YELP INC
Form 10-K
March 01, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 001-35444

YELP INC.
(Exact name of Registrant as specified in its charter)

Delaware	20-1854266
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

140 New Montgomery Street, 9th Floor
San Francisco, California 94105
(Address of principal executive offices) (Zip Code)
Registrant’s telephone number, including area code: (415) 908-3801
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.000001 per share	New York Stock Exchange LLC

Securities registered pursuant to Section 12(g) of the Act:
None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES x NO ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO x
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 x NO ¨

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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 during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES x NO ¨

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

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 x	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 Act). YES ¨ NO x

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately $3,142,028,855 as of June 30, 2018, the last day of the registrant's most recently completed second fiscal quarter, based upon the closing sale price of the registrant's common stock on the New York Stock Exchange LLC reported for June 29, 2018, the last business day of the registrant's most recently completed second fiscal quarter. Excludes an aggregate of 3,595,984 shares of the registrant's common stock held by officers, directors, affiliated stockholders and The Yelp Foundation as of June 30, 2018. For purposes of determining whether a stockholder was an affiliate of the registrant at June 30, 2018, the registrant assumed that a stockholder was an affiliate of the registrant if such stockholder (i) beneficially owned 10% or more of the registrant's capital stock, as determined based on public filings, and/or (ii) was an executive officer or director, or was affiliated with an executive officer or director, of the registrant at June 30, 2018. Exclusion of such shares should not be construed to indicate that any such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant or that such person is controlled by or under common control with the registrant.

As of February 20, 2019, there were 82,025,023 shares of the registrant's common stock, par value $0.000001 per share, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2019 Annual Meeting of Stockholders to be filed with the U.S. Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K.

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YELP INC.
2018 ANNUAL REPORT ON FORM 10-K
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Unless the context suggests otherwise, references in this Annual Report on Form 10-K (the “Annual Report”) to “Yelp,” the “Company,” “we,” “us” and “our” refer to Yelp Inc. and, where appropriate, its subsidiaries.

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Unless the context otherwise indicates, where we refer in this Annual Report to our "mobile application" or "mobile app," we refer to all of our applications for mobile-enabled devices; references to our "mobile platform" refer to both our mobile app and the versions of our website 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 Annual 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 Annual Report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements are often identified by the use of words such as, but not limited to, "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "might," "plan," "project," "seek," "should," "target," "will expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management, which are in turn based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section entitled "Risk Factors" included under Part I, Item 1A below. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

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 (previously referred to as Yelp Nowait), Yelp WiFi Marketing, our business owner products or Yelp Eat24, which we sold on October 10, 2017.

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

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

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

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PART I

Item 1. Business.

Company Overview

Yelp's mission is to connect consumers with great local businesses. Since our founding in 2004, we have built a trusted local platform that delivers 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. Yelp's core features and functionalities include:

- Content. Yelp brings “word of mouth” online through consumer ratings, reviews, photos and more that share everyday business experiences. As of December 31, 2018, consumers had contributed approximately 177.4 million cumulative reviews of almost every type of local business. These contributions drive a powerful network effect whereby the expanded content draws in more consumers (and more prospective contributors), which improves the value proposition of our products to local businesses.
- Discovery. Each day, millions of consumers search for great local businesses using Yelp's website and mobile app, as well as third-party partner services like Apple’s Siri and Amazon’s Alexa personal assistant programs. Business owners, in turn, use our free and paid products to showcase and differentiate their businesses to these intent-driven consumers. For example, business representatives are able to provide information about their businesses and respond to reviews, among other things, by registering for a free account and “claiming” the business listing page for each of their locations. By December 31, 2018, business representatives had cumulatively claimed approximately 5.0 million business listing pages on Yelp. Businesses that want to further promote themselves can also pay for premium services such as targeted search advertising and additional enhancements to their business listing pages.
- Engagement. Yelp provides multiple channels for consumers and businesses to engage directly with each other. In addition to writing and responding to reviews, consumers and businesses can interact through messaging features like Request-A-Quote and reservation booking tools. In the fourth quarter of 2018 alone, consumers submitted quote requests for 1.6 million projects through Request-A-Quote, which generated 4.4 million leads for service providers. We also facilitate consumer engagement with businesses in our restaurants and nightlife categories through Yelp Reservations, our online reservations product, and Yelp Waitlist (previously referred to as Yelp Nowait), which allows consumers to check wait times at restaurants and join waitlists remotely. Businesses used these products to manage over 22 million diners in December 2018, more than 1.7 million of whom made their reservation or joined the waitlist directly via Yelp.
- Transactions. Our convenient transaction capabilities allow consumers to transact with local businesses without leaving Yelp, primarily through integrations with partners in key verticals. Online food ordering constitutes our largest category of transactions by revenue and volume and is currently available through our long-term partnership with Grubhub, which we entered into concurrently with our sale of Eat24 to Grubhub in 2017, among other partners. Our integration of Grubhub's restaurant network had more than doubled the number of order-enabled restaurants on Yelp by the end of 2018 compared to before the integration, while generating more profit per order than we generated prior to our sale of Eat24. Consumers can also book auto repairs (RepairPal), make spa and salon appointments (Vagaro), schedule legal consultations (LegalZoom) and order flowers (BloomNation) through Yelp, among many other transaction opportunities.
- Attribution and Analytics. We offer businesses a range of tools and features that measure the effectiveness of our products and provide business insights. In addition to the reporting and advertising-management features available through our Yelp for Business Owners app, we enhanced our store-level attribution capabilities in 2018 through the launch of our Yelp Store Visits product and integrations with third-party data partners. The detailed reporting and analytics we have been able to offer as a result helped us sell our advertising products more successfully to national advertisers, growing revenue from these customers by 16% in 2018 compared to 2017. We also provide businesses with local analytics and insights based on our historical data and other proprietary content through our Yelp Knowledge program.

We generate revenue primarily from the sale of advertising on our website and mobile app to businesses and, to a lesser extent, from fees on transactions completed on our platform and subscription fees for our non-advertising products. During the year ended December 31, 2018, we generated net revenue of $942.8 million, representing 11% growth over 2017, net income of $55.4 million and adjusted EBITDA of $183.1 million. For information on how we define and calculate adjusted EBITDA and a reconciliation of this non-GAAP financial measure to net income (loss), see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures" in this Annual Report.

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Our Strategy

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. In 2018, we embarked on a significant business transformation by transitioning from selling our advertising products pursuant to fixed-term contracts to selling under non-term contracts. We expect that 2019 will be another transition year for Yelp as we continue the repositioning of our business and strategy. We believe that we will drive long-term revenue growth and improved profitability by pursuing the following strategies in 2019:

Revenue Growth

- Winning in Key Verticals. We are working to address our customers' operational needs with innovative solutions that build on our strengths in key verticals. In restaurants, our most trafficked category, we are developing a comprehensive consumer experience with the goal of establishing Yelp as the go-to app for diners and a best-in-class partner to restaurants, which we believe will have the added benefit of supporting strong consumer usage and engagement across other categories. On the consumer side, we are enhancing our recommendation capabilities by incorporating consumer insights, such as the dietary preferences mobile users have shared with us. For business owners, we are developing restaurant-specific solutions that address business owners' unique operational needs, such as extending the functionality of Yelp Waitlist into an in-store kiosk, which has the potential to reduce labor costs and improve operational efficiency for businesses.

In home & local services, our largest and fastest growing category by revenue, we have driven consumer adoption with innovative product experiences, like Request-A-Quote, and plan to continue leveraging products with the goal of accelerating our monetization of this category. To increase consumer project submissions, we are working to make the quote submission process easier and employing product marketing. We are also improving our matching capabilities, offering new ways for service providers to drive leads to their businesses and testing the phone call attribution flow we successfully implemented in the restaurants vertical.

- Expanding Our Product Offerings. We are developing new advertising products to help our customers differentiate their businesses. We are also introducing more fixed-price offerings at different price points to bridge the gap between our free offerings and our targeted search advertising product. For example, we have seen strong adoption of our Yelp Verified License product, which we launched in November 2018 at a monthly price point of $30. In addition to driving incremental revenue, this lower-priced product has exhibited strong retention rates and improved overall retention for the performance-based cost-per-click, or CPC, advertisers that have adopted it. We believe that providing more products like this across a range of price points will give new customers and trial users even more ways to grow with Yelp.
- Providing More Value to Business Customers. We aim to provide advertisers with more value for their money, with the goal of driving monetization by increasing trial conversion, customer satisfaction and, ultimately, retention. We believe our efforts to optimize CPC prices and evolve our product experience to provide greater value to businesses have the potential to substantially increase revenue through retention. These efforts include our plan to significantly increase the leads delivered to our paying customers, with the aim of doubling the number of leads going to our paid advertisers in the home & local services category by the end of 2019. We are also working to deliver the best lead opportunities to highly responsive and highly rated advertisers, which would provide a clear benefit to both consumers and our customers. Other initiatives include providing our advertisers with more ways to promote their businesses, further developing our analytics tools to show advertisers how their ads are performing relative to competitors and how to optimize their spend, as well as providing advertisers more control over their ad campaigns. For example, advertisers will soon be able to choose campaign goals, whether that is driving more inbound phone calls or generating more clicks on their Yelp ads.
- Capturing the National Opportunity. We plan to drive continued momentum in our national advertising business by expanding upon our successful go-to-market strategy and offering more solutions to meet the needs of large advertisers. We plan to grow our national and multi-location sales force in 2019 and focus their attention specifically on the top 250 restaurant and retail advertisers. We also plan to build on our implementation of a more consultative approach to sales and client care in 2018 by integrating product and product marketing with sales efforts, as well as by

expanding client service and coverage. On the product side, we are extending our attribution offerings, creating engaging new ad units to drive consumer purchases, and providing tools for national advertisers and channel partners to track and manage their campaigns. We believe these initiatives will position us to capture a larger share of the national and multi-location opportunity.

- Enhancing the Consumer Experience. Consumers drive the network dynamics on which our value proposition is based: growing consumer traffic and content contribution further benefits consumers and underpins our ability to create value for businesses through our products and services. To maintain strong growth in our app usage and deepen user engagement, we remain focused on delivering unique product experiences that delight consumers. One of the ways we are doing that is by creating an even more personalized Yelp experience for our users. We are also creating new features that draw on Yelp's unique content and comprehensive local data, as well as partnerships, to deliver only-on-Yelp product experiences. We believe experiences like booking sought-after seats at Yelp-exclusive restaurants, skipping the line at popular eateries and saving time and money on projects arranged via Request-A-Quote will help maintain strong growth in app usage and deepen consumer engagement, thereby increasing our value proposition to businesses.

Improved Profitability

- Focusing on Our Most Efficient Sales Channels. In 2019, we plan to continue our efforts to build a more diversified, modern and efficient go-to-market strategy by shifting our emphasis to the most efficient and high-margin sales channels, including sales partnerships and our self-serve channel. In 2018, we launched the Yelp Ads Certified Partners Program to make it more efficient for partner agencies to manage ad campaigns on behalf of their small and medium-sized business clients by allowing them to independently sell and manage ad campaigns rather than working through Yelp to do so. This product-driven customer acquisition strategy complements our sales force and, going forward, we plan to continue to adapt this product to the structure of our agency partners to help design and execute ad campaigns that benefit their clients. We also plan to continue refining our self-serve channel, which allows businesses to purchase ads directly through our website, by offering additional products and customization options. This channel not only provides convenience and flexibility to our customers, but also generates high-margin revenue without heavy involvement from our sales force.
- Reducing Local Sales Hiring. In keeping with shifting our focus to more efficient sales channels, we plan to hold our local sales headcount approximately steady in 2019 and, in doing so, focus on retaining more of our tenured sales representatives. Because more tenured sales representatives are generally more successful than less tenured representatives, we believe this will also improve overall sales performance.
- Optimizing Consumer Marketing Spend. While organic growth driven by our community development efforts, as described below, continues to be the primary driver of our traffic, we will also continue investing in marketing in 2019 to leverage our brand and help fuel the network dynamics on our platform. However, we believe that we are positioned to capitalize on our product and marketing investments in prior years by increasing our use of in-app and cross-product marketing. Although we expect our sales and marketing expenses to increase overall in 2019 compared to 2018, we expect this initiative to save up to $15 million in marketing expenses.
- Controlling Other Expenses. In addition to the initiatives described above, our ability to improve our margins will depend on our ability to effectively control and, where possible, reduce our expenses. For example, as we work to maintain a steady local sales headcount in 2019, we plan to fill vacancies on our San Francisco sales team that come about through attrition with replacements in lower-cost markets, which we believe will save approximately $10 million annually once the process is complete (though we expect sales and marketing expense to increase overall in 2019). We plan to continue evaluating opportunities to control or reduce other corporate expenses throughout 2019.

In addition to the ways we plan to grow our business organically, we will also look to accelerate these strategies through effective partnerships that create great consumer experiences while generating attractive economics for our business. Building on the experience we have gained through our long-term Grubhub relationship, which continues to deliver significant value and growth, we entered into new partnerships in recent months with industry leaders including Visa, GoDaddy and Google, among others. We believe there is significant value to expanding through partnerships and will continue to explore additional opportunities in this area in 2019 and beyond.

Our Products and Services

Advertising

We provide a range of free and paid advertising products to businesses of all sizes, including the ability to deliver targeted search advertising to large local audiences through our website and mobile app. As in past years, advertising accounted for the vast majority of our revenue during the year ended December 31, 2018, accounting for 97% of our revenue, as compared to approximately 91% for the year ended December 31, 2017 and approximately 90% for the year ended December 31, 2016. We recognize revenue from our business listing and advertising products, including advertising sold by partners, as advertising revenue.

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Free Online Business Account	We enable businesses to create a free online business account and claim the listing page for each of their business locations. With their free business accounts, businesses can view trends (e.g. statistics and charts of the performance of their pages on our platform), use the Revenue Estimator tool to quantify the revenue opportunity Yelp provides, message customers (e.g. by replying to messages or reviews either publicly or directly), update listing information (e.g. address, hours of operation) and offer Yelp Deals and Gift Certificates, as described below.
Branded Profile	Our Branded Profile product provides businesses with access to premium features in connection with their business listing pages, such as the ability to update listing information and select photos or videos to highlight on the page through a slideshow feature. Businesses can also promote a desired transaction of their choosing — such as scheduling an appointment or printing a coupon — directly on their business listing pages with our Call to Action feature. This feature transfers consumers from a business's listing page to the business's own website to complete the action. Account support is available via phone and email for businesses that purchase a Branded Profile program.
Enhanced Profile	In addition to providing businesses with the same premium features and support options as our Branded Profile product, our Enhanced Profile product restricts how ads from other businesses appear on the business listing pages of our Enhanced Profile customers.
Yelp Verified License	Yelp Verified License is a badge that appears on business listing pages as a paid upgrade for certain licensed advertisers, primarily in our home & local services category. The badge indicates that we have verified the business's trade license and confirmed it was in good standing as of a certain date, allowing businesses to distinguish themselves as licensed and helping consumers make safe and confident decisions when selecting businesses for their projects.
Search and Other Ads	We allow businesses to promote themselves as a sponsored search result on our platform, on the listing pages of related businesses and as suggested "additional businesses" for consumers using our Request-A-Quote feature. We now sell ads primarily on a CPC basis, though we also offer impression-based ads.
Ad Resales	We also generate revenue through the resale of our advertising products by certain agencies and partners, such as DexYP, as well as monetization of remnant advertising inventory through third-party ad networks. In 2018, we launched the Yelp Ads Certified Partners Program, which allows partner agencies to independently sell and manage ad campaigns on behalf of their small and medium-sized business clients, providing increased centralization and flexibility.

Transactions

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

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Yelp Platform	The Yelp Platform allows consumers to transact with businesses directly on our website or mobile app through partner integrations. Consumers can order flowers, purchase event tickets, and book spa and salon appointments, among many other transaction opportunities, all without leaving Yelp.
Eat24 and the Grubhub Partnership	Prior to our sale of Eat24 to Grubhub on October 10, 2017, we generated revenue from our Yelp Eat24 business through arrangements with restaurants in which restaurants paid a commission percentage fee on orders placed through Yelp Eat24. Following the sale, Eat24's restaurant network remains integrated on our platform and, pursuant to our strategic partnership, Grubhub's restaurant network was integrated onto our platform mid-2018. We expect this partnership to provide consumers with a wider selection of restaurants and better delivery options, while improving our per-order profitability.
Yelp Deals	Our Yelp Deals product allows local business owners to create promotional discounted deals for their products and services, which are marketed to consumers through our platform. We typically earn a fee based on the discounted price of each deal sold. We process all customer payments and remit to the business the revenue share of any Yelp Deal purchased.
Gift Certificates	Our Gift Certificates product allows local business owners to sell full-price gift certificates directly to consumers through their business listing pages. The business chooses the price point to offer (from $10 to $500), and consumers may purchase Gift Certificates denominated in such amounts. We earn a fee based on the amount of the Gift Certificate sold. We process all consumer payments and remit to the business the revenue share of any Gift Certificate purchased.

Other Services

We generate other revenue through subscription services, licensing payments for access to Yelp data and other non-advertising, non-transaction arrangements, such as certain partnerships. We recognize revenue from these sources as other services revenue.

Yelp Reservations	We provide restaurants, nightlife and certain other venues with the ability to offer online reservations directly from their Yelp business listing pages through our Yelp Reservations product, which also includes front-of-house management tools. We offer this product as a monthly subscription service.
Yelp Waitlist	Yelp Waitlist is a subscription-based waitlist management solution that allows consumers to check wait times and join waitlists remotely and businesses to efficiently manage seating and server rotation. Yelp Waitlist is available directly on business listing pages as well as in-store kiosks.
Yelp WiFi Marketing	Our Yelp WiFi Marketing product provides businesses with the ability to create easy on-premises wifi access for customers, advertise products on the wifi log-in page, and collect contact and social media information from customers who access wifi for use in marketing campaigns. We offer this product as a monthly subscription service.
Yelp Knowledge	Through partnerships with companies such as Sprinklr, InMoment and Chatmeter, our Yelp Knowledge program offers business owners local analytics and insights through access to our historical data and other proprietary content. Our Yelp Knowledge partners pay us program fees for access to Yelp Knowledge content.
Other Partnerships	Other non-advertising partner arrangements include content licensing and allowing third-party data providers to update and manage business listing information on behalf of businesses.

Revenue by Product

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

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	Year Ended December 31,		
	2018	2017	2016
Net revenue by product:			
Advertising	$907,487	$775,678	$648,235
Transactions	13,694	60,251	62,495
Other services	21,592	14,918	5,333
Total net revenue	$942,773	$850,847	$716,063

Sales

We sell our products directly through our sales force, indirectly through partners and online through our website. Our sales force consisted of 4,029 employees as of December 31, 2018 and is located across our offices in San Francisco, California; Scottsdale, Arizona; New York, New York; Chicago, Illinois; Washington, D.C.; and Toronto, Ontario. From 2012 to 2016, we also had sales operations in Europe, including in Dublin, Ireland and Hamburg, Germany. In the fourth quarter of 2016, however, we wound down our sales activities in markets outside the United States and Canada, where we believe the long-term return on continued investment to be lower than opportunities for Yelp within our core markets.

Direct Sales. A large majority of our sales force — 3,850 employees as of December 31, 2018 — is dedicated to selling our advertising products, with a significantly smaller component responsible for selling our subscription products. Our sales force primarily sells CPC advertising; only a small percentage of ads continue to be impression-based. Sales representatives are primarily responsible for generating qualified sales leads by identifying and contacting businesses through direct engagement, direct marketing campaigns and weekly e-mails to claimed local businesses. Our direct sales force is focused on increasing revenue by adding new customers, and sales representatives are typically compensated on the basis of advertising sold in a given period.

Sales Partnerships. Since 2014, we have allowed partners, such as DexYP, to sell certain of our advertising products as part of a package with their own advertising products to their advertiser bases. The products covered by these arrangements include our Enhanced Profile and CPC advertising. In 2018, we launched the Yelp Ads Certified Partner Program with the aim of making it more efficient for agencies to manage ad campaigns on behalf of their small and medium-sized business clients. By allowing partner agencies to independently sell and manage ad campaigns rather than working through Yelp to do so, this program has improved the process and increased flexibility. We continue to explore additional partnerships for the sale or bundling of our products, as well as with select marketing agencies.

Self-Serve Ads. Our online, or self-serve, sales channel allows businesses to purchase advertising solutions directly from our website. Businesses can purchase sponsored CPC search advertising directly through this channel. The convenience of our self-serve sales channel helped us attract thousands of new advertisers in 2018, and we are continuing to test approaches to this sales channel, including by offering advertisers more options to customize their ads.

Customer Success. While the focus of our sales force has historically been on adding new customers, we also see opportunity to deepen our relationships with existing customers. To this end, our customer success team supports existing business advertisers through account management, cross-selling and retention initiatives. In 2018, we continued to grow our customer success team and focused on streamlining our customer success processes, which we believe will give us a greater ability to respond to changes in revenue retention that may emerge from the increasing portion of our customers who are able to cancel their advertising commitments at any time.

Consumer Engagement

At the heart of our business are the vibrant communities of contributors that contribute the content on our platform. These contributors provide rich, firsthand information about local businesses in the form of reviews, ratings, tips, photos and videos. Each review, rating, tip, photo and video expands the breadth and depth of the content on our platform, which drives a powerful network effect: the expanded content draws in more consumers and more prospective contributors. Although measures of our content (including our cumulative review metric) and traffic (including our desktop and mobile unique visitors and app unique device metrics) do not factor directly into the advertising arrangements we have with our advertising customers, this network effect underpins our ability to deliver clicks and ad impressions to advertisers. Increases in these metrics improve our value proposition to local businesses

as they seek easy-to-use and effective advertising solutions.
Community Management

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For the above reasons, we foster and support communities of contributors and make the consumer experience our highest priority. We have a team of Community Managers and Community Ambassadors based across the United States and Canada whose primary goals are to support and grow their local communities of contributors, raise brand awareness and engage with their surrounding communities through:

- planning and executing fun and engaging events for the community, such as parties, outings and activities at restaurants, museums, hotels and other local places of interest;
- getting to know community members and helping them get to know one another to foster an offline community experience that can be transferred online;
- promoting Yelp, including guest appearances on local television and radio, and at local events such as concerts and street fairs; and
- writing weekly e-mail newsletters to share information with the community about local businesses, events and activities.

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

In general, the communities we entered into earlier are more populous than those we entered into later, and we have already entered many of the largest cities in the United States and Canada. For these and other reasons, launching additional communities may not yield results similar to those of our existing communities. As a result, we continue to believe that development of our existing communities currently provides the greatest opportunity for growth, and plan to continue to focus our community development efforts on existing communities in 2019.

Reviews

As of December 31, 2018, our communities had contributed approximately 177.4 million cumulative reviews of almost every type of local business. Of the approximately 177.4 million cumulative reviews our contributors had submitted through December 31, 2018, approximately 124.8 million were recommended and available on business listing pages; approximately 39.5 million were not recommended and available on secondary pages; and approximately 13.1 million had been removed from our platform. Although they do not factor into a business's overall star rating, we provide access to reviews that are not recommended because they provide additional perspectives and information on reviewed businesses, as well as transparency of the efficacy of our automated recommendation software.

The reviews contributed to our platform cover a wide set of local business categories, including restaurants, shopping, beauty and fitness, arts, entertainment and events, home and local services, health, nightlife, travel and hotel, auto and other categories. In the charts below, we highlight the breakdown by category of local businesses that have received reviews on our platform and the breakdown by category of the cumulative reviews contributed to our platform through December 31, 2018.

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(1) The above chart provides a breakdown of the categories of businesses that had received reviews that were available on our platform — i.e., including reviews that were recommended or not recommended, but not including reviews that had been removed from our platform — as of December 31, 2018, including some businesses that had received only reviews that were not recommended. The categories reflect Yelp's category definitions as of December 31, 2018.

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(2) The above chart provides a breakdown of our cumulative reviews as of December 31, 2018, including reviews that had been removed from our platform. The categories of the businesses associated with these reviews reflect Yelp's category definitions as of December 31, 2018.

We believe that the concentration of reviews in the restaurant and shopping categories in particular is primarily due to the frequency with which individuals visit specific businesses or engage in certain activities versus others. For example, an individual may eat at a restaurant three times in one week or go shopping once a week, but the same individual is unlikely to visit a mechanic, get a haircut or use a home or local service with the same frequency. The top five industry categories accounted for an aggregate of 78% of our advertising revenue (excluding advertising sold by partners) for the year ended December 31, 2018, broken down as follows: Home & Local Services, 33%; Restaurants, 14%; Beauty & Fitness, 12%; Health, 11%; and Shopping, 8%.

Technology

Product development and innovation are core pillars of our strategy. We devote a substantial portion of our resources to researching and developing new solutions and enhancing existing solutions, conducting product testing and quality assurance testing, improving core technology and strengthening our technological expertise. In addition, we acquired talent and technology through our acquisitions of Nowait and Turnstyle in 2017. For the years ended December 31, 2018, 2017 and 2016, product development expenses totaled $212.3 million, $175.8 million and $138.5 million, respectively.

We aim to delight our users and business partners with our products. We provide our web-based and mobile services using a combination of in-house and third-party technology solutions and products:

- Search and Ranking Technology. We leverage the data stored on our platform and our proprietary indexing and ranking techniques to provide our users with contextual, relevant and up-to-date results to their search queries. For example, a consumer desiring environmentally-friendly carpet cleaners does not have to call individual cleaners to inquire about their use of chemical-based cleaning solutions. Instead, the consumer can search for “environmentally-friendly carpet cleaners” on Yelp and discover cleaners with the best service and “green” cleaning products that serve a specific neighborhood.
- Recommendation Software. We employ our proprietary automated recommendation software to analyze and screen all reviews submitted to our platform. We believe our recommendation technology is one of the key contributors to the quality and integrity of the reviews on our platform and the success of our service. See “—Consumer Protection Efforts” below for additional details regarding our recommendation software.
- Mobile Solutions. We have seen substantial growth in consumers accessing information about local businesses through mobile devices, and anticipate that growth in use of our mobile platform will be the driver of our growth for the foreseeable future. Our most engaged users are on our mobile app, making it particularly critical to our continued success. For example, in the quarter ended December 31, 2018, mobile devices accounted for approximately 80% of all searches and approximately 76% of all ad clicks on our platform, compared to 79% and approximately 70%, respectively, in the quarter ended December 31, 2017.

To take advantage of this trend, we have invested significant resources into the development of our comprehensive mobile platform for consumers supporting the major smartphone operating systems available today, iOS and Android. Over time, we have enhanced the functionality of our mobile platform, such that it provides similar and, in some areas, greater functionality than our website. Some of the innovations we introduced through our mobile platform include “check-ins,” “tips,” “comments,” “Nearby” and “Monocle,” our augmented reality feature. We also offer a mobile app for business owners, designed to make it easier for them to engage with their customers and manage their Yelp profiles. The Yelp for Business Owners app is currently available for iOS and Android.

- Advertising Technologies. We use proprietary ad targeting and delivery technologies designed to provide relevant local advertisements to consumers viewing our content. Our proprietary ad delivery system leverages our unique repository of data to provide useful ads to users and high value leads to advertisers.
- Infrastructure. Our web and mobile platforms are currently hosted from multiple locations, primarily through Amazon Web Services. We also host parts of our infrastructure within shared data environments in California and Virginia, as well as with third-party leased server providers. Our web and mobile platforms are designed to have high availability, from the Internet connectivity providers we choose, to the servers, databases and networking hardware that we

deploy. We design our systems such that the failure of any individual component is not expected to affect the overall availability of our platform. We also leverage other third-party Internet-based (cloud) services such as rich-content storage, map-related services, ad serving and bulk processing.

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

Consumer Protection Efforts

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

Automated Recommendation Software. We use proprietary software to analyze the relevance, reliability and utility of each review submitted to our platform. The software applies the same objective standards to each review based on a wide range of data associated with the review and reviewer, regardless of whether the business being reviewed advertises on Yelp. These objective standards include various measures of relevance, reliability and utility, such as the reviewer's type and level of activity with Yelp (which might correspond to the reviewer's reliability or suggest reviewer biases) and whether certain reviews originate from related Internet Protocol addresses (which might mean the reviews were submitted by the same person). The results of this analysis can change over time as the software factors in new information, which may result in reviews that were previously recommended becoming not recommended, and reviews that were previously not recommended being restored to recommended status. Reviews that the software deems to be the most useful and reliable are published directly on business listing pages, though neither we nor the software purport to establish whether or not any individual review is authentic. As of December 31, 2018, our software recommended approximately 71% of the reviews submitted to our platform. Reviews that are not recommended are published on secondary pages and do not factor into a business's overall star rating. As of December 31, 2018, approximately 22% of the reviews submitted to our platform were not recommended but still accessible on our platform.

Education. We provide businesses with information and materials regarding our stance against review solicitation and work with businesses to ensure that any they are aware that Yelp does not work with third-party review solicitation companies that offer to artificially inflate search rankings and online reputations. By working to educate businesses about why review solicitation harms consumers and can undermine a business' reputation, we believe we can reduce the frequency with businesses engage in such activities.

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

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

Coordination with Law Enforcement. We regularly cooperate with law enforcement and consumer protection agencies to investigate and identify businesses and individuals who may be engaged in false advertising or deceptive business practices relating to reviews. For example, in 2013, we assisted the New York Attorney General with "Operation Clean Turf," an undercover investigation targeting review manipulation that resulted in 19 companies agreeing to pay more than $350,000 in fines to the State of New York. In 2016, in a continuation of this investigation, the New York Attorney General announced settlements with six additional businesses that tried to mislead consumers, resulting in the businesses agreeing to pay fines and to take measures to increase the honesty and transparency of their online reviews.

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

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

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business's listing page. As of December 31, 2018, approximately 7% of the reviews submitted to our platform had been removed.

Intellectual Property

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

In addition to these contractual arrangements, we also rely on a combination of patent, trade secrets, copyrights, trademarks, service marks and domain names to protect our intellectual property. We pursue the registration of our copyrights, trademarks, service marks and domain names in the United States and in certain locations internationally. Our registration efforts have focused on gaining protection of our trademarks for Yelp and the Yelp burst logo, among others. These marks are material to our business and essential to our brand identity as they enable others to easily identify us as the source of the services offered under these marks. We currently have limited patent protection for our core business, which may make it more difficult to assert certain of our intellectual property rights. For example, the contractual restrictions and trade secrets that protect our proprietary technology and algorithms provide only a limited safeguard against infringement.

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

Companies in the Internet, technology and media industries own large numbers of patents and other intellectual property rights, and frequently request license agreements or threaten to enter into litigation based on allegations of infringement or other violations of such rights. From time to time, we receive notice letters from patent holders alleging that certain of our products and services infringe their patent rights. We are also currently subject to, and expect to face in the future, allegations that we have infringed the trademarks, copyrights, patents and other intellectual property rights of third parties, including our competitors and non-practicing entities. As we face increasing competition and as our business grows, we will likely face more claims of infringement.

Competition

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. Our competitors consist of companies that help businesses — particularly businesses in our strategically important restaurants and home & local services categories — connect and engage with consumers, including:

- online search engines and directories, such as Google, as well as traditional, offline business guides and directories;
- online and offline providers of consumer ratings, reviews and referrals, such as TripAdvisor;
- providers of online marketing and tools for managing and optimizing advertising campaigns, such as Google, Facebook and Twitter, as well as various forms of traditional offline advertising, including radio, direct marketing campaigns, yellow pages and newspapers;
- restaurant reservation and seating tools, such as OpenTable, as well as food ordering and delivery services; and
- home and/or local services-related platforms and offerings, such as ANGI Homeservices.

Our competitors may enjoy competitive advantages, such as greater name recognition, longer operating histories, substantially greater market share, established marketing relationships with, and access to, large existing user bases and substantially greater financial, technical and other resources. These companies may use these advantages to offer products similar to ours at a lower price, develop different products to compete with our current solutions and respond more quickly and effectively than we do to new or changing opportunities, technologies, standards or client requirements. Certain competitors could also use strong or dominant positions in one or more markets to gain competitive advantage against us in markets in which we operate.

We believe our ability to compete successfully for users, content, and advertising and other customers depends upon many factors both within and beyond our control, including:

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- the popularity, usefulness, ease of use, performance and reliability of our products and services compared to those of our competitors;
- our ability, in and of itself as well as in comparison to the ability of our competitors, to develop new products and services and enhancements to existing products and services;
- the quantity, quality and reliability of our content, including its breadth, depth and timeliness;
- our ad targeting and measurement capabilities, and those of our competitors;
- the size, composition and level of engagement of our consumer audience relative to those of our competitors;
- our marketing and selling efforts, and those of our competitors;
- the pricing of our products and services relative to those of our competitors;
- the actual or perceived return our customers receive from our products and services relative to returns from our competitors;
- the frequency and relative prominence of the ads displayed by us or our competitors;
- acquisitions or consolidation within our industry, which may result in more formidable competitors; and
- our reputation and brand strength relative to our competitors.

Government Regulation

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

- Privacy. Because we receive, store and process personal information and other user data, including credit card information in certain cases, we are subject to numerous federal, state and local laws around the world regarding privacy and the storing, sharing, use, processing, disclosure and protection of personal information and other user data.
- Liability for Third-Party Action. We rely on laws limiting the liability of providers of online services for activities of their users and other third parties.
- Advertising. We are subject to a variety of laws, regulations and guidelines that regulate the way we distinguish paid search results and other types of advertising from unpaid search results.
- Information Security and Data Protection. The laws in many jurisdictions require companies to implement specific information security controls to protect certain types of information. Likewise, many jurisdictions have laws in place requiring companies to notify users if there is a security breach that compromises certain categories of their information.

Many of these laws and regulations are still evolving and could be interpreted in ways that harm our business. The application and interpretation of these laws and regulations are often uncertain, particularly in the new and rapidly evolving industry in which we operate. They may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices. For example, laws providing immunity to websites that publish user-generated content are currently being tested by a number of claims, including actions based on invasion of privacy and other torts, unfair competition, copyright and trademark infringement and other theories based on the nature and content of the materials searched, the ads posted or the content provided by users.

Similarly, new legislation and regulations may significantly impact our business. There have 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. Regulatory frameworks for privacy issues in particular are also currently in flux worldwide, and are likely to remain so for the foreseeable future. For example, the European Union’s General Data Protection Regulation, or GDPR, which took effect in May 2018, may be subject to varying interpretations and evolving practices that would create uncertainty for us. Similarly, the recently passed California Consumer Privacy Act, which is expected to become effective in 2020, also creates new data privacy rights for users

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that may result in significantly greater compliance burdens for us.

Changes in existing laws or regulations or their interpretations, as well as new legislation or regulations, may be costly to comply with and may delay or impede the development of new products, increase our operating costs and require significant management time and attention. Such changes could also make it more difficult for consumers to use our platform, resulting in less traffic and revenue, or make it more difficult for us to provide effective advertising tools to businesses on our platform, resulting in fewer advertisers and less revenue. As our business grows and evolves, we will also become subject to additional laws and regulations, including in jurisdictions outside of the United States. Foreign data protection, privacy and other laws and regulations can be more restrictive than those in the United States, as is the case with GDPR. Any failure on our part to comply with these laws may subject us to significant liabilities.

Our Culture and Employees

We take great pride in our company culture and consider it to be one of our competitive strengths. Our culture is at the foundation of our success, and it continues to help drive our business forward as a pivotal part of our everyday operations. It allows us to attract and retain a talented group of employees, create an energetic work environment and continue to innovate in a highly competitive market. As of December 31, 2018, we had 6,030 employees globally.

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

In addition, The Yelp Foundation, a non-profit organization established by our board of directors in November 2011 (the "Foundation"), directly supports consumers and local businesses in the communities in which we operate. In 2011, our board of directors approved the contribution and issuance to the Foundation of 520,000 shares of our common stock, of which the Foundation had sold 217,500 shares as of December 31, 2018. The Foundation uses the proceeds from the sale of its shares of our common stock to make grants to local non-profit organizations that are actively engaged in supporting community and small business growth. As of December 31, 2018, the Foundation held 302,500 shares of common stock, representing less than 1% of our outstanding capital stock.

Seasonality

Our business is affected both by cyclicality in business activity and by seasonal fluctuations in Internet usage and advertising spending. We believe our rapid growth has masked most of the cyclicality and seasonality of our business. As our business matures, we expect that the cyclicality and seasonality in our business may become more pronounced, causing our operating results to fluctuate. In particular, based on historical trends, we expect traffic numbers to be weakest in the fourth quarter of the year in connection with end of the year holidays.

Corporate and Available Information

We were incorporated in Delaware on September 3, 2004 under the name Yelp, Inc. We changed our name to Yelp! Inc. in late September 2004 and to Yelp Inc. in February 2012. Our principal executive offices are located at 140 New Montgomery Street, 9th Floor, San Francisco, California 94105, and our telephone number is (415) 908-3801. Our website is located at www.yelp.com, and our investor relations website is located at www.yelp-ir.com.

We file or furnish electronically with the U.S. Securities and Exchange Commission, or SEC, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. We make copies of these reports available free of charge through our investor relations website as soon as reasonably practicable after we file or furnish them with the SEC.

We webcast our earnings calls and certain events we participate in or host with members of the investment community on our investor relations website. Additionally, we provide notifications of news or announcements regarding our financial performance, including filings with the SEC, investor events, press and earnings releases, and blogs as part of our investor relations website. Investors and others can receive notifications of new information posted on our investor relations website in real time by signing up for e-mail alerts and RSS feeds.

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Information contained on or accessible through our websites is not incorporated into, and does not form a part of, this Annual Report or any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

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Item 1A. Risk Factors

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

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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. For example, we believe that updates Google made late in the third quarter of 2018 may be disproportionately negatively impacting traffic to our home & local services category, which may in turn be driving up CPC prices and harming advertiser retention in that category.

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, an increasing portion of our advertisers, including substantially all of our new local advertising customers since May 2018, 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 now 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, or 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

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- 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 these third-party providers and strategic partners may not be able to devote the resources we expect to the relationships. We may also have competing interests and obligations with respect to certain of our partners, which may make it difficult to maintain, grow or maximize the benefit for each partnership. For example, our entry into the online reservations space

with our acquisition of SeatMe, Inc. in 2013 put us in competition with OpenTable, which led to the end of our partnership with OpenTable in 2015. Our focus on 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 verticals 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 currently 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 verticals. 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, most 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 verticals, 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 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.

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Our automated recommendation software is 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 to obtain waitlist system and seating tool technology and in April 2017, we acquired Turnstyle to obtain a wifi-based marketing tool for customer retention and loyalty. Similarly, we may pursue 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;

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- 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 growth effectively, our brand, results of operations and business could be harmed.

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

As our business matures, we make periodic changes and adjustments to our organization in response to various internal and external considerations, including market opportunities, the competitive landscape, new and enhanced products, acquisitions, sales performance, increases in headcount and cost levels. In some instances, these changes have resulted in a temporary lack of focus and reduced productivity, which may occur again in connection with any future changes to our organization and may negatively affect our results of operations. For example, it may take time for our sales, customer success and other organizations to adapt to selling, supporting and retaining non-term contracts, which give advertisers the ability to cancel their plans at any time and which comprise substantially all new sales of local advertising plans. If these organizations are unable to do so quickly and effectively, 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 manage our growth, we may need to improve our operational, financial and management systems and processes, which may require significant capital expenditures and allocation of valuable management and employee resources, as well as subject us to the risk of over-expanding our operating infrastructure. For example, it can be difficult to train thousands of sales employees across multiple offices according to the same business standards, practices and laws, and we have been the subject of lawsuits alleging that we have failed to do so. For example, we 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 has shifted toward products disruptive to the consumer experience, such as video ads. 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

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U.S. employees are at-will employees, which means they may terminate their employment relationship with us at any time, and their knowledge of our business and industry would be extremely difficult to replace. Any changes in our senior management team in particular may be disruptive to our business. If our senior management team fails to work together effectively or execute our plans and strategies on a timely basis, our business could be harmed.

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

Risks Related to Our Technology 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.

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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

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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;

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- 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 rapid growth in our personnel and operations; and
- effectively identify, engage and manage third-party partners and service providers.

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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;
- cyclicality and seasonality, which may become more pronounced as our growth rate slows;
- the effects of changes in search engine placement and prominence;
- the adoption of any laws or regulations that adversely affect the growth, popularity or use of the Internet, such as the repeal of Internet neutrality regulations in the United States;
- the success of our sales and marketing efforts;
- 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, such as our adoption on January 1, 2018 of Accounting Standards Update 2014-09, "Revenue from Contracts with Customers (ASC 606)" (additional information on the new guidance and its impact on us is set forth in Note 2 of the Notes to Consolidated Financial Statements); 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, claimed local business locations, page views and calls and clicks for directions and map views — with internal tools, which are not independently verified by any third party. Our internal tools have a number of limitations and our methodologies for tracking these metrics may change over time, which could result in unexpected changes to our metrics, including key metrics that we report. 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 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.

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 have decided to stop 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 the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Metrics." 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 three-, six- and 12-month terms. As a result, a significant portion of the revenue we report in each quarter is generated from agreements entered into during previous quarters. Consequently, a decline in new or renewed agreements in any one quarter may not significantly impact our revenue in that quarter but will negatively affect our revenue in future quarters. In addition, we may be unable to adjust our fixed costs in response to reduced revenue. Accordingly, the effect of significant declines in advertising sales may not be reflected in our short-term results of operations.

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

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We have recorded a significant amount of goodwill related to our acquisitions to date, and a significant portion of the purchase price of any companies we acquire in the future may be allocated to acquired goodwill and other intangible assets. Under accounting principles generally accepted in the United States, or 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.

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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, or the Tax Act, which was enacted on December 22, 2017, made broad and complex changes to the U.S. tax code, including, among other things, reducing the federal corporate tax rate. Although we have 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. Please refer to Note 16 of the Notes to Consolidated Financial Statements for additional information regarding the Tax Act's impact on us.

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

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

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

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,

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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, or 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. Though legislators have stated that they intend to propose amendments to the CCPA before it goes into effect, it remains unclear what, if any, modifications will be made to this legislation and how it will be interpreted. Changes like these could increase our administrative costs and make it more difficult for consumers to use our platform, resulting in less traffic and revenue. Such changes could also make it more difficult for us to provide effective advertising tools to businesses on our platform, resulting in fewer advertisers and less revenue.

We believe that our policies and practices comply with applicable laws and regulations. However, if our belief proves incorrect, if these guidelines, laws or regulations or their interpretations change or new legislation or regulations are enacted, or if the third parties with whom we share user information fail to comply with such guidelines, laws, regulations or their contractual obligations to us, we may be forced to implement new measures to reduce our legal exposure. This may require us to expend substantial resources, delay development of new products or discontinue certain products or features, which would negatively impact our business. For example, if we fail to comply with our privacy-related obligations to users or third parties, or any compromise of

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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 Annual 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 that it would be in the absence of such a program and could potentially reduce the market liquidity for our stock;
- announcements of changes in strategy;
- 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;

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- 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;

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- specify that special meetings of our stockholders can be called only by our board of directors, the Chair of our board of directors or our Chief Executive Officer;
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our board of directors;
- establish that our board of directors is divided into three classes, with directors in each class serving three-year staggered terms;
- prohibit cumulative voting in the election of directors;
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum; and
- require the approval of our board of directors or the holders of a supermajority of our outstanding shares of capital stock to amend our bylaws and certain provisions of our amended and restated certificate of incorporation.

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

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

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

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

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

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

Sales of a substantial number of shares of our common stock in the public market, particularly sales by our directors, officers, employees and significant stockholders, or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. As of December 31, 2018, we had 81,996,839 shares of common stock outstanding.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

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Our principal executive offices in North America are currently located at 140 New Montgomery Street, San Francisco, California, where we lease office space pursuant to a lease agreement that expires in 2021. We lease additional office space in San Francisco, California; Scottsdale, Arizona; Chicago, Illinois; New York, New York; Pittsburgh, Pennsylvania; Washington, D.C.; and internationally in Toronto, Canada; London, England; and Hamburg, Germany. We believe that our properties are generally suitable to meet our needs for the foreseeable future. In addition, to the extent we require additional space in the future, we believe that it would be available on commercially reasonable terms.

Item 3. 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. 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 adverse effect on our business, financial position, results of operations or cash flows.

Item 4. Mine Safety Disclosures.

Not applicable.

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PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock, par value $0.000001 per share, is listed on the New York Stock Exchange LLC, or NYSE, under the symbol “YELP.”

Stockholders

As of the close of business on February 20, 2019, there were 44 stockholders of record of our common stock. The actual number of holders of our common stock is greater than this number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers or other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

Dividend Policy

We have never declared or paid, and do not anticipate declaring or paying, any cash dividends on our capital stock. Any future determination as to the declaration and payment of dividends, if any, will be at the discretion of our board of directors and will depend on then-existing conditions, including our financial condition, operating results, contractual restrictions, capital requirements, business prospects and other factors that our board of directors may deem relevant.

Performance Graph

We have presented below the cumulative total return to our stockholders during the period from December 31, 2013 through December 31, 2018 in comparison to the NYSE Composite Index and NYSE Arca Tech 100 Index. All values assume a $100 initial investment and data for the NYSE Composite Index and NYSE Arca Tech 100 Index assume reinvestment of dividends. The comparisons are based on historical data and are not indicative of, nor intended to forecast, the future performance of our common stock.

The information under “Performance Graph” is not deemed to be “soliciting material” or “filed” with the SEC or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act, and is not to be incorporated by reference in any filing of Yelp under the Securities Act or the Exchange Act, whether made before or after the date of this Annual Report and irrespective of any general incorporation language in those filings.

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Issuer Purchases of Equity Securities

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

Period	Total Number of Shares Purchased(1)	Weighted-Average Price Paid per Share(2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Program(1)
October 1 - October 31, 2018	1,312	$ 42.25	1,312	$ 59,958
November 1 - November 30, 2018	1,832	$ 32.75	1,832	$ 250,000
December 1 - December 31, 2018	—	$ —	—	$ 250,000

(1) On July 31, 2017, our board of directors approved a stock repurchase program under which we were authorized to repurchase up to $200 million of our outstanding common stock, which we commenced in August 2017 and completed in November 2018. On November 27, 2018, our board of directors authorized us to repurchase up to an additional $250 million of our outstanding stock, of which no shares had been repurchased as of December 31, 2018.

On February 11, 2019, our board of directors authorized a $250 million increase to our stock repurchase program, bringing our outstanding authorization to $500 million. The timing of and number of shares repurchased depend on a variety of factors, including liquidity, cash flow and market conditions. See "Liquidity and Capital Resources—Stock Repurchase Program" included under Part II, Item 7 in this Annual Report for further details.

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

Item 6. Selected Consolidated Financial and Other Data.

The following selected consolidated financial and other data should be read in conjunction with, and are qualified by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our audited consolidated financial statements and the accompanying notes included elsewhere in this Annual Report. The consolidated statements of operations data for the years ended December 31, 2018, 2017 and 2016 and the consolidated balance sheet data as of December 31, 2018, 2017 and 2016 are derived from the audited consolidated financial statements that are included elsewhere in this Annual Report. The consolidated statements of operations data for the years ended December 31, 2015 and 2014, as well as the consolidated balance sheet data as of December 31, 2015 and 2014, are derived from audited consolidated financial statements that are not included in this Annual Report. We have included, in our opinion, all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of the financial information set forth in those statements. Our historical results are not necessarily indicative of the results to be expected in any period in the future.

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Consolidated Statements of Operations Data:

	Year Ended December 31,				
	2018	2017	2016	2015(1)	2014(1)
	(in thousands, except per share amounts)				
Net revenue	$942,773	$850,847	$716,063	$549,711	$377,536
Costs and expenses:					
Cost of revenue (exclusive of depreciation and amortization shown separately below)(2)	57,872	70,518	60,363	51,015	24,382
Sales and marketing(2)	483,309	437,424	379,895	301,764	201,050
Product development(2)	212,319	175,787	138,549	107,786	65,181
General and administrative(2)	120,569	109,707	100,475	80,866	58,274
Depreciation and amortization(2)	42,807	41,198	35,346	29,604	17,590
Restructuring and integration(2)	—	288	3,455	—	—
Gain on disposal of a business unit	—	(163,697)	—		
Total costs and expenses	916,876	671,225	718,083	571,035	366,477
Income (loss) from operations	25,897	179,622	(2,020)	(21,324)	11,059
Other income, net	14,109	4,864	1,694	386	221
Income (loss) before income taxes	40,006	184,486	(326)	(20,938)	11,280
Benefit from (provision for) income taxes	15,344	(31,491)	(1,385)	(11,962)	25,193
Net income (loss) attributable to common stockholders	$55,350	$152,995	$(1,711)	(32,900)	36,473
Net income (loss) per share attributable to common stockholders:					
Basic	$0.66	$1.87	$(0.02)	$(0.44)	$0.51
Diluted	$0.62	$1.76	$(0.02)	$(0.44)	$0.48
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders:					
Basic	83,573	81,602	77,186	74,683	71,936
Diluted	88,709	87,170	77,186	74,683	76,712

(1) Amounts for 2015 and 2014 have not been recast to reflect the adoption of Accounting Standards Update 2014-09, "Revenue from Contracts with Customers (ASC 606)," or ASC 606. Additional information regarding our adoption of ASC 606 is set forth in Note 2 of the Notes to Consolidated Financial Statements.

(2) Stock-based compensation expense included in the consolidated statements of operations data above was as follows (in thousands):

	Year Ended December 31,				
	2018	2017	2016	2015	2014
Cost of revenue	$4,572	$4,010	$2,446	$1,117	$729
Sales and marketing	30,779	28,100	27,098	21,962	15,083
Product development	56,882	47,280	36,323	23,431	14,804
General and administrative	22,153	21,025	20,394	14,332	11,657
Total stock-based compensation	$114,386	$100,415	$86,261	$60,842	$42,273

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Consolidated Balance Sheet Data:

	As of December 31,				
	2018	2017	2016	2015[(1)]	2014[(1)]
	(in thousands)				
Cash and cash equivalents	$332,764	$547,850	$272,201	$171,613	$247,312
Property, equipment and software, net	114,800	103,651	92,440	80,467	62,761
Working capital[(2)]	795,364	826,922	500,780	393,505	386,785
Total assets	1,175,563	1,225,601	894,145	755,427	629,650
Total stockholders' equity	1,075,518	1,108,697	816,138	693,620	588,150

(1) Amounts for 2015 and 2014 have not been recast to reflect the adoption of ASC 606. Additional information regarding our adoption of ASC 606 is set forth in Note 2 of the Notes to Consolidated Financial Statements.

(2) Working capital comprises total current assets less total current liabilities

Other Financial and Operational Data:

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
Reviews[(1)]	177,385	148,298	121,022	95,210	71,232
App Unique Devices[(2)]	32,891	28,845	24,073	20,006	14,541
Mobile Web Unique Visitors[(3)]	69,148	64,221	65,351	65,860	57,770
Desktop Unique Visitors[(4)]	62,140	76,748	67,888	74,607	77,628
Claimed Local Business Locations[(5)]	4,979	4,156	3,363	2,648	2,029
Paying Advertising Accounts[(6)]	191	163	135	109	83
Adjusted EBITDA[(7)]	$183,090	$157,826	$123,042	$69,122	$70,922

(1) Represents the cumulative number of reviews submitted on Yelp since inception, as of the period end, including reviews that were not recommended or that had been removed from our platform. We define a review as each individually written assessment submitted by a user who has registered by creating a public profile on our platform. For more information, including information regarding reviews that are not recommended and removed reviews, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Metrics—Reviews."

(2) Represents the average number of unique mobile devices using our mobile app for the last three months of the period, calculated as the number of unique mobile devices that used our mobile app in a given month, averaged over the three month period. For more information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Metrics—Traffic."

(3) Represents the average number of mobile website unique visitors for the last three months of the period, calculated as the number of "users," as measured by Google Analytics, who visited our mobile-optimized website at least once in a given month, averaged over the three-month period. For more information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Metrics—Traffic."

(4) Represents the average number of desktop unique visitors for the last three months of the period, calculated as the number of "users," as measured by Google Analytics, who visited our non-mobile optimized website at least once in a given month, averaged over the three-month period. For more information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Metrics—Traffic."

(5) Represents the cumulative number of business locations that had been claimed on Yelp worldwide since 2008, as of the period end. We define a claimed local business location as each business address for which a business representative has visited our website and claimed the free business listing page for the business located at that address. For more information, see

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"Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Metrics—Claimed Local Business Locations and Active Claimed Local Business Locations."

(6) Represents the number of business accounts from which we recognized advertising revenue during the last three months of the period. For more information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Metrics—Paying Advertising Accounts and Paying Advertising Locations."

(7) Adjusted EBITDA is a non-GAAP financial measure that we calculate as net income (loss), adjusted to exclude: provision for (benefit from) income taxes, other income, net, depreciation and amortization, stock-based compensation expense, restructuring and integration costs, any gain (loss) on disposal of a business unit and, in certain periods, certain other income and expense items. We believe that adjusted EBITDA provides useful information to investors for understanding and evaluating our operating results in the same manner as our management and our board of directors. This non-GAAP information is not necessarily comparable to non-GAAP information of other companies, and should not be viewed as a substitute for, or superior to, net income (loss) prepared in accordance with GAAP as a measure of our profitability. Users of this financial information should consider the types of events and transactions for which adjustments have been made. Amounts for 2015 and 2014 have not been recast to reflect the adoption of ASC 606. For more information about adjusted EBITDA, as well as a reconciliation of net income (loss) to this non-GAAP financial measure, see "Management's Discussion and Analysis of Financial Condition and Results of Operation—Non-GAAP Financial Measures—Adjusted EBITDA." Additional information regarding our adoption of ASC 606 is set forth in Note 2 of the Notes to Consolidated Financial Statements.

Item 7. 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 consolidated financial statements and related notes appearing elsewhere in this Annual 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 I, Item 1A and elsewhere in this Annual Report. See "Special Note Regarding Forward-Looking Statements" in this Annual 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 164.3 million recommended reviews available as of December 31, 2018. These features attracted a monthly average audience of nearly 33 million app unique devices in the fourth quarter of 2018, allowed over 1.7 million diners to make reservations or join a restaurant waitlist in December 2018, and facilitated consumer submissions of 1.6 million projects to service providers through Request-A-Quote in the fourth quarter of 2018. Business owners, in turn, promoted their businesses to our large audience by spending 12% more on our advertising products in the fourth quarter of 2018 than the fourth quarter of 2017, received 27% more food orders in the fourth quarter of 2018 than the same period in 2017, managed over 22 million total diners using our Yelp Reservations and Yelp Waitlist products in December 2018, and received 4.4 million leads through Request-A-Quote.

We derive substantially all of our revenue from the sale of advertising products. In the year ended December 31, 2018, our net revenue was $942.8 million, which represented an increase of 11% from the year ended December 31, 2017, and we recorded net income of $55.4 million and adjusted EBITDA of $183.1 million. In the year ended December 31, 2017, our net revenue was $850.8 million, which represented an increase of 19% from the year ended December 31, 2016, and we recorded net income of $153.0 million and adjusted EBITDA of $157.8 million.

We expect that 2018 will be a transition year for Yelp as we continue the repositioning of our business and strategy that we began in 2018 with our transition to selling non-term contracts, significant investments in restaurant-specific products, and implementation of an improved go-to-market strategy for national advertising. We plan to build on these efforts and drive long-term growth by focusing on three broad areas:

- Increasing Our Focus on Advertisers and Business Owners. While consumers will always be at the heart of our business, and we plan to continue working to enhance their experience on our platform, we plan to increase the amount of attention and resources that we devote to advertisers and business owners. Our strategies for driving revenue growth in 2019 reflect this shift. Our efforts to win in our key verticals of restaurants and home & local services include building out our restaurant-specific solutions to address business owners' operational needs, as well as working to make the Request-A-Quote submission process easier and offering new ways for service providers to drive leads to their businesses. Our product development plans are similarly business-focused — we are developing new advertising products and introducing more fixed-price offerings at different price points to provide business owners with a wider range of options for promoting their businesses on Yelp. Finally, we plan to provide more value to our business customers through lower CPC prices, improved analytics and a significantly increased number of leads delivered to our paying customers, which we aim to double in the home & local services category by the end of 2019.

- Enhancing our Go-to-Market Strategy. We are working to implement a more diversified, modern and efficient go-to-market strategy by integrating product and product marketing with our people-driven sales efforts. Although these efforts build on our 2018 transition to selling non-term contracts in our local advertising business, in 2019 they will be most relevant to our other advertising categories as we turn our focus toward capturing the opportunity in national and emphasizing our most efficient sales channels. In addition to our plans to grow our national and multi-location sales force in 2019, we are developing more products to meet the needs of large advertisers, such as expanded attribution offerings. Beyond national, we are also continuing to refine our high-margin self-serve and sales partnership channels. For example, we plan to continue to adapt our Yelp Ads Certified Partners Program, a product-driven customer acquisition program that allows partner agencies to independently sell and manage ad campaigns for their small and medium-sized business clients. Leveraging partners to complement our sales force in this way also dovetails with our planned emphasis in 2019 on accelerating our strategies through partnerships that provide great experiences while generating attractive economics for our business.
- Establishing and Pursuing Long-Term Growth Targets. The transition we are undertaking is designed to drive significant long-term stockholder value. We believe that by focusing on the areas described above, we will drive long-term growth, allowing us to continue to return capital to stockholders. Although we expect revenue growth in 2019 to be slower than in 2018 as well as compared to our expected five-year average as we continue the repositioning of our business, we have confidence in our ability to re-accelerate revenue growth in subsequent years and achieve a mid-teens percentage compound annual growth rate over the five-year period ending in 2023. By reducing local sales hiring, optimizing our consumer marketing spend and controlling other corporate expenses, we also expect to increase our profitability; we believe we can achieve two to three percentage points of adjusted EBITDA margin improvement in 2019 and are targeting adjusted EBITDA margins in the 30% to 35% range by 2023. With our confidence in the long-term potential of our business and strong balance sheet, we plan to continue our stock repurchase program in 2019, which our board of directors recently increased to $500 million.

We expect to continue to invest in product development, personnel and the facilities to support them in 2019 as we work to grow our business, including investments to increase our office space, 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.

Factors Affecting Our Performance

Our Ability to Attract and Retain Advertisers. Our revenue growth is driven by our ability to attract and retain advertising customers. To do so, we must deliver compelling ad products in an effective manner, at prices that compare favorably to those of our competitors. Our advertisers typically do not have long-term obligations to purchase our products, and an increasing portion have the ability to cancel their ad campaigns at any time. Their decisions to renew depend on the degree of satisfaction with our products as well as a number of factors that are outside of our control, including their ability to continue their operations and spending levels. The small and medium-sized businesses on which we heavily rely often have limited advertising budgets and may be disproportionately affected by economic downturns. As a result, a worsening economic outlook would likely cause businesses to decrease investments in advertising, which could adversely affect our revenue.

Our ability to maintain and expand our advertiser base also depends on the size and productivity of our sales force and customer success team. As we continue to invest in maintaining our local sales force and expanding our national and multi-location sales organization, we must efficiently scale our operations while at the same time recruiting, training and integrating new hires and developing, motivating and retaining existing employees. Similarly, in order to retain, and take advantage of opportunities to deepen our relationships with, our existing customers, we must continue our efforts to build out our customer success team. Developing our account retention processes will be particularly important as an increasing portion of our advertisers have the ability to cancel their contracts at any time. In addition, as we make periodic adjustments to our sales organization to respond to market opportunities and to pursue initiatives to increase productivity, such changes may result in a temporary lack of focus or disruption to our operations. For example, it may take time for our sales and customer success organizations to adapt to selling and supporting advertising contracts with flexible cancellation terms.

Traffic and User Engagement. We derive substantially all of our revenue from advertising, and traffic to our platform determines the number of ads we are able to show, affects the value of those ads to businesses and influences the content creation that drives further traffic. As a result, our ability to grow our business depends on our ability to increase traffic on our platform, which in turn depends on, among other things, the quality of our content and the prominence of links to our platform in Internet search engine results and application marketplaces. The number of users we attract from search engines in particular can be affected by a number of factors not in our direct control; changes in a search engine's ranking algorithms, methodologies or design layouts may result in links to our website not being prominent enough to drive traffic to our website and mobile app.

We anticipate that our traffic growth will continue to slow over time, and potentially decrease in certain periods, as our business matures and we achieve higher penetration rates in our core markets of the United States and Canada. We also expect the cyclicality and seasonality in our business to become more pronounced as our business matures, including weaker traffic in the fourth quarter of the year. As our traffic growth rate slows, our success will become increasingly dependent on our ability to increase levels of user engagement on our platform, which itself depends on the quality of our content and our ability to introduce new and improved products that effectively address consumer needs, among other things.

Product Innovation. We must deliver innovative, relevant and useful products to consumers and businesses — including products for mobile and other alternative devices — to expand the size and engagement of our user base, attract advertisers and increase our revenue. We plan to continue investing in new product development as we introduce new advertising and e-commerce products, explore new platforms and distribution channels, and develop partner arrangements that provide incremental value to our users and advertisers to encourage them to increase their usage of, and the portion of their advertising budgets allocated to, our platform. As our industry evolves and competition intensifies, our investments may increasingly include products and services outside of our historical core business, such as our continued development of Yelp Reservations and Yelp Waitlist in 2019. These investments involve significant risks and uncertainties, such as distracting management, and may ultimately fail to generate sufficient revenue or other value to justify our investments in them.

Investment in Growth. We have invested, and intend to continue to invest, aggressively to support the growth of our platform. We dedicate significant resources to areas such as: marketing; consumer protection; maintaining and enhancing the Yelp brand; and upgrading our systems, technology and network infrastructure to accommodate growth. Our investment plans for 2019 include developing new advertising and attribution products, expanding our analytics tools for advertisers and refining our Request-A-Quote product to deliver the best lead opportunities to highly responsive and highly rated advertisers as well as to improve our matching capabilities. While we believe these initiatives will ultimately drive revenue growth, our investments in them will increase our operating expenses, and any increase in revenue resulting from these product innovations will likely trail the increase in expenses.

Stock Repurchases. In July 2017, our board of directors authorized a stock repurchase program for the repurchase up to $200 million of our outstanding common stock. During the years ended December 31, 2018 and 2017, we repurchased on the open market and subsequently retired 4,896,003 shares and 302,206 shares, respectively, for aggregate purchase prices of $187.4 million and $12.6 million, respectively. In November 2018, our board of directors authorized us to repurchase up to an additional $250 million of our outstanding common stock pursuant to the stock repurchase program, of which no shares had been repurchased as of December 31, 2018. On February 11, 2019, our board of directors increased the amount authorized for repurchase by $250 million, bringing the total amount subject to our stock repurchase program to $500 million. We have funded the repurchases, and expect to fund any future repurchases under the stock repurchase program, with cash available on our balance sheet. As a result, this program could diminish our cash reserves in addition to affecting the trading price and volatility of our stock.

Corporate Development Activities. As part of our business strategy, we may decide to expand our product offerings and grow our business through the acquisition of complementary businesses or technologies, as well as through partnerships. In addition to diverting our management's attention and otherwise disrupting our operations, our corporate development activities will affect our future financial results due to factors such as expenses incurred in identifying, investigating and pursuing transactions, whether or not they are consummated, possible dilutive issuances of equity securities or the incurrence of debt, unidentified liabilities and the amortization of acquired intangible assets.

Maintaining relationships with partners also requires significant time and resources, as does integrating their data, services and technologies onto our platform. We may not realize the full benefits of synergies, innovation and operational efficiencies that may be possible from a corporate transaction; similarly, if our relationships with partners deteriorate, we could suffer increased costs and delays in our ability to provide consumers and advertisers with our content or services.

Key Metrics

We regularly review a number of metrics, including the key metrics set forth 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, Yelp WiFi Marketing, our business owner products, or Yelp Eat24, which we sold on October 10, 2017.

Reviews

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

As of December 31, 2018, approximately 164.3 million reviews were available on business listing pages, including approximately 39.5 million reviews that were not recommended, after 13.1 million reviews had been removed from our platform, either by us for violation of our terms of service or by the users who contributed them. The following table presents the number of cumulative reviews as of the dates indicated (in thousands):

	As of December 31,		
	2018	2017	2016
Reviews	177,385	148,298	121,022

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.

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):

	Three Months Ended December 31,		
	2018	2017	2016
App Unique Devices	32,891	28,845	24,073

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

Google Analytics, a product from Google Inc. that provides digital marketing intelligence, measures “users” based on unique cookie identifiers. Because the numbers of desktop unique visitors and mobile website unique visitors are therefore based on

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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):

	Three Months Ended December 31,		
	2018	2017	2016
Desktop Unique Visitors	62,140	76,748	67,888
Mobile Web Unique Visitors	69,148	64,221	65,351

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 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 I, Item 1A under the heading "We rely on data from both internal tools and third parties to calculate certain of our performance metrics. Real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business."

Claimed Local Business Locations and Active Claimed Local Business Locations

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

The following table presents the number of cumulative claimed local business locations as of the dates presented (in thousands):

	As of December 31,		
	2018	2017	2016
Claimed Local Business Locations	4,979	4,156	3,363

The number of active claimed local business locations represents the number of claimed local business locations 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):

	As of December 31,		
	2018	2017	2016
Active Claimed Local Business Locations	4,342	3,682	3,009

We believe active claimed local business locations 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, which may include business locations no longer associated with an active business owner account and other less valuable customer leads. Accordingly, we will not disclose our claimed local business locations metric going forward and will instead disclose active claimed local business locations, as described above.

Paying Advertising Accounts and Paying Advertising Locations

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):

	Three Months Ended December 31,		
	2018	2017	2016
Paying Advertising Accounts	191	163	135

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):

	Three Months Ended December 31,		
	2018	2017	2016
Paying Advertising Locations	541	478	425

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 phase out our paying advertising accounts metric by the end of 2019.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates and assumptions are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from those estimates.

We believe that the assumptions and estimates associated with revenue recognition, website and internal-use software development costs, business combinations, allowance for doubtful accounts, income taxes and stock-based compensation expense have the greatest potential impact on our consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates. For further information on these and our other significant accounting policies, see Note 2 of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

Results of Operations

The following tables set forth our results of operations for the periods indicated as a percentage of net revenue for those periods. The period-to-period comparison of financial results is not necessarily indicative of future results.

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	Year Ended December 31,								
	2018			2017(1)			2016(1)		
	Amount	% of revenue		Amount	% of revenue		Amount	% of revenue	
Consolidated Statements of Operations Data:									
Net revenue by product:									
Advertising	$907,487	97	%	$775,678	91	%	$648,235	90	%
Transactions	13,694	1		60,251	7		62,495	9	
Other services	21,592	2		14,918	2		5,333	1	
Total net revenue	$942,773	100	%	$850,847	100	%	$716,063	100	%
Costs and expenses:									
Cost of revenue (exclusive of depreciation and amortization shown separately below)	57,872	6	%	70,518	8	%	60,363	9	%
Sales and marketing	483,309	51		437,424	51		379,895	53	
Product development	212,319	23		175,787	21		138,549	19	
General and administrative	120,569	13		109,707	13		100,475	14	
Depreciation and amortization	42,807	5		41,198	5		35,346	5	
Restructuring and integration cost	—	—		288	—		3,455	—	
Gain on disposal of a business unit	—	—		(163,697)	(19)		—	—	
Total costs and expenses	916,876	98		671,225	79		718,083	100	
Income (loss) from operations	25,897	2		179,622	21		(2,020)	—	
Other income, net	14,109	2		4,864	1		1,694	—	
Income (loss) before income taxes	40,006	4		184,486	22		(326)	—	
Provision for income taxes	15,344	2		(31,491)	(4)		(1,385)	—	
Net income (loss)	55,350	6	%	152,995	18	%	(1,711)	—	%

(1) Amounts for 2017 and 2016 have been recast to reflect the adoption of ASC 606. Additional information regarding our adoption of ASC 606 is set forth in Note 2 of the Notes to Consolidated Financial Statements.

Years Ended December 31, 2018, 2017 and 2016

Net Revenue

We generate revenue from our advertising products, transactions and other services. Total net revenue increased $91.9 million, or 11%, in 2018 compared to 2017, and $134.8 million, or 19%, in 2017 compared to 2016.

Advertising. We generate advertising revenue from the sale of our advertising products — including enhanced listing pages and performance- and impression-based advertising in search results and elsewhere on our platform — to businesses of all sizes. Advertising revenue also includes revenue generated from the resale of our advertising products by certain partners and monetization of remnant advertising inventory through third-party ad networks. Advertising revenue increased $131.8 million, or 17%, in 2018 compared to 2017, and $127.4 million, or 20%, in 2017 compared to 2016. The increase in each period was primarily due to a significant increase in the number of paying advertising accounts and, to a lesser extent, an increase in revenue from existing accounts. The growth in paying advertising accounts in 2018 was driven by the sale of non-term contracts and the expansion of our local sales force, while the growth in 2017 was driven primarily by the expansion of our sales force to reach more businesses. The growth in both periods primarily consisted of sales of CPC advertising and a majority of ad clicks were delivered on mobile in both years.

Although we have observed higher turnover rates for customers on non-term contracts, which provide advertisers with the ability to cancel their ad campaigns at any time, the increase in revenue associated with the increase in paying advertising accounts in 2018 compared to 2017 more than offset the impact from cancellations in the year ended December 31, 2018.

We expect our net revenue to continue to increase, as we continue to add paying advertising accounts. Any operational or performance issues that impact our local advertising business may also have a more immediate and more concentrated effect on advertising revenue going forward than was the case 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.

Transactions. We generate revenue from various transactions with consumers, primarily through transactions placed through our partner integrations, and, through October 10, 2017, Yelp Eat24 transactions. On October 10, 2017, we began generating revenue from transactions placed through the Grubhub restaurant network, including Eat24 restaurants, that originated on Yelp pursuant to our partnership agreement with Grubhub.

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

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

Our transactions revenue decreased $46.6 million, or 77%, in 2018 compared to 2017, and $2.2 million, or 4%, in 2017 compared to 2016. The decrease in each period was primarily the result of our sale of Eat24 in October 2017, partially offset by revenue earned from our partnership with Grubhub following the sale.

Other Services. We generate revenue through our subscription services, which include our Yelp Reservations, Yelp Waitlist and Yelp WiFi Marketing 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 partnerships.

Our other services revenue increased $6.7 million, or 45%, in 2018 compared to 2017, and $9.6 million, or 180%, in 2017 compared to 2016. The increase in 2018 was primarily due to an increase in the number of customers purchasing our subscription products, which was driven in part by our ownership of Yelp Waitlist and Yelp WiFi Marketing for the entirety of 2018 compared to only a portion of 2017. The increase in 2018 also reflects increases in revenue from our Yelp Knowledge program and non-advertising partnerships to a lesser extent. The increase in 2017 was primarily due to the acquisitions of Nowait and Turnstyle as well as increased revenue from Yelp Reservations.

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 confirmation services costs associated with Yelp Reservations, Yelp Waitlist and Yelp WiFi Marketing, confirmation and delivery services associated with the fulfillment of orders placed through Yelp Eat24 prior to its sale, as well as video production costs for our advertising customers.

Cost of revenue decreased $12.6 million, or 18%, in 2018 compared to 2017, and increased $10.2 million, or 17%, in 2017 compared to 2016.

The decrease in 2018 was primarily attributable to:

- a decrease of $6.8 million in merchant fees related to credit card transactions as a result of the decline in transactions revenue following the sale of Eat24 in October 2017, partially offset by an increase in merchant fees related to credit card transactions as a result of processing more payments from advertisers in connection with an increase in advertising revenue;
- a decrease of $4.7 million in confirmation services and third-party food delivery costs primarily due to the decline in food ordering fulfillment costs following the sale of Eat24, partially offset by an increase in confirmation services associated with Yelp Reservations and Yelp Waitlist; and
- a decrease of $3.8 million in set up and creative design costs, primarily associated with video production costs as a result of our transition to selling non-term advertising contracts, which currently do not provide businesses with the option to add videos to their accounts.

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These decreases were partially offset by an increase of $2.7 million in website infrastructure expense due to increases in the use of our website and in employees supporting the website infrastructure.

The increase in 2017 was primarily attributable to:

- an increase of $5.4 million in website infrastructure expense, primarily due to increases in the number of visitors to, and transactions completed on, our website compared to the prior year, as well as increased headcount for personnel supporting the website infrastructure;
- an increase of $3.1 million in confirmation services and third-party food delivery costs due to an increase in the number of Yelp Eat24 transactions, and increased confirmation services expenses associated with Yelp Reservations as well as Yelp Waitlist and Yelp WiFi Marketing following our acquisitions of Nowait and Turnstyle; and
- an increase of $2.4 million in merchant fees related to credit card transactions due to growth in advertising and transactions revenue. The rate of increase in these costs in 2017 was lower than the increase in 2016 as a result of the sale of Yelp Eat24 in 2017 as well as the slower growth rate in advertising revenue that year.

We expect cost of revenue to remain a consistent percentage of net revenue in 2019 compared to 2018.

Sales and Marketing

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

Sales and marketing expenses increased $45.9 million, or 10%, in 2018 compared to 2017, and $57.5 million, or 15%, in 2017 compared 2016. The increases in 2018 and 2017 were primarily attributable to:

- increases of $44.0 million and $43.0 million, respectively, in additional employee costs resulting from increases in headcount, including increases in stock-based compensation expense of $2.7 million and $1.0 million, respectively, as we expanded our sales organization;
- increases of $10.6 million and $6.1 million, respectively, in facilities and other overhead allocations as we leased additional office space and incurred additional overhead costs for our expanding headcount; and
- increases of $4.7 million and $6.1 million, respectively, in commission expenses (including amortized commission expense) as a result of increases in advertising revenue driven by increased sales team headcount.

The increase in 2018 was partially offset by a decrease of $13.4 million in marketing and advertising costs, primarily due to the cessation of Yelp Eat24 marketing activities following our sale of Eat24 in October 2017 and, to a lesser extent, decreases in Yelp-related marketing and advertising costs. In 2017, marketing and advertising costs increased by $2.3 million compared to 2016 as a result of ongoing business and consumer marketing campaigns.

While the sale of Eat24 resulted in an initial reduction in our sales and marketing expenses, we expect our sales and marketing expenses to continue to increase as we work to increase the number of advertising and subscription accounts and promote the Yelp brand to both consumers and businesses. However, we expect the pace of growth in sales and marketing expenses 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 our consumer marketing spend.

Product Development

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

Product development expenses increased $36.5 million, or 21%, in 2018 compared to 2017, and $37.2 million, or 27%, in 2017 compared to 2016. The increases in 2018 and 2017 were primarily attributable to:

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- $32.1 million and $30.4 million, respectively, in additional salaries and benefits associated with increases in headcount, including increases in stock-based compensation expense (net of capitalized stock-based compensation expense) of $9.6 million and $11.0 million, respectively; and
- increases of $3.8 million and $6.0 million, respectively, 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 in order to advance the Yelp consumer experience and to support an increased focus on business-owner products and marketplace transaction features 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 to remain a relatively consistent percentage of net revenue in 2019 compared to 2018.

General and Administrative

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

General and administrative expenses increased $10.9 million, or 10%, in 2018 compared to 2017, and $9.2 million, or 9%, in 2017 compared to 2016. The increases in 2018 and 2017 were primarily attributable to:

- $4.8 million and $5.7 million, respectively, in additional employee costs associated with increases in headcount, including increases in stock-based compensation expense of $1.1 million and $0.6 million, respectively;
- increases in provision for doubtful accounts of $3.6 million and $2.0 million, respectively, due to continued growth in advertising revenue and, in 2018, the shift in our advertiser base toward newer advertisers, who are typically associated with higher provision for doubtful accounts; and
- an increase in the use of outside consultants of $1.4 million in each period as we invested in our financial and human resources systems to support our expanding headcount, as well as additional consulting costs as a result of the continued growth of the business.

We expect provision for doubtful accounts to increase as advertising revenue generated from newer customers continues to become a larger percentage of our overall advertising revenue. We expect overall general and administrative expenses as a percentage of net revenue in 2019 to remain consistent with, or slightly lower than, 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 acquired intangible assets.

Depreciation and amortization expenses increased $1.6 million, or 4%, in 2018 compared to 2017, and $5.9 million, or 17%, in 2017 compared to 2016. These increases were primarily the result of our investments in expanding our technology infrastructure and capital assets to support our increase in headcount across the organization. Depreciation and amortization expenses related to our property, equipment and capitalized website and software development costs increased $4.7 million and $6.1 million in 2018 and 2017, respectively. These increases were offset by decreases in amortization expense related to our intangible assets of $3.1 million and $0.2 million in 2018 and 2017, respectively, in connection with the sale of Eat24.

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

Restructuring and Integration

On November 2, 2016, we announced plans to significantly reduce sales and marketing activities in markets outside of the United States and Canada. The restructuring plan was completed by December 31, 2017.

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We did not incur any costs related to this plan in the year ended December 31, 2018. We incurred $0.3 million and $3.5 million in restructuring and integration costs associated with this plan in the years ended December 31, 2017 and 2016, respectively, related to severance costs for affected employees. We do not expect to incur any additional expenses related to this plan in the future. No goodwill, intangibles or other long lived assets were impaired as a result of the restructuring plan.

Gain on Disposal of a Business Unit

Our sale of Eat24 to Grubhub on October 10, 2017 resulted in a $163.7 million pre-tax gain. The gain recorded was calculated as proceeds from the disposal, offset by the net assets of Eat24 as of the disposal date, and costs specifically incurred as a result of the sale.

Other Income, Net

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

Other income, net increased by $9.2 million, or 190%, in 2018 compared to 2017, and $3.2 million, or 187%, in 2017 compared to 2016. The increases in both periods were primarily driven by increases in interest income earned on marketable investments and cash held in interest-bearing accounts, particularly due to proceeds received on the sale of Eat24 in October 2017. The increase in 2018 was also due to investing a greater portion of our excess cash in marketable securities.

(Benefit from) Provision for Income Taxes

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

In 2018, we recognized income tax benefit of $15.3 million primarily due to the release of valuation allowance previously recorded against certain deferred tax assets, offset by foreign income tax expense. Income tax expense decreased $46.8 million in 2018 compared to 2017 primarily due to the gain on the disposal of Eat24 in 2017, offset by the release of valuation allowance in 2018. Income tax expense increased $30.1 million in 2017 compared to 2016 primarily due to the gain on disposal of Eat24 recorded in 2017.

Quarterly Results of Operations and Other Data

The following tables set forth our unaudited quarterly consolidated statements of operations data for each of the eight quarters in the two-year period ended December 31, 2018 (in thousands, except per share data). We also present other financial and operational data and a reconciliation of net income (loss) to EBITDA and adjusted EBITDA. We have prepared this quarterly data on a consistent basis with the audited consolidated financial statements included in this Annual Report. In the opinion of management, the quarterly financial information reflects all necessary adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of this data. This information should be read in conjunction with the audited financial statements and related notes included elsewhere in this Annual Report. The results of historical periods are not necessarily indicative of the results of operations for any future period.

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	Quarter Ended							
	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017(1)	Sep 30, 2017(1)	Jun 30, 2017(1)	Mar 31, 2017(1)
Consolidated Statements of Operations Data:								
Net revenue by product								
Advertising	$234,774	$232,502	$226,168	$214,043	$209,593	$200,502	$187,683	$177,900
Transactions	3,293	3,042	3,520	3,839	5,227	18,524	18,435	18,065
Other services	5,673	5,552	5,175	5,192	4,621	4,261	3,827	2,209
Total net revenue	$243,740	$241,096	$234,863	$223,074	$219,441	$223,287	$209,945	$198,174
Costs and expenses:								
Cost of revenue (exclusive of depreciation and amortization shown separately below)(2)	$14,255	$14,177	$14,708	$14,732	$16,236	$19,312	$18,056	$16,914
Sales and marketing(2)	121,256	121,759	120,653	119,641	111,013	112,958	104,921	108,532
Product development(2)	54,273	53,764	52,789	51,493	47,994	45,834	42,088	39,871
General and administrative(2)	29,677	30,302	28,583	32,007	27,898	27,601	27,042	27,166
Depreciation and amortization	11,557	10,713	10,509	10,028	9,729	10,656	10,662	10,151
Restructuring and integration	—	—	—	—	1	35	21	231
Gain on disposal of a business unit	—	—	—	—	(163,697)	—	—	—
Total costs and expenses	$231,018	$230,715	$227,242	$227,901	$49,174	$216,396	$202,790	$202,865
Income (loss) from operations	$12,722	$10,381	$7,621	$(4,827)	$170,267	$6,891	$7,155	$(4,691)
Other income, net	4,160	3,921	3,424	2,604	1,897	1,371	864	732
Income (loss) before income taxes	$16,882	$14,302	$11,045	$(2,223)	$172,164	$8,262	$8,019	$(3,959)
Benefit from/(provision for) income taxes	15,064	684	(341)	(63)	(31,074)	(232)	(118)	(67)
Net income (loss) attributable to common stockholders	$31,946	$14,986	$10,704	$(2,286)	$141,090	$8,030	$7,901	$(4,026)
Net income (loss) per share attributable to common stockholders:								
Basic	$0.39	$0.18	$0.13	$(0.03)	$1.69	$0.10	$0.10	$(0.05)
Diluted	$0.37	$0.17	$0.12	$(0.03)	$1.58	$0.09	$0.09	$(0.05)
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders:								
Basic	82,706	84,008	83,769	83,785	83,264	82,259	80,996	79,843
Diluted	86,287	88,724	88,651	83,785	89,064	87,433	84,860	79,843

(1)

Amounts for 2017 have been recast to reflect the adoption of ASC 606. Additional information regarding our adoption of ASC 606 is set forth in Note 2 of the Notes to Consolidated Financial Statements.

(2) Includes non-cash stock-based compensation expense as follows (in thousands):

	Quarter Ended							
	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017
Stock-based compensation								
Cost of revenue	$1,227	$1,162	$1,153	$1,030	$1,079	$993	$957	$981
Sales and marketing	7,265	7,941	8,055	7,518	6,666	7,305	7,261	6,868
Product development	15,004	14,536	13,907	13,435	12,851	11,976	11,245	11,208
General and administrative	5,157	5,555	5,690	5,751	4,811	5,035	5,902	5,277
Total stock-based compensation	$28,653	$29,194	$28,805	$27,734	$25,407	$25,309	$25,365	$24,334

The following table presents other financial and operational data (dollars in thousands):

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	Quarter Ended							
	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017
Other Financial and Operational Data(1):								
Reviews	177,385	170,865	162,969	155,328	148,298	142,036	134,591	127,478
Desktop Unique Visitors	62,140	68,807	73,939	73,668	76,748	83,592	82,998	78,167
Mobile Web Unique Visitors	69,148	74,789	72,328	69,901	64,221	73,508	74,101	73,192
App Unique Devices	32,891	34,025	32,062	30,115	28,845	30,162	27,987	25,827
Claimed Local Business Locations	4,979	4,790	4,593	4,378	4,156	3,963	3,753	3,559
Paying Advertising Accounts	191	194	194	177	163	155	148	139
Adjusted EBITDA	$52,932	$50,288	$46,935	$32,935	$41,707	$42,891	$43,203	$30,025

(1) For information on how we define these operational and other metrics, see "—Key Metrics."

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

	Quarter Ended							
	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017(1)	Sep 30, 2017(1)	Jun 30, 2017(1)	Mar 31, 2017(1)
Reconciliation of GAAP net income (loss) to EBITDA and adjusted EBITDA:								
Net income (loss)	$31,946	$14,986	$10,704	$(2,286)	$141,090	$8,030	$7,901	$(4,026)
Provision for (benefit from) income taxes	(15,064)	(684)	341	63	31,074	232	118	67
Other income, net	(4,160)	(3,921)	(3,424)	(2,604)	(1,897)	(1,371)	(864)	(732)
Depreciation and amortization	11,557	10,713	10,509	10,028	9,729	10,656	10,662	10,151
EBITDA	24,279	21,094	18,130	5,201	179,996	17,547	17,817	5,460
Stock-based compensation	28,653	29,194	28,805	27,734	25,407	25,309	25,365	24,334
Restructuring and integration costs	—	—	—	—	1	35	21	231
Gain on disposal of a business unit	—	—	—	—	(163,697)	—	—	—
Adjusted EBITDA	$52,932	$50,288	$46,935	$32,935	$41,707	$42,891	$43,203	$30,025

(1) Amounts for 2017 have been recast to reflect the adoption of ASC 606. Additional information regarding our adoption of ASC 606 is set forth in Note 2 of the Notes to Consolidated Financial Statements.

Liquidity and Capital Resources

As of December 31, 2018, we had cash and cash equivalents of $332.8 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 December 31, 2018 was $8.9 million. We did not have any outstanding bank loans or credit facilities in place as of December 31, 2018. Our investment portfolio comprises highly rated marketable securities, and our investment policy limits the amount of credit exposure to any one issuer. The policy generally requires securities to be investment grade (i.e. rated 'A+' or higher by bond rating firms) with the objective of minimizing the potential risk of principal loss. To date, we have been able to finance our operations and our acquisitions through proceeds from private and public financings, including our initial public offering in March 2012, our follow-on offering in October 2013, cash generated from operations and, to a lesser extent, cash provided by the exercise of employee stock options and purchases under the 2012 Employee Stock Purchase Plan, as amended, or ESPP. In addition, in the fourth quarter of 2017, we completed our sale of Eat24 to Grubhub and received $252.7 million in cash, with an additional $28.8 million currently being held in escrow for a minimum 18-month period after closing to secure our indemnification obligations in connection with the sale. Specifically, we agreed to indemnify Grubhub and certain related parties against certain losses arising out of Grubhub's purchase of Eat24, including, but not limited to, any breach or inaccuracy of any representation or warranty made by us or Eat24 in the purchase agreement. While

Grubhub's right to recover for many claims is limited to the funds being held in escrow, certain claims are capped only at the total purchase price. The date and amount of final release of escrow funds are subject to the resolution of any such claims. The escrow balance is presented on our consolidated balance sheets as an other non-current asset (see Note 9 of the Notes to Consolidated Financial Statements).

Our future capital requirements and the adequacy of available funds will depend on many factors, including those set forth under the heading “Risk Factors” in this Annual 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):

	Year Ended December 31,		
	2018	2017	2016
Consolidated Statements of Cash Flows Data:			
Net cash provided by operating activities	160,187	167,647	126,900
Net cash (used in) provided by investing activities	(164,369)	81,136	(54,741)
Net cash (used in) provided by financing activities	(207,747)	27,162	29,522

Operating Activities. We generated $160.2 million of cash from operating activities during the year ended December 31, 2018, primarily resulting from our net income of $55.4 million, which included non-cash depreciation and amortization expense of $42.8 million, non-cash stock-based compensation expense of $114.4 million and non-cash provision for doubtful accounts of $24.5 million offset by deferred income taxes of $15.5 million. In addition, significant changes in our operating assets and liabilities resulted from the following:

- an increase in accounts receivable of $35.7 million due to an increase in billings for advertising plans, particularly for customers paying in arrears, as well as the timing of payments from these customers;
- an increase in prepaid expenses and other assets of $5.2 million, primarily driven by increases in deferred contract costs and tax-related receivables, partially offset by a decrease in non-trade receivables; and
- a decrease in accounts payable, accrued expenses and other liabilities of $20.2 million, primarily driven by a decrease in accrued income taxes as a result of income tax payments made in 2018 on taxable income from 2017, which was primarily 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.

We generated $167.6 million of cash in operating activities in the year ended December 31, 2017, primarily resulting from our net income of $153.0 million, which included the pre-tax gain on disposal of Eat24 of $163.7 million, non-cash depreciation and amortization expenses of $41.2 million, non-cash stock-based compensation expense of $100.4 million, and non-cash provision for doubtful accounts and sales returns of $20.9 million. In addition, significant changes in our operating assets and liabilities resulted from the following:

- increase in accounts receivable of $36.1 million due to an increase in billings for advertising plans, particularly those customers billed in-arrears, as well as the timing of payments from these customers;
- increase in accounts payable, accrued expenses and other liabilities of $52.9 million, primarily driven by an increase in income taxes payable associated with the gain on disposal of Eat24, accrued bonus and commissions, and various other accrued operating costs and expenses as a result of the growth in our business, offset by a decrease in restaurant revenue share liability as a result of the disposal of Eat24; and

- increase in prepaids and other assets of $2.6 million, primarily due to an increase in tenant improvement allowance receivable and prepaid licenses.

We generated $126.9 million of cash in operating activities in the year ended December 31, 2016, primarily resulting from our net loss of $1.7 million, which included non-cash depreciation and amortization expenses of $35.3 million, non-cash stock-based compensation expense of $86.3 million and non-cash provision for doubtful accounts and sales returns of $18.9 million. In addition, significant changes in our operating assets and liabilities resulted from the following:

- increase in accounts receivable of $34.6 million due to an increase in billings for advertising plans, as well as the timing of payments from these customers;
- increase in accounts payable, accrued expenses and other liabilities of $15.3 million, primarily driven by an increase in restaurant revenue share liability, accrued vacation and employee-related expenses, and the timing of invoices and payments to the vendors, particularly marketing-related vendors; and
- decrease in prepaids and other assets of $2.7 million, primarily due to the collection of non-trade receivables, partially offset by an increase in deferred contract costs.

Investing Activities. Our primary investing activities in the year ended December 31, 2018 consisted of purchases of marketable securities, purchases of property and equipment to support the ongoing build out of leasehold improvements for our new facilities in San Francisco and New York, the purchase of technology hardware to support our growth in headcount and internally developed software to support website and mobile app development, website operations and our corporate infrastructure. Purchases of property, equipment and software may vary from period to period due to the timing of the expansion of our offices, operations and website and internal-use software and development. We expect our investments in property and equipment, leasehold assets and the development of software in 2019 to remain relatively consistent with the amount of our investments in 2018.

We used $164.4 million of cash in investing activities in during the year ended December 31, 2018. Cash used in investing activities during this period primarily related to purchases of $751 million of marketable securities, expenditures of $20.1 million related to website and internally developed software and purchases of $24.8 million of property, equipment and software. Cash used in investing activities was partially offset by the maturity of $613.7 million of investment securities held-to-maturity and the sale of $17.9 million of investment securities prior to maturity (refer to Note 4 of the Notes to Consolidated Financial Statements for details regarding of sale of held-to-maturity investment).

We generated $81.1 million of cash in investing activities during the year ended December 31, 2017. Cash provided by investing activities primarily related to $252.7 million net cash received for the sale of Eat24 to Grubhub on October 10, 2017 and $264.0 million of maturities of investment securities held-to-maturity. Cash provided by investing was offset by purchases of marketable securities of $354.9 million, purchases of property, equipment and software of $15.6 million to support the growth in our business, expenditures related to website and internally developed software of $14.6 million, as well as our acquisition of Nowait for net cash consideration of $30.8 million, which included intangible assets of $12.7 million, and our acquisition of Turnstyle for net cash consideration of $19.7 million, which included intangible assets of $4.3 million.

We used $54.7 million of cash in investing activities during the year ended December 31, 2016. Cash used in investing activities primarily related to purchases of marketable securities of $275.0 million, expenditures related to website and internally developed software of $14.2 million, purchases of property, equipment and software of $23.0 million to support the growth in our business, our investment of $8.0 million in the preferred stock of Nowait. Cash used in investing was offset by $265.5 million of maturities of investment securities held to maturity.

Financing Activities. During the year ended December 31, 2018, we used $207.7 million of cash for financing activities, consisting of $187.4 million to repurchase shares of common stock pursuant to our stock repurchase program and $50.1 million to pay taxes related to the net share settlement of equity awards for our employees, partially offset by $29.8 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 year ended December 31, 2017, we generated $27.2 million in financing activities, primarily due to net proceeds of $40.9 million in cash generated from the issuance of common stock upon exercise of stock options and the sale of common stock under the ESPP. Cash provided by financing activities was partially offset by $12.6 million in repurchases of common stock and $1.2 million of taxes paid related to the net share settlement of equity awards for our international employees.

During the year ended December 31, 2016, we generated $29.5 million in financing activities, primarily due to cash generated from the issuance of common stock upon exercise of stock options and the sale of common stock under the ESPP.

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Stock Repurchase Program

In July 2017, our board of directors authorized the repurchase of up to $200 million of our outstanding common stock. During the years ended December 31, 2018 and 2017, we repurchased on the open market and subsequently retired 4,896,003 shares and 302,206 shares, respectively, for aggregate purchase prices of $187.4 million and $12.6 million, respectively. We completed the repurchase of the full $200 million authorization in November 2018.

On November 27, 2018, our board of directors authorized a new stock repurchase program providing for the repurchase up to $250 million of our outstanding common stock, of which no shares had been repurchased as of December 31, 2018. 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. 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. As of February 20, 2019, we had not made any repurchases under the current authorizations of $500 million.

Net Share Settlement of Equity Awards

In 2017, we began settling the employee tax liabilities associated with the vesting of RSUs through net share withholding for our internationally based employees, rather than selling a portion of the vested shares to cover taxes, as we had previously. In 2018, we expanded this practice of net share settlement for vestings of RSUs for all for all employees. As a result, we paid $50.1 million, and $1.2 million of employee taxes in the year ended December 31, 2018 and 2017, respectively, out of cash held on our consolidated balance sheet. We do not expect this practice to result in material increases to cash used in financing activities in 2019 compared to 2018.

Non-GAAP Financial Measures

Our consolidated financial statements are prepared in accordance with 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 (loss) prepared in accordance with GAAP as a measure of profitability or liquidity. Some of these limitations are:

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and EBITDA and adjusted EBITDA do not reflect all cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- EBITDA and adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs;
- adjusted EBITDA does not consider the potentially dilutive impact of equity-based compensation;
- EBITDA and adjusted EBITDA do not reflect the impact of the recording or release of valuation allowances or tax payments that may represent a reduction in cash available to us;
- adjusted EBITDA does not take into account any restructuring and integration costs; and

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- 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 (loss), and our other GAAP results. The tables below present reconciliations of net income (loss) to EBITDA and adjusted EBITDA, the most directly comparable GAAP financial measure in each case, for each of the periods indicated.

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

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

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

	Year Ended December 31,				
	2018	2017[(1)]	2016[(1)]	2015[(2)]	2014[(2)]
Reconciliation of GAAP Net Income/(Loss) to EBITDA and adjusted EBITDA:					
GAAP net income (loss)	$55,350	$152,995	$(1,711)	$(32,900)	$36,473
(Benefit from) provision for income taxes	(15,344)	31,491	1,385	11,962	(25,193)
Other income, net	(14,109)	(4,864)	(1,694)	(386)	(221)
Depreciation and amortization	42,807	41,198	35,346	29,604	17,590
EBITDA	68,704	220,820	33,326	8,280	28,649
Stock-based compensation	114,386	100,415	86,261	60,842	42,273
Gain on disposal of a business unit	—	(163,697)	—	—	—
Restructuring and integration costs	—	288	3,455	—	—
Adjusted EBITDA	$183,090	$157,826	$123,042	$69,122	$70,922

(1) Amounts for 2017 and 2016 have been recast to reflect the adoption of ASC 606. Additional information regarding our adoption of ASC 606 is set forth in Note 2 of the Notes to Consolidated Financial Statements.

(2) Amounts for 2015 and 2014 have not been recast to reflect the adoption of ASC 606. Additional information regarding our adoption of ASC 606 is set forth in Note 2 of the Notes to Consolidated Financial Statements.

Off Balance Sheet Arrangements

We did not have any off balance sheet arrangements, as defined in Regulation S-K, Item 303(a)(4)(ii) promulgated by the SEC under the Securities Act, in 2018, 2017 or 2016.

Contractual Obligations

We lease various office facilities, including our corporate headquarters in San Francisco, California, under operating lease agreements that expire from 2019 to 2029. The terms of the lease agreements provide for rental payments on a graduated basis. We recognize rent expense on a straight-line basis over the lease periods. We do not have any debt or material capital lease obligations, and all of our property, equipment and software have been purchased with cash. As of December 31, 2018, we had no material long-term purchase obligations outstanding with vendors or third parties other than obligations related to the fit out of certain leasehold properties and purchases of website hosting services.

The following table summarizes our future minimum payments under non-cancelable operating leases and purchase obligations for equipment and office facilities as of December 31, 2018 (in thousands):

	Payments Due by Period				
	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
Operating lease obligations	$321,241	$56,703	$110,438	$84,120	$69,980
Purchase obligations	$128,970	$35,213	$61,257	$32,500	$—

The contractual commitment amounts in the table above are associated with binding agreements and do not include obligations under contracts that we can cancel without a significant penalty. In addition, as of December 31, 2018, our total liability for uncertain tax positions was $3.8 million, which is included within current liabilities and other long-term liabilities. We are not reasonably able to estimate the timing of future cash flow related to this liability. As a result, this amount is not included in the contractual obligations table above.

We have subleased certain office facilities under operating lease agreements that expire in 2021. The terms of these lease agreements provide for rental receipts on a graduated basis. We recognize sublease rentals on a straight-line basis over the lease periods reflected as a reduction in rental expense. As of December 31, 2018, our future minimum rental receipts to be received under non-cancelable subleases were $4.3 million.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

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

Interest Rate Fluctuation

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

Our cash and cash equivalents consist of cash, money market funds and commercial paper. We do not have any long-term borrowings. Because our cash and cash equivalents have a relatively short maturity, their fair value is relatively insensitive to interest rate changes. We believe a hypothetical 10% increase in the interest rates as of December 31, 2018 would not have a material impact on our cash and cash equivalents portfolio.

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

Foreign Currency Exchange Risk

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

Inflation Risk

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

Item 8. Financial Statements and Supplementary Data.

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Our financial statements and the report of our independent registered public accounting firm are included in this Annual Report beginning on page F-1. The index to our financial statements is included in Part IV, Item 15 below.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. 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 provide reasonable assurance 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 and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

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

Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management evaluated the effectiveness of our internal control over financial reporting based on the framework set forth in “Internal Control—Integrated Framework (2013)” issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2018. Our management reviewed the results of this evaluation with the audit committee of our board of directors.

Deloitte & Touche LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report and, as part of the audit, has issued a report on the effectiveness of our internal control over financial reporting as of December 31, 2018, which is included below.

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 December 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

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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.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors and
Stockholders of Yelp Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Yelp Inc. and subsidiaries (the “Company”) as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.
We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2018 of the Company and our report dated February 28, 2019, expressed an unqualified opinion on those financial statements.
Basis for Opinion
The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.
We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.
Definition and Limitations of Internal Control over Financial Reporting
A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP
San Francisco, California
February 28, 2019

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Item 9B. Other Information.
None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information required by this item regarding directors and director nominees, executive officers, the board of directors and its committees, and certain corporate governance matters is incorporated by reference to the information set forth under the captions “Proposal No. 1—Election of Directors,” “Information Regarding the Board of Directors and Corporate Governance” and “Executive Officers” in the definitive proxy statement for our 2019 Annual Meeting of Stockholders, or the 2019 Proxy Statement. Information required by this item regarding compliance with Section 16(a) of the Exchange Act is incorporated by reference to the information set forth under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in our 2019 Proxy Statement.

We have adopted a written code of business conduct and ethics that applies to all of our employees, officers and directors, including our principal executive officer, principal financial officer and principal accounting officer. The code of business conduct and ethics is available on our corporate website at www.yelp-ir.com under the section entitled “Corporate Governance.” If we make any substantive amendments to our code of business conduct and ethics or grant any of our directors or executive officers any waiver, including any implicit waiver, from a provision of our code of business conduct and ethics, we will disclose the nature of the amendment or waiver on our website or in a Current Report on Form 8-K.

Item 11. Executive Compensation.

Information required by this item regarding executive compensation is incorporated by reference to the information set forth under the captions “Executive Compensation,” “Director Compensation” and “Information Regarding the Board of Directors and Corporate Governance” in our 2019 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information required by this item regarding security ownership of certain beneficial owners and management is incorporated by reference to the information set forth under the caption “Security Ownership of Certain Beneficial Owners and Management” in our 2019 Proxy Statement. Information required by this item regarding securities authorized for issuance under our equity compensation plans is incorporated by reference to the information set forth under the caption “Equity Compensation Plan Information” in our 2019 Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information required by this item regarding certain relationships and related transactions is incorporated by reference to the information set forth under the caption “Transactions with Related Persons” in our 2019 Proxy Statement. Information required by this item regarding director independence is incorporated by reference to the information set forth under the caption “Information Regarding the Board of Directors and Corporate Governance” in our 2019 Proxy Statement.

Item 14. Principal Accounting Fees and Services.

Information required by this item regarding principal accounting fees and services is incorporated by reference to the information set forth under the caption “Proposal No. 2—Ratification of Selection of Independent Registered Public Accounting Firm” in our 2019 Proxy Statement.

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PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) The following documents are filed as part of this Annual Report:

1. Financial Statements. Our consolidated financial statements and the Report of Independent Registered Public Accounting Firm are included herein on the pages indicated:

2. Financial Statement Schedules. None. All financial statement schedules are omitted because they are not applicable, not required under the instructions, or the requested information is included in the consolidated financial statements or notes thereto.
3. Exhibits. The following is a list of exhibits filed with this report or incorporated herein by reference:

		Incorporated by Reference				Filed Herewith
Exhibit Number	Exhibit Description	Form	File No.	Exhibit	Filing Date	
2.1	Agreement and Plan of Merger, dated February 9, 2015, by and among Yelp Inc., Eat24Hours.com, Inc., Kale Acquisition Corp., Quinoa Acquisition LLC, the Stockholders of Eat24Hours.com, Inc. and Nadav Sharon, as Stockholders' Agent.	8-K	001-35444	99.1	2/10/2015	
2.2	Agreement and Plan of Merger, dated February 28, 2017, by and among Yelp Inc., Nowait, Inc., Beagle Acquisition Corp. and Shareholder Representative Services LLC, as Stockholders' Agent.	8-K	001-35444	2.1	3/6/2017	
2.3	Share Purchase Agreement, dated April 3, 2017, by and among Yelp Inc., 10036773 Canada Inc., Turnstyle Analytics Inc., the shareholders of Turnstyle Analytics Inc., the vested option holders of Turnstyle Analytics Inc., 500 Startups IV, L.P. and Fortis Advisors LLC, as Securityholders' Agent.	8-K	001-35444	2.1	4/7/2017	
2.4	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., as amended	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	
10.1*	Amended and Restated 2005 Equity Incentive Plan.	S-1	333-178030	10.2	11/17/2011	
10.2*	Forms of Option Agreement and Option Grant Notice under Amended and Restated 2005 Equity Incentive Plan.	S-1	333-178030	10.3	11/17/2011	
10.3*	2011 Equity Incentive Plan.	S-1	333-178030	10.4	2/3/2012	

10.4*	Forms of Option Agreement and Option Grant Notice under 2011 Equity Incentive Plan.	S-1	333-178030	10.5	2/3/2012
10.5*	2012 Equity Incentive Plan, as amended.	8-K	001-35444	10.2	2/13/2019

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
10.6*	Forms of Option Agreement and Grant Notice and RSU Agreement and Grant Notice under 2012 Equity Incentive Plan.	S-1/A	333-178030	10.17	2/3/2012	
10.7*	2012 Employee Stock Purchase Plan, as amended.	8-K	001-35444	10.2	9/23/2016	
10.8*	Executive Severance Benefit Plan.	S-1/A	333-178030	10.19	2/3/2012	
10.9*	Form of Indemnification Agreement made by and between Yelp Inc. and each of its directors and executive officers.	S-1	333-178030	10.6	2/3/2012	
10.10*	Offer Letter, by and between Yelp Inc. and Jeremy Stoppelman, dated February 3, 2012.	S-1/A	333-178030	10.15	2/3/2012	
10.11*	Employment Offer Letter, dated April 15, 2016, between Yelp Inc. and Charles Baker.	8-K	001-35444	10.1	4/18/2016	
10.12*	Amended and Restated Offer Letter, by and between Yelp Inc. and Jed Nachman, dated February 3, 2012.	S-1/A	333-178030	10.9	2/3/2012	
10.13*	Letter Agreement, dated May 22, 2014, by and between Joseph Nachman and Yelp Inc.	8-K	001-35444	99.1	5/28/2014	
10.14*	Amended and Restated Offer Letter, by and between Yelp Inc. and Laurence Wilson, dated February 3, 2012.	S-1/A	333-178030	10.10	2/3/2012	
10.15*	Offer Letter, dated July 13, 2012, by and between Yelp Inc. and Alan Ramsay.	10-Q	001-35444	10.1	5/10/2017	
10.16*	Form of Restricted Stock Unit Agreement and Notice.	8-K	001-35444	10.2	2/8/2016	
10.17*	Compensation Information for Registrant’s Executive Officers.	8-K	001-35444		1/23/2019	
10.18	Amended and Restated Lease, dated April 1, 2015, by and between Stockdale Galleria Project Owner, LLC and Yelp Inc.; First Amendment to Lease, dated July 30, 2015; Second Amendment to Lease, dated April 22, 2016; Third Amendment to Lease, dated July 22, 2016.	10-K	001-35444	10.23	3/1/2017	
10.19	License Agreement between Harrison 160, LLC, as Licensor, and MRL Ventures Inc., as Licensee, dated as of April 6, 2004; Addendums through November 10, 2011.	S-1/A	333-178030	10.14	2/3/2012	
10.20	Office Lease, dated May 9, 2012, by and between Yelp Inc. and Stockbridge 138 New Montgomery LLC, as amended.	10-K	001-35444	10.25	3/1/2017	
10.21	Lease, dated July 31, 2014, by and between Yelp Inc. and 11 Madison Avenue LLC.	8-K	001-35444	10.1	8/6/2014	
21.1	Subsidiaries of Yelp Inc.					X
23.1	Consent of Independent Registered Public Accounting Firm.					X
24.1	Power of Attorney (included on signature page).					X
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†						X

	Certifications of Chief Executive Officer and Chief Financial Officer.	
101.INS#	XBRL Instance Document.	X
101.SCH#	XBRL Taxonomy Extension Schema Document.	X

* Indicates management contract or compensatory plan or arrangement.

† The certifications attached as Exhibit 32.1 accompany this Annual Report on Form 10-K are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Yelp Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Annual Report on Form 10-K, irrespective of any general incorporation language contained in such filing.

Item 16. Form 10-K Summary.

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: February 28, 2019

Yelp Inc.

/s/ Charles Baker
Charles Baker
Chief Financial Officer
(Principal Financial and Accounting Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Charles Baker and Laurence Wilson, and each of them, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution for him or her, and in his or her name in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the U.S. Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, and either of them, his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Jeremy Stoppelman Jeremy Stoppelman	Chief Executive Officer and Director (Principal Executive Officer)	February 28, 2019
/s/ Charles Baker Charles Baker	Chief Financial Officer (Principal Financial and Accounting Officer)	February 28, 2019
/s/ Diane Irvine Diane Irvine	Chairperson	February 28, 2019
/s/ Fred Anderson Fred Anderson	Director	February 28, 2019
/s/ Geoff Donaker Geoff Donaker	Director	February 28, 2019
/s/ Peter Fenton Peter Fenton	Director	February 28, 2019
/s/ Robert Gibbs Robert Gibbs	Director	February 28, 2019
/s/ Jeremy Levine Jeremy Levine	Director	February 28, 2019
/s/ Mariam Naficy Mariam Naficy	Director	February 28, 2019

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors and
Stockholders of Yelp Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Yelp Inc. and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income (loss), stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of Yelp Inc. and subsidiaries as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2019 expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion
These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP
San Francisco, California
February 28, 2019

We have served as the Company's auditor since 2008.

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Yelp Inc.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	December 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 332,764	$ 547,850
Short-term marketable securities	423,096	273,366
Accounts receivable (net of allowance for doubtful accounts of $8,685 and $8,602 at December 31, 2018 and December 31, 2017, respectively)	87,305	76,173
Prepaid expenses and other current assets	17,104	15,700
Total current assets	860,269	913,089
Long-term marketable securities	—	25,032
Property, equipment and software, net	114,800	103,651
Goodwill	105,620	107,954
Intangibles, net	13,359	16,893
Restricted cash	22,071	18,554
Other non-current assets	59,444	40,428
Total assets	$ 1,175,563	$ 1,225,601
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 6,540	$ 9,033
Accrued liabilities	54,522	73,665
Deferred revenue	3,843	3,469
Total current liabilities	64,905	86,167
Long-term liabilities	35,140	30,737
Total liabilities	100,045	116,904
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock, $0.000001 par value — 200,000,000 shares authorized, 81,996,839 and 83,724,916 shares issued and outstanding at December 31, 2018 and December 31, 2017, respectively	—	—
Additional paid-in capital	1,139,462	1,038,017
Treasury stock	—	(46)
Accumulated other comprehensive loss	(11,021)	(8,444)
(Accumulated deficit) retained earnings	(52,923)	79,170
Total stockholders' equity	1,075,518	1,108,697
Total liabilities and stockholders' equity	$ 1,175,563	$ 1,225,601

See notes to consolidated financial statements.

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Yelp Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Year Ended December 31,		
	2018	2017	2016
Net revenue	$942,773	$850,847	$716,063
Costs and expenses:			
Cost of revenue (exclusive of depreciation and amortization shown separately below)	57,872	70,518	60,363
Sales and marketing	483,309	437,424	379,895
Product development	212,319	175,787	138,549
General and administrative	120,569	109,707	100,475
Depreciation and amortization	42,807	41,198	35,346
Restructuring and integration	—	288	3,455
Gain on disposal of a business unit	—	(163,697)	—
Total costs and expenses	916,876	671,225	718,083
Income (loss) from operations	25,897	179,622	(2,020)
Other income, net	14,109	4,864	1,694
Income (loss) before income taxes	40,006	184,486	(326)
Benefit from (provision for) income taxes	15,344	(31,491)	(1,385)
Net income (loss) attributable to common stockholders	$55,350	$152,995	$(1,711)
Net income (loss) per share attributable to common stockholders			
Basic	$0.66	$1.87	$(0.02)
Diluted	$0.62	$1.76	$(0.02)
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders[1]			
Basic	83,573	81,602	77,186
Diluted	88,709	87,170	77,186

See notes to consolidated financial statements.

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Yelp Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Year Ended December 31,		
	2018	2017	2016
Net income (loss)	$55,350	$152,995	$(1,711)
Other comprehensive income (loss):			
Foreign currency translation adjustments	(2,760)	7,620	(2,057)
Foreign currency adjustments to net income upon liquidation of investments in foreign entities	183	(488)	—
Other comprehensive (loss) income	(2,577)	7,132	(2,057)
Comprehensive income (loss)	$52,773	$160,127	$(3,768)

See notes to consolidated financial statements

Yelp Inc.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 AND 2018
(In thousands, except share data)

	Common Stock Shares	Amount	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive (Loss)	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
Balance-December 31, 2015	75,982,802	$ —	$774,022	$ —	$ (13,519)	$ (60,890)	$699,613
Cumulative effect adjustment upon adoption of ASU 2016-09	—	—	(1,163)	—	—	1,332	169
Issuance of common stock upon exercises of employee stock options	1,290,836	—	20,599	—	—	—	20,599
Issuance of common stock upon vesting of restricted stock units ("RSUs")	1,814,138	—	—	—	—	—	—
Issuance of common stock for employee stock purchase plan	342,057	—	8,923	—	—	—	8,923
Stock-based compensation (inclusive of capitalized stock-based compensation)	—	—	90,602	—	—	—	90,602
Foreign currency translation adjustment	—	—	—	—	(2,057)	—	(2,057)
Net loss	—	—	—	—	—	(1,711)	(1,711)
Balance-December 31, 2016	79,429,833	—	892,983	—	(15,576)	(61,269)	816,138
Issuance of common stock upon exercises of employee stock options	1,519,771	—	29,997	—	—	—	29,997
Issuance of common stock upon vesting of RSUs	2,702,838	—	—	—	—	—	—
Issuance of common stock for employee stock purchase plan	373,580	—	10,920	—	—	—	10,920
Stock-based compensation (inclusive of capitalized stock-based compensation)	—	—	106,639	—	—	—	106,639
Shares withheld related to net share settlement of equity awards	—	—	(2,522)	—	—	—	(2,522)
Repurchase of common stock (1)	(301,106)	—	—	(46)	—	(12,556)	(12,602)
Foreign currency translation adjustments	—	—	—	—	7,132	—	7,132
Net income	—	—	—	—	—	152,995	152,995
Balance-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	779,871	—	15,581	—	—	—	15,581
Issuance of common stock upon vesting of RSUs	1,946,476	—	—	—	—	—	—
	442,679	—	14,198	—	—	—	14,198

Issuance of common stock for employee stock purchase plan							
Stock-based compensation (inclusive of capitalized stock-based compensation)	—	—	121,878	—	—	—	121,878
Shares withheld related to net share settlement of equity awards	—	—	(50,212)	—	—	—	(50,212)
Repurchase of common stock (1)	(4,897,103)	—	—	46	—	(187,443)	(187,397)
Foreign currency translation adjustments	—	—	—	—	(2,577)	—	(2,577)
Net income	—	—	—	—	—	55,350	55,350
Balance-December 31, 2018	81,996,839	$ —	$ 1,139,462	$ —	$ (11,021)	$ (52,923)	$ 1,075,518

(1) 1,100 shares were excluded from the share total as of December 31, 2017 that had been repurchased but not yet retired, and were held as treasury stock as of that date. Those shares were retired during the year ended December 31, 2018.

See notes to consolidated financial statements.

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Yelp Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2018	2017	2016
OPERATING ACTIVITIES:			
Net income (loss)	$55,350	$152,995	$(1,711)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	42,807	41,198	35,346
Provision for doubtful accounts	24,515	20,917	18,907
Stock-based compensation	114,386	100,415	86,261
Deferred income taxes	(15,469)	—	1,351
Gain on disposal of a business unit	—	(163,697)	—
Other adjustments	(722)	1,512	2,973
Changes in operating assets and liabilities net of acquisitions and disposals of a business unit:			
Accounts receivable	(35,664)	(36,146)	(34,618)
Prepaid expenses and other assets	(5,192)	(2,581)	2,728
Accounts payable, accrued expenses and other liabilities	(20,204)	52,882	15,278
Deferred revenue	380	152	385
Net cash provided by operating activities	160,187	167,647	126,900
INVESTING ACTIVITIES:			
Purchases of marketable securities	(751,237)	(354,895)	(274,965)
Maturities of marketable securities	613,700	264,000	265,500
Sale of investment prior to maturity	17,895	—	—
Purchase of cost-method investment	—	—	(8,000)
Sale of a business, net of cash sold	—	252,663	—
Acquisitions, net of cash received	—	(50,544)	—
Purchases of property, equipment and software	(24,849)	(15,598)	(22,994)
Capitalized website and software development costs	(20,123)	(14,647)	(14,191)
Other investing activities	245	157	(91)
Net cash (used in)/provided by investing activities	(164,369)	81,136	(54,741)
FINANCING ACTIVITIES:			
Proceeds from issuance of common stock for employee stock-based plans	29,779	40,917	29,522
Taxes paid related to net share settlement of equity awards	(50,144)	(1,199)	—
Repurchases of common stock	(187,382)	(12,556)	—
Net cash (used in) provided by financing activities	(207,747)	27,162	29,522
Effect of exchange rate changes on cash, cash equivalents and restricted cash	360	941	(262)
CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(211,569)	276,886	101,419
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—Beginning of period	566,404	289,518	188,099
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—End of period	$354,835	$566,404	$289,518
SUPPLEMENTAL DISCLOSURES OF OTHER CASH FLOW INFORMATION:			
Cash paid for income taxes, net of refunds	$29,159	$530	$813
SUPPLEMENTAL DISCLOSURES OF NON CASH INVESTING AND FINANCING ACTIVITIES:			
Purchases of property, equipment and software recorded in accounts payable, accrued liabilities and long-term liabilities	$4,440	$11,493	$989
Goodwill measurement period adjustment	—	(178)	146

Tax liability related to net share settlement of equity awards included in accrued liabilities	971	1,323	—

See notes to consolidated financial statements.

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Yelp Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

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 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 business owners gain visibility and engage with its large audience of purchase-oriented consumers.

The Company consisted of Yelp Inc. and six wholly owned entities as of December 31, 2018: Yelp UK Ltd was incorporated on December 1, 2008; Darwin Social Marketing Inc. (formerly Yelp Canada Inc.) was incorporated on February 24, 2009; Yelp Ireland Limited was incorporated on May 31, 2010; Yelp Ireland Holding Company Limited was incorporated on June 16, 2010; Yelp GmbH (formerly Qype GmbH) was acquired on October 23, 2012; and Turnstyle Analytics Inc., which was acquired on April 3, 2017. The financial results of these subsidiaries are included within the consolidated financial statements of the Company presented herein.

Basis of Presentation—The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All intercompany balances and transactions have been eliminated upon consolidation.

Certain Significant Risks and Uncertainties—The Company operates in a dynamic industry and, accordingly, can be affected by a variety of factors. For example, the Company's management believes that changes in any of the following areas could have a significant negative impact on the Company in terms of its future financial position, results of operations or cash flows: rates of revenue growth; traffic to the Company's websites and mobile applications and the number of reviews and advertisers they attract; reliance on search engines and the placement and prominence in results rankings; the quality and reliability of reviews; scaling and adaptation of existing technology and network infrastructure; management of the Company's growth; expansion of Yelp communities; protection of the Company's brand, reputation and intellectual property; industry competition; qualified employees and key personnel; intellectual property infringement and other claims; and changes in government regulation affecting the Company's business, among other things.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates—The preparation of the Company's 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 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 consolidated financial statements; therefore, actual results could differ from management's estimates.

Foreign Currency Translation—The consolidated financial statements of the Company's foreign subsidiaries are measured using the local currency as the functional currency. Assets and liabilities of foreign subsidiaries are translated at exchange rates in effect as of the balance sheet date. Revenues and expenses are translated at average exchange rates in effect during the year. Translation adjustments are recorded within accumulated other comprehensive income (loss), a separate component of stockholders' equity.

Cash and Cash Equivalents—The Company considers all highly liquid investments, such as treasury bills, commercial paper, certificates of deposit and money market instruments with maturities of three months or less at the time of acquisition to be cash equivalents. Cash and cash equivalents primarily consist of amounts held in interest-bearing money market funds that were readily convertible to cash. The fair value of cash and cash equivalents approximates their carrying value.

Marketable Securities— The Company has a policy that 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. In the event that the rating drops below that investment grade, the Company will sell the security prior to maturity. The Company determines the classification of its marketable securities at the time of purchase and re-evaluates these determinations at each balance sheet date. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost and are periodically assessed for other-than-temporary impairment. Amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity, and is included in interest income. The Company includes highly liquid treasury notes, U.S. agency securities, corporate debt securities, money market funds and other funds with maturities of more than three months to be marketable securities. Held-to-maturity securities with less than one year to maturity are included in short-term marketable securities. All other held-to-maturity securities are classified as long-term securities.

Concentrations of Credit Risk—Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company places its cash and cash equivalents with major financial institutions, which management assesses to be of high credit quality, in order to limit the exposure of each investment.

Credit risk with respect to accounts receivable is dispersed due to the Company’s large number of customers. In addition, the Company’s credit risk is mitigated by the relatively short collection period. Collateral is not required for accounts receivable.

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

As of December 31, 2018, 2017 and 2016, there were no customers that accounted for more than 10% of total accounts receivable.

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

Deferred Contract Costs—The Company has determined that certain sales incentive compensation costs are incremental costs to obtain the related contract. These costs are capitalized in the period in which they are incurred and amortized on a straight-line basis over the expected customer life of the associated contract. The Company uses a straight line basis as it expects the benefit of these costs to be realized uniformly over the amortization period. The amortization periods for contract costs, which extend up to 41 months, were determined based on both qualitative and quantitative factors, including product life cycle attributes and customer retention historical data. For contract costs with amortization periods of less than 12 months, the Company applies a practical expedient to expense such costs as incurred. The Company assesses deferred contract costs for impairment on a quarterly basis. Amortized contract costs are recorded within sales and marketing expense in the consolidated statements of operations. Deferred contract costs are included within other non-current assets on the Company's consolidated balance sheets (see Note 9).

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

Property, Equipment and Software—Property, equipment and software are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which are approximately three to five years. Leasehold improvements are amortized over the shorter of the lease term or ten years. Following the disposition of an asset, the associated net cost is no longer recognized as an asset, and any gain or loss on the disposition is reflected in operating expenses.

Website and Internal-Use Software Development Costs—Costs related to website and internal-use software are primarily related to the Company's website, including support systems. The Company capitalizes its costs to develop software when preliminary development efforts are successfully completed, management has authorized and committed project funding and it is probable that the project will be completed and the software will be used as intended. Costs incurred for enhancements that are expected to result in additional material functionality are capitalized and amortized over the estimated useful life of the upgrades. Such costs are amortized on a straight-line basis over the estimated useful life of the related asset, which is generally three years.

Business Combinations—The Company accounts for acquisitions of entities that consist of inputs and processes that have the ability to contribute to the creation of outputs as business combinations. The Company allocates the purchase price of the acquisition to the tangible assets, liabilities and identifiable intangible assets acquired based on their estimated fair values. The excess of the purchase price over those fair values is recorded as goodwill. Acquisition-related expenses and integration costs are expensed as incurred. During the measurement period, the Company records adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. After the measurement period, which could be up to one year after the transaction date, subsequent adjustments are recorded to the Company's consolidated statements of operations.

Goodwill—Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. The carrying amount of goodwill is reviewed at least annually, or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. The Company has the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test under the authoritative guidance. If the Company determines that it is more likely than not that its fair value is less than the carrying amount, or opts not to perform a qualitative assessment, then the two-step goodwill impairment test will be performed. The first step, identifying a potential impairment, compares the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds its fair value, the second step will be performed; otherwise, no further step is required. The second step, measuring the impairment loss, compares the implied fair value of the goodwill with the carrying amount of the goodwill. Any excess of the goodwill carrying amount over the applied fair value is recognized as an impairment loss, and the carrying value of goodwill is written down to fair value. No impairment charges associated with goodwill have been recorded by the Company to date.

Intangible Assets—Intangible assets include acquired intangible assets identified through business combinations, which are carried at fair value less accumulated amortization, and purchased intangible assets, which are carried at cost less accumulated amortization. Amortization is recorded over the estimated useful lives of the assets, generally two years to 12 years. The Company reviews amortizable intangible assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Determination of recoverability is based on the lowest level of identifiable estimated undiscounted cash flows resulting from the use of the asset and its eventual disposition. Measurement of any impairment loss is based on the excess of the carrying value of the asset over its fair value. No impairment charges have been recorded to date.

Cost-Method Investments—Non-marketable equity investments that the Company has determined do not meet the criteria for accounting under the equity method of accounting are accounted for using the cost method of accounting and classified within "Other non-current assets" on the consolidated balance sheets. Under the cost method, investments are carried at cost and are adjusted only for other-than-temporary declines in fair value, certain distributions and additional investments. The carrying amount of investments is reviewed if events or changes in circumstances indicate that the carrying value may not be recoverable.

Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed of—The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

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

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

Revenue Recognition—The Company generates revenue from the sale of advertising products, transactions and other services, which correspond to the Company's major product lines. The Company recognizes revenue by applying the following steps: the contract with the customer is identified; the performance obligations in the contract are identified; the transaction price is determined; the transaction price is allocated to the performance obligations in the contract; and revenue is recognized when (or as) the Company satisfies these performance obligations in an amount that reflects the consideration it expects to be entitled to in exchange for those services. The Company applies the portfolio practical expedient to account for contracts with customers in each category of revenue. The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which revenue is recognized in the amount to which the Company has a right to invoice.

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

For all contracts with customers, estimates and assumptions include determining variable consideration and identifying the nature and timing of satisfaction of performance obligations. Because the Company considers contracts month-to-month, variable consideration is resolved at the time of invoicing, which eliminates the use of estimates in determining the transaction price. For contracts satisfied over time, the Company applies the invoice practical expedient to depict the value transferred to the customer and measure of progress towards completion of its obligations. The Company considers the right to receive consideration from a customer to correspond directly with the value to the customer of its performance completed to date. The Company does not consider the effects of the time value of money as substantially all of the Company’s contracts are invoiced on a monthly basis, one month in arrears.

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

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

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

Transactions. The Company generates transactions revenue primarily from revenue-sharing partner contracts and, through October 10, 2017, Yelp Eat24 as a standalone product.

The Company's transactions platform provides consumers with the ability to complete food delivery and other transactions through third parties directly on Yelp. The Company earns a per-transaction commission fee pursuant to partnership contracts for acting as an agent for these transactions, which it recognizes on a net basis and includes in revenue upon completion of a transaction. Prior to the disposal of Eat24, the Company's Yelp Eat24 business generated revenue through arrangements with restaurants, in which restaurants paid a commission percentage fee on orders placed through the Yelp Eat24 platform. The Company recorded revenue associated with Yelp Eat24 transactions on a net basis as the restaurant is primarily responsible for providing the underlying service and the Company does not control the service provided by the restaurant to the consumer. Concurrently with the disposal of Eat24 on October 10, 2017, the Company entered into a partnership agreement with Grubhub; as a result, following the sale, the Company generates revenue from transactions placed through the Grubhub network , including the Eat24

restaurant network, which are now part of the Grubhub restaurant network, that originate on Yelp.
Other Services. The Company generates other services revenue through subscription services contracts, such as sales of monthly subscriptions to its Yelp Reservations, Yelp Waitlist (previously referred to as Yelp Nowait) and Yelp WiFi Marketing products, licensing contracts for access to Yelp data and other non-advertising, non-transaction partnerships. Subscription revenues are recognized ratably over the contract terms beginning on the commencement date of each contract, which is the date the service is made available to customers.

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Cost of Revenue—The Company's cost of revenue primarily consists of credit card processing fees, web hosting costs, and salaries, benefits and stock-based compensation expense for its infrastructure teams related to operating the Company's website and mobile app. It also includes confirmation services expenses and delivery related costs as well as video production expenses.

Research and Development—The Company incurs research and development expenses for costs it incurs in research aimed at developing, and in translating the results of such research into, new products and services or significant improvements to existing products or services, whether intended for sale or for internal use. Such costs are considered research and development expense up to the point in time at which the product or service achieves technological feasibility. These expenses primarily consist of employee related costs (including stock-based compensation) for the Company's engineers and other employees engaged in the research and development of its products and services, as well as allocated indirect overhead costs. Research and development costs were $205.8 million, $171.2 million and $133.1 million for the years ended December 31, 2018, 2017 and 2016, respectively, and are recorded to costs and expenses in the consolidated statements of operations for those periods, primarily within product development costs.

Stock-Based Compensation—The Company accounts for stock-based employee compensation plans under the fair value recognition and measurement provisions, which require all stock-based payments to employees, including grants of stock options, restricted stock awards, restricted stock units and issuances under its 2012 Employee Stock Purchase Plan, as amended ("ESPP"), to be measured based on the grant-date fair value of the awards. The Company accounts for forfeitures as they occur.

Prior to January 1, 2016, stock-based compensation expense was recorded net of estimated forfeitures in the Company's consolidated statements of income (loss) and, accordingly, was recorded for only those stock-based awards that the Company expected to vest. The Company estimated the forfeiture rate based on historical forfeitures of equity awards and adjusted the rate to reflect changes in facts and circumstances, if any. The Company revised its estimated forfeiture rate if actual forfeitures differed from its initial estimates.

Effective as of January 1, 2016, the Company adopted a change in accounting policy in accordance with Accounting Standards Update No. 2016-09, "Compensation—Stock Compensation (Topic 718)" ("ASU 2016-09") to account for forfeitures as they occur. The change was applied on a modified retrospective basis with a cumulative effect adjustment to retained earnings of $1.1 million (which reduced the accumulated deficit) as of January 1, 2016. No prior periods were recast as a result of this change in accounting policy.

The fair value of options granted to employees is estimated on the grant date using the Black-Scholes-Merton option valuation model. This valuation model for stock-based compensation expense requires the Company to make assumptions and judgments about the variables used in the calculation, including the expected term (weighted-average period of time that the options granted are expected to be outstanding), the volatility in the fair market value of the Company's common stock, a risk-free interest rate and expected dividends. No compensation cost is recorded for options that do not vest. The Company uses the simplified calculation of expected life and volatility is based on an average of the historical volatilities of the common stock of several entities with characteristics similar to those of the Company. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option. The Company uses the straight-line method for expense attribution.

Advertising Expenses—Advertising costs are expensed in the period in which the advertising takes place. Costs of producing advertising are expensed in the period in which production takes place. Total advertising expenses incurred were $38.0 million, $50.3 million and $46.9 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Comprehensive Income (Loss)—Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss), which includes certain changes in equity that are excluded from net income (loss). Specifically, it includes foreign currency translation adjustments.

Income Taxes—The Company records income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, the Company generally considers all expected future events other than enactments or changes in the tax law or rates. In assessing the realization of deferred tax assets, the Company considers whether it is more likely than not that all or some portion of deferred tax assets will not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Valuation allowances are provided to reduce deferred tax assets to the amount that is more likely than not to be realized. In determining the need for a valuation allowance, the weight given to positive and negative evidence is commensurate with the extent to which the evidence may be objectively verified. The Company evaluates the ability to realize net deferred tax assets and the related valuation allowance on a quarterly basis.

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The Company operates in various tax jurisdictions and is subject to audit by various tax authorities. The Company provides for tax contingencies whenever it is deemed probable that a tax asset has been impaired or a tax liability has been incurred for events such as tax claims or changes in tax laws. Tax contingencies are based upon their technical merits, relative tax law and the specific facts and circumstances as of each reporting period. Changes in facts and circumstances could result in material changes to the amounts recorded for such tax contingencies.

The Company recognizes a tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

Effective as of January 1, 2016, the Company early adopted a change in accounting policy in accordance with ASU 2016-09, which eliminated the requirement that excess tax benefits be realized as a reduction in current taxes payable before the associated tax benefit could be recognized as an increase in paid in capital. Additionally, ASU 2016-09 addresses the presentation of excess tax benefits and employee taxes paid on the statement of cash flows. The Company is now required to present excess tax benefits as an operating activity in the same manner as other cash flows related to income taxes on the statement of cash flows rather than as a financing activity. The Company adopted this change prospectively.

Employee Benefit Plan—The Company sponsors a qualified 401(k) defined contribution plan covering eligible employees. Participants may contribute a portion of their annual compensation up to a maximum annual amount set by the Internal Revenue Service (“IRS”). Employer contributions under this plan were $12.0 million, $4.8 million and $3.8 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Recently Adopted Accounting Pronouncements

Revenue from Contracts with Customers—In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASC 606"), which supersedes the revenue recognition requirements in Revenue Recognition (Topic 605) and requires entities to recognize revenue when they transfer promised goods or services to customers in an amount that reflects the consideration that the entity expects to be entitled to receive in exchange for such goods or services. ASC 606 also modified Accounting Standards Codification Subtopic 340-40, "Other Assets and Deferred Costs—Contracts with Customers," which requires the Company to recognize a deferred cost asset for the incremental costs of obtaining a contract with a customer. The Company adopted ASC 606 effective January 1, 2018 using the full retrospective method and, accordingly, has recast each prior reporting period presented. The Company's adoption of ASC 606 resulted in the following adjustments to its previously reported results (in thousands):

	As Previously Reported	Impact of ASC 606 Adoption	As Currently Reported
Consolidated Statement of Operations—Year Ended December 31, 2016			
Net revenue	713,069	2,994	$716,063
Costs and Expenses:			
Sales and marketing	382,854	(2,959)	379,895
General and administrative	97,481	2,994	100,475
Net income (loss) attributable to common stockholders	(4,670)	2,959	(1,711)
Basic net income per share	(0.06)	0.04	(0.02)
Diluted net income per share	(0.06)	0.04	(0.02)
Consolidated Statement of Operations—Year Ended December 31, 2017			
Net revenue	846,813	4,034	$850,847
Costs and Expenses:			
Sales and marketing	438,643	(1,219)	437,424
General and administrative	105,673	4,034	109,707
Gain on disposal of a business unit	(164,779)	1,082	(163,697)

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Net income attributable to common stockholders	152,858	137	152,995
Diluted net income per share	1.75	0.01	1.76
Consolidated Balance Sheet—As of December 31, 2017			
Allowance for doubtful accounts	7,352	1,250	8,602
Other non-current assets	31,339	9,089	40,428
Retained earnings	70,081	9,089	79,170
Consolidated Statement of Cash Flows—Year Ended December 31, 2016			
Provision for doubtful accounts	15,913	2,994	18,907
Change in accounts receivable	(31,624)	(2,994)	(34,618)
Changes in prepaid expenses and other assets	5,687	(2,959)	2,728
Consolidated Statement of Cash Flows—Year Ended December 31, 2017			
Provision for doubtful accounts	16,883	4,034	20,917
Change in accounts receivable	(32,112)	(4,034)	(36,146)
Gain on disposal of a business unit	(164,779)	1,082	(163,697)
Changes in prepaid expenses and other assets	(1,362)	(1,219)	(2,581)
Consolidated Statement of Stockholders' Equity—Year Ended December 31, 2015			
Accumulated Deficit	(66,883)	5,993	(60,890)
Consolidated Statement of Stockholders' Equity—Year Ended December 31, 2016			
Accumulated Deficit	(70,221)	8,952	(61,269)

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

Recent Accounting Pronouncements Not Yet Effective

Lease Accounting

In February 2016, 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 financing 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 current accounting rules.

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," by recording a cumulative-effect adjustment to the Company's consolidated balance sheet as of January 1, 2019. The Company will take 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 less than 12 months. Those leases will be recorded on a straight line basis to the consolidated statement of operations over the lease term. 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 are greater than twelve months in duration upon its adoption of ASC 842. The most significant changes as a result of ASC 842 will be the recognition of operating lease right-of-use assets in the amounts of approximately $235 million to $255 million, and operating lease liabilities of $265 million to $285 million, respectively, on the Company's consolidated balance sheet upon adoption on January 1, 2019. These balances are comprised 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.

Based on the lease portfolio in place at the time of adoption, the Company does not expect there to be any difference between the operating lease expense recorded to its 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 the previous accounting guidance, ASC 840.

Other Pronouncements

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

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

In June 2018, 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 standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2018 and early adoption is permitted. The Company does not expect the adoption of ASU 2018-07 to have a material impact on its consolidated financial statements.

In August 2018, 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 is currently evaluating the impact of ASU 2018-13 on its consolidated financial statements.

In August 2018, 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 and related disclosures.

3. CASH, CASH EQUIVALENTS AND RESTRICTED CASH

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

	December 31, 2018	December 31, 2017
Cash	$ 81,055	$ 283,085
Cash equivalents	251,709	264,765
Total cash and cash equivalents	$ 332,764	$ 547,850
Restricted cash	22,071	18,554
Total cash, cash equivalents and restricted cash	$ 354,835	$ 566,404

As of December 31, 2018 and 2017, the Company had letters of credit collateralized fully by bank deposits which totaled $22.1 million and $18.6 million, respectively. These letters of credit primarily relate to lease agreements for certain of the Company’s offices, which are required to be maintained and issued to the landlords of each facility. Each letter of credit is subject to renewal annually until the applicable lease expires. As the bank deposits have restrictions on their use, they are classified as restricted cash on the Company's consolidated balance sheets.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company’s investments in money market accounts are recorded as cash equivalents at fair value in the 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, agency bonds and agency discount notes are classified within Level 2 of the fair value hierarchy because they have been valued using inputs other than quoted prices in active markets that are observable directly or indirectly.

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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 December 31, 2018 and 2017 (in thousands):

	December 31, 2018				December 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash Equivalents:								
Money market funds	$221,173	$—	$ —	$221,173	$217,838	$—	$ —	$217,838
Commercial paper	—	30,536	—	30,536	—	46,927	—	46,927
Marketable Securities:								
Commercial paper	—	175,070	—	175,070	—	138,412	—	138,412
Corporate bonds	—	131,496	—	131,496	—	69,926	—	69,926
U.S. government bonds	—	65,502	—	65,502	—	—	—	—
Agency bonds	—	50,846	—	50,846	—	78,913	—	78,913
Agency discount notes	—	—	—	—		10,989		10,989
Total cash equivalents and marketable securities	$221,173	$453,450	$ —	$674,623	$217,838	$345,167	$ —	$563,005

During the year ended December 31, 2018, the Company sold a security (with an expected maturity date of May 17, 2019) that had been classified as a held-to-maturity short-term marketable security on the Company's consolidated balance sheet prior to its sale. On October 29, 2018, a reputable ratings agency downgraded the security from "A+" to "A." Because the Company has a policy of maintaining securities that are at an investment grade of A+ or above, it sold the security on October 31, 2018. The security was carried at amortized cost of $18.0 million as of October 29, 2018 and the Company recorded a loss of $0.1 million upon its sale, which was recorded in other income, net on the Company's consolidated statement of operations for the year ended December 31, 2018.

5. MARKETABLE SECURITIES

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

	As of December 31, 2018			
Short-term marketable securities:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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 marketable securities	$423,096	$ 8	$ (190)	$422,914

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

Total long-term marketable securities	$25,032	$ —	$ (71)	$24,961
Total marketable securities	$298,398	$ 1	$ (159)	$298,240

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

	As of 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)

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

The Company periodically reviews its investment portfolio for other-than-temporary impairment. The Company considers such factors as the duration, severity and reason for the decline in value, and the potential recovery period. The Company also considers whether it is more likely than not that it will be required to sell the securities before the recovery of their amortized cost basis, and whether the amortized cost basis cannot be recovered as a result of credit losses. During the years ended December 31, 2018, 2017 and 2016, the Company did not recognize any other-than-temporary impairment loss.

6. PROPERTY, EQUIPMENT AND SOFTWARE, NET

The Company capitalized $26.9 million, $20.4 million and $19.2 million in website and internal-use software costs during the years ended December 31, 2018, 2017 and 2016, respectively, which are included in property, equipment and software, net on the consolidated balance sheets. Amortization expense related to website and internal-use software was $19.0 million, $16.7 million and $12.3 million for the years ended December 31, 2018, 2017 and 2016, respectively. The Company wrote off an immaterial amount of website and internal-use software costs in each of the years ended December 31, 2018, 2017 and 2016.

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

	December 31, 2018	December 31, 2017
Capitalized website and internal-use software development costs	$ 108,590	$ 81,710
Leasehold improvements	83,811	74,236
Computer equipment	40,801	32,450
Furniture and fixtures	17,839	16,435
Telecommunication	4,691	3,996
Software	1,651	1,212
Total	257,383	210,039
Less accumulated depreciation	(142,583)	(106,388)

Property, equipment and software, net	$ 114,800	$ 103,651

Depreciation expense for the years ended December 31, 2018, 2017 and 2016 was approximately $39.3 million, $34.6 million and $28.5 million, respectively.

7. GOODWILL AND INTANGIBLE ASSETS

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The Company's goodwill is the result of its acquisitions of other businesses, and represents the excess of purchase consideration over the fair value of assets and liabilities acquired. The Company completed its annual goodwill impairment analysis on August 31, 2018 and concluded that goodwill was not impaired, as the fair value of each reporting unit exceeded its carrying value.

Goodwill as of December 31, 2018 and 2017, and changes in the carrying amount of goodwill during the years ended December 31, 2018 and 2017, were as follows (in thousands):

	2018	2017
Balance, beginning of period	$107,954	$170,667
Goodwill acquired	—	42,007
Goodwill measurement period adjustment	—	(178)
Goodwill related to disposed asset group	—	(110,768)
Effect of currency translation	(2,334)	6,226
Balance, end of period	$105,620	$107,954

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

	As of 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	$25,515	$ (12,156)	$13,359	

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

Amortization expense for the years ended December 31, 2018, 2017 and 2016 was $3.5 million, $6.6 million and $6.8 million, respectively.

As of December 31, 2018, the estimated future amortization of purchased intangible assets for (i) each of the succeeding five years and (ii) thereafter was as follows (in thousands):

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Year Ending December 31,	Amount
2019	$3,277
2020	2,402
2021	2,262
2022	1,045
2023	714
Thereafter	3,659
Total	$13,359

8. ACQUISITIONS AND DISPOSALS

Nowait, Inc.

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

The acquisition was accounted for as a business combination in accordance with Accounting Standards Codification Topic 805, "Business Combinations" ("ASC 805"), with the results of Nowait's operations included in the Company's consolidated financial statements from February 28, 2017. The final purchase price allocation is as follows (in thousands):

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

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

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Intangible Asset Type	Amount Assigned	Useful Life
Enterprise restaurant relationships	$ 8,500	12.0 years
Acquired technology	2,900	5.0 years
Trademarks	610	3.0 years
Local restaurant relationships	600	5.0 years
User relationships	60	3.0 years
Weighted average		9.6 years

The intangible assets are being amortized on a straight-line basis, which reflects the pattern in which the economic benefits of the intangible assets are being utilized. The goodwill results from the Company's opportunity to drive daily engagement in its key restaurant vertical by allowing consumers to move more quickly from search and discovery to transacting at a local business. None of the goodwill is deductible for tax purposes.

The Company recorded no acquisition-related transaction costs for the year ended December 31, 2018. For the year ended December 31, 2017, the Company recorded acquisition-related transaction costs of approximately $0.1 million, which were included in general and administrative expenses in the accompanying consolidated statement of operations.

The consolidated statements of operations for the years ended December 31, 2018 and 2017 included $5.3 million and $3.9 million of revenues attributable to the Nowait product, respectively. The Company completed the integration of Nowait's operations into those of the Company during the three months ended December 31, 2017 and, as such, determining Nowait's contribution to the net income of the Company for the years ended December 31, 2018 and 2017 is impracticable.

Turnstyle Analytics Inc.

On April 3, 2017, the Company acquired all of the equity interests in Turnstyle Analytics Inc. ("Turnstyle") for $20.6 million, approximately $1.0 million of which represents compensation cost due to a continuous service requirement, and the remainder of which represents purchase consideration. Of the total consideration paid in connection with the acquisition, $3.1 million was initially held in escrow for an 18-month period after the closing to secure the Company's indemnification rights. The remaining escrow funds were released in October 2018. The key factor underlying the acquisition was to obtain a customer retention and loyalty product in the form of a location-based marketing and analytics platform that provides wifi as a digital marketing tool to expand its product offerings for local businesses. The acquisition was accounted for as a business combination in accordance with ASC 805, with the results of Turnstyle's operations included in the Company's consolidated financial statements from April 3, 2017. The final purchase price allocation is as follows (in thousands):

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

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

Intangible Asset Type	Amount Assigned	Useful Life
Acquired technology	$ 3,250	5.0 years
Business relationships	672	5.0 years
Trademarks	250	3.0 years
User relationships	80	3.0 years
Weighted average		4.9 years

The intangible assets are being amortized on a straight-line basis, which reflects the pattern in which the economic benefits of the intangible assets are being utilized. The goodwill results from the Company's opportunity to expand its product offerings to local businesses through the Turnstyle marketing and analytics platform, which the Company renamed Yelp WiFi Marketing. None of the goodwill is deductible for tax purposes.

The Company recorded no acquisition-related transaction costs for the year ended December 31, 2018. For the year ended December 31, 2017, the Company recorded acquisition-related transaction costs of approximately $0.3 million, which were included in general and administrative expenses in the accompanying consolidated statement of operations.

The consolidated statements of operations for the years ended December 31, 2018 and 2017 include $3.1 million and $1.3 million of revenue attributable to Yelp WiFi Marketing, respectively.

The Company completed the integration of Turnstyle's operations into those of the Company during the three months ended December 31, 2017 and, as such, determining Turnstyle's contribution to the net income of the Company for the year ended December 31, 2018 is impracticable. The consolidated statement of operations for the year ended December 31, 2017 includes $8.8 million of net loss attributable to Turnstyle.

Eat24, LLC

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

The Company received $251.7 million in cash at closing; the Purchaser paid the remaining $28.8 million of the purchase price into an escrow account, which will be held for a minimum 18-month period after closing to secure the Purchaser's rights of indemnification under the Purchase Agreement and is presented on the Company's consolidated balance sheets as an Other non-current asset (see Note 9). The date and amount of final release of escrow funds are subject to the resolution of any claims. The Company received approximately $1.0 million in additional purchase consideration on December 14, 2017 as a net working capital adjustment. As a result of the sale, the Company recognized a pre-tax gain of $163.7 million during the year ended December 31, 2017, which is included in Gain on disposal of a business unit in the Company's consolidated statement of operations and is net of $0.3 million in Disposal-related costs. Prior to the Disposal, Eat24 was its own reporting unit and $110.8 million of goodwill associated with the Eat24 reporting unit was de-recognized and included with the net assets transferred in the Disposal (see Note 7).

The Disposal was accounted for as an asset group disposal in accordance with Accounting Standards Codification 360, "Property, Plant, and Equipment." The results of Eat24's operations are included in the Company's consolidated financial statements through October 10, 2017. As the Disposal represented the sale of an individually significant component, the Company has disclosed the loss before provision for income taxes attributable to Eat24 for the years ended December 31, 2017 and 2016, which are as follows (in thousands):

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	Year Ended December 31,	
	2017	2016
Loss before income taxes	$(11,941)	$(4,873)

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

9. OTHER NON-CURRENT ASSETS

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

	2018	2017
Escrow deposit	$28,750	$28,750
Deferred contract costs	12,345	9,089
Other	18,349	2,589
Total other non-current assets	$59,444	$40,428

The escrow deposit consists of the funds held in escrow related to the Disposal of Eat24 (see Note 8), which are being held for an 18-month period after closing to secure the Purchaser's rights of indemnification under the Purchase Agreement. The remaining other non-current assets are primarily deferred tax assets.

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

	2018	2017
Balance, beginning of period	$9,089	$8,952
Add: costs deferred on new contracts	14,572	11,359
Less: amortization recorded in sales and marketing expenses	(11,316)	(10,140)
Less: disposal of a business unit	—	(1,082)
Balance, end of period	$12,345	$9,089

10. CONTRACT BALANCES

The allowance for doubtful accounts as of December 31, 2018, 2017 and 2016, and changes in the allowance for doubtful accounts during the years ended December 31, 2018, 2017 and 2016, were as follows (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Balance, beginning of period	$8,602	$6,196	$3,208
Add: provision for doubtful accounts	24,515	20,917	18,907
Less: write-offs, net of recoveries	(24,432)	(18,511)	(15,919)
Balance, end of period	$8,685	$8,602	$6,196

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.

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As of December 31, 2018, deferred revenue was $3.8 million, the majority of which is expected to be recognized as revenue in the subsequent three-month period ending March 31, 2019. Changes in deferred revenue during the years ended December 31, 2018 and 2017 were as follows (in thousands):

	Year Ended December 31,	
	2018	2017
Balance, beginning of period	$3,469	$3,314
Less: recognition of deferred revenue from beginning balance	(3,436)	(2,638)
Add: net increase in current period contract liabilities	3,810	2,793
Balance, end of period	$3,843	$3,469

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 consolidated balance sheets as of December 31, 2018 and 2017.

11. ACCRUED LIABILITIES

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

	December 31, 2018	December 31, 2017
Accrued employee compensation and related	$ 21,580	$ 17,725
Accrued sales and marketing expenses	4,536	3,458
Accrued tax liabilities	5,491	32,617
Accrued cost of revenue	5,463	3,022
Other accrued expenses	17,452	16,843
Total accrued liabilities	$ 54,522	$ 73,665

12. LONG-TERM LIABILITIES

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

	December 31, 2018	December 31, 2017
Deferred rent	$ 31,253	$ 26,904
Other long-term liabilities	3,887	3,833
Total long-term liabilities	$ 35,140	$ 30,737

13. COMMITMENTS AND CONTINGENCIES

Office Facility Leases—The Company leases its office facilities under operating lease agreements that expire from 2019 to 2029. Certain lease agreements provide for rental payments on a graduated basis. The Company recognizes rent expense on a straight-line basis over the lease period. Rental expense was $51.2 million, $42.5 million and $36.8 million for the years ended December 31, 2018, 2017 and 2016, respectively.

As of December 31, 2018, the Company’s minimum payments under noncancelable operating leases for equipment and office space having initial terms in excess of one year 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

The Company has subleased certain office facilities under operating lease agreements that expire in 2021. The Company recognizes sublease rentals as a reduction in rental expense on a straight-line basis over the lease period. Sublease rental income was $2.2 million, $2.6 million and $2.0 million for the years ended December 31, 2018, 2017, and 2016, respectively. The Company expects future sublease rental receipts of $4.3 million between 2019 and 2021.

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. 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 adverse 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 the breach of such agreements, services to be provided by the Company or from intellectual property infringement claims made by third parties.

Under the Purchase Agreement (see Note 8), the Company agreed to indemnify the Purchaser and certain related parties against certain losses arising out of Purchaser's acquisition of Eat24, including, but not limited to, any breach or inaccuracy of any representation or warranty made by the Company or Eat24 in the Purchase Agreement. The Company's indemnification obligations are subject to the terms and conditions set forth in the Purchase Agreement, and are capped at the purchase price received by the Company in the Disposal.

In addition, the Company has entered into indemnification agreements with directors and certain officers and employees that 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

Elimination of Dual-Class Common Stock Structure

On September 22, 2016, all outstanding shares of the Company’s Class A common stock and Class B common stock automatically converted into a single class of common stock (the “Conversion”) pursuant to the terms of the Company’s Amended

and Restated Certificate of Incorporation. On September 23, 2016, the Company filed a certificate with the Secretary of State of the State of Delaware effecting the retirement and cancellation of the Class A common stock and Class B common stock. This certificate of retirement had the additional effect of eliminating the authorized Class A and Class B shares, thereby reducing the Company's total number of authorized shares of common stock from 500,000,000 to 200,000,000.

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

	December 31, 2018		December 31, 2017	
	Shares Authorized	Shares Issued and Outstanding	Shares Authorized	Shares Issued and Outstanding
Stockholders' equity:				
Common stock, $0.000001 par value	200,000,000	81,996,839	200,000,000	83,724,916
Undesignated Preferred Stock	10,000,000	—	10,000,000	—

Stock Repurchase Program

On July 31, 2017, the Company's board of directors approved 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. No shares had been repurchased under this new authorization as of December 31, 2018. 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 years ended December 31, 2018 and 2017, the Company repurchased on the open market and subsequently retired 4,896,003 shares and 302,206 shares, respectively, for aggregate purchase prices of approximately $187.4 million and $12.6 million, respectively. The Company completed these repurchases pursuant to the stock repurchase program authorized on July 31, 2017.

Common Stock Reserved for Future Issuance

As of December 31, 2018, the Company had reserved shares of common stock for future issuances in connection with the following:

	Number of Shares
Stock options outstanding	6,818,682
RSUs outstanding	6,563,863
Available for future stock option and restricted stock units and awards grants	6,046,518
Available for future ESPP offerings	2,076,250
Total reserved for future issuance	21,505,313

Equity Incentive Plans

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

Stock Options

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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 on the grant date. Options granted to date generally vest over a 4.0-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.

For the years ended December 31, 2018, 2017 and 2016, the weighted-average assumptions used for the Black-Scholes-Merton option valuation model were as follows:

	Year Ended December 31,		
	2018	2017	2016
Dividend yield	—	—	—
Annual risk-free rate	2.23 %	2.14 %	1.53 %
Expected volatility	42.00%	44.00%	44.00%
Expected term (years)	6.02	5.90	5.84

A summary of stock option activity for the year ended December 31, 2018 is as follows:

	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding-December 31, 2017	7,078,932	$ 22.70	5.56 years	$ 145,613
Granted	685,850	43.52		
Exercised	(779,871)	19.97		
Forfeited	(166,229)	46.09		
Outstanding-December 31, 2018	6,818,682	$ 24.54	5.11 years	$ 88,983
Options vested and exercisable as of December 31, 2018	5,655,790	$ 22.03	4.44 years	$ 86,155

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 $18.9 million, $28.0 million and $23.2 million for the years ended December 31, 2018, 2017 and 2016, respectively.

The weighted-average grant date fair value of options granted was $18.89, $15.35 and $10.16 per share for the years ended December 31, 2018, 2017 and 2016, respectively.

As of December 31, 2018, total unrecognized compensation costs related to unvested stock options was approximately $17.9 million, which the Company expects to recognize over a weighted-average time period of 2.3 years.

RSUs

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

A summary of RSU activity for the year ended December 31, 2018 is as follows:

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	Restricted Stock Units	
	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested December 31, 2017	7,249,205	$ 34.57
Granted	4,054,394	43.15
Vested [1]	(3,152,490)	36.16
Forfeited	(1,587,246)	36.36
Unvested December 31, 2018	6,563,863	$ 38.67

(1) Included in this balance is 1,206,014 shares vested but 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 years ended December 31, 2018, 2017 and 2016 was $131.1 million, $104.2 million and $57.6 million, respectively. As of December 31, 2018, the Company had approximately $242.1 million of unrecognized stock-based compensation expense related to RSUs, which the Company expects to recognize over the remaining weighted-average vesting period of approximately 2.6 years.

Employee Stock Purchase Plan

The ESPP allows eligible employees to purchase shares of the Company's common stock at a discount through payroll deductions of up to 15% of their eligible compensation, subject to any plan limitations, during designated offering periods. At the end of each offering period, employees are able to purchase shares at 85% of the fair market value of the Company's common stock on the last day of the offering period, based on the closing sales price of the Company's common stock as quoted on the New York Stock Exchange on such date.

During the years ended December 31, 2018, 2017 and 2016, employees purchased 442,679, 373,580 and 342,057 shares, respectively, at a weighted-average purchase price per share of $32.07, $29.23 and $26.12, respectively. The Company recognized stock-based compensation expense related to the ESPP of $2.6 million, $2.0 million and $1.5 million in the years ended December 31, 2018, 2017 and 2016, respectively.

Stock-Based Compensation

For the years ended December 31, 2018, 2017 and 2016, the weighted-average assumptions used in the Black-Scholes-Merton valuation model are as follows:

	Year Ended December 31,		
	2018	2017	2016
Dividend yield	—	—	—
Annual risk-free rate	2.23 %	2.14 %	1.53 %
Expected volatility	42.00%	44.00%	44.00%
Expected term (years)	6.02	5.90	5.84

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

	Year Ended December 31,		
	2018	2017	2016
Cost of revenue	$4,572	$4,010	$2,446
Sales and marketing	30,779	28,100	27,098
Product development	56,882	47,280	36,323
General and administrative	22,153	21,025	20,394
Total stock-based compensation in income (loss) before incomes taxes	114,386	100,415	86,261
Benefit from income taxes	(30,237)	(1,407)	(643)
Total stock-based compensation in income (loss)	$84,149	$99,008	$85,618

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During the years ended December 31, 2018, 2017 and 2016, the Company capitalized $7.8 million, $5.8 million and $4.5 million, respectively, of stock-based compensation expense as website and internal-use software costs.

15. OTHER INCOME, NET

Other income, net for the years ended December 31, 2018, 2017 and 2016 consisted of the following (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Interest income, net	$13,804	$4,189	$1,724
Transaction gain (loss) on foreign exchange	(70)	258	(175)
Other non-operating income, net	375	417	145
Other income, net	$14,109	$4,864	$1,694

16. INCOME TAXES

As of January 1, 2018, the Company adopted ASC 606 using the full retrospective method. Accordingly, the Company has recast certain amounts in the prior periods presented. Specifically, a deferred tax liability was recorded related to deferred contract costs. The recording of this liability had no impact on the Company’s provision for income taxes for the years ending December 31, 2017 and December 31, 2016, as the impact was offset by a corresponding change in the valuation allowance against the Company’s U.S. deferred tax assets. Although the adoption of ASC 606 had no impact on the provision for income taxes, the effective tax rates for the years ending December 31, 2017 and December 31, 2016 were impacted by the change in income before tax.

The following table presents domestic and foreign components of income (loss) before income taxes for the periods presented (in thousands):

	Year Ended December 31,		
	2018	2017	2016
United States	$44,856	$194,376	$4,638
Foreign	(4,850)	(9,890)	(4,964)
Total income (loss) before income taxes	$40,006	$184,486	$(326)

The income tax provision is composed of the following (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Current:			
Federal	$(819)	$25,785	$—
State	384	5,069	35
Foreign	560	354	86
Total current tax	$125	$31,208	$121
Deferred:			
Federal	$(10,032)	$(28)	$106
State	(6,491)	15	13
Foreign	1,054	296	1,145
Total deferred tax	(15,469)	283	1,264
Total (benefit from) provision for income taxes	$(15,344)	$31,491	$1,385

The following table presents a reconciliation of the statutory federal rate and the Company’s effective tax rate for the periods presented:

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	Year Ended December 31,		
	2018	2017	2016
Income tax at federal statutory rate	21.00 %	35.00 %	35.00 %
State tax, net of federal tax effect	3.24	3.54	175.83
Foreign income tax rate differential	(0.54)	0.50	(15.49)
Stock-based compensation	(16.80)	(4.82)	105.69
Income tax credits	(35.83)	(5.39)	1,649.82
Change in valuation allowance	(25.08)	(30.23)	(1,549.03)
Change in uncertain tax positions	4.48	0.98	(0.04)
Gain on disposal of a business unit	—	17.42	—
Meals and entertainment	4.87	0.24	(139.38)
Other non-deductible expenses	5.14	0.12	(62.03)
Deferred adjustments	2.24	(0.12)	(118.87)
Expiration of deferred tax benefit	—	—	(510.98)
Other	(1.07)	(0.18)	4.86
Effective tax rate	(38.35)%	17.06 %	(424.62)%

Deferred Tax Balances

Deferred income taxes reflect the net tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following table presents the significant components of the Company’s deferred tax assets and liabilities for the periods presented (in thousands):

	As of December 31,	
	2018	2017
Deferred tax assets:		
Reserves and others	$14,223	$10,869
Stock-based compensation	19,689	19,556
Net operating loss carryforward	5,956	8,115
Tax credit carryforward	23,073	14,183
Gross deferred tax assets	62,941	52,723
Valuation allowance	(18,381)	(28,566)
Total deferred tax assets	44,560	24,157
Deferred tax liabilities:		
Depreciation and amortization	(16,666)	(12,813)
Disposal of a business unit	(7,454)	(7,152)
Deferred contract costs	(3,201)	(2,329)
Total deferred tax liabilities	(27,321)	(22,294)
Net deferred tax assets (liabilities)	$17,239	$1,863

At December 31, 2018, the Company had federal and state net operating loss carry-forwards of approximately $14.4 million and $35.0 million, respectively, expiring beginning in 2030 and 2019, respectively. A wholly owned entity, Yelp GmbH, also had trading losses of $6.6 million at December 31, 2018 in Germany, which may be carried forward indefinitely against profits. At December 31, 2018, the Company had federal research credit carry-forwards of approximately $18.9 million that expire beginning in 2031, and California research credit carry-forwards of approximately $36.4 million that do not expire. At December 31, 2018, the Company also had $1.6 million of California Enterprise Zone credit, expiring beginning in 2024.

Utilization of net operating loss carry-forwards and credits may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits before utilization. The

Company does not expect any previous ownership changes, as defined under Section 382 and 383 of the Internal Revenue Code, to result in a limitation that will materially reduce the total amount of net operating loss carry-forwards and credits that can be utilized. Further, foreign loss carry-forwards may be subject to limitations under the applicable laws of the taxing jurisdictions due to ownership change limitations.

Deferred Tax Valuation Allowance

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As more fully described in "Income Taxes" in Note 2, the Company maintains valuation allowances against deferred tax balances where appropriate, and considers all positive and negative evidence that the Company would have future taxable income sufficient to realize the benefit of its deferred tax assets.

At December 31, 2017, the Company could not assert, at the required more-likely-than-not level of certainty, that its domestic and foreign operations would generate sufficient taxable income to realize all of its deferred tax assets after considering the duration and severity of losses in prior years, investments in domestic and international markets, and investments in employees, content, brand and technology. Accordingly, the Company maintained a valuation allowance against all U.S. deferred tax assets.

At December 31, 2018, the Company considered all positive and negative evidence on whether the Company would have future taxable income sufficient to realize the benefit of its deferred tax assets and concluded that, at the required more-likely-than-not level of certainty, the Company would have future taxable U.S. income sufficient to realize the benefit of certain domestic deferred tax assets . The factors that the Company weighted most heavily in this analysis were the achievement of three years of cumulative income in the U.S. tax jurisdiction, a history of taxable U.S. income in recent periods, a current forecast of income before taxes for the U.S, and more complete information on the impact on taxable income of the Company's recent transition to non-term contracts. As such, the valuation allowance previously recorded against certain domestic deferred tax assets was released. The provision(benefit) for income taxes for the year ended December 31, 2018 includes a $16.6 million benefit associated with this release. The remaining valuation allowance of $18.4 million as of December 31, 2018 is primarily related to California state tax credits. Since the Company mainly conducts research and development activities in California, but earns a substantial portion of its U.S. income in other states, the Company could not assert, at the required more-likely-than-not level of certainty, that it will generate future taxable California income sufficient to realize the benefit of these deferred tax assets.

Impacts of Recent Tax Legislation

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

Under GAAP, the Company is required to recognize the impact of tax legislation in the period in which the law is enacted. However, in December 2017, the Securities and Exchange Commission issued Staff Bulletin No. 118 ("SAB 118"), which allowed the Company to record provisional amounts during a measurement period not to extend beyond one year from the Tax Act's enactment date. The income tax provision for the year ended December 31, 2017 included the Company's reasonable estimates for re-measurement of deferred taxes, and any related valuation allowance, due to the Tax Rate Reduction and the Transition Tax. The Company will record consequences of the Global Intangible Low-Taxed Income provision of the Tax Act as period costs if and when incurred.

During the fourth quarter of 2018, the Company finalized the re-measurement of the future tax benefit for deferred tax assets as of December 31, 2017 resulting from the Tax Rate Reduction, and no adjustment was necessary to the Company's original estimates. As of December 31, 2018, the Company had a net cumulative deficit on the earnings and profits of its foreign subsidiaries and, therefore, the Transition Tax had no impact on the Company's consolidated financial statements. The Company expects further guidance may be forthcoming from FASB and the Securities Exchange Commission, as well as regulations, interpretations and rulings from federal and state agencies, which could result in additional impacts to the Company's consolidated financial statements.

Prior to the effectiveness of the Tax Act, the Company did not recognize a deferred tax liability related to un-remitted foreign earnings because such earnings were expected to be reinvested indefinitely. As of December 31, 2018, the Company had accumulated undistributed earnings generated by its foreign subsidiaries of approximately $2.2 million. Because $2.2 million of such earnings have previously been subject to the one-time Transition Tax on foreign earnings, any additional 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 continues to intend to indefinitely reinvest these earnings and expects future U.S. cash generation to be sufficient to meet future U.S. cash needs.

Unrecognized Tax Benefits

As of December 31, 2018, 2017 and 2016, the Company had $33.1 million, $18.2 million and $10.3 million, respectively, of unrecognized tax benefits. A reconciliation of the beginning and ending amount of unrecognized benefits is as follows (in thousands):

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	Year Ended December 31,		
	2018	2017	2016
Balance at the beginning of the year	$18,215	$10,340	$5,049
Increase (decrease) based on tax positions related to the prior year	3,654	667	1,381
Increase based on tax positions related to the current year	11,485	7,209	4,131
Lapse of statute of limitations	(247)	(1)	(221)
Balance at the end of the year	$33,107	$18,215	$10,340

As of December 31, 2018, the Company had $19.9 million of unrecognized tax benefits that, if recognized, would affect the effective tax rate. The Company's policy is to record interest and penalties related to unrecognized tax benefits as income tax expense. During each of the years ended December 31, 2018, 2017 and 2016, the Company recorded an immaterial amount of interest and penalties.

In addition, the Company is subject to the continuous examination of its income tax returns by the IRS and other tax authorities. The Company's federal and state income tax returns for fiscal years subsequent to 2003 remain open to examination. In the Company's most significant foreign jurisdictions – Ireland, United Kingdom and Germany – the tax years subsequent to 2010 remain open to examination. The Company regularly assesses the likelihood of adverse outcomes resulting from examinations to determine the adequacy of its provision for income taxes, and monitors the progress of ongoing discussions with tax authorities and the impact, if any, of the expected expiration of the statute of limitations in various taxing jurisdictions. The Company believes that an adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs. Although the timing of the resolution or closure of audits is not certain, the Company believes that it is reasonably possible that its unrecognized tax benefits could be reduced by $1.9 million over the 12 months following December 31, 2018.

17. NET INCOME (LOSS) PER SHARE

Basic and diluted net income (loss) per share attributable to common stockholders for periods prior to the Conversion are presented in conformity with the "two-class method" required for participating securities. Prior to the Conversion, shares of Class A and Class B common stock were the only outstanding equity in the Company. The rights of the holders of Class A and Class B common stock were identical, except with respect to voting and conversion. Each share of Class A common stock was entitled to one vote per share and each share of Class B common stock was entitled to ten votes per share. Shares of Class B common stock were convertible into Class A common stock at any time at the option of the stockholder, and were automatically converted upon sale or transfer to Class A common stock, subject to certain limited exceptions, and in connection with certain other conversion events.

Under the two-class method, basic net income (loss) per share is computed using the weighted-average number of shares of common stock outstanding during the period. Diluted net income (loss) per share is computed using the weighted-average number of shares of common stock and, if dilutive, potential shares of common stock outstanding during the period. The Company's potential shares of common stock consist of the incremental shares of common stock issuable upon the exercise of stock options, shares issuable upon the vesting of RSUs and, to a lesser extent, purchases related to the ESPP. The dilutive effect of these potential shares of common stock is reflected in diluted earnings per share by application of the treasury stock method. The computation of the diluted net income (loss) per share of Class A common stock assumes the conversion of Class B common stock, while the diluted net income (loss) per share of Class B common stock does not assume the conversion of Class B common stock.

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

On September 22, 2016, the Company's Class A and Class B common stock converted into a single class of common stock. Because shares of Class A and Class B common stock were outstanding for a portion of the year ended

December 31, 2016, the Company has disclosed earnings per common share for both classes of common stock for such reporting period. Basic and diluted net income (loss) per share attributable to common stockholders for periods after the Conversion, including the current reporting period, are presented based on the number of shares of common stock then outstanding.

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

	Year Ended December 31,			
	2018	2017	2016	
	Common Stock	Common Stock	Class A	Class B
Basic net income (loss) per share attributable to common stockholders:				
Numerator:				
Net income (loss)	$55,350	$152,995	$(1,574)	$(137)
Allocation of undistributed earnings	$55,350	$152,995	$(1,574)	$(137)
Denominator:				
Weighted-average shares outstanding	83,573	81,602	70,997	6,189
Basic net income (loss) per share attributable to common stockholders:	$0.66	$1.87	$(0.02)	$(0.02)

	Year Ended December 31,			
	2018	2017	2016	
	Common Stock	Common Stock	Class A	Class B
Diluted net income (loss) per share attributable to common stockholders:				
Numerator:				
Allocation of undistributed earnings for basic calculations	$55,350	$152,995	$(1,574)	$(137)
Reallocation of undistributed earnings as a result of conversion from Class B to Class A shares	—	—	(137)	—
Allocation of undistributed earnings	$55,350	$152,995	$(1,711)	$(137)
Denominator:				
Number of shares used in basic calculation	83,573	81,602	70,997	6,189
Weighted-average effect of dilutive securities				
Conversion of Class B to Class A common shares outstanding	—	—	6,189	—
Stock options	2,984	3,279	—	—
Restricted stock units	2,137	2,289	—	—
Employee stock purchase program	15	—	—	—
Number of shares used in diluted calculation	88,709	87,170	77,186	6,189
Diluted net income (loss) per share attributable to common stockholders	$0.62	$1.76	$(0.02)	$(0.02)

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

	Year Ended December 31,		
	2018	2017	2016
Stock options	2,030	1,659	2,082
Restricted stock units and awards	373	593	2,090

18. INFORMATION ABOUT REVENUE AND GEOGRAPHIC AREAS

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

The Company has determined that it has a single operating and reporting segment. When the Company communicates results externally, it disaggregates net revenue into major product lines and primary geographical markets, which is based on the billing address of the customer. 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 product line for the periods presented (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Net revenue by product:			
Advertising	$907,487	$775,678	$648,235
Transactions	13,694	60,251	62,495
Other services	21,592	14,918	5,333
Total net revenue	$942,773	$850,847	$716,063

During the years ended December 31, 2018, 2017 and 2016, no individual customer accounted for 10% or more of consolidated net revenue.

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

	Year Ended December 31,		
	2018	2017	2016
United States	$929,569	$836,766	$701,238
All other countries	13,204	14,081	14,825
Total net revenue	$942,773	$850,847	$716,063

Long-Lived Assets

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

	As of December 31,		
	2018	2017	2016
United States	$112,984	$100,990	$89,362
All other countries	1,816	2,661	3,078
Total long-lived assets	$114,800	$103,651	$92,440

19. RESTRUCTURING AND INTEGRATION

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

	Year Ended December 31,		
	2018	2017	2016
Restructuring and integration	$—	$288	$3,455

On November 2, 2016, the Company announced plans to significantly reduce sales and marketing activities in markets outside of the United States and Canada. The restructuring plan was completed by December 31, 2017. The Company does not expect to incur any additional expenses related to this restructuring plan. No goodwill, intangible assets or other long-lived assets were impaired as a result of the restructuring plan. There were no remaining unpaid amounts related to this plan as of December 31, 2017.

20. SUBSEQUENT EVENTS

On February 11, 2019, the Company's board of directors approved an increase of $250 million to the stock repurchase program. Together with the $250 million authorized on November 27, 2018 (see Note 14), this brought the total amount authorized for repurchase under the stock repurchase program to $500 million. The Company began repurchasing shares pursuant to these authorizations in February 2019.