YELP INC
Form 10-Q
May 05, 2014

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

Form 10-Q

x	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** For the Quarterly Period Ended March 31, 2014
OR	
o	**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 x NO o

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 x NO o

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer (Do not check if a smaller reporting company) o	Smaller reporting company o

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

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

YELP INC.
QUARTERLY REPORT ON FORM 10-Q
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Unless the context otherwise indicates, where we refer in this Quarterly Report to our mobile application or mobile app, we refer to all of our applications for mobile-enabled devices. Similarly, references to our website refer to both the U.S. and international versions of our website, as well as the versions of our website dedicated to mobile-based browsers.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

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

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Net revenue	$ 76,407	$ 46,133
Costs and expenses:		
Cost of revenue (exclusive of depreciation and amortization shown separately below)	5,077	3,340
Sales and marketing	45,121	28,194
Product development	13,982	7,236
General and administrative	13,170	8,764
Depreciation and amortization	3,661	2,478
Restructuring and integration		675
Total costs and expenses	81,011	50,687
Loss from operations	(4,604)	(4,554)
Other income (expense), net	(2)	(201)
Loss before income taxes	(4,606)	(4,755)
Benefit (provision) for income taxes	1,971	(44)
Net loss attributable to common stockholders (Class A and B)	$ (2,635)	$ (4,799)
Net loss per share attributable to common stockholders (Class A and B)		
Basic	$ (0.04)	$ (0.08)
Diluted	$ (0.04)	$ (0.08)
Weighted-average shares used to compute net loss per share attributable to common stockholders (Class A and B)		
Basic	71,171	63,733
Diluted	71,171	63,733

See notes to condensed consolidated financial statements.

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

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

See notes to condensed consolidated financial statements.

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

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

See notes to condensed consolidated financial statements.

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

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

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

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

Basis of Presentation

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

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

Significant Accounting Policies

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

Principles of Consolidation

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

Use of Estimates

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

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

The accounting guidance for fair value measurements prioritizes the inputs used in measuring fair value in the following hierarchy:

Level 1 Observable inputs, such as quoted prices in active markets, *Level 2* Inputs other than the quoted prices in active markets that are observable directly, or

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

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

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

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

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

3. ACQUISITIONS

SeatMe, Inc.

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

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

	July 24, 2013	
Fair value of purchase consideration:		
Cash:		
Distributed to SeatMe equity holders	$	2,057
Held in escrow account		56
Class A common stock:		
Distributed to SeatMe equity holders		8,420
Held in escrow account		1,246
Total purchase consideration	$	11,779
Fair value of net assets acquired:		
Cash and Cash Equivalents	$	56
Property and equipment		47
Intangibles		1,440
Goodwill		10,279
Other assets		117
Total assets acquired		11,939
Total liabilities assumed		160
Net assets acquired	$	11,779

Estimated useful lives of the intangible assets acquired are shown below:

Intangible Type	Useful Life
Developed technology	6 years
Customer relationships	2 years
Trade name	2 years
Weighted average	5.6 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 offer its customers and leverage the SeatMe web- and app-based reservation solution. None of the goodwill is deductible for tax purposes.

Net revenues, earnings since the acquisition and pro forma results of operations for this acquisition have not been presented because they are not material to the consolidated results of operations, either individually or in aggregate.

Qype GmbH

On October 23, 2012, the Company, through its wholly-owned subsidiary, Yelp Ireland Ltd., completed the acquisition of all the outstanding equity interests of Qype GmbH and its subsidiaries (collectively, Qype) for approximately $24.3 million in cash and Yelp Class A common stock with an approximate fair value of $23.3 million. Of the total consideration paid in connection with the acquisition, $10.3 million was held in the form of cash in escrow to secure indemnification obligations. The balance remaining in the escrow fund relating to this acquisition was approximately $9.5 million as of March 31, 2014. The acquisition was accounted for as a business combination in accordance with ASC 805, with the results of Qype s operations included in the consolidated financial statements starting on October 23, 2012. The key factors underlying the acquisition were to secure an established European market presence, obtain Qype s content and traffic and the opportunity for expansion.

In October 2012, following the acquisition of Qype, the Company announced its plan to reduce the size of the Qype workforce and terminate several of Qype s leases. These actions were made in order to reduce the Company s cost structure, enhance operating efficiencies and strengthen the Company s business to achieve long-term profitable growth. As a result of this plan, the Company incurred restructuring charges during the fourth quarter of 2012 and the first quarter of 2013, which were included in the restructuring and integration costs in the consolidated statements of operations for such periods. The Company recorded restructuring charges of $1.9 million through December 31, 2013. The remaining restructuring liability was immaterial as of March 31, 2014 and as of December 31, 2013.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of March 31, 2014 and December 31, 2013 consist of the following (in thousands):

	March 31, 2014	December 31, 2013
Cash and cash equivalents		
Cash	$ 38,602	$ 29,074
Money market funds	360,718	360,690
Total cash and cash equivalents	$ 399,320	$ 389,764

In addition, the lease agreements for certain of the Company s offices require the Company to maintain letters of credit issued to landlords of each facility. Each letter of credit is subject to renewal annually until the applicable lease expires and is collateralized by restricted cash. As of March 31, 2014 and December 31, 2013, the Company had restricted cash in the aggregate amount of $3.7 million and $3.2 million, respectively, related to such letters of credit.

5. PROPERTY, EQUIPMENT AND SOFTWARE, NET

Property, equipment and software, net as of March 31, 2014 and December 31, 2013 consist of the following (in thousands):

	March 31, 2014	December 31, 2013
Computer equipment	$ 13,960	$ 13,348
Software	623	541
Capitalized website and internally developed software costs	15,809	13,878
Furniture and fixtures	4,592	4,388
Leasehold improvements	16,312	13,984
Telecommunication	2,371	2,179
Total	53,667	48,318
Less accumulated depreciation	(20,369)	(17,652)
Property, equipment and software, net	$ 33,298	$ 30,666

Depreciation expense for the three months ended March 31, 2014 and 2013 was approximately $2.8 million and $1.7 million, respectively.

6. GOODWILL AND INTANGIBLE ASSETS

The Company s goodwill is the result of the acquisition of Qype on October 23, 2012 and the acquisition of SeatMe on July 24, 2013, and represents the excess of purchase consideration over the fair value of assets and liabilities acquired.

The changes in the carrying amount of goodwill during the three months ended March 31, 2014 were as follows (in thousands):

Balance as of December 31, 2013	$ 59,690
Effect of currency translation	(55)
Balance as of March 31, 2014	$ 59,635

Intangible assets at March 31, 2014 and December 31, 2013 consist of the following (dollars in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life
March 31, 2014:				
Content	$ 3,421	$ (984)	$ 2,437	3.6 years
Advertiser relationships	2,051	(1,474)	577	0.6 years
Developed technology	1,850	(544)	1,306	4.7 years
Trade name and other	553	(345)	208	0.9 years
Domains	250	(163)	87	3.8 years
	$ 8,125	$ (3,510)	$ 4,615	

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life
December 31, 2013:				
Content	$ 3,413	$ (811)	$ 2,602	3.8 years
Advertiser relationships	2,045	(1,214)	831	2.0 years
Developed technology	1,851	(422)	1,429	4.8 years
Trade name and other	553	(276)	277	1.1 years
Domains	250	(154)	96	3.9 years
	$ 8,112	$ (2,877)	$ 5,235	

Amortization expense was \$0.6 million and \$0.5 million for the three months ended March 31, 2014 and 2013, respectively.

As of March 31, 2014, the estimated future amortization of purchased intangible assets for (i) the remaining nine months of 2014, (ii) each of the succeeding four years and (iii) the succeeding fifth year and thereafter are as follows (in thousands):

Year Ending December 31,	Amount
2014 (from April 1, 2014)	$ 1,601
2015	958
2016	918
2017	785
2018	227
2019 and thereafter	126
Total amortization	$ 4,615

7. ACCRUED LIABILITIES

Accrued liabilities as of March 31, 2014 and December 31, 2013 consist of the following (in thousands):

	March 31, 2014	**December 31, 2013**
Accrued employee related expenses	$ 3,874	$ 1,784
Accrued vacation	3,836	2,950
Accrued bonus and commissions	4,090	3,707
Deferred rent	457	298
Accrued legal	1,003	656
Accrued taxes	1,678	1,837
Accrued payroll tax	1,871	1,508
Merchant revenue share liability	1,649	932
Fixed asset purchase commitments	726	2,247
Other accrued expenses	4,808	3,085
Total	$ 23,992	$ 19,004

8. OTHER INCOME (EXPENSE), NET

Other income (expense), net for the three months ended March 31, 2014 and 2013 consists of the following (in thousands):

	Three Months Ended March 31,	
	2014	**2013**
Interest income	$ 34	$ 14
Transaction gain (loss) on foreign exchange	(49)	(162)
Other non-operating income (loss), net	13	(53)
Other income (expense), net	$ (2)	$ (201)

9. COMMITMENTS AND CONTINGENCIES

Office Facility Leases The Company leases its office facilities under operating lease agreements that expire from November 2014 to September 2021. 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 $3.6 million and $1.6 million for the three months ended March 31, 2014 and 2013, respectively.

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

In February and March 2010, the Company was sued in two putative class actions on behalf of local businesses asserting various causes of action based on claims that the Company manipulated the ratings and reviews on its platform to coerce local businesses to buy its advertising products. These cases were subsequently consolidated in an action asserting claims for violation of the California Business & Professions Code, extortion and attempted extortion based on the conduct they allege and seeking monetary relief in an unspecified amount and injunctive relief. In October 2011, the court dismissed this consolidated action with prejudice. The plaintiffs have appealed to the U.S. Court of Appeals for the Ninth Circuit, which heard the appeal on July 11, 2013. The Ninth Circuit has not yet issued a decision. Accordingly, the Company is currently unable to reasonably estimate either the probability of incurring a loss or an estimated range of such loss, if any, from this appeal.

In March 2011, the Company was sued in an action on behalf of certain current and former employees asserting claims for violations of the federal Fair Labor Standards Act, the California Labor Code and the California Business & Professions Code seeking monetary relief in an unspecified amount. In December 2012, the court issued a judgment giving final approval to a settlement of this matter, without any admission of liability on the Company s part, for payments by the Company in an aggregate amount of approximately $0.8 million. The Company had originally accrued for a settlement of approximately $1.3 million in the year ended December 31, 2010. The accrual was adjusted in the quarter ended December 31, 2012 for the final settlement amount, which was paid in the first quarter of 2013.

Indemnification Agreements In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to customers, vendors, lessors, business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of breach of such agreements, services to be provided by the Company or from intellectual property infringement claims made by third parties. In addition, the Company has entered into indemnification agreements with directors and certain officers and employees that will require the Company, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers or employees.

While the outcome of these matters cannot be predicted with certainty, the Company does not believe that the outcome of any claims under indemnification arrangements will have a material effect on the Company s financial position, results of operations or cash flows.

10. STOCKHOLDERS EQUITY

Follow-on Offering

In October 2013, the Company closed a follow-on offering of 4,312,500 shares of its Class A common stock (inclusive of 562,500 shares of Class A common stock from the full exercise of the overallotment option of shares granted to the underwriters). The public offering price of the shares sold in the offering was $67.00 per share. The total gross proceeds from the offering to the Company were $288.9 million. After deducting underwriting discounts and commissions and offering expenses payable by the Company, the aggregate net proceeds received by the Company totaled approximately $276.5 million.

The following table presents the shares authorized and issued and outstanding as of the periods presented:

	March 31, 2014		December 31, 2013	
	Shares Authorized	Shares Issued and Outstanding	Shares Authorized	Shares Issued and Outstanding
Stockholders equity:				
Class A common stock, $0.000001 par value	200,000,000	60,908,205	200,000,000	59,163,134
Class B common stock, $0.000001 par value	100,000,000	10,643,936	100,000,000	11,711,359
Common stock, $0.000001 par value	200,000,000		200,000,000	
Undesignated Preferred Stock	10,000,000		10,000,000	

Equity Incentive Plans

The Company has outstanding awards under three equity incentive plans: the Amended and Restated 2005 Equity Incentive Plan (the 2005 Plan), the 2011 Equity Incentive Plan (the 2011 Plan) and the 2012 Equity Incentive Plan, as amended (the 2012 Plan). In July 2011, the Company 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), 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 awards (RSAs), restricted stock units (RSUs), performance units and/or performance shares. Additionally, the 2012 Plan provides for the grant of performance cash awards to employees, directors and consultants.

Stock Options

Stock options granted under the 2012 Plan are granted at a price per share not less than the fair value at date of grant. Options granted to date generally vest either over a four-year period with 25% vesting at the end of one year and the remaining vesting monthly thereafter, or over a four-year period with 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. Options granted generally are exercisable for up to 10 years. A summary of stock option activity for the three months ended March 31, 2014, 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 January 1 , 2014	11,101,166	$ 18.24	8.17	$ 562,855
Granted	97,750	83.63		
Exercised	(657,475)	10.24		
Canceled	(143,570)	33.88		
Outstanding March 31, 2014	10,397,871	$ 19.15	7.97	$ 601,459
Options vested and expected to vest as of March 31, 2014	9,836,565	$ 18.59	7.93	$ 574,356
Options vested and exercisable as of March 31, 2014	3,804,064	$ 10.14	7.08	$ 254,083

Aggregate intrinsic value represents the difference between the closing price of the Company s Class A common stock on the New York Stock Exchange on March 31, 2014 of $76.93 and the exercise price of outstanding, in-the-money options. The total intrinsic value of options exercised was approximately $52.0 million and $16.0 million for the three months ended March 31, 2014 and 2013, respectively. The weighted-average grant date fair value of options granted was $45.83 and $12.19 per share for the three months ended March 31, 2014 and 2013, respectively.

As of March 31, 2014, total unrecognized compensation costs, adjusted for estimated forfeitures, related to unvested stock options was approximately $75.5 million, which is expected to be recognized over a weighted-average time period of 2.58 years.

RSUs and RSAs

The cost of RSUs and RSAs are determined using the fair value of the Company s common stock on the date of grant. RSUs and RSAs generally vest either over a four-year period with 25% vesting at the end of one year and the remaining vesting quarterly or annually thereafter, or over a four-year period with 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.

A summary of RSU and RSA activity for the three months ended March 31, 2014 is as follows:

	Restricted Stock Units		Restricted Stock Awards	
	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested January 1, 2014	443,603	$ 44.66	73,470	$ 9.41
Granted	139,305	79.71		
Released	(21,267)	32.23	(9,688)	9.16
Canceled	(15,034)	52.65		
Unvested March 31, 2014	546,607	$ 53.86	63,782	$ 9.45

As of March 31, 2014, the Company had approximately $26.4 million of unrecognized stock-based compensation expense, net of estimated forfeitures, related to RSUs and RSAs, which will be recognized over the remaining weighted-average vesting period of approximately 3.44 years.

Employee Stock Purchase Plan

Concurrent with the effectiveness of the underwriting agreement in connection with the IPO on March 1, 2012, the Company s 2012 Employee Stock Purchase Plan (the ESPP) became effective. The ESPP allows eligible employees to purchase shares of the Company s Class A 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 lower of the fair market value of the Company s Class A common stock on the first trading day of the offering period or on the last day of the offering period. The Company initiated an offering under the ESPP on June 3, 2013, with a 24-month duration and purchase periods every six months. The first purchase period ended on November 29, 2013. A new offering was initiated starting December 2, 2013, with a 24-month duration and purchase periods every six months. The first purchase period will end in May 2014. There were no shares purchased by employees under the ESPP during the quarter ended March 31, 2014. The Company recognized $1.1 million of stock-based compensation related to the ESPP during the quarter ended March 31, 2014.

Stock-Based Compensation

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

	Three Months Ended March 31,	
	2014	2013
Stock-based compensation effects in loss before income taxes:		
Cost of revenue	$ 150	$ 72
Sales and marketing	3,397	1,988
Product development	3,042	816
General and administrative	2,867	1,729
Restructuring and integration		555
Total stock-based compensation	$ 9,456	$ 5,160

During the three months ended March 31, 2013, the Company recognized $0.6 million of stock-based compensation related to the acceleration of vesting of RSUs associated with the Qype restructuring plan described in Note 3. The Company capitalized stock-based compensation as website and internal use software development costs of $0.3 million and $0.1 million in the three months ended March 31, 2014 and 2013, respectively.

11. NET LOSS PER SHARE

Basic and diluted net income (loss) per share attributable to common stockholders are presented in conformity with the two-class method required for participating securities. Immediately prior to the consummation of the IPO in March 2012, all outstanding shares of preferred stock and common stock were converted to Class B common stock. As a result, shares of Class A and Class B common stock are the only outstanding equity in the Company. The rights of the holders of Class A and Class B common stock are identical, except with respect to voting and conversion. Each share of Class A common stock is entitled to one vote per share and each class of Class B common stock is entitled to 10 votes per share. Shares of Class B common stock may be converted into Class A common stock on a share-for-share basis at any time at the option of the stockholder, and are automatically converted into Class A common stock upon sale or transfer, subject to certain limited exceptions, or upon the election of the holder or in connection with certain other conversion events.

The Company s weighted-average unvested shares subject to repurchase and settlement in shares of common stock upon vesting have the non-forfeitable right to receive dividends on an equal basis with common stock and therefore are considered participating securities that must be included in the calculation of net loss per share using the two-class method in all presented periods.

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

	Three Months Ended March 31,			
	2014		2013	
	Class A	Class B	Class A	Class B
Net loss attributable to common stockholders	$ (2,217)	$ (418)	$ (1,765)	$ (3,035)
Basic shares:				
Weighted-average common shares outstanding	59,868	11,303	23,434	40,298
Diluted shares:				
Weighted-average shares used to compute diluted net loss per share	59,868	11,303	23,434	40,298
Net loss per share attributable to common stockholders:				
Basic	$ (0.04)	$ (0.04)	$ (0.08)	$ (0.08)
Diluted	$ (0.04)	$ (0.04)	$ (0.08)	$ (0.08)

The following 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):

	Three Months Ended March 31,	
	2014	2013
Stock options	10,398	11,430
Restricted stock units	547	311
Restricted stock awards	64	106
Employee stock purchase plan	89	

12. INCOME TAXES

The Company is subject to income tax in the United States as well as other tax jurisdictions in which it conducts business. Earnings from non-U.S. activities are subject to local country income tax. The Company does not provide for federal income taxes on the undistributed earnings of its foreign subsidiaries as such earnings are to be reinvested indefinitely.

The Company recorded an income tax benefit of approximately $2.0 million and an income tax expense of $44,000 for the three months ended March 31, 2014 and 2013, respectively. The tax benefit for the three months ended March 31, 2014 was primarily due to recognition of an income tax benefit of approximately $2.0 million related to the release of valuation allowance on foreign net operating losses. The tax expense for the three months ended March 31, 2013 related to foreign income taxes and state minimum taxes. Based on the available objective evidence during the three months ended March 31, 2014, management believes it is more likely than not that the tax benefits of the U.S. losses incurred during the three months ended March 31, 2014 may not be realized by the end of the 2014 fiscal year. Accordingly, the Company did not record the tax benefits of the U.S. losses incurred during the three months ended March 31, 2014. The primary difference between the effective tax rate and the federal statutory tax rate relates to the valuation allowances on certain of the Company s net operating losses, foreign tax rate differences, meals and entertainment and non-deductible stock-based compensation expense.

As of March 31, 2014, the total amount of gross unrecognized tax benefits was $1.8 million, $1.6 million of which is subject to a full valuation allowance and would not affect our effective tax rate if recognized. Included in the balance of unrecognized tax benefits as of March 31, 2014, is an immaterial amount of tax benefits that, if recognized, would affect the effective tax rate. As of March 31, 2014, the Company had an immaterial amount related to the accrual of interest and penalties. During the three months ended March 31, 2014, the Company s gross unrecognized tax benefits increased by $70,000, $30,000 of which would affect our effective tax rate if recognized. The Company does not have any tax positions as of March 31, 2014 for which it is reasonably possible that the total amount of gross unrecognized tax benefits will significantly increase or decrease within the next 12 months.

13. INFORMATION ABOUT REVENUE AND GEOGRAPHIC AREAS

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

The Company has one business activity and there are no segment managers who are held accountable for operations, operating results or plans for levels or components below the consolidated unit level. Accordingly, the Company has determined that it has a single operating and reporting segment.

Revenue by geography is based on the billing address of the customer. The following tables present the Company s net revenue by product line and long-lived assets by geographic region for the periods presented (each in thousands):

Net Revenue

	Three Months Ended March 31, 2014		2013	
Net revenue by product:				
Local advertising	$	65,195	$	38,967
Brand advertising		7,455		4,758
Other services		3,757		2,408
Total	$	76,407	$	46,133

During the three months ended March 31, 2014 and 2013, a substantial majority of the Company s revenue was generated in the United States. In addition, no individual customer accounted for 10% or more of consolidated net revenue in either period.

Long-Lived Assets

	March 31, 2014		December 31, 2013	
United States	$	31,818	$	29,186
All Other Countries		3,968		1,786
Total long-lived assets	$	35,786	$	30,972

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

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q.

Forward Looking Information

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties, as well as 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 on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements are often identified by the use of words such as, but not limited to, anticipate, believe, can continue, could, estimate, expect, intend, may, might, plan, project, seek, should, strategy, target, will, w variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management 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 identified below and those discussed in the section titled Risk Factors included under Part II, Item 1A below. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Company Overview

Yelp connects people with great local businesses. Our users have contributed a total of approximately 56.9 million cumulative reviews of almost every type of local business, from restaurants, boutiques and salons to dentists, mechanics, plumbers and more. These reviews are written by people using Yelp to share their everyday local business experiences, giving voice to consumers and bringing word of mouth online. The information these reviews provide is valuable for consumers and businesses alike. Approximately 132.5 million unique visitors used our website according to Google Analytics, a product that provides digital marketing intelligence, and our mobile application was used on approximately 10.9 million unique mobile devices on a monthly average basis during the quarter ended March 31, 2014. Businesses of all sizes use our platform to engage with consumers at the critical moment when they are deciding where to spend their money. Our business revolves around three key constituencies: the communities of contributors who write reviews, the consumers who read them and the local businesses that they describe.

Our success is primarily the result of significant investment in our communities, employees, content, brand and technology. We expect to invest in features aimed at both attracting more, and increasing the usage of, users and businesses as we look to leverage our brand and benefit from accelerating network effect dynamics in our existing markets. In addition, we expect to invest further in product development to expand our platform by innovating and introducing new products to our website and mobile applications. For example, we added an easy way for users to book online reservations at local restaurants and bars through our acquisition of SeatMe, Inc., a web- and app-based reservation solution for restaurant and nightlife establishments (SeatMe).

We also plan to continue investing in additional domestic and international markets. As of March 31, 2014, we are active in 61 Yelp markets in the United States and 59 Yelp markets internationally. This footprint represents a small portion of the potential domestic and international markets that we are currently targeting for expansion. Our domestic expansion plans include growth in our existing markets as well as expansion into new markets, many of which are smaller than our current markets, as we look to expand our breadth of coverage. Internationally, as we are in the early stages of establishing our footprint, we are targeting a mix of both large and small markets. For the three months ended March 31, 2014, revenue generated internationally accounted for three percent of our total revenue.

While our core local advertising business in the United States has a significant and growing base of revenue, we have invested, and will continue to invest, in initiatives to enhance our monetization opportunities. In particular, we plan to continue to grow and develop advertising and e-commerce products and partner arrangements that provide incremental value to our advertisers and business partners. In 2013, we introduced the Yelp Platform, which allows consumers to transact directly on Yelp through partnerships with third parties. We have also announced partnerships that we expect to go live in 2014 that will provide consumers with the ability to complete transactions ranging from scheduling yoga sessions to making dentist appointments, all without leaving the Yelp Platform.

Our overall strategy is to invest for long-term growth. During 2014, we expect to continue to invest heavily in our sales and marketing efforts to grow domestically and internationally and continue the integration of SeatMe. As of March 31, 2014, we had 2,154 employees, which represents an increase of 46% compared to March 31, 2013.

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Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (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 are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

We believe that the assumptions and estimates associated with revenue recognition, website and internal-use software development costs, business combinations, income taxes and stock-based compensation have the greatest potential impact on our consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the year ended December 31, 2013.

Key Metrics

We regularly review a number of metrics, including the following key metrics, to evaluate our business, measure our performance, identify trends in our business, prepare financial projections and make strategic decisions.

- *Reviews.* Number of reviews represents the cumulative number of reviews submitted to Yelp since inception, as of the period end, including reviews that are not recommended or that have 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 for users to evaluate businesses and individual reviewers. Because our automated recommendation software continually reassesses which reviews to recommend based on new information, 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 a link on a reviewed business s page on our website, users can access the reviews that are not recommended for the business, as well as the star rating and other information about reviews that we removed for violation of our terms of service. As of March 31, 2014, approximately 52.9 million reviews were available on business profile pages, including approximately 13.5 million reviews that were not recommended, after accounting for 4.0 million reviews that 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 presented:

	As of March 31,	
	2014	2013
	(in thousands)	
Reviews	56,905	39,103

- *Unique Visitors.* Unique visitors represent the average number of monthly unique visitors over a given three-month period. We define monthly unique visitors as the total number of unique visitors who have visited our website at least once in a given month, and we average the number of monthly unique visitors in each month of a given three-month period to calculate average monthly unique visitors. We track unique visitors based on the number of visitors with unique cookies who have visited our website using either a computer or mobile browser, as measured by Google Analytics. Unique visitors do not include visitors who access our platform solely through our mobile app. Because the number of unique visitors is based on visitors 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.

The following table presents the average monthly number of unique visitors during the periods presented:

Three Months Ended March 31,	
2014	2013

	(in thousands)	
Unique Visitors	132,460	102,065

- *Mobile Unique Visitors.* Since unique visitors do not include visitors who access our platform solely through our mobile app, we also separately calculate mobile unique visitors to gauge mobile usage. We define mobile unique visitors for a given three-month period to be the sum of (i) the average number of monthly unique visitors who have visited our mobile website during that period (measured as described above) and (ii) unique mobile devices using our mobile app on a monthly average basis over that period. Under this method of calculation, an individual who accesses both our mobile website and our mobile app, or accesses either our mobile website or our mobile app from multiple mobile devices, will be counted as multiple mobile unique visitors. Multiple individuals who access either our mobile website or mobile app from a shared device will be counted as a single mobile unique visitor.

The following table presents the average monthly number of mobile unique visitors during the periods presented:

	Three Months Ended March 31,	
	2014	**2013**
	(in thousands)	
Mobile Unique Visitors	61,190	40,168

- *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 visits our website and claims the free business listing page for the business located at that address.

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

	As of March 31,	
	2014	**2013**
	(in thousands)	
Claimed Local Business Locations	1,623	1,103

- *Active Local Business Accounts.* The number of active local business accounts represents the number of local business accounts from which we recognized revenue in a given three-month period. We treat business accounts that have the same payment and/or user information as a single business account.

The following table presents the number of active local business accounts from which we recognized revenue during the periods presented:

	Three Months Ended March 31,	
	2014	**2013**
	(in thousands)	
Active Local Business Accounts	74	45

- *Adjusted EBITDA.* Adjusted EBITDA is a non-GAAP financial measure that we calculate as net income (loss), adjusted to exclude: provision (benefit) for income taxes; other income (expense), net; interest income; depreciation and amortization; and stock-based compensation, restructuring and integration costs. We believe that adjusted EBITDA provides useful information to investors in understanding and evaluating our operating results in the same manner as our management and board of directors. This non-GAAP information is not necessarily comparable to non-GAAP information of other companies. Non-GAAP information 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 or liquidity. Users of this financial information should consider the types of events and transactions for which adjustments have been made.

The following is a reconciliation of net loss to adjusted EBITDA below for the periods indicated:

	Three Months Ended March 31,

Reconciliation of Adjusted EBITDA:		**2014**		**2013**
Net loss	$	(2,635)	$	(4,799)
(Benefit) provision for income taxes		(1,971)		44
Other income (expense), net		2		201
Depreciation and amortization		3,661		2,478
Stock-based compensation		9,456		4,605
Restructuring and integration				675
Adjusted EBITDA	$	8,513	$	3,204

Adjusted EBITDA

To provide investors with additional information regarding our financial results, we have disclosed in the table above and elsewhere in this Quarterly Report on Form 10-Q adjusted EBITDA, a non-GAAP financial measure. We have provided a reconciliation above of adjusted EBITDA to net loss, the most directly comparable GAAP financial measure. The stock-based compensation amount of $4.6 million for the three months ended March 31, 2013 excludes approximately $0.6 million of stock-based compensation related to the Qype acquisition already included in restructuring and integration costs.

We have included adjusted EBITDA in this Quarterly Report on Form 10-Q because it is a key measure used by our management and board of directors to understand and evaluate our core 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 adjusted EBITDA can provide a useful measure for period-to-period comparisons of our core business. Accordingly, we believe that adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. 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 adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- adjusted EBITDA does 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;
- adjusted EBITDA does not reflect tax payments that may represent a reduction in cash available to us;
- adjusted EBITDA does not take into account any restructuring and integration costs associated with our acquisition of Qype; and
- other companies, including companies in our industry, may calculate adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

Because of these limitations, you should consider adjusted EBITDA alongside other financial performance measures, including various cash flow metrics, net income (loss) and our other GAAP results.

Results of Operations

The following table sets forth our results of operations for the periods presented as a percentage of net revenue for those periods (certain items may not foot due to rounding). The period-to-period comparison of financial results is not necessarily indicative of the results of operations to be anticipated for the full year 2014 or any future period.

	Three Months Ended March 31,	
	2014	2013
	(as percentage of net revenue)	
Consolidated Statements of Operations Data:		
Net revenue by product:		
Local advertising	85%	85%
Brand advertising	10	10
Other services	5	5
Total net revenue	100%	100%
Costs and expenses:		
Cost of revenue (exclusive of depreciation and amortization shown separately below)	7%	7%
Sales and marketing	59	61
Product development	18	16
General and administrative	17	19
Depreciation and amortization	5	5
Restructuring and integration		1

Total costs and expenses	106	109
Loss from operations	(6)	(10)
Other income (expense), net		(1)
Loss before income taxes	(6)	(11)
Benefit (provision) for income taxes	3	
Net loss	(3)%	(10)%

Three Months Ended March 31, 2014 and 2013

Net Revenue

We generate revenue from local advertising, brand advertising and other services, which includes Yelp Deals, Gift Certificates and partner arrangements. The following provides a description of our revenue by product:

Local Advertising. We generate revenue from local advertising programs, including enhanced profile pages and performance and impression-based advertising in search results and elsewhere on our website and our mobile app.

Brand Advertising. We generate revenue from brand advertising through the sale of advertising solutions for national brands that want to improve their local presence in the form of display advertisements and brand sponsorships. Our national advertisers include leading brands in the automobile, financial services, logistics, consumer goods and health and fitness industries.

Other Services. We generate other revenue through partner arrangements, the sale of Yelp Deals and Gift Certificates, and monetization of remnant advertising inventory through third-party ad networks. Our revenue-sharing partner arrangements provide consumers with the ability to complete food delivery transactions and make online reservations through third parties directly on Yelp. Yelp Deals allow merchants to promote themselves and offer discounted goods and services on a real-time basis to consumers directly on our website and mobile app. We earn a fee on Yelp Deals for acting as an agent in these transactions, which we record on a net basis and include in revenue upon a consumer s purchase of the deal. Gift Certificates allow merchants to sell full-priced gift certificates directly to customers through their business profile page. We earn a fee based on the amount of the Gift Certificate sold, which we record on a net basis and include in revenue upon a consumer s purchase of the Gift Certificate.

	Three Months Ended March 31, 2014	2013	2013 to 2014 % Change
	(dollars in thousands)		
Net revenue by product:			
Local advertising	$ 65,195	$ 38,967	67%
Brand advertising	7,455	4,758	57
Other services	3,757	2,408	56
Total net revenue	$ 76,407	$ 46,133	66%
Net revenue by product:			
Local advertising	85%	85%	
Brand advertising	10	10	
Other services	5	5	
Total net revenue	100%	100%	

Total net revenue increased $30.3 million, or 66%, in the three months ended March 31, 2014, compared to the three months ended March 31, 2013. Our local advertising revenue increased $26.2 million, or 67%, primarily due to a significant increase in the number of customers purchasing local advertising plans as we expanded our sales force to reach more local businesses. Our brand advertising revenue increased $2.7 million, or 57%, primarily due to an increase in the average spend per brand advertiser driven primarily by increased advertising impressions per brand advertiser. In addition, our other services revenue increased by $1.3 million, or 56%, primarily due to an increase in revenue from partnership arrangements, the sale of Yelp Deals and remnant advertising inventory.

Cost of Revenue

Our cost of revenue consists primarily of credit card processing fees, web hosting expenses, Internet services costs and salaries, benefits and stock-based compensation for our infrastructure teams related to operating our website, as well as creative design for brand advertising, video production expenses and allocated facilities costs. We currently expect cost of revenue to increase on an absolute basis and remain relatively flat as a percentage of revenue in the near term as, consistent with our investment philosophy, we continue to expand data center capacity and headcount associated with supporting our website and mobile app.

	Three Months Ended March 31,		2013 to 2014 % Change
	2014	2013	
	(dollars in thousands)		
Cost of revenue	$ 5,077	$ 3,340	52%
Percentage of net revenue	7 %	7 %	

In the three months ended March 31, 2014, cost of revenue increased $1.7 million, or 52%, compared to the three months ended March 31, 2013. This increase was primarily attributable to an increase of $0.7 million in outside hosting and Internet service fees, which are necessary to support the increase in visitors to our website and transactions completed on our website. In addition, setup costs, including video production, for active local business pages increased by $0.1 million due to increased demand by local businesses for video on their business pages, and expenses related to creative design for brand advertising customers increased $0.1 million. Merchant fees related to credit card transactions for local advertising also increased $0.7 million, and we added personnel to support our website infrastructure resulting in an increase of $0.1 million.

Sales and Marketing

Our sales and marketing expenses primarily consist of salaries, benefits, stock-based compensation, travel expense and incentive compensation for our sales and marketing employees. In addition, sales and marketing expenses include business acquisition marketing, community management, branding and advertising costs, as well as allocated facilities and other supporting overhead costs. We incur almost no sales and marketing expenses to acquire traffic to our website or mobile app. Our Community Managers are responsible for growing and fostering local communities, and coordinating events to raise awareness of our brand. We expect our community management costs to increase as we continue to expand to new markets and within existing markets. We expect our sales and marketing expenses to increase both domestically and internationally as we expand our domestic and international footprint, increase the number of active local business accounts and continue to build our brand. The substantial majority of these expenses will be related to hiring Community Managers and sales employees. We expect sales and marketing expenses to increase and to be our largest expense for the foreseeable future. For the three months ended March 31, 2014, we spent $5.7 million related to our international sales and marketing operations compared to $5.3 million for the three months ended March 31, 2013.

	Three Months Ended March 31,		2013 to 2014 % Change
	2014	2013	
	(dollars in thousands)		
Sales and marketing	$ 45,121	$ 28,194	60%
Percentage of net revenue	59%	61%	

In the three months ended March 31, 2014, sales and marketing expenses increased $16.9 million, or 60%, compared to the three months ended March 31, 2013. The increase was primarily attributable to an increase in headcount and related expenses of $9.7 million, including an increase in stock-based compensation of $1.4 million, as we expanded our sales organization to take advantage of the market opportunity created by increased recognition of the value of our platform and increased use of our free online business accounts. As a result of our increase in net revenue, our commission expenses also increased $2.9 million. In addition, we experienced an increase in facilities and related allocations of $3.0 million and domestic and international marketing and advertising costs of $1.3 million.

Product Development

Our product development expenses primarily consist of salaries, benefits and stock-based compensation for our engineers, product management and information technology personnel. In addition, product development expenses include outside services and consulting, allocated facilities and other supporting overhead costs. We believe that continued investment in features, software development tools and code modification is important to attaining our strategic objectives, and, as a result, we expect product development expenses to increase for the foreseeable future.

	Three Months Ended March 31, 2014	2013	2013 to 2014 % Change
	(dollars in thousands)		
Product development	$ 13,982	$ 7,236	93%
Percentage of net revenue	18%	16%	

In the three months ended March 31, 2014, product development expenses increased $6.7 million, or 93%, compared to the three months ended March 31, 2013. The increase was primarily attributable to an increase in headcount and related expenses of $6.4 million, including an increase in stock-based compensation of $2.2 million, and an increase in facilities and related expenses of $0.5 million. The increase was offset by a decrease of $0.2 million in the use of outside consultants as work was transitioned internally.

General and Administrative

Our general and administrative expenses primarily consist of salaries, benefits and stock-based compensation for our executive, finance, user operations, legal, human resources and other administrative employees. In addition, general and administrative expenses include outside consulting, legal and accounting services, and facilities and other supporting overhead costs not allocated to other departments. We expect general and administrative expenses to increase for the foreseeable future as we continue to expand our business and incur additional expenses associated with being a publicly traded company.

	Three Months Ended March 31, 2014	2013	2013 to 2014 % Change
	(dollars in thousands)		
General and administrative	$ 13,170	$ 8,764	50%
Percentage of net revenue	17%	19%	

In the three months ended March 31, 2014, general and administrative expenses increased $4.4 million, or 50%, compared to the three months ended March 31, 2013. The increase was primarily attributable to an increase in headcount and related expenses of $2.8 million, including an increase in stock-based compensation of $1.1 million. Additionally, we invested in our systems and support for the growth of the business through the use of outside consultants, which contributed to the increase by $0.3 million and had an increase in bad debt expense of $0.7 million. In addition, we experienced an increase in facilities and related expenses of $0.6 million.

Depreciation and Amortization

Depreciation and amortization expenses primarily consist of depreciation on computer equipment, software, leasehold improvements, capitalized website and internal software development costs and amortization of purchased intangibles. We expect depreciation and amortization expenses to increase for the foreseeable future as we continue to expand our technology infrastructure.

	Three Months Ended March 31,	2013 to 2014 % Change

	2014	2013	
	(dollars in thousands)		
Depreciation and amortization	$ 3,661	$ 2,478	48%
Percentage of net revenue	5%	5%	

In the three months ended March 31, 2014, depreciation and amortization expense increased $1.2 million, or 48%, compared to the three months ended March 31, 2013. The increase was 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 related to our fixed assets and capitalized website and internal use software development costs increased $0.8 million and $0.3 million, respectively. In addition, amortization related to our intangibles increased $0.1 million primarily due to the intangibles acquired in the Qype and SeatMe acquisitions.

Restructuring and Integration

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	2013 to 2014 % Change
	(dollars in thousands)		
Restructuring and integration	$ —	$ 675	(100%)
Percentage of net revenue		1%	

In the quarter ended March 31, 2013, we announced our plan to further reduce the size of Qype workforce. These actions were made in order to reduce our cost structure, enhance operating efficiencies and strengthen our business to achieve long-term profitable growth. We incurred restructuring and integration costs of $0.7 million in the three months ended March 31, 2013 as a result of this plan. The restructuring was completed during 2013.

Other Income (Expense), Net

Other income (expense), net consists primarily of the interest income earned on our cash and cash equivalents, gains and losses on the disposal of assets, and foreign exchange gains and losses.

2013 to