doubtful accounts during the nine months ended September 30, 2019 and 2018 were as follows (in thousands):

	Nine Months Ended September 30,	
	2019	2018
Balance, beginning of period	\$ 8,685	\$ 8,602
Add: provision for doubtful accounts	15,259	19,285
Less: write-offs, net of recoveries	(16,165)	(19,002)
Balance, end of period	<u>\$ 7,779</u>	<u>\$ 8,885</u>

Contract liabilities consist of deferred revenue, which is recorded on the consolidated balance sheets when the Company has received consideration, or has the right to receive consideration, in advance of transferring the performance obligations under the contract to the customer.

As of September 30, 2019, deferred revenue was \$4.2 million, the majority of which is expected to be recognized as revenue in the subsequent three-month period ending December 31, 2019. Changes in deferred revenue during the nine months ended September 30, 2019 were as follows (in thousands):

	Nine Months Ended September 30, 2019
Balance, beginning of period	\$ 3,843
Less: recognition of deferred revenue from beginning balance	(3,539)
Add: net increase in current period contract liabilities	3,918
Balance, end of period	<u>\$ 4,222</u>

The net increase in contract liabilities primarily relates to new contracts with customers during the periods presented. No other contract assets or liabilities are recorded on the Company's condensed consolidated balance sheets as of September 30, 2019 and December 31, 2018.

11. ACCRUED LIABILITIES

Accrued liabilities as of September 30, 2019 and December 31, 2018 consisted of the following (in thousands):

	September 30, 2019	December 31, 2018
Accrued employee compensation and related	\$ 44,258	\$ 21,580
Accrued tax liabilities	5,831	5,491
Accrued cost of revenue	6,875	5,463
Accrued sales and marketing expenses	3,880	4,536
Other accrued liabilities	10,895	17,452
Total accrued liabilities	<u>\$ 71,739</u>	<u>\$ 54,522</u>

12. OTHER LONG-TERM LIABILITIES

Other long-term liabilities as of September 30, 2019 and December 31, 2018 consisted of the following (in thousands):

	September 30, 2019	December 31, 2018
Deferred rent	\$ —	\$ 31,253
Other long-term liabilities	4,036	3,887
Total other long-term liabilities	<u>\$ 4,036</u>	<u>\$ 35,140</u>

The Company de-recognized the deferred rent balance as of December 31, 2018 upon its adoption of ASC 842 on January 1, 2019. See "[Note 1. Description of Business and Basis for Presentation](#)".

13. COMMITMENTS AND CONTINGENCIES

Legal Proceedings—In January 2018, a putative class action lawsuit alleging violations of the federal securities laws was filed in the U.S. District Court for the Northern District of California, naming as defendants the Company and certain of its officers. The complaint, which the plaintiff amended on June 25, 2018, alleges violations of the Exchange Act by the Company and its officers for allegedly making materially false and misleading statements regarding its business and operations on February 9, 2017. The plaintiff seeks unspecified monetary damages and other relief. On August 2, 2018, the Company and the other defendants filed a motion to dismiss the amended complaint, which the court granted in part and denied in part on November 27, 2018. On October 22, 2019, the Court approved a stipulation to certify a class in this action. The case remains pending. Due to the preliminary nature of this lawsuit, the Company is unable to reasonably estimate either the probability of incurring a loss or an estimated range of such loss, if any, from the lawsuit.

The Company is subject to other 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 other matters will have a material effect on the Company's business, financial position, results of operations or cash flows.

Indemnification Agreements—In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to customers, vendors, lessors, business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of breach of such agreements, services to be provided by the Company or from intellectual property infringement claims made by third parties.

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

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.

14. STOCKHOLDERS' EQUITY

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

	September 30, 2019		December 31, 2018	
	Shares Authorized	Shares Issued	Shares Authorized	Shares Issued
Stockholders' equity:				
Common stock, \$0.000001 par value	200,000,000	70,199,923	200,000,000	81,996,839
Undesignated preferred stock	10,000,000	—	10,000,000	—

Stock Repurchase Program

On July 31, 2017, the Company's board of directors authorized a stock repurchase program under which the Company was authorized to repurchase up to \$200.0 million of its outstanding common stock. This program was completed on November 16, 2018. On November 27, 2018, the Company's board of directors authorized the Company to repurchase up to an additional \$250.0 million of its outstanding common stock, which it subsequently increased by an additional \$250.0 million on February 11, 2019, bringing the total amount of repurchases authorized under its stock repurchase program to \$500.0 million. 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 nine months ended September 30, 2019, the Company repurchased on the open market and retired 13,994,909 shares for an aggregate purchase price of \$475.0 million. The Company had no treasury stock balance as of September 30, 2019.

During the nine months ended September 30, 2018, the Company repurchased on the open market and retired 1,752,895 shares for an aggregate purchase price of \$72.0 million. The Company had no treasury stock balance as of September 30, 2018.

Equity Incentive Plans

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

Stock Options

Stock options granted under the 2012 Plan are granted at a price per share not less than the fair value of a share of the Company's common stock at date of grant. Options granted to date generally vest over a three- or four-year period, on one of four schedules: (a) 25% vesting at the end of one year and the remaining shares vesting monthly thereafter; (b) 10% vesting over the first year, 20% vesting over the second year, 30% vesting over the third year and 40% vesting over the fourth year; (c) ratably on a monthly basis; or (d) 35% vesting over the first year, 40% vesting over the second year and 25% vesting over the third year. Options granted are generally exercisable for contractual terms of 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, 2019 is as follows:

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2018	6,818,682	\$ 24.54	5.11	\$ 88,983
Granted	662,150	36.06		
Exercised	(399,320)	20.74		
Canceled	(339,301)	40.88		
Outstanding at September 30, 2019	6,742,211	\$ 25.11	4.36	\$ 81,195
Options vested and exercisable at September 30, 2019	5,683,209	\$ 22.78	3.59	\$ 80,712

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 \$3.4 million and \$5.3 million for the three months ended September 30, 2019 and 2018, respectively, and \$6.2 million and \$18.1 million for the nine months ended September 30, 2019 and 2018, respectively.

There were no options granted in the three months ended September 30, 2019. The weighted-average grant date fair value of options granted was \$23.41 per share for the three months ended September 30, 2018 and \$17.64 and \$18.89 per share for the nine months ended September 30, 2019 and 2018, respectively.

As of September 30, 2019, total unrecognized compensation costs related to nonvested stock options was approximately \$17.6 million, which the Company expects to recognize 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.

RSUs also include performance-based restricted stock units ("PRSUs") for which the expense is recognized from the date of grant. The PRSUs are subject to both a performance goal and a time-based vesting schedule. The shares underlying each PRSU award will be eligible to vest only if the average closing price of the Company's common stock equals or exceeds \$45.3125 over any 60-day trading period during the four years following the grant date of February 7, 2019 (the "Performance Goal"). If the Performance Goal is met, the shares underlying each PRSU award will vest quarterly over four years from the grant date (the "Time-Based Vesting Schedule"). Any shares subject to the PRSUs that have met the Time-Based Vesting Schedule at the time the Performance Goal is achieved will fully vest as of such date; thereafter, any remaining nonvested shares subject to the PRSUs will continue vesting solely according to the Time-Based Vesting Schedule.

Due to the multiple obligations that exist for the PRSUs, a Monte Carlo model was used to determine the fair value of these awards. As the PRSU activity during the nine months ended September 30, 2019 was not material, it is presented together with the RSU activity in the table below.

A summary of RSU activity for the nine months ended September 30, 2019 is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2018	6,563,863	\$ 38.67
Granted	4,361,791	35.06
Vested ⁽¹⁾	(2,469,190)	35.97
Canceled	(1,462,739)	37.99
Nonvested at September 30, 2019	<u>6,993,725</u>	<u>\$ 37.51</u>

⁽¹⁾ Includes 959,046 shares that vested but were not issued due to net share settlement for payment of employee taxes.

The aggregate fair value as of the vest date of RSUs that vested during the nine months ended September 30, 2019 and 2018 was \$84.9 million and \$107.4 million, respectively. As of September 30, 2019, the Company had approximately \$251.1 million of unrecognized stock-based compensation expense related to RSUs, which it expects to recognize over the remaining weighted-average vesting period of approximately 2.7 years.

Employee Stock Purchase Plan

The 2012 Employee Stock Purchase Plan, as amended ("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, 2019 and 2018. Employees purchased 288,529 shares and 195,987 shares under the ESPP in the nine months ended September 30, 2019 and 2018, respectively, at weighted-average purchase prices of \$26.12 and \$36.42 per share, respectively. The Company recognized stock-based compensation expense related to the ESPP of \$0.7 million and \$0.7 million in the three months ended September 30, 2019 and 2018, respectively, and \$2.0 million and \$2.0 million in the nine months ended September 30, 2019 and 2018, 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,	
	2019	2018	2019	2018
Cost of revenue	\$ 1,054	\$ 1,162	\$ 3,415	\$ 3,345
Sales and marketing	7,683	7,941	23,143	23,514
Product development	15,250	14,536	46,572	41,878
General and administrative	5,249	5,555	17,876	16,995
Total stock-based compensation recorded to income before income taxes	29,236	29,194	91,006	85,732
Benefit from income taxes	(7,661)	(167)	(23,766)	(476)
Total stock-based compensation recorded to net income	\$ 21,575	\$ 29,027	\$ 67,240	\$ 85,256

The Company capitalized \$2.6 million and \$1.9 million of stock-based compensation expense as website development costs in the three months ended September 30, 2019 and 2018, respectively, and \$7.6 million and \$5.9 million in the nine months ended September 30, 2019 and 2018, respectively.

15. OTHER INCOME, NET

Other income, net for the three and nine months ended September 30, 2019 and 2018 consisted of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest income, net	\$ 2,830	\$ 3,705	\$ 10,946	\$ 9,606
Transaction gain (loss) on foreign exchange	(20)	75	93	89
Other non-operating income, net	253	141	606	255
Other income, net	\$ 3,063	\$ 3,921	\$ 11,645	\$ 9,950

16. 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 provision for income taxes for the nine months ended September 30, 2019 was \$5.8 million, which was due to \$5.5 million U.S. federal, state and foreign income tax expense and \$0.3 million of net discrete tax expense. The benefit from income taxes for the nine months ended September 30, 2018 was \$0.3 million, which was due to \$1.2 million U.S. federal, state and foreign income tax expense, offset by \$1.5 million of net discrete tax benefits.

Accounting for income taxes for interim periods generally requires the provision for income taxes to be determined by applying an estimate of the annual effective tax rate for the full fiscal year to income or loss before income taxes, excluding unusual or infrequently occurring discrete items ("Ordinary" income), for the reporting period. For the three and nine months ended September 30, 2019, the difference between the effective tax rate and the federal statutory tax rate primarily relates to tax credits and non-deductible expenses. For the three and nine months ended September 30, 2018, rather than applying an estimate of the annual effective tax rate for the full year Ordinary income, a discrete effective tax rate method was used in jurisdictions where a small change in estimated Ordinary income had a significant impact on the annual effective tax rate.

As of September 30, 2019, the total amount of gross unrecognized tax benefits was \$38.6 million, \$16.3 million of which is subject to a full valuation allowance and would not affect the Company's effective tax rate if recognized. In the nine months ended September 30, 2019, the Company has recorded an immaterial amount of interest and penalties.

As of September 30, 2019, the Company estimates that it had accumulated undistributed earnings generated by its foreign subsidiaries of approximately \$3.5 million. Any taxes due with respect to such earnings or the excess of the amount for financial reporting over the tax basis of the Company's foreign investments would generally be limited to foreign and state taxes. The Company has not recognized a deferred tax liability related to un-remitted foreign earnings, as it intends to indefinitely reinvest these earnings, and expects future U.S. cash generation to be sufficient to meet future U.S. cash needs.

In addition, the Company is subject to the continuous examination of its income tax returns by the Internal Revenue Service and other tax authorities. The Company's federal and state income tax returns for tax 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 2014 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. As of September 30, 2019, 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 next 12 months.

17. NET INCOME PER SHARE

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Basic net income per share:				
Net income	\$ 10,061	\$ 14,986	\$ 23,729	\$ 23,404
Shares used in computation:				
Weighted-average common shares outstanding	70,773	84,008	75,975	83,865
Basic net income per share attributable to common stockholders	\$ 0.14	\$ 0.18	\$ 0.31	\$ 0.28
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Diluted net income per share:				
Net income	\$ 10,061	\$ 14,986	\$ 23,729	\$ 23,404
Shares used in computation:				
Weighted-average common shares outstanding	70,773	84,008	75,975	83,865
Stock options	2,345	3,011	2,429	3,096
Restricted stock units	478	1,656	870	2,240
Employee stock purchase program	116	49	41	70
Number of shares used in diluted calculation	73,712	88,724	79,315	89,271
Diluted net income per share attributable to common stockholders	\$ 0.14	\$ 0.17	\$ 0.30	\$ 0.26

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The following weighted-average stock-based instruments were excluded from the calculation of diluted net income 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,	
	2019	2018	2019	2018
Stock options	2,718	1,694	2,629	1,681
Restricted stock units	2,718	591	2,530	106

18. INFORMATION ABOUT REVENUE AND GEOGRAPHIC AREAS

The Company has concluded that it has one operating segment, with its Chief Executive Officer as its Chief Operating Decision Maker ("CODM"). While the Company has expanded its product offerings in recent years to increase the value provided to both consumers and businesses, those product offerings operate on, interact with, or are complementary to Yelp's local platform. In addition, the Company's CODM regularly reviews financial information, makes decisions to allocate resources, and assesses performance on a consolidated basis.

When the Company communicates results externally, it disaggregates net revenue into major product lines. The disaggregation of revenue by major product lines is based on the type of service provided and also aligns with the timing of revenue recognition.

Net Revenue

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net revenue by product:				
Advertising	\$ 253,098	\$ 232,502	\$ 717,973	\$ 672,712
Transactions	3,074	3,042	9,528	10,402
Other services	6,302	5,552	17,870	15,919
Total net revenue	<u>\$ 262,474</u>	<u>\$ 241,096</u>	<u>\$ 745,371</u>	<u>\$ 699,033</u>

During the three and nine months ended September 30, 2019 and 2018, no individual customer accounted for 10% or more of consolidated net revenue.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
United States	\$ 258,820	\$ 237,597	\$ 735,169	\$ 689,096
All other countries	3,654	3,499	10,202	9,937
Total net revenue	<u>\$ 262,474</u>	<u>\$ 241,096</u>	<u>\$ 745,371</u>	<u>\$ 699,033</u>

Long-Lived Assets

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

	September 30, 2019	December 31, 2018
United States	\$ 112,700	\$ 112,984
All other countries	1,235	1,816
Total long-lived assets	<u>\$ 113,935</u>	<u>\$ 114,800</u>

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

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

Overview

As a trusted local platform, we deliver significant value to both consumers and businesses by helping each discover and interact with the other: our unrivaled content and transaction capabilities help consumers save time and money, while our advertising and other products help business owners gain visibility and engage with our large audience of purchase-oriented consumers. Our comprehensive, mobile-first platform offers food-ordering, booking, and reservation and waitlist capabilities, among many other transaction opportunities, in addition to the 141.3 million recommended reviews available as of September 30, 2019.

We derive substantially all of our revenue from the sale of advertising products. In the three months ended September 30, 2019, our net revenue was \$262.5 million, which represented an increase of 9% from the three months ended September 30, 2018, and we recorded net income of \$10.1 million and adjusted EBITDA of \$58.3 million. In the nine months ended September 30, 2019, our net revenue was \$745.4 million, which represented an increase of 7% from the nine months ended September 30, 2018, and we recorded net income of \$23.7 million and adjusted EBITDA of \$152.5 million.

Our strategy looks to leverage our competitive advantages — our brand, our large audience of intent-driven consumers, our content and the network dynamics on our platform — to increase the value we provide to consumers and businesses, while continuing to drive efficiency in our business model. We believe that we will drive long-term growth by focusing on three broad areas:

- **Increasing Our Focus on Advertisers and Business Owners.** Our increased focus on advertisers and business owners and our related 2019 strategic initiatives continued to show encouraging signs of success during the three months ended September 30, 2019:
 - **Providing More Value to Business Customers.** We provided more value to our business customers by delivering 42% more ad clicks year-over-year in the three months ended September 30, 2019, which helped to lower the average cost-per-click ("CPC") by 22% year-over-year as compared to the three months ended September 30, 2018. We believe our continued efforts to drive more ad clicks to our advertisers at a lower CPC is contributing to customer satisfaction and increasing the lifetime value of advertisers.
 - **Expanding Our Product Offerings.** We saw continued adoption of our newer, lower-priced product offerings. As of September 30, 2019, more than 50,000 business locations were paying for our Verified License and Business Highlights products, more than doubling the number of active paying locations for these products from the prior quarter. Approximately one-third of these purchases were made through our self-serve channel.
 - **Winning in Key Categories.** We continued to drive engagement in key categories like restaurants and home & local services. For example, we introduced new paid and free features for consumers and business owners in the Restaurant category in the three months ended September 30, 2019, like Yelp Connect, which allows businesses to push updates to consumers who have demonstrated an interest in their business, and a 'Notify Me' feature that helps diners get seated at times they desire. As a result, we more than doubled diners seated via Yelp in the three months ended September 30, 2019 compared to the same prior-year period. In the home & local services category, we focused on product enhancements that resulted in consumers submitting over 30% more projects through a Request A Quote feature in the three months ended September 30, 2019, as compared to the same prior-year period.
- **Enhancing Our Go-to-Market Strategy.** We continued to deliver compelling advertising solutions, particularly to multi-location advertisers. Revenue from multi-location advertisers in the three months ended September 30, 2019 grew 21% compared to the three months ended September 30, 2018, driven in part by an increase in our national sales force combined with the continued expansion of our attribution capabilities.

- **Pursuing Our Long-Term Growth Targets.** As a result of our ongoing efforts to improve profitability, our operating margin increased in the three months ended September 30, 2019 compared to the three months ended September 30, 2018. We improved our sales force's average productivity without increasing overall sales headcount, reduced our sales footprint in San Francisco, and continued to emphasize advertiser revenue retention in the three months ended September 30, 2019. Additionally, we repurchased approximately \$475 million of our outstanding common stock during the nine months ended September 30, 2019. We remain confident in the long-term potential of our business.

We expect to continue to invest in product development, personnel and the facilities to support them during the remainder of 2019 as we work to grow our business, including investments to upgrade our technology and infrastructure to improve the ability of our platform to handle the projected increase in usage, and enable the release of new products and features. As a result of this investment philosophy, we expect that our operating expenses will continue to increase for the foreseeable future.

As of September 30, 2019, we had 5,900 full-time employees globally.

Key Metrics

We regularly review a number of metrics, including the key metrics below, to evaluate our business, measure our performance, identify trends in our business, prepare financial projections and make strategic decisions. Unless otherwise stated, these metrics do not include metrics for Yelp Reservations, Yelp Waitlist or our business-owner products.

Reviews

Number of reviews represents the cumulative number of reviews submitted to Yelp since inception, as of the period end, including reviews that were not recommended or had been removed from our platform. In addition to the text of the review, each review includes a rating of one to five stars. We include reviews that are not recommended and that have been removed because all of them are either currently accessible on our platform or were accessible at some point in time, providing information that may be useful to users to evaluate businesses and individual reviewers. Because our automated recommendation software continually reassesses which reviews to recommend based on new information that becomes available, the "recommended" or "not recommended" status of reviews may change over time. Reviews that are not recommended or that have been removed do not factor into a business's overall star rating. By clicking on a link on a reviewed business's page on our website, users can access the reviews that are not currently recommended for the business, as well as the star rating and other information about reviews that were removed for violation of our terms of service.

As of September 30, 2019, approximately 184.4 million reviews were available on business listing pages, including approximately 43.1 million reviews that were not recommended, after 14.9 million reviews had been removed from our platform, either by us for violation of our terms of service or by the users who contributed them. The following table presents the number of cumulative reviews as of the dates indicated (in thousands, except percentages):

	As of September 30,		% Change
	2019	2018	
Reviews	199,309	170,865	17%

Traffic

Traffic to our website and mobile app has three components: mobile devices accessing our mobile app, visitors to our non-mobile optimized website, which we refer to as our desktop website, and visitors to our mobile-optimized website, which we refer to as our mobile website. App users generate a substantial majority of activity on Yelp, including the page views and ad clicks that we monetize. We anticipate that our mobile traffic will be the driver of our growth for the foreseeable future and that traffic to our website will fluctuate and generally decline as we focus on driving traffic to our mobile app, where we have our most engaged users and which reduces our reliance on Google and other search engines. However, we expect that our traffic growth rate will continue to slow over time, and potentially decrease in certain periods, due to the maturation of our business and our high penetration rates in most major geographic markets within the United States and Canada. As our traffic growth rate slows, our business and financial performance will become increasingly dependent on our ability to increase levels of user engagement with our platform and the ads that we display.

We use the metrics set forth below to measure each of our traffic streams. An individual user who accesses our platform through multiple traffic streams will be counted in each applicable traffic metric; as a result, the sum of our traffic metrics will not accurately represent the number of people who visit our platform on an average monthly basis.

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.

The following table presents app unique devices for the periods indicated (in thousands, except percentages):

	Three Months Ended September 30,		% Change
	2019	2018	
App Unique Devices	37,662	34,025	11%

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 LLC 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.

The following table presents our web traffic for the periods indicated (in thousands, except percentages):

	Three Months Ended September 30,		% Change
	2019	2018	
Desktop Unique Visitors	62,427	68,807	(9)%
Mobile Website Unique Visitors	80,590	74,789	8%

We have discovered in the past, and expect to discover in the future, that portions of our desktop traffic, as measured by Google Analytics, have been attributable to robots and other invalid sources. Because the traffic from such sources does not represent valid consumer traffic, our reported desktop unique visitor metric for impacted periods reflects an adjustment to the Google Analytics measurement of our traffic to remove traffic that we have identified as originating from invalid sources to provide greater accuracy and transparency. However, we cannot assure you that we will be able to identify all such traffic for any particular period. 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.*](#)"

Active Claimed Local Business Locations

The number of active claimed local business locations represents the number of claimed local business locations — business addresses for which a business representative has visited our platform and claimed the free business listing page for the business located at that address — that are both (a) active on Yelp and (b) associated with an active business owner account as of a given date. We consider a claimed local business location to be active if it has not closed, been removed from our platform or merged with another claimed local business.

The following table presents the number of claimed active locations as of the dates presented (in thousands, except percentages):

	As of September 30,		% Change
	2019	2018	
Active Claimed Local Business Locations	4,785	4,203	14%

Paying Advertising Locations and Paying Advertising Accounts

Paying advertising locations comprise all business locations associated with a business account from which we recognized advertising revenue in a given month, excluding business accounts that purchased advertising through partner programs other than Yelp Ads Certified Partners, averaged over a given three-month period.

The following table presents the number of paying advertising locations during the periods presented (in thousands, except percentages):

	Three Months Ended September 30,		% Change
	2019	2018	
Paying Advertising Locations	563	524	7%

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 and other services customers that are not also advertising customers.

The following table presents the number of paying advertising accounts during the periods presented (in thousands, except percentages):

	Three Months Ended September 30,		% Change
	2019	2018	
Paying Advertising Accounts	209	194	8%

As we increasingly focus on our national and multi-location advertising business, we believe that paying advertising locations provides a better measurement of our market penetration than paying advertising accounts because the paying advertising accounts metric does not capture the greater impact of adding a multi-location business as an advertiser compared to adding a single-location business as an advertiser. For example, a national chain that purchases advertising for its hundreds of locations would constitute one paying advertising account, the same as a single-location small business advertiser. As a result, we plan to stop reporting our paying advertising accounts metric by the end of 2019.

Results of Operations

The following table sets forth our results of operations for the periods indicated and as a percentage of net revenue for those periods. The period-to-period comparison of financial results is not necessarily indicative of the results of operations to be anticipated for the full year 2019 or any future period.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019		2018		2019		2018	
	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue
(in thousands, except percentages)								
Net revenue by product:								
Advertising	\$ 253,098	96 %	\$ 232,502	96%	\$ 717,973	96 %	\$ 672,712	96%
Transactions	3,074	2	3,042	2	9,528	2	10,402	2
Other services	6,302	2	5,552	2	17,870	2	15,919	2
Total net revenue	262,474	100	241,096	100	745,371	100	699,033	100
Costs and expenses:								
Cost of revenue (exclusive of depreciation and amortization shown separately below)	16,514	6	14,177	6	45,754	6	43,618	6
Sales and marketing	127,655	49	121,759	51	374,016	50	362,054	52
Product development	56,661	22	53,764	22	169,302	23	158,046	23
General and administrative	39,703	15	30,302	13	101,927	14	90,892	13
Depreciation and amortization	12,391	5	10,713	4	36,507	5	31,250	4
Total costs and expenses	252,924	97	230,715	96	727,506	98	685,860	98
Income from operations	9,550	3	10,381	4	17,865	2	13,173	2
Other income, net	3,063	1	3,921	2	11,645	2	9,950	1
Income before income taxes	12,613	4	14,302	6	29,510	4	23,123	3
Provision for income taxes	(2,552)	(1)	684	—	(5,781)	(1)	281	—
Net income attributable to common stockholders	\$ 10,061	3 %	\$ 14,986	6%	\$ 23,729	3 %	\$ 23,404	3%

Three and Nine Months Ended September 30, 2019 and 2018

Net Revenue

We generate revenue from our advertising products, transactions and other services. Total net revenue increased \$21.4 million, or 9%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 and \$46.3 million, or 7%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018.

Advertising. We generate advertising revenue from the sale of our advertising products — including enhanced listing pages and performance and impression-based advertising in search results and elsewhere on our platform — to businesses of all sizes, from national to individual local businesses. Advertising revenue also includes revenue generated from the resale of our advertising products by certain partners, and monetization of remnant advertising inventory through third-party ad networks.

Advertising revenue increased \$20.6 million, or 9%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 and \$45.3 million, or 7%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The increase in each period was due to growth in paying advertising locations, driven by improved advertiser retention and local sales force productivity.

We expect our net advertising revenue to continue to increase as we continue to add paying advertising locations.

Transactions. We generate revenue from various transactions with consumers, primarily through transactions placed through our partnership integrations. Our partnership integrations are revenue-sharing arrangements that provide consumers with the ability to complete food ordering and delivery transactions, purchase tickets to sporting events, and book auto repair services and doctor appointments, among other things, through third parties directly on Yelp. We earn a fee for acting as an agent for transactions placed through these integrations, which we record on a net basis and include in revenue upon completion of a transaction.

Transactions revenue remained consistent in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 and decreased \$0.9 million, or 8%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The decrease was primarily due to a decrease in fees earned from Grubhub for processing credit card transactions related to Grubhub orders that originated on Yelp. Over a transition period following its acquisition of Eat24 from us in October 2017, Grubhub increasingly processed the credit card transactions related to such orders directly, thereby reducing the fees it paid us to process them on its behalf. Transactions revenue from our revenue-sharing arrangements increased in the nine months ended September 30, 2019 compared to the three and nine months ended September 30, 2018.

Other Services. We generate revenue through our subscription services, which include our Yelp Reservations, Yelp Waitlist and other subscription products. We also generate revenue through our Yelp Knowledge program, which provides access to Yelp data for a licensing fee, as well as other non-advertising related partnerships.

Other services revenue increased \$0.8 million, or 14%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 and \$2.0 million, or 12%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The increase in each period was primarily due to an increase in the number of customers purchasing our Yelp Reservations and Yelp Waitlist subscription products.

Cost of Revenue

Our cost of revenue consists primarily of credit card processing fees and website infrastructure expense, which includes website hosting costs and employee costs (including stock-based compensation expense) for the infrastructure teams responsible for operating our website and mobile app. Cost of revenue also includes third-party advertising fulfillment costs.

Cost of revenue increased \$2.3 million, or 16%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 and \$2.1 million, or 5%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The increases in the three and nine months ended September 30, 2019 were primarily attributable to:

- increases of \$1.4 million and \$2.3 million, respectively, in advertising fulfillment costs driven by an increase in activity; and
- increases in website infrastructure expense of \$0.7 million and \$1.8 million, respectively, due to increases in the use of our website and in the number of employees supporting the website infrastructure.

This increase in the nine months ended September 30, 2019 was partially offset by a decrease of \$1.1 million in merchant fees, as we processed fewer credit card transactions for Grubhub.

We expect cost of revenue as a percentage of net revenue to remain relatively consistent with with cost of revenue as a percentage of net revenue in 2018.

Sales and Marketing

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

Sales and marketing expenses increased \$5.9 million, or 5%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 and \$12.0 million, or 3%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The increases in the three and nine months ended September 30, 2019 were primarily attributable to \$10.1 million and \$24.6 million, respectively, in additional employee costs primarily resulting from increases in sales commission expenses as a result of improved sales team productivity which helped to drive the increase in advertising revenue, and to a lesser extent from increased salary costs as a result of increased multi-location sales teams headcount.

These increases were partially offset by decreases of \$3.9 million and \$14.5 million in the three and nine months ended September 30, 2019, respectively, in marketing and advertising costs, primarily due to our continued efforts to optimize our marketing spend, particularly as our Yelp Reservations and Yelp Waitlist products drove consumer usage, which allowed us to reduce our reliance on consumer marketing.

Although we expect our sales and marketing expenses to continue to increase in 2019, we expect the pace of growth to be lower in 2019 than in recent years as a result of our planned focus on our most efficient sales channels, relocation of our sales force to more cost-effective locations and optimization of our consumer marketing spend. We expect overall sales headcount to decline modestly by the end of 2019 as compared to the prior year, as our decreasing reliance on growing local sales headcount to drive revenue growth more than offsets the growth of our multi-location sales teams.

Product Development

Our product development expenses primarily consist of employee costs (which include stock-based compensation expense, net of capitalized employee costs associated with capitalized website and internal-use software development) for our engineers, product management and information technology personnel. In addition, product development expenses include allocated facilities and other supporting overhead costs.

Product development expenses increased \$2.9 million, or 5%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 and \$11.3 million, or 7%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The increases in the three and nine months ended September 30, 2019 were primarily attributable to \$2.3 million and \$9.4 million, respectively, of additional employee costs associated with increased headcount, which drove more research and development activities, primarily for new and enhanced business-owner products, and to a lesser extent, enhancements to the consumer experience.

The remaining increase in the nine months ended September 30, 2019 was primarily attributable to an increase of \$1.6 million in facilities and other overhead allocations as we leased additional office space and incurred additional overhead costs for our expanding headcount.

We believe that continued investment in research and development of new features to support our increased focus on business-owner products and marketplace transaction features, as well as to advance the Yelp consumer experience, is important to attaining our strategic objectives, particularly as we look to decrease our reliance on sales headcount growth to drive revenue growth in the medium term. We expect product development expenses as a percentage of net revenue in 2019 to remain relatively consistent with product development expenses as a percentage of net revenue in 2018.

General and Administrative

Our general and administrative expenses primarily consist of employee costs (which include stock-based compensation expense) for our executive, finance, user operations, legal, human resources and other administrative employees. Our general and administrative expenses also include provision for doubtful accounts, consulting costs, as well as facilities and other supporting overhead costs.

General and administrative expenses increased \$9.4 million, or 31%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 and \$11.0 million, or 12%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The increases in the three and nine months ended September 30, 2019 were primarily attributable to \$7.1 million of fees related to shareholder activism. The remaining increases for the three and nine months ended September 30, 2019 were driven by a \$2.1 million and \$7.9 million increase, respectively, in employee costs, consulting costs, and facilities and other overhead costs required to support the growth of the business, partially offset in the nine-month period by a \$4.0 million decrease in provision for doubtful accounts resulting from a decline in the rate of bad debt associated with local advertising customers.

Adjusting for the fees related to shareholder activism incurred in the three months ended September 30, 2019, we expect general and administrative expenses as a percentage of net revenue in 2019 to remain consistent with general and administrative expenses as a percentage of net revenue in 2018.

Depreciation and Amortization

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

Depreciation and amortization expense increased \$1.7 million, or 16%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 and \$5.3 million, or 17%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The increases in the three and nine months ended September 30, 2019 were primarily attributable to increases in depreciation associated with capitalized website and internal use software development costs, as we invested in additional features for consumers and business-owner products, as well as leasehold improvements related to additional leased facilities.

We expect depreciation and amortization expense as a percentage of net revenue in 2019 to remain consistent with depreciation and amortization as a percentage of net revenue in 2018.

Other Income, Net

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

Other income, net decreased by \$0.9 million, or 22%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 and increased by \$1.7 million, or 17%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The decrease in the three months ended September 30, 2019 is primarily due to a decrease in cash held in interest bearing accounts, primarily as a result of cash used as part of the stock repurchase program (see "[Liquidity and Capital Resources](#)" section). The increase in the nine months ended September 30, 2019 is primarily due to an increase in the rates of interest income earned on marketable investments, offset by a decrease in cash held in interest bearing accounts as a result of the stock repurchase program.

(Provision for) Benefit from Income Taxes

(Provision for) benefit from income taxes consists of federal and state income taxes in the United States and income taxes in certain foreign jurisdictions, deferred income taxes reflecting the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and the realization of net operating losses carried forward.

The provision for income taxes increased by \$3.2 million (from a benefit to a provision) in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 and increased by \$6.1 million (from a benefit to a provision), in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The increases in the three and nine months ended September 30, 2019 are primarily due to the Company's release of valuation allowance against certain deferred tax assets in the year ended December 31, 2018 and the change from a discrete effective tax rate method to the annual effective tax rate method effective January 1, 2019. (See "[Note 16. Income Taxes](#)" of the Notes to Consolidated Condensed Financial Statements included under Part I, Item 1 in this Quarterly Report.)

Non-GAAP Financial Measures

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). However, we have also disclosed below EBITDA and adjusted EBITDA, which are non-GAAP financial measures. We have included EBITDA and adjusted EBITDA because they are key measures used by our management and board of directors to understand and evaluate our operating performance and trends, to prepare and approve our annual budget and to develop short- and long-term operational plans. In particular, the exclusion of certain expenses in calculating EBITDA and adjusted EBITDA can provide a useful measure for period-to-period comparisons of our primary business operations. Accordingly, we believe that EBITDA and adjusted EBITDA provide useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

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

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and EBITDA and adjusted EBITDA do not reflect all cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- EBITDA and adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs;
- adjusted EBITDA does not consider the potentially dilutive impact of equity-based compensation;
- EBITDA and adjusted EBITDA do not reflect the impact of the recording or release of valuation allowances or tax payments that may represent a reduction in cash available to us;
- adjusted EBITDA does not take into account any costs that management determines are not indicative of ongoing operating performance, such as restructuring and integration costs in 2017 and fees related to shareholder activism in 2019; and
- other companies, including companies in our industry, may calculate EBITDA and adjusted EBITDA differently, which reduces their usefulness as comparative measures.

Because of these limitations, you should consider EBITDA and adjusted EBITDA alongside other financial performance measures, including net income and our other GAAP results. The tables below present reconciliations of net income — the most directly comparable GAAP financial measure in each case — to EBITDA and adjusted EBITDA for each of the periods indicated.

EBITDA. EBITDA is a non-GAAP financial measure that we calculate as net income, adjusted to exclude: provision for (benefit from) income taxes; other income, net; and depreciation and amortization.

Adjusted EBITDA. Adjusted EBITDA is a non-GAAP financial measure that we calculate as net income, adjusted to exclude: provision for (benefit from) income taxes; other income, net; depreciation and amortization; stock-based compensation expense; and, in certain periods, certain other income and expense items.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Reconciliation of net income to EBITDA and adjusted EBITDA:				
Net income	\$ 10,061	\$ 14,986	\$ 23,729	\$ 23,404
Provision for (benefit from) income taxes	2,552	(684)	5,781	(281)
Other income, net	(3,063)	(3,921)	(11,645)	(9,950)
Depreciation and amortization	12,391	10,713	36,507	31,250
EBITDA	21,941	21,094	54,372	44,423
Stock-based compensation	29,236	29,194	91,006	85,732
Fees related to shareholder activism ⁽¹⁾	7,116	—	7,116	—
Adjusted EBITDA	\$ 58,293	\$ 50,288	\$ 152,494	\$ 130,155

⁽¹⁾ Recorded within general and administrative expenses on our Condensed Consolidated Statements of Operations.

Liquidity and Capital Resources

As of September 30, 2019, we had cash and cash equivalents of \$123.4 million. Cash and cash equivalents consist of cash, money market funds and investments with original maturities of less than three months. Our cash held internationally as of September 30, 2019 was \$5.5 million. We did not have any outstanding bank loans or credit facilities in place as of September 30, 2019.

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 and 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"), as well as proceeds from our sale of Eat24 to Grubhub in October 2017.

Our future capital requirements and the adequacy of available funds will depend on many factors, including those set forth under "*Risk Factors*" included under Part II, Item 1A in this Quarterly Report. We believe that our existing cash and cash equivalents, together with any cash generated from operations, will be sufficient to meet our working capital requirements, our anticipated repurchases of common stock pursuant to our stock repurchase program, payment of taxes related to the net share settlement of equity awards as well as purchases of property, equipment and software for at least the next 12 months. However, this estimate is based on a number of assumptions that may prove to be wrong and we could exhaust our available cash and cash equivalents earlier than presently anticipated. We may require or otherwise seek additional funds in the next 12 months to respond to business challenges, including the need to develop new features and products or enhance existing services, improve our operating infrastructure or acquire complementary businesses and technologies, and, accordingly, we may need to engage in equity or debt financings to secure additional funds.

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

Cash Flows

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

	Nine Months Ended September 30,	
	2019	2018
Condensed Consolidated Statements of Cash Flows Data:		
Net cash provided by operating activities	\$ 149,268	\$ 116,115
Net cash provided by (used in) investing activities	133,132	(145,861)
Net cash used in financing activities	(491,964)	(91,239)

Operating Activities. We generated \$149.3 million of cash from operating activities during the nine months ended September 30, 2019, primarily resulting from our net income of \$23.7 million, which included the following noncash items:

- depreciation and amortization expenses of \$36.5 million;
- stock-based compensation expense of \$91.0 million;
- noncash lease cost of \$31.4 million; and
- provision for doubtful accounts of \$15.3 million.

In addition, significant changes in our operating assets and liabilities resulted from the following:

- an increase in accounts receivable of \$29.4 million due to an increase in billings for advertising plans, particularly for customers paying in-arrears, as well as the timing of payments from these customers;
- an increase in prepaid expenses and other assets of \$2.3 million;
- a decrease in operating lease liabilities of \$31.0 million due to lease payments made during the quarter; and
- an increase in accounts payable, accrued liabilities and other liabilities of \$17.3 million, primarily driven by an increase in accrued employee compensation and related costs due to a change in the frequency of pay cycles. This increase was partially offset by a decrease in accrued expenses related to various operating expenses.

We generated \$116.1 million of cash from operating activities in the nine months ended September 30, 2018, primarily resulting from our net income of \$23.4 million, which included the following non-cash items:

- depreciation and amortization expenses of \$31.3 million;
- stock-based compensation expense of \$85.7 million; and
- provision for doubtful accounts of \$19.3 million.

In addition, significant changes in our operating assets and liabilities resulted from the following:

- an increase in accounts receivable of \$25.0 million due to an increase in billings for advertising plans, particularly for customers paying in-arrears, as well as the timing of payments from these customers;
- an increase in prepaid expenses and other assets of \$2.1 million, primarily driven by an increase in the purchase of prepaid software licenses and tax-related receivables, partially offset by a decrease in non-trade receivables; and
- a decrease in accounts payable, accrued liabilities and other liabilities of \$13.7 million, primarily driven by a decrease in accrued income taxes as a result of income tax payments made on taxable income from the 2017 financial year, which was primarily as a result of the gain on disposal of Eat24. This decrease was partially offset by higher accrued compensation costs as a result of increased headcount.

Investing Activities. We generated \$133.1 million of cash in investing activities during the nine months ended September 30, 2019. Cash generated from investing activities during this period primarily related to the maturity of \$530.6 million of investment securities held to maturity, and the release of an escrow deposit of \$28.8 million in connection with our sale of Eat24. Cash generated from investing activities was partially offset by purchases of marketable securities of \$396.6 million and purchases of property, equipment and software of \$30.0 million, primarily related to investments in website and mobile app development, as well as internal-use software.

We used \$145.9 million of cash in investing activities during the nine months ended September 30, 2018. Cash used in investing activities during this period primarily related to purchases of marketable securities of \$572.8 million and purchases of property, equipment and software of \$33.9 million. Cash used in investing activities was partially offset by the maturity of \$460.8 million of investment securities held to maturity.

We expect our investments in website and mobile app development during the remainder of 2019 to be consistent with our levels of investment in website and mobile app development during 2018.

Financing Activities. During the nine months ended September 30, 2019, we used \$492.0 million of cash for financing activities, consisting of \$475.0 million to repurchase shares of common stock pursuant to our stock repurchase program and \$32.8 million to pay taxes related to the net share settlement of equity awards for our employees. These were partially offset by \$15.8 million in cash generated from the issuance of common stock upon exercise of stock options and the sale of common stock under the ESPP.

During the nine months ended September 30, 2018, we used \$91.2 million for financing activities, consisting of \$72.0 million to repurchase common stock pursuant to our stock repurchase program and \$41.1 million to pay taxes related to the net share settlement of equity awards for our employees, partially offset by \$21.8 million in cash generated from the issuance of common stock upon exercise of stock options and the sale of common stock under the ESPP.

We expect to continue using cash for financing activities during the remainder of 2019. The extent of cash used for financing activities will depend on the amount of stock repurchases we complete under the remaining \$25.0 million authorization for our current stock repurchase program, as described below.

Stock Repurchase Program

On November 27, 2018, our board of directors authorized us to repurchase up to \$250.0 million of our outstanding common stock pursuant to a stock repurchase program. On February 11, 2019, our board of directors authorized us to repurchase an additional \$250.0 million of our outstanding common stock, bringing the total amount of repurchases authorized under our stock repurchase program to \$500.0 million.

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.

We have funded all repurchases to date and expect to fund any future repurchases with cash available on our balance sheet. As a result, we expect that cash used in financing activities will continue to increase as we make repurchases pursuant to this program. During the nine months ended September 30, 2019 and 2018, we repurchased on the open market 14.0 million shares and 1.8 million shares, respectively, for aggregate purchase prices of \$475.0 million and \$72.0 million, respectively.

From the end of the third quarter through October 31, 2019, we did not have any additional share repurchases.

Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the U.S. Securities and Exchange Commission ("SEC") under the Securities Act.

Contractual Obligations

There have been no material changes to our contractual obligations and other commitments as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

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 primarily include interest rate, foreign exchange risks and inflation, and have not changed materially from the market risks we were exposed to in the year ended December 31, 2018.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Our management, with the participation of our Chief Executive Officer and interim Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2019. Based on this evaluation, our Chief Executive Officer and interim Chief Financial Officer concluded that, as of September 30, 2019, 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, 2019 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 interim 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 January 2018, a putative class action lawsuit alleging violations of the federal securities laws was filed in the U.S. District Court for the Northern District of California, naming as defendants us and certain of our officers. The complaint, which the plaintiff amended on June 25, 2018, alleges violations of the Exchange Act by us and our officers for allegedly making materially false and misleading statements regarding our business and operations on February 9, 2017. The plaintiff seeks unspecified monetary damages and other relief. On August 2, 2018, we and the other defendants filed a motion to dismiss the amended complaint, which the court granted in part and denied in part on November 27, 2018. On October 22, 2019 the Court approved a stipulation to certify a class in this action. The case remains pending.

In addition, we are subject to other 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 other matters will have a material 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 flows 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, 2018.*

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 a substantial majority of our revenue based on our users' engagement with the ads that we display. Because traffic to our platform and user engagement on our platform together determine the number of ads we are able to show, affect the value of those ads to businesses and support the content creation that drives further traffic, our ability to attract, retain and engage visitors on our platform is critical to our business and financial success. A number of factors could adversely affect our traffic and user engagement, including, but not limited to:

- [our reliance on Internet search engines](#);
- if users engage with other products, services or activities as an alternative to our platform;
- [if we fail to introduce new and improved products or features that users find engaging, or we introduce new products or features that do not effectively address consumer needs or otherwise alienate consumers](#);
- [the quantity and quality of the content contributed by our users, as well as the perceived distribution of such content across the categories of businesses on our platform](#);
- [increasing competition in the market for information regarding local businesses](#);
- our ability to manage and prioritize information to ensure users are presented with content that is relevant and helpful to them, including through the effective operation of our automated recommendation software;
- technical or other problems that negatively impact the availability and reliability of our platform or otherwise affect the user experience, including as a result of [infrastructure performance problems](#) and [security breaches](#);
- if 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, such as [application marketplaces](#) and [device manufacturers](#);
- if 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;
- adverse macroeconomic conditions and their negative impact on consumer spending at local businesses;
- the adoption of any laws or regulations that adversely affect the growth, popularity or use of our platform or the Internet in general, such as the repeal of Internet neutrality regulations in the United States;

- any actions taken by companies with significant market power in the broadband and Internet marketplace that degrade, disrupt or increase the cost of user access to our products and services; and
- [if we do not maintain our brand image or our reputation is damaged](#).

We anticipate that our traffic growth rate will continue to slow over time, and potentially decrease in certain periods due to the maturation of our business and our high penetration rates in most major geographic markets within the United States and Canada. As our traffic growth rate slows, our business and financial performance will become increasingly dependent on our ability to increase levels of user engagement with our platform and the ads that we display.

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

In order to maintain and expand our advertiser base, we must convince existing and prospective advertisers alike that our advertising products offer them a material benefit and generate a competitive return relative to other alternatives. We sell ads primarily on a CPC basis, the pricing of which depends, in part, on competition among advertisers through an auction mechanism. Demand for ads in certain business categories that receive lower levels of traffic can exceed our inventory, resulting in relatively high prices for ads in those categories. Such prices reduce our competitiveness and we may not be able to retain advertisers who frequently encounter them. This issue may be exacerbated by any changes to search engine algorithms and methodologies that have the effect of further reducing traffic to impacted categories.

Advertisers will not advertise with us, or they will reduce the prices they are willing to pay to advertise with us, if we do not deliver compelling ad products in an effective manner, or if we do not provide accurate, easy-to-use analytics and measurement solutions that demonstrate the effectiveness and value of our products. As is typical in our industry, our advertisers generally do not have long-term obligations to purchase our products; in fact, as a result of our transition to non-term contracts for most of our new local advertising customers in May 2018, a substantial and increasing portion of our advertisers have the ability to cancel their ad campaigns at any time without penalty. As a result, any decrease in customer satisfaction, economic downturn or other change negatively affecting our ability to retain advertisers may have an earlier and more concentrated effect on our results going forward than prior to our transition to non-term contracts, when our multi-month advertising contracts imposed a fee for early cancellations. If we are unable to quickly and effectively respond to such developments, our ability to maintain and expand our advertiser base will be harmed. In addition, the negative impact of attrition on our financial results may be greater with respect to advertisers who are billed in arrears, as the vast majority of our advertisers are, if they fail to make payment on ads that have already been delivered.

In addition, our advertiser base consists primarily of small and medium-sized businesses ("SMBs"), which are subject to increased challenges and risks. SMBs often have limited advertising budgets and view online advertising products like ours as experimental and unproven; as a result, we may need to devote additional time and resources to educate them about our products and services. Such businesses have also historically experienced high failure rates, and we must continually add new advertisers to replace those who do not renew their advertising due to factors outside of our control, such as declining advertising budgets, closures and bankruptcies.

Our advertising revenue could be impacted by a number of other factors, including, but not limited to:

- the perceived effectiveness and acceptance of online advertising generally, particularly among SMBs that may have less experience with it;
- our ability to increase traffic to our platform and user engagement, including engagement with the ads displayed on our platform;
- the effectiveness of our ad targeting technology and tools for advertisers to optimize their campaigns;
- our ability to innovate and introduce enhanced products meeting advertiser expectations;
- product changes or inventory management decisions we may make that change the size, format, frequency or relative prominence of ads displayed on our platform;
- the widespread adoption of any technologies that make it more difficult for us to deliver ads, such as ad-blocking programs;
- loss of advertising business to our competitors, including if competitors offer lower priced or more integrated products;
- the prevalence of low-quality or invalid traffic on our platform, such as robots and spiders, which we have discovered in the past and expect to discover in the future, and our ability to detect and prevent click fraud or other invalid clicks on ads;

- our reputation and perceptions regarding our platform, including of the ratings and reviews that businesses receive from our users — favorable ratings and reviews could be perceived as obviating the need to advertise, while unfavorable ratings and reviews could discourage businesses from advertising to an audience that they perceive as hostile;
- our sales force's ability to connect with potential customers' key decision makers, which may be affected by a range of factors, not all of which are within our control, including if such decision makers, their telecommunications carriers or their mobile operating systems increase their use of call blocking technologies, or decision makers answer their phones less frequently to avoid, for example, calls from unknown numbers, telemarketing calls, calls from political campaigns and other solicitations;
- the degree to which businesses choose to reach users through our free products in lieu of our paid products and services; and
- adverse macroeconomic conditions, which may disproportionately affect the SMBs on which we rely.

Any of these or other factors could result in a reduction in demand for our products, which may reduce the prices we are able to charge, either of which would negatively affect our revenue and operating results.

Our ability to increase our revenue depends on our ability to introduce successful new products and services. Our ongoing investments in developing products and services, including products and services outside of our historical core business, involve significant risks, could disrupt our current operations and may not produce the long-term benefits that we expect.

Our industry is rapidly evolving and intensely competitive; our ability to compete successfully and increase our revenue depends on our ability to continue to deliver innovative, relevant and useful products to our customers in a timely manner. As a result, we have invested, and expect to continue to invest, significant resources in developing products and services to drive traffic to our platform and engage our users. Our product development efforts may include significant changes to our existing products or new products that are unproven or that are outside of our historical core business, such as our investments in Yelp Reservations and Yelp Waitlist. Such investments may not prioritize short-term financial results and may involve significant risks and uncertainties, including distracting management and disrupting our current operations. We cannot assure you that any resulting new or enhanced products and services will engage users and advertisers. We may fail to generate sufficient revenue, operating margin or other value to justify our investments in such products, thereby harming our ability to generate revenue directly and, with respect to investments in products outside of our core business, indirectly as a result of foregoing the opportunity for higher investment in our advertising business, in other product lines and other initiatives.

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.

We rely heavily on Internet search engines, such as Google, to drive traffic to our platform through their unpaid search results and on application marketplaces, such as Apple's App Store and Google's Play, to drive downloads of our applications. Although search results and application marketplaces 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, we may need to increase our marketing spend to acquire additional traffic. We cannot assure you that the value we ultimately derive from any such additional traffic would exceed the cost of acquisition, and any increase in marketing expense may in turn harm our operating results.

The amount of traffic we attract from search engines 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. Search engines have made changes in the past to their ranking algorithms, methodologies and design layouts that have reduced the prominence of links to our platform and negatively impacted our traffic, and we expect they will continue to make such changes from time to time in the future. Similarly, 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.

However, we may not know how or otherwise be in a position to influence search results or our treatment in application marketplaces. With respect to search results in particular, even when search engines announce the details of their methodologies, their parameters may change from time to time, be poorly defined or be inconsistently interpreted. For example, Google 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, we cannot guarantee that Google will not unexpectedly penalize our app install interstitials, causing links to our mobile website to be featured less prominently in Google's mobile search results and harming traffic to our platform as a result.

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

We face intense competition in rapidly evolving markets, and expect competition to increase in the future.

We compete in rapidly evolving and intensely competitive markets, and we expect competition to intensify further in the future with the emergence of new technologies and market entrants. We face competition for users, content, and advertising and other customers, including from: online search engines and directories; traditional, offline business guides and directories; online and offline providers of consumer ratings, reviews and referrals; providers of online marketing and tools for managing and optimizing advertising campaigns; various forms of traditional offline advertising; restaurant reservation and seating tools; food ordering and delivery services; and home and/or local services-related platforms and offerings.

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

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

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

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

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

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

We rely on relationships with various third parties to grow our business, including strategic partners and technology and content providers. For example, we rely on third parties for data about local businesses, mapping functionality, payment processing, information technology and systems, network infrastructure and administrative software solutions. We also rely on partnership integrations for various transactions available through Yelp, including Grubhub for food-ordering services. Identifying, negotiating and maintaining relationships with third parties require significant time and resources, as does integrating their data, services and technologies onto our platform. For example, the ongoing maintenance of the Grubhub integration may require significant time,

resources and expense, and may divert the attention of our management and employees from other aspects of our business operations. In addition, there can be no assurance that we will be able to realize the intended benefits of the Grubhub partnership.

It is possible that third-party providers and strategic partners may not be able to devote the resources we expect to the relationships. We may also have competing interests and obligations with respect to certain of our partners, which may make it difficult to maintain, grow or maximize the benefit for each partnership. For example, our entry into the online reservations space with our acquisition of SeatMe, Inc. in 2013 put us in competition with OpenTable, which led to the end of our partnership with OpenTable in 2015. Our focus on establishing additional partnerships to help accelerate our growth initiatives 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. As in the case of the expiration or termination of any of our agreements with third-party providers, transitioning from one partner or provider to another could subject us to operational delays and inefficiencies and 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.

In addition, we exercise limited control over our third-party partners and vendors, which makes us vulnerable to any errors, interruptions or delays in their operations. If these third parties experience any service disruptions, financial distress or other business disruption, or difficulties meeting our requirements or standards, it could make it difficult for us to operate some aspects of our business. For example, we rely on a single supplier to process payments of all transactions made through Yelp. 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, the actions of our partners may affect our brand if users or customers do not have a positive experience interacting with or through them. For example, if advertisers do not have a positive experience purchasing our advertising products through our resale partners, such as DexYP, or the agency participants in our Yelp Ads Certified Partners Program, they may not continue advertising with us, which would negatively affect our revenue and operating results. Although such partners are contractually obligated to observe certain standards and best practices while selling our advertising products, our ability to ensure their compliance is limited. Any disagreements or disputes with these or other partners about our respective contractual obligations — which we have had in the past and may have again from time to time in the future — could result in legal proceedings or negatively affect our brand and reputation.

Our strategy to grow our business may not be successful and may expose us to additional risks.

Our strategy to grow our business includes priorities such as winning in our key categories of restaurants and home & local services, providing more value to our business customers and focusing on our national, self-serve and sales partnership sales channels. These initiatives involve risks and executing on them may prove more difficult than we anticipate. We may not succeed in realizing the benefits of these efforts, including growing our revenue and improving our margins, within the time frame we expect or at all.

We will face both executional and industry challenges in our efforts to win in our key categories. For example, developing comprehensive restaurant and home & local services solutions may require substantial investments and significant changes to our existing platform, products and content, and our development efforts in one category may not translate to the other. The restaurants and home & local services markets themselves will also present significant hurdles. In addition to being highly competitive, fragmented industries, neither has yet fully embraced online solutions of the type we offer. The majority of restaurants and diners continue to use the traditional offline ordering and booking methods involving the telephone, paper menus that restaurants distribute to diners and pen-and-paper or other offline reservation books. Similarly, many of our consumers continue to search for, select and hire service professionals offline through word-of-mouth and referrals. Changing traditional habits is difficult, and the speed and ultimate outcome of the shift of these markets online for consumers and businesses alike is uncertain and may not occur as quickly as we expect, or at all. Even if we are successful in developing comprehensive solutions and overcoming industry challenges in these categories, we may not realize the benefits that we expected from pursuing this strategy or may not realize them within a reasonable time. For example, the traffic and engagement driven by our offerings in the restaurants category may not result in higher traffic and engagement in our higher-value home & local services category as we expect.

Although our initiatives to provide more value to our customers and emphasize alternative sales channels are more similar to our historical advertising business than our restaurants and home & local services initiatives, both also involve unfamiliar risks. Our efforts to optimize CPC prices and provide advertisers more value for their money may include lowering prices while making significant investments in product development. We cannot guarantee that any resulting increase in demand for our products or customer retention will offset lower prices or otherwise generate sufficient revenue to justify our investments. Likewise, emphasizing our national, self-serve and sales partnership channels involves changes to our sales organization and sales force hiring priorities. These changes may be disruptive to our sales operations — particularly coming so soon after our transition to non-term contracts, another major operational change — and affect our ability to generate revenue.

Certain of our past strategic decisions may also continue to impact our opportunities and long-term prospects. For example, while our sale of Eat24 has resulted in cost savings, it has also resulted in a substantial reduction in our transactions revenue,

which will not be fully offset by revenue from our Grubhub partnership for the foreseeable future. We cannot predict the impact that fully outsourcing food ordering on our platform may have on our brand and reputation. In addition, we wound down our international sales and marketing operations in 2016 and reallocated the associated resources primarily to our U.S. and Canadian markets. While our decision to focus our sales and marketing resources primarily on the United States and Canada has resulted in some cost savings, it also limits the markets from which we generate revenue and our ability to expand internationally in the future. Our continued growth depends on our ability to further develop our U.S. and Canadian communities and operations for the foreseeable future. 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.

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

The number of people who access the Internet through devices other than desktop computers, including mobile phones, tablets, handheld computers, voice-assisted speakers, automobiles and television set-top devices, has increased dramatically in the past several years. We generate a substantial majority of our revenue from advertising delivered on mobile devices and anticipate that growth in use of our mobile platform will continue to be the driver of our growth for the foreseeable future. As a result, we must continue to drive adoption of and user engagement on our mobile platform, and on our mobile app in particular, which is less reliant on search results for traffic than our website. 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 platform on mobile and other alternative devices, the products and services we introduce on such devices must be compelling. However, the functionality and user experience associated with some alternative devices may make the use of our platform and products more difficult than through a desktop computer. For example, devices with small screen sizes or that lack a screen may exacerbate the risks associated with how and where our website is displayed in search results because they display or otherwise present fewer search results than desktop computers. We also expect that the ways in which users engage with our platform will continue to change over time as users increasingly engage via alternative devices. This may make it more difficult to develop products that consumers find useful, may make it more difficult for us to monetize our products and may also negatively affect our content if users do not continue to contribute high quality content through such devices.

Similarly, as new devices and platforms develop, advertiser demand may increase for products that we do not offer or that may alienate our user base, which we must balance against our commitment to prioritizing the quality of user experience over short-term monetization. If we are not able to balance these competing considerations successfully to develop compelling advertising products, advertisers may stop or reduce their advertising with us and we may not be able to generate meaningful revenue from alternative devices despite the expected growth in their usage.

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

If we fail to generate, maintain and recommend sufficient content from our users that consumers find relevant, helpful and reliable, our traffic and revenue will be negatively affected.

Our success depends on our ability to attract consumer traffic with valuable content, which in turn depends on the quantity and quality of the content provided by our users, as well as consumer perceptions of the relevance, helpfulness and reliability of that content. We may be unable to provide consumers with valuable information if our users do not contribute sufficient content or if our users remove content they previously submitted. For example, users may be unwilling to contribute content as a result of 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. Consumers also may not find the content on our platform to be valuable if they do not perceive it as relevant, helpful or reliable. For example, we do not phase out or remove dated reviews, and consumers may view older reviews as less relevant or reliable than more recent reviews. If the high concentration of reviews in our restaurants and shopping categories

creates a perception that our platform is primarily limited to these categories, consumers may not believe that we can provide them with helpful information about businesses in other categories and seek that information elsewhere.

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

Even if we are successful in our efforts to generate, maintain and recommend valuable content, our ability to attract consumer traffic may nonetheless be harmed if consumers can find equivalent content through other services. 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. 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.

We may acquire or invest in other companies 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 investments.

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, Inc. to obtain waitlist system and seating tool technology and in April 2017, we acquired Turnstyle Analytics Inc. to obtain a wifi-based marketing tool for customer retention and loyalty. Similarly, we may pursue investments in privately held companies in furtherance of our strategic objectives, as we did with our investment in Nowait prior to our acquisition of that company. We have limited experience as a company in the complex processes of acquiring and investing in businesses and technologies. The pursuit of potential future acquisitions or investments 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 or invest in that we did not identify in advance, which may result in significant unanticipated costs or losses. 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 order to realize the expected benefits and synergies of any acquisition 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 existing customers and strategic partners, and minimizing disruption to existing relationships, as a result of any integration of new personnel or departure of existing personnel;
- difficulties in the assimilation of corporate cultures;

- implementing and retaining uniform standards, controls, procedures, policies and information systems; and
- addressing risks related to the business of an acquired company that may continue to impact the business following the acquisition.

Any inability to integrate services, sites and technologies, operations or personnel in an efficient and timely manner could harm our results of operations. Transition activities are complex and require significant time and resources, and we may not manage the process successfully, particularly if we are managing multiple transactions concurrently.

Our ability to integrate complex acquisitions is unproven, particularly with respect to companies that have significant operations or that develop products with which we do not have prior experience. We expect to invest resources to support any future acquisitions, which will result in ongoing operating expenses and may divert resources and management attention from other areas of our business. We cannot assure you that these investments will be successful. Even if we are able to integrate the operations of any acquired company 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.

Similarly, investments in private companies are inherently risky in that such companies are typically at an early stage of development, may have no or limited revenues, may not be or may never become profitable, may not be able to secure additional funding or their technologies, services or products may not be successfully developed or introduced into the market. The success of any such investment is typically dependent on a liquidity event, such as a public offering or acquisition. If any company in which we invest decreases in value, we could lose all or part of our investment. These risks would be heightened to the extent any such investment is a minority investment in which we have limited management or operational control over the business.

Our business depends on a strong brand. Maintaining, protecting and enhancing our brand requires significant resources and our efforts to do so may not be successful.

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. 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.

Our ability to do so will depend largely on our ability to maintain business owner and consumer trust in the integrity of our products and in the quality of the user content and other information found on our platform, which we may not do successfully. We dedicate significant resources to these goals, including through business owner outreach and education, our automated recommendation software, our consumer alerts program and our efforts to remove content from our platform that violates our terms of service. Despite these efforts, we may fail to respond to user or business owner concerns expeditiously or in a manner they perceive to be appropriate, which could erode confidence in our brand. For example, 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. The actions of our partners, over whom we have limited, if any, control, may also affect the perceived integrity of our brand if users or advertisers do not have a positive experience interacting with or through them. In addition, our website and mobile app serve as a platform for expression by our users, and third parties or the public at large may attribute the political or other sentiments expressed by users on our platform to us, which could harm our reputation.

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

Trademarks are also an important element of our brand and require substantial investments to maintain, which may not be successful. 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. Conversely, if we are unable to prevent others from misusing our brand or passing themselves off as being endorsed or affiliated with us, it could harm our reputation and our business could suffer. For example, we have encountered instances of reputation management companies falsely representing themselves as being

affiliated with us when soliciting customers; this practice could be contributing to the perception that business owners can pay to manipulate reviews, rankings and ratings.

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

Our employee operations are complex. This places substantial demands on management and our operational infrastructure. Most of our employees have been with us for fewer than two years; to execute on our growth strategy, 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, sales and marketing organizations. As a result, we must effectively integrate, develop and motivate a large number of new employees 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, availability of employee talent and costs. 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. If these organizations are unable to adapt quickly and effectively to changes or adjustments to our organization, our business will be harmed. Similarly, we are increasingly focused on achieving greater cost-effectiveness in our advertising business; while we plan to continue investing in our direct sales force, we also plan to emphasize other, more efficient sales channels, such as self-serve and sales partnerships, and may otherwise pursue new strategies for high-margin revenue growth. These and other changes in our sales organization, sales force hiring priorities or in the way we structure compensation of our sales organization may be disruptive and may affect our ability to generate revenue.

To execute on our growth strategy, 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 were the subject of a lawsuit alleging that our sales force does not properly disclose that calls may be monitored or recorded for quality assurance. 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 are committed to providing a great consumer experience, which may cause us to forgo short-term gains and advertising revenue.

We base many of our decisions on our commitment to providing the consumers who use our platform with a great experience. In the past, we have forgone, and we may in the future forgo, certain expansion or revenue opportunities that we believe excessively degrade the consumer experience, 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 had shifted toward products disruptive to the consumer experience. Any decisions we make that prioritize consumers 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, even in the ordinary course of business, may be disruptive to our business. For example, our former Chief Financial Officer left the Company in the third quarter. While we seek to manage these transitions carefully, including establishing strong processes and procedures and succession planning, such changes may result in a loss of institutional knowledge and cause disruptions to our business. Further, if our senior management team fails to work together effectively or execute our plans and strategies on a timely basis, our business could be harmed.

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

Risks Related to Our Technology and Intellectual Property

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

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

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

- ***Infrastructure Changes and Capacity Constraints.*** We may experience capacity constraints due to an overwhelming number of users accessing our platform simultaneously. It may become increasingly difficult to maintain and improve the availability of our platform, especially during peak usage times, as our products become more complex and our traffic increases.
- ***Human or Software Errors.*** Our products and services are highly technical and complex, and may contain errors or vulnerabilities that could result in unanticipated downtime for our platform. Users may also use our products in unanticipated ways that may cause a disruption in service for other users attempting to access our platform. We may encounter such difficulties more frequently as we acquire companies and incorporate their technologies into our service.
- ***Catastrophic Occurrences.*** Our systems are vulnerable to damage or interruption from earthquakes, fires, floods, power losses, telecommunications failures, terrorist attacks and similar events. Our U.S. corporate offices and one of the facilities we lease to house our computer and telecommunications equipment are located in the San Francisco Bay Area, a region known for seismic activity. Acts of terrorism, which may be targeted at metropolitan areas that have higher population densities than rural areas, could cause disruptions in our or our advertisers' businesses or the economy as a whole.

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

We expect to continue to make significant investments to maintain and improve the availability of our platform and to enable rapid releases of new features and products. To the extent that we do not address capacity constraints, upgrade our systems as needed and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology in a cost-effective manner, while at the same time maintaining the reliability and integrity of our systems and infrastructure, our business and operating results may be harmed.

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

Our industry is prone to cyber-attacks by third parties seeking unauthorized access to our data or users' data, or to disrupt our ability to provide our services. Any failure to prevent or mitigate security breaches could expose us to the risk of loss or misuse

of private user and business information, which could result in potential liability and litigation. We may be a particularly compelling target for such attacks as a result of our brand recognition.

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

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

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

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

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

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

We regard the protection of our trade secrets, copyrights, trademarks, patent rights and domain names as critical to our success. In particular, we must maintain, protect and enhance the "Yelp" brand. We strive to protect our intellectual property rights by relying on federal, state and common law rights, as well as contractual restrictions. 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 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, which may diminish the value of our brand and other intangible assets and allow competitors to more effectively mimic our products and services.

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

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

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

Risks Related to Our Financial Statements and Tax Matters

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

You should not rely on the revenue growth of any prior quarterly or annual period, or the net income we realize from time to time, as an indication of our future performance. Although our revenues have grown rapidly in the last several years, increasing from \$12.1 million in 2008 to \$942.8 million in 2018, 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. Moreover, [our strategy to grow our business involves significant risks and executing on it may prove more difficult than we currently anticipate](#).

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:

- product and feature development;
- sales and marketing;
- our technology infrastructure;
- 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 at the current scale of our business 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 numerous factors, many of which we are unable to predict or are outside of our control, such as our ability to, among other things:

- [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;
- [increase the number of users of our website and mobile app](#) and [the number of reviews and other content on our platform](#);
- forecast revenue and adjusted EBITDA accurately, which is made more difficult by the large percentage of our revenue derived from performance-based CPC advertising and the increasing portion of our advertiser base with non-term contracts, as well as appropriately estimate and plan our expenses;
- continue to earn and preserve a reputation for providing meaningful and reliable reviews of local businesses;
- [effectively adapt our products and services to mobile and other alternative devices](#) as usage of such devices continues to increase;
- [successfully compete with existing and future providers of other forms of offline and online advertising](#);
- successfully compete with other companies that are currently in, or may in the future enter, the business of providing information regarding local businesses;
- successfully manage our growth;
- [successfully develop and deploy new features and products](#);
- [manage and integrate successfully any acquisitions of businesses, solutions or technologies](#);
- [avoid interruptions or disruptions in our service or slower than expected load times](#);
- develop a scalable, high-performance technology infrastructure that can efficiently and reliably handle increased usage, as well as the deployment of new features and products;
- [hire, integrate and retain talented personnel](#);
- [effectively manage our complex employee operations and organization](#); and
- [effectively identify, engage and manage third-party partners and service providers](#).

If the demand for connecting consumers and 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 transition to selling our local advertising products pursuant to non-term contracts;
- changes or updates to our business strategies;
- 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;
- cyclicalities and seasonality, which may become more pronounced as our growth rate slows;
- the effects of changes in search engine placement and prominence;
- the adoption of any laws or regulations that adversely affect the growth, popularity or use of the Internet, such as the repeal of Internet neutrality regulations in the United States;
- the success of our sales and marketing efforts;
- adverse litigation judgments, settlements or other litigation-related costs, including the costs associated with investigating and defending claims;
- interruptions in service and any related impact on our reputation;
- changes in advertiser budgets or the market acceptance of online advertising solutions;
- changes in consumer behavior with respect to local businesses;
- changes in our tax rates or exposure to additional tax liabilities, including as a result of the U.S. Tax Cuts and Jobs Act;
- the impact of macroeconomic conditions, including the resulting effect on consumer spending at local businesses and the level of advertising spending by local businesses;
- new accounting pronouncements or changes in existing accounting standards and practices; and
- the effects of natural or man-made catastrophic events.

The impact of these and other factors on our local advertising results may occur earlier and be more concentrated going forward than prior to our transition to non-term contracts, due to the increasing proportion of advertisers with the ability to terminate their ad campaigns at any time without penalty.

****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, active claimed local business locations, ad clicks and CPCs — 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. 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 and our understanding of certain details of our business may be distorted, which could affect our longer-term strategies. For example, in 2018, we discovered a software error that caused our previously reported claimed local business locations metric to be overstated for the third quarter of 2017 through the first quarter of 2018, and have revised them accordingly. Our metrics may also 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. Although we take steps to exclude such activity and, as a result, do not believe it has had a material impact on our reported metrics, our efforts may not successfully account for all such activity.

In addition, certain of our other key metrics — the number of our desktop unique visitors and mobile website unique visitors — are calculated based on data from third parties. While these numbers are based on what we believe to be reasonable calculations for the applicable periods of measurement, our third-party providers periodically encounter difficulties in providing accurate data for such metrics as a result of a variety of factors, including human and software errors. We expect these challenges to continue to occur, and potentially to increase as our traffic grows. For example, we have discovered in the past, and expect to discover in the future, that portions of our desktop traffic, as measured by Google Analytics, have been attributable to robots. Because the traffic from robots does not represent valid consumer traffic, our reported desktop unique visitor metric for impacted periods reflects an adjustment to the Google Analytics measurement of our traffic to remove traffic identified as originating from robots to provide greater accuracy and transparency. We expect to continue to make similar adjustments in the future if we determine that our traffic metrics are materially impacted by robot or other invalid traffic.

There are also inherent challenges in measuring usage across our large user base. For example, because these metrics are based on users with unique cookies, an individual who accesses our website from multiple devices with different cookies may be counted as multiple unique visitors, and multiple individuals who access our website from a shared device with a single cookie may be

counted as a single unique visitor. In addition, although we use technology designed to block low-quality traffic, such as robots, spiders and other software, we may not be able to prevent all such traffic, and such technology may have the effect of blocking some valid traffic. For these and other reasons, the calculations of our desktop unique visitors and mobile website unique visitors may not accurately reflect the number of people actually using our platform.

Our measures of traffic and other key metrics may differ from estimates published by third parties (other than those whose data we use to calculate our key metrics) or from similar metrics of our competitors. We are continually seeking to improve our ability to measure these key metrics, and regularly review our processes to assess potential improvements to their accuracy. However, the improvement of our tools and methodologies could cause inconsistency between current data and previously reported data, which could confuse investors or raise questions about the integrity of our data. Similarly, as both the industry in which we operate and our business continue to evolve, so too might the metrics by which we evaluate our business. We may revise or cease reporting metrics if we determine such metrics are no longer accurate or appropriate measures of our performance. For example, we stopped reporting our claimed local business locations metric and instead disclose the number of active claimed local business locations, which we believe provides a better measure of the number of businesses that represent the highest quality leads available to our local sales force than our claimed local business locations metric. We also plan to phase out our paid advertising accounts metric and replace it with paid advertising locations, which we believe provides a better measurement of our market penetration, each as described in greater detail under "[Key Metrics](#)" included under Part I, Item 2 in this Quarterly Report. 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.

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

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

If our goodwill or intangible assets become impaired, we may be required to record a significant charge to our statements of operations.

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, our board of directors authorized us to repurchase of up to \$500 million of our common stock and we currently settle employee tax liabilities associated with the vesting of RSUs through net share withholding, which requires us to cover such taxes with cash from our balance sheet. As a result, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through future issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of our common stock. Any future debt financing we secure could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. We may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and respond to business challenges could be significantly impaired, and our business may be harmed.

We may have exposure to greater than anticipated tax liabilities.

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

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

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

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

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

In particular, the U.S. Tax Cuts and Jobs Act ("Tax Act"), which was enacted on December 22, 2017, made broad and complex changes to the U.S. tax code, including, among other things, reducing the federal corporate tax rate. Although we have concluded that the Tax Act had an immaterial net impact on our financial statements, we expect further guidance may be forthcoming from the Financial Accounting Standards Board and the SEC, as well as regulations, interpretations and rulings from federal and state agencies, which could impact our consolidated financial statements.

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

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

If we are deemed an agent for the order-enabled restaurants on our platform under state tax law, we may be deemed responsible for collecting and remitting sales taxes directly to certain states. It is possible that one or more states could seek to impose sales, use or other tax collection obligations on us with regard to such food sales. These taxes may be applicable to past sales. 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.

Risks Related to Regulatory Compliance and Legal Matters

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

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

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

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

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

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

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

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

It is also possible that the interpretation and application of various laws and regulations may conflict with other rules or our practices, such as industry standards to which we adhere, our privacy policies and our privacy-related obligations to third parties (including, in certain instances, voluntary third-party certification bodies). Similarly, our business could be adversely affected if new legislation or regulations are adopted that require us to change our current practices or the design of our platform, products or features. For example, regulatory frameworks for privacy issues are currently in flux worldwide, and are likely to remain so for the foreseeable future due to increased public scrutiny of the practices of companies offering online services with respect to personal information of their users. The U.S. government, including the Federal Trade Commission and the Department of Commerce, and many state governments are reviewing the need for greater regulation of the collection, processing, storage and use of information about consumer behavior on the Internet, including regulation aimed at restricting certain targeted advertising practices. In April 2016, the European Commission approved a new safe harbor program, the E.U.-U.S. Privacy Shield, covering the transfer of personal data from the European Union to the United States, and a new general data protection regulation took effect in the European Union in May 2018, each of which may be subject to varying interpretations and evolving practices that would create uncertainty for us. The recently passed California Consumer Privacy Act ("CCPA"), which is expected to become effective in 2020, also creates new data privacy rights for users that may result in significantly greater compliance burdens for us. It remains unclear how this legislation will be interpreted. Changes like these could increase our administrative costs and make it more difficult or less attractive 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.

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

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

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

In November 2018 and February 2019, our board of directors authorized the repurchase of up to an aggregate of \$500 million of our common stock, which we commenced in February 2019 and which does not have an expiration date. Although our board of directors has authorized this repurchase program, the program does not obligate us to repurchase any specific dollar amount or to acquire any specific number of shares. We cannot guarantee that the program will be fully consummated or that it will enhance long-term stockholder value. The program could affect the trading price of our stock and increase volatility, and any announcement

of a termination of this program may result in a decrease in the trading price of our stock. In addition, this program could diminish our cash and cash equivalents, and marketable securities.

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 board and management. Our amended and restated certificate of incorporation and amended and restated bylaws include provisions that:

- authorize our board of directors to issue, without further action by the stockholders, up to 10,000,000 shares of undesignated preferred stock;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;
- specify that special meetings of our stockholders can be called only by our board of directors, the Chair of our board of directors or our Chief Executive Officer;
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our board of directors;
- establish that our board of directors is divided into three classes, with directors in each class serving three-year staggered terms;
- prohibit cumulative voting in the election of directors;
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum; and
- require the approval of our board of directors or the holders of a supermajority of our outstanding shares of capital stock to amend our bylaws and certain provisions of our amended and restated certificate of incorporation.

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

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

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

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

- any action asserting a claim against us that is governed by the internal affairs doctrine.

This exclusive-forum provision would not apply to suits brought to enforce a duty or liability created by the Securities Act, the Exchange Act or any claim for which the U.S. federal courts have exclusive jurisdiction and further provides that any person or entity that acquires any interest in shares of our capital stock will be deemed to have notice of and consented to the provisions of such provision. This exclusive-forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees, which may discourage lawsuits against us and our directors, officers, and other employees. If a court were to find this exclusive-forum provision to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving the dispute in other jurisdictions, which could harm our business.

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

Sales of a substantial number of shares of our common stock in the public market, particularly sales by our directors, officers, employees and significant stockholders, or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. As of September 30, 2019, we had 70,199,923 shares of common stock outstanding.

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

Issuer Purchases of Equity Securities

The following table summarizes our stock repurchase activity for the three months ended September 30, 2019 (in thousands except for price per share):

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share ⁽²⁾	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Program
July 1 – July 31, 2019	822	\$ 34.48	822	\$ 74,049
August 1 – August 31, 2019	1,271	\$ 33.10	1,271	\$ 31,983
September 1 – September 30, 2019	212	\$ 32.92	212	\$ 25,007
Total	2,305		2,305	

(1) On November 27, 2018, our board of directors authorized a stock repurchase program under which we may repurchase up to \$250 million of our outstanding common stock. On February 11, 2019, our board of directors authorized us to repurchase an additional \$250 million of our outstanding common stock, bringing the total amount of repurchases authorized under our stock repurchase program to \$500 million. The timing of repurchases 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.

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS.

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
2.1	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.	8-K	001-35444	3.1	2/13/2019	
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 interim Chief Financial Officer.					X
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					
101.SCH	Inline XBRL Taxonomy Extension Schema Document.					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.					X
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document.					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.					X
104	Cover Page Interactive Data File - the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					

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

SIGNATURES

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

Date: November 8, 2019

YELP INC.

/s/ James Miln

James Miln

Interim Chief Financial Officer

(Principal Financial and Accounting Officer and Duly Authorized Signatory)

CERTIFICATIONS

I, Jeremy Stoppelman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Yelp Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2019

/s/ Jeremy Stoppelman

Jeremy Stoppelman
Chief Executive Officer

CERTIFICATION

I, James Miln, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Yelp Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2019

/s/ James Miln

James Miln
Interim Chief Financial Officer

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. § 1350), Jeremy Stoppelman, Chief Executive Officer of Yelp Inc. (the “Company”), and James Miln, Interim Chief Financial Officer of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2019, to which this Certification is attached as Exhibit 32.1 (the “Quarterly Report”), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
2. The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

In Witness Whereof, the undersigned have set their hands hereto as of the 8th day of November, 2019.

/s/ Jeremy Stoppelman

Jeremy Stoppelman

Chief Executive Officer

/s/ James Miln

James Miln

Interim Chief Financial Officer

This certification accompanies the Quarterly Report on Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is 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 the Quarterly Report on Form 10-Q), irrespective of any general incorporation language contained in such filing.