

YELP INC
Form 10-Q
August 09, 2016

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

Form 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended June 30, 2016

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
(State or Other Jurisdiction of
Incorporation or Organization)

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

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

94105
(Zip Code)

(415) 908-3801

(Registrant's Telephone Number, Including Area Code)

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

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

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

Edgar Filing: YELP INC - Form 10-Q

Large accelerated filer

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

Accelerated filer

Smaller reporting company

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

As of August 4, 2016, there were 68,896,510 shares of registrant's Class A common stock, par value \$0.000001 per share, issued and outstanding and 8,444,146 shares of registrant's Class B common stock, par value \$0.000001 per share, issued and outstanding.

YELP INC.
QUARTERLY REPORT ON FORM 10-Q
TABLE OF CONTENTS

		Page
PART I. FINANCIAL INFORMATION		
Item 1.	Financial Statements (Unaudited).	
	Condensed Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015.	1
	Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2016 and 2015.	2
	Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Six Months Ended June 30, 2016 and 2015.	3
	Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2016 and 2015.	4
	Notes to Condensed Consolidated Financial Statements.	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.	21
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.	32
Item 4.	Controls and Procedures.	32
PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings.	33
Item 1A.	Risk Factors.	33
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.	52
Item 3.	Defaults Upon Senior Securities.	52
Item 4.	Mine Safety Disclosures.	52
Item 5.	Other Information.	52
Item 6.	Exhibits.	52
SIGNATURES		53

Unless the context suggests otherwise, references in this Quarterly Report on Form 10-Q (the "Quarterly Report") to Yelp, the Company, we, and our refer to Yelp Inc. and, where appropriate, its subsidiaries.

Unless the context otherwise indicates, where we refer in this Quarterly Report to our mobile application or mobile app, we refer to all of our applications for mobile-enabled devices; references to our mobile platform refer to both our mobile app and the versions of our website that are optimized for mobile-based browsers. Similarly, references to our website refer to versions of our website dedicated to both desktop- and mobile-based browsers, as well as the U.S. and international versions of our website.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report contains forward-looking statements that involve risks, uncertainties and assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Quarterly Report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are often identified by the use of words such as, but not limited to, anticipate, believe, can, continue, estimate, expect, intend, may, might, plan, project, seek, should, target, will, would and similar expressions or variations thereof. Forward-looking statements. These statements are based on the beliefs and assumptions of our management, which are in turn based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section entitled "Risk Factors" included under Part II, Item 1A below. Furthermore, such forward-looking statements speak only as of the date of

Edgar Filing: YELP INC - Form 10-Q

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 our Eat24 or Yelp Reservations (previously referred to as SeatMe) businesses.

Edgar Filing: YELP INC - Form 10-Q

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 around the world. 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 discernable 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.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 196,295	\$ 171,613
Short-term marketable securities	201,806	199,214
Accounts receivable (net of allowance for doubtful accounts of \$4,269 and \$3,208 at June 30, 2016 and December 31, 2015, respectively)	59,887	52,755
Prepaid expenses and other current assets	15,753	19,700
Total current assets	473,741	443,282
Long-term marketable securities	6,000	-
Property, equipment and software, net	89,502	80,467
Goodwill	172,908	172,197
Intangibles, net	35,992	39,294
Restricted cash	17,306	16,486
Other assets	4,349	3,701
Total assets	\$ 799,798	\$ 755,427
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,325	\$ 3,388
Accrued liabilities	51,563	43,458
Deferred revenue	3,337	2,931
Total current liabilities	56,225	49,777
Long-term liabilities	14,466	12,030
Total liabilities	70,691	61,807
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock, \$0.000001 par value 500,000,000 shares authorized; 77,244,798 and 75,982,802 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	-	-
Additional paid-in capital	822,385	774,022
Accumulated other comprehensive loss	(12,724)	(13,519)
Accumulated deficit	(80,554)	(66,883)
Total stockholders' equity	729,107	693,620
Total liabilities and stockholders' equity	\$ 799,798	\$ 755,427

See notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net revenue	\$ 173,428	\$ 133,913	\$ 332,041	\$ 252,421
Costs and expenses:				
Cost of revenue (exclusive of depreciation and amortization shown separately below)	15,087	13,057	30,165	21,756
Sales and marketing	94,402	68,014	190,030	131,280
Product development	33,098	26,345	65,320	50,305
General and administrative	23,464	19,280	45,233	39,217
Depreciation and amortization	8,564	7,167	16,753	14,062
Total costs and expenses	174,615	133,863	347,501	256,620
Income (loss) from operations	(1,187)	50	(15,460)	(4,199)
Other income, net	367	329	625	891
Income (loss) before income taxes	(820)	379	(14,835)	(3,308)
Benefit (provision) for income taxes	1,269	(1,684)	(168)	719
Net income (loss) attributable to common stockholders (Class A and B)	\$ 449	\$ (1,305)	\$ (15,003)	\$ (2,589)
Net income (loss) per share attributable to common stockholders (Class A and B)				
Basic	\$ 0.01	\$ (0.02)	\$ (0.20)	\$ (0.03)
Diluted	\$ 0.01	\$ (0.02)	\$ (0.20)	\$ (0.03)
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders (Class A and B)				
Basic	76,467	74,631	76,176	74,009
Diluted	79,280	74,631	76,176	74,009

See notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income (loss)	\$ 449	\$ (1,305)	\$ (15,003)	\$ (2,589)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(947)	1,344	795	(6,521)
Other comprehensive income (loss)	(947)	1,344	795	(6,521)
Comprehensive income (loss)	\$ (498)	\$ 39	\$ (14,208)	\$ (9,110)

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2016	2015
OPERATING ACTIVITIES:		
Net loss	\$ (15,003)	\$ (2,589)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	16,753	14,062
Provision for doubtful accounts and sales returns	7,425	6,076
Stock-based compensation	39,836	29,187
Loss on disposal of assets and website development costs	121	144
Premium amortization, net, on securities held-to-maturity	763	481
Excess tax benefit from stock-based award activity	-	(3,952)
Changes in operating assets and liabilities:		
Accounts receivable	(13,237)	(7,855)
Prepaid expenses and other assets	3,492	(7,079)
Accounts payable, accrued expenses and other liabilities	5,955	15,616
Deferred revenue	405	(426)
Net cash provided by operating activities	46,510	43,665
INVESTING ACTIVITIES:		
Purchases of marketable securities	(161,854)	(93,914)
Maturities of marketable securities	152,500	63,870
Acquisition, net of cash received	-	(73,422)
Purchases of property, equipment and software	(12,438)	(18,059)
Proceeds from sale of property, equipment and software	34	109
Capitalized website and software development costs	(6,993)	(6,012)
Purchases of intangible assets	(162)	(314)
Changes in restricted cash	(820)	1,672
Net cash used in investing activities	(29,733)	(126,070)
FINANCING ACTIVITIES:		
Proceeds from issuance of common stock for employee stock-based plans	7,855	13,595
Excess tax benefit from share-based award activity	-	3,952
Repurchase of common stock	-	(396)
Net cash provided by financing activities	7,855	17,151
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	50	(598)
CHANGE IN CASH AND CASH EQUIVALENTS	24,682	(65,852)
CASH AND CASH EQUIVALENTS Beginning of period	171,613	247,312
CASH AND CASH EQUIVALENTS End of period	\$ 196,295	\$ 181,460
SUPPLEMENTAL DISCLOSURES OF OTHER CASH FLOW INFORMATION:		

&nb