YELP INC
Form 10-Q
August 02, 2013

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 June 30, 2013
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.)
706 Mission Street, **San Francisco, CA** (Address of Principal Executive Offices)	**94103** (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 o	Accelerated filer o
Non-accelerated filer (Do not check if a smaller reporting company) x	Smaller reporting company o

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

As of July 31, 2013, there were 39,603,232 shares of registrant s Class A common stock, par value $0.000001 per share, issued and outstanding and 25,615,398 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.

In the fourth quarter of 2012, we acquired Qype GmbH, a Germany-based reviews website. Although not material to our business to date, we begin including traffic, content and local business activity from a Qype market in our key metrics following its migration to the Yelp platform. Accordingly, the key metrics presented in this Quarterly Report as of and for the quarter ended June 30, 2013 include the traffic, content and local business activity of the Qype markets that had been migrated to the Yelp platform as of June 30, 2013: Ireland, Italy and Spain.

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, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 96,795	$ 95,124
Accounts receivable (net of allowance for doubtful accounts of $476 and $384 at June 30, 2013 and December 31, 2012, respectively)	14,769	11,738
Prepaid expenses and other current assets	6,441	4,912
Total current assets	118,005	111,774
Property, equipment and software, net	19,779	14,799
Goodwill	46,678	48,605
Intangibles, net	4,716	5,936
Restricted cash	8,102	6,400
Other assets	262	182
Total assets	$ 197,542	$ 187,696
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 1,929	$ 2,284
Accrued liabilities	17,689	16,367
Deferred revenue	2,739	2,856
Total current liabilities	22,357	21,507
Long term liabilities	688	527
Total liabilities	23,045	22,034
Commitments and contingencies (Note 9)		
Stockholders equity		
Common stock, $0.000001 par value 500,000,000 shares authorized; 65,055,307 and 63,505,269 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively		
Additional paid-in capital	240,752	225,245
Accumulated other comprehensive income (loss)	(190)	805
Accumulated deficit	(66,065)	(60,388)
Total stockholders equity	174,497	165,662
Total liabilities and stockholders equity	$ 197,542	$ 187,696

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, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Net revenue	$ 55,023	$ 32,653	$ 101,156	$ 60,038
Costs and expenses				
Cost of revenue (exclusive of depreciation and amortization shown separately below)	4,018	2,298	7,358	4,424
Sales and marketing	30,803	20,333	58,997	39,103
Product development	7,997	4,336	15,233	8,476
General and administrative	10,148	5,963	18,912	16,692
Depreciation and amortization	2,637	1,661	5,115	3,022
Restructuring and integration			675	
Total costs and expenses	55,603	34,591	106,290	71,717
Loss from operations	(580)	(1,938)	(5,134)	(11,679)
Other income (expense), net	(66)	22	(267)	(8)
Loss before income taxes	(646)	(1,916)	(5,401)	(11,687)
Provision for income taxes	(232)	(66)	(276)	(97)
Net loss	(878)	(1,982)	(5,677)	(11,784)
Accretion of redeemable convertible preferred stock				(31)
Net loss attributable to common stockholders (Class A and B)	$ (878)	$ (1,982)	$ (5,677)	$ (11,815)
Net loss per share attributable to common stockholders				
Basic	$ (0.01)	$ (0.03)	$ (0.09)	$ (0.26)
Diluted	$ (0.01)	$ (0.03)	$ (0.09)	$ (0.26)
Weighted-average shares used to compute net loss per share attributable to common stockholders (Class A and B)				
Basic	64,576	60,887	64,163	46,075
Diluted	64,576	60,887	64,163	46,075

See notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
Net loss	$ (878)	$ (1,982)	$ (5,677)	$ (11,784)
Other comprehensive income (loss):				
Foreign currency translation adjustments	714	(163)	(995)	(194)
Other comprehensive income (loss)	714	(163)	(995)	(194)
Comprehensive loss	$ (164)	$ (2,145)	$ (6,672)	$ (11,978)

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30, 2013	2012
OPERATING ACTIVITIES:		
Net loss	$ (5,677)	$ (11,784)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,115	3,022
Provision for doubtful accounts and sales returns	1,301	108
Stock-based compensation	10,873	9,287
Loss on disposal of assets and website development costs	94	37
Changes in operating assets and liabilities:		
Accounts receivable	(4,404)	(1,973)
Prepaid expenses and other assets	(2,318)	(918)
Accounts payable and accrued expenses	215	577
Deferred revenue	(85)	(796)
Net cash provided by (used in) operating activities	5,114	(2,440)
INVESTING ACTIVITIES:		
Purchases of property, equipment and software	(4,966)	(1,927)
Capitalized website and software development costs	(2,139)	(1,590)
Change in restricted cash	(1,768)	(6,008)
Goodwill measurement period adjustment	1,153	
Net cash used in investing activities	(7,720)	(9,525)
FINANCING ACTIVITIES:		
Proceeds from initial public offering, net of offering costs		112,257
Proceeds from issuance of common stock	4,604	762
Repurchase of common stock	(193)	
Net cash provided by financing activities	4,411	113,019
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(134)	(177)
CHANGE IN CASH AND CASH EQUIVALENTS	1,671	100,877
CASH AND CASH EQUIVALENTS Beginning of period	95,124	21,736
CASH AND CASH EQUIVALENTS End of period	$ 96,795	$ 122,613
SUPPLEMENTAL DISCLOSURES OF OTHER CASH FLOW INFORMATION:		
Cash paid for income taxes, net of refunds	$ 83	$ 48
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Purchases of property and equipment recorded in accounts payable and accruals	$ 1,736	$ 695
Capitalized website and software development costs recorded in accounts payable and accruals		10

Accretion of redeemable convertible preferred stock	31
Vesting of early exercised options	31

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 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 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 February 27, 2013 (the Annual Report). The condensed consolidated balance sheet as of December 31, 2012 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.

Effective January 1, 2013, the Company prospectively adopted Accounting Standards Update (ASU) 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.* This update requires companies to provide information regarding the amounts reclassified out of accumulated other comprehensive income by component. In addition, companies are required to present, either on the face of the statement where net income (loss) is presented or in the accompanying notes, significant amounts reclassified out of accumulated other comprehensive income (loss) by the respective line items of net income (loss). The adoption of ASU 2013-02 did not have a material impact on the Company's consolidated financial statements.

In July 2013, the Financial Accounting Standards Board (FASB) issued ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force)* . This update eliminates diversity in practice for presentation of a unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is available to reduce the taxable income or tax payable that would result from disallowance of a tax position. The Company anticipates that the adoption of this standard will not have a material impact on its consolidated financial statements or footnote disclosures.

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 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 June 30, 2013 and December 31, 2012 (in thousands):

	June 30, 2013				**December 31, 2012**			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Money market funds(1)	$ 83,279	$	$	$ 83,279	$ 87,262	$	$	$ 87,262

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

3. ACQUISITION

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 acquisition was accounted for as a business combination in accordance with Accounting Standards Codification Topic 805, *Business Combinations* (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. The balance remaining in the escrow fund relating to this acquisition was approximately $10.2 million as of June 30, 2013.

The unaudited pro forma financial information in the table below summarizes the combined results of operations for the Company and Qype, and includes the accounting effects resulting from the Qype acquisition, including transaction, restructuring and integration costs, amortization charges from acquired intangible assets, and changes in depreciation due to differing asset values and depreciation lives as though the Company and Qype were combined as of January 1, 2012. The unaudited pro forma financial information, as presented below, is for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved if the acquisition of Qype had taken place as of January 1, 2012 (in thousands, except per share data):

	Pro Forma Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Revenue	$ 34,866	$ 64,736
Net loss	$ (4,373)	$ (17,111)
Basic and diluted net loss per share attributable to common stockholders	$ (0.07)	$ (0.37)

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. Restructuring liabilities were $0.1 million as of June 30, 2013, and are included in accrued liabilities on the accompanying condensed consolidated balance sheet. The Company s restructuring plan was substantially completed during the six months ended June 30, 2013. Any additional expense related to this restructuring plan incurred in the future is expected to be immaterial. The Company has recorded restructuring charges of $1.9 million to date. The following table summarizes the changes in the Company s restructuring liabilities (in thousands):

Balance as of December 31, 2012	$ 685
Provision	935
Payments	(1,292)
Adjustment to prior provision	(261)
Balance as of June 30, 2013	$ 67

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2013 and December 31, 2012 consist of the following (in thousands):

	June 30, 2013	December 31, 2012
Cash and cash equivalents		
Cash	$ 13,516	$ 7,862
Money market funds	83,279	87,262
Total cash and cash equivalents	$ 96,795	$ 95,124

The lease agreements for the Company s San Francisco, New York and London, England offices each require the Company to maintain a letter of credit issued to the landlords of each facility. Each letter of credit is subject to renewal annually until the lease expires. As of June 30, 2013 and December 31, 2012, the Company had letters of credit in the aggregate amount of $8.1 million and $6.4 million, respectively, related to such leases.

5. PROPERTY, EQUIPMENT AND SOFTWARE, NET

Property, equipment and software, net as of June 30, 2013 and December 31, 2012 consist of the following (in thousands):

	June 30, 2013	December 31, 2012
Computer equipment	$ 9,529	$ 8,315
Software	441	433
Capitalized website and internal-use software development costs	10,802	8,653
Furniture and fixtures	3,017	2,613
Leasehold improvements	9,305	5,017
Telecommunication	1,752	1,570
Total	34,846	26,601
Less accumulated depreciation	(15,067)	(11,802)
Property, equipment and software, net	$ 19,779	$ 14,799

Depreciation expense for the three months ended June 30, 2013 and 2012 was approximately $1.7 million and $0.9 million, respectively, and for the six months ended June 30, 2013 and 2012, depreciation expense was approximately $3.4 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 represents the excess of purchase consideration over the fair value of assets and liabilities acquired.

The changes in the carrying amount of goodwill for the six months ended June 30, 2013 were as follows (in thousands):

Balance as of December 31, 2012	$ 48,605
Goodwill acquired	
Measurement period adjustment	(1,153)
Effect of currency translation	(774)
Balance as of June 30, 2013	$ 46,678

Under the terms of the share purchase agreement by and among the Company, its wholly-owned subsidiary Yelp Ireland Ltd., Qype and its shareholders, the Qype purchase price was subject to a post-closing adjustment based on Qype s net working capital as of the acquisition date. On April 15, 2013, Yelp and the former Qype shareholders agreed to an adjustment of the purchase price in favor of Yelp in the amount of €0.9 million (approximately $1.2 million as of June 30, 2013) based on Qype s net working capital as of the acquisition date. As this agreement occurred during the measurement period of the acquisition, as defined by ASC 805, the impact of this adjustment was recorded as an increase to cash and a decrease to goodwill. The related funds were released to Yelp from the escrow fund during the three months ended June 30, 2013.

The intangible assets detail at June 30, 2013 and December 31, 2012 consist of the following (dollars in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life
June 30, 2013:				
Content	$ 3,196	$ (531)	$ 2,665	4.3 years
Advertiser relationships	1,914	(571)	1,343	1.3 years
Developed technology	520	(181)	339	1.3 years
Trade name	390	(135)	255	1.3 years
Domains	250	(136)	114	4.3 years
	$ 6,270	$ (1,554)	$ 4,716	

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life
December 31, 2012:				
Content	$ 3,304	$ (126)	$ 3,178	4.8 years
Advertiser relationships	1,982	(188)	1,794	1.8 years
Developed technology	529	(51)	478	1.8 years
Trade name	396	(38)	358	1.8 years
Domains	246	(118)	128	4.6 years
	$ 6,457	$ (521)	$ 5,936	

Amortization expense was $0.5 million and zero for the three months ended June 30, 2013 and 2012, respectively, and $1.1 million and zero for the six months ended June 30, 2013 and 2012, respectively.

As of June 30, 2013, the estimated future amortization of purchased intangible assets for (i) the remaining six months of 2013, (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
2013 (from July 1, 2013)	$ 1,056
2014	1,858
2015	636
2016	633
2017 and thereafter	533
Total amortization	$ 4,716

7. ACCRUED LIABILITIES

Accrued liabilities as of June 30, 2013 and December 31, 2012 consist of the following (in thousands):

	June 30, 2013	December 31, 2012
Accrued vacation and employee related expenses	$ 3,638	$ 2,463
Accrued bonus and commissions	3,163	2,037
Deferred rent	1,434	1,755
Legal settlement accrual	1,331	2,167
Accrued value added taxes payable	956	1,260
Accrued payroll tax	837	845
Merchant revenue share liability	469	538
Accrued restructuring and integration costs	67	710
Other accrued expenses	5,794	4,592
Total	$ 17,689	$ 16,367

8. OTHER INCOME (EXPENSE), NET

Other income (expense), net for the three and six months ended June 30, 2013 and 2012 consists of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Interest income	$ 14	$ 13	$ 30	$ 18
Transaction gain (loss) on foreign exchange	(61)	11	(223)	(10)
Other non-operating income (loss), net	(19)	(2)	(74)	(16)
Other income (expense), net	$ (66)	$ 22	$ (267)	$ (8)

9. COMMITMENTS AND CONTINGENCIES

Office Facility Leases The Company leases its office facilities under operating lease agreements that expire from September 2013 to 2021. The terms of the 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 $1.6 million and $1.1 million for the three months ended June 30, 2013 and 2012, respectively, and was $3.2 million and $1.9 million for the six months ended June 30, 2013 and 2012, 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.

Qype, an indirect wholly-owned subsidiary of the Company, had been party to two lawsuits regarding fees payable for directory data that Qype and its predecessor purchased from Deutsche Telekom AG (Deutsche Telekom) between 2005 and 2008 at a rate set by the German Federal Network Agency (FNA). Following German court decisions overturning the rate set by the FNA, Deutsche Telekom sued Qype in the Regional Court of Bonn on August 26, 2010 for approximately €1.5 million plus interest for additional fees for data delivered between 2005 and 2008. In August 2011, the court rejected Deutsche Telekom s claim in full and Deutsche Telekom appealed the decision to the Higher Regional Court of Cologne, which referred the appeal to the Higher Regional Court in Düsseldorf in July 2012. The court heard the appeal in April 2013 and a decision is now expected in September 2013. In addition, on August 6, 2012, Deutsche Telekom filed a claim against Qype in the Regional Court of Bonn for approximately €118,400 plus interest asserting Qype was unjustly enriched as a result of paying an insufficient rate for directory data from 2005 to 2008. However, following a hearing on December 19, 2012, the court dismissed Deutsche Telekom s claim in full and the time for appeal has lapsed. Under the applicable authoritative literature, an amount which represents management s best estimate of the amount that will ultimately be paid was accrued for as a loss contingency as of the acquisition date of Qype.

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 listed above or any other claims under indemnification arrangements will have a material effect on the Company s financial position, results of operations or cash flows.

10. STOCKHOLDERS EQUITY

Initial Public Offering

In March 2012, the Company completed its initial public offering of its Class A common stock to the public (the IPO) whereby 8,172,500 shares of Class A common stock were sold by the Company (inclusive of 1,072,500 shares of Class A common stock from the full exercise of the overallotment option of shares granted to the underwriters) and 50,000 shares of Class A common stock were sold by a selling stockholder, The Yelp Foundation. The public offering price of the shares sold in the offering was $15.00 per share. The Company did not receive any proceeds from the sales of shares by the selling stockholder. The total gross proceeds from the offering to the Company were $122.6 million. After deducting underwriters discounts and commissions and offering expenses, the aggregate net proceeds received by the Company totaled approximately $111.4 million. Immediately prior to the closing of the IPO, all shares of the Company s outstanding redeemable convertible preferred stock automatically converted into 35,816,772 shares of Class B common stock. As a result, following the IPO, the Company has two classes of authorized common stock outstanding: Class A common stock (one vote per share) and Class B common stock (ten votes per share).

The following table presents the shares authorized and issued and outstanding as of the periods presented (in thousands, except share data):

	June 30, 2013		December 31, 2012	
	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	39,186,395	200,000,000	23,380,283
Class B common stock, $0.000001 par value	100,000,000	25,868,912	100,000,000	40,124,986
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 will continue to be governed by their existing terms. Upon the effectiveness of the underwriting agreement in connection with the 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 will continue to be governed by their existing terms. Under the 2012 Plan, the Company has the ability to issue incentive stock options (ISOs), non-statutory stock options (NSOs), 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.

Restricted Stock Awards and Restricted Stock Units

The Company began granting RSAs to its employees in July 2011. In March 2012, the Company began granting RSUs. The cost of the RSAs and RSUs are determined using the fair value of the Company s common stock on the date of grant. Stock-based compensation expense is amortized on a straight-line basis over the requisite service period. RSAs and RSUs generally vest over a four-year period with 25% vesting at the end of one year and the remaining vesting quarterly or annually thereafter.

The Company granted zero RSAs and 10,125 RSUs during the three months ended June 30, 2013, and zero RSAs and 64,125 RSUs during the six months ended June 30, 2013. The Company recorded stock-based compensation expense related to RSAs and RSUs of approximately $0.5 million and $0.1 million for the three months ended June 30, 2013 and 2012, respectively, and $1.0 million and $0.2 million for the six months ended June 30, 2013 and 2012, respectively. As of June 30, 2013, the Company had approximately $4.2 million of unrecognized stock-based compensation expense, net of estimated forfeitures, related to RSAs and RSUs, which will be recognized over the remaining weighted-average vesting period of approximately 2.18 years.

Stock Options

Stock options granted under the 2012 Plan will be 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 six months ended June 30, 2013, 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 , 2013	10,113,176	$ 10.00	7.89	$ 96,992
Granted	3,501,425	24.24		
Exercised	(1,522,738)	3.02		
Canceled	(461,702)	19.00		
Outstanding June 30, 2013	11,630,161	$ 14.85	8.40	$ 231,692
Options vested and expected to vest as of June 30, 2013	11,279,346	$ 14.67	8.37	$ 226,696
Options vested and exercisable as of June 30, 2013	3,929,032	$ 7.56	7.31	$ 106,916

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 June 28, 2013 of $34.77 and the exercise price of outstanding, in-the-money options. The total intrinsic value of options exercised was approximately $18.8 million and $0.9 million for the three months ended June 30, 2013 and 2012, respectively, and $34.8 million and $2.5 million for the six months ended June 30, 2013 and 2012, respectively. The weighted-average grant date fair value of options granted was $16.83 and $11.86 per share for the three months ended June 30, 2013 and 2012, respectively, and $13.75 and $9.68 per share for the six months ended June 30, 2013 and 2012, respectively.

As of June 30, 2013, total unrecognized compensation costs, adjusted for estimated forfeitures, related to unvested stock options was approximately $72.0 million, which is expected to be recognized over a weighted-average time period of 3.03 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 an offering end date of November 29, 2013. There were no shares purchased by employees under the ESPP for the three and six months ended June 30, 2013. The Company recognized $0.1 million of stock-based compensation related to the ESPP in each of the three and six months ended June 30, 2013.

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 June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
Stock-based compensation effects in loss before income taxes:				

Cost of revenue	$ 105	$ 35	$ 177	$ 58
Sales and marketing	2,282	895	4,270	2,019
Product development	1,040	300		