OPENTABLE INC
Form 10-Q
November 05, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2010

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 001-34357

OPENTABLE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**94-3374049** (I.R.S. Employer Identification No.)
799 Market Street, 4th Floor, San Francisco, CA (Address of Principal Executive Offices)	**94103** (Zip Code)

(415) 344-4200

(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 checkmark whether the registrant has submitted electronically and posted on its corporate Web site, 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 time period that the registrant was required to submit and post such files). Yes o 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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o
Non-accelerated filer x (Do not check if a smaller reporting company)	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 November 2, 2010, 23,015,805 shares of the registrant s common stock were outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

OPENTABLE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

		September 30, 2010		December 31, 2009
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$	74,278,000	$	19,807,000
Short-term investments		13,604,000		50,221,000
Accounts receivable, net of allowance for doubtful accounts of $635,000, and $590,000 at September 30, 2010 and December 31, 2009		9,906,000		7,617,000
Prepaid expenses and other current assets		1,922,000		1,301,000
Deferred tax asset		6,463,000		6,024,000
Restricted cash		171,000		172,000
Total current assets		106,344,000		85,142,000
Property, equipment and software, net		13,757,000		11,516,000
Goodwill		4,537,000		1,805,000
Intangibles, net		1,054,000		992,000
Deferred tax asset		1,787,000		498,000
Other assets		351,000		378,000
TOTAL ASSETS	$	127,830,000	$	100,331,000
LIABILITIES AND STOCKHOLDERS EQUITY				
CURRENT LIABILITIES:				
Accounts payable	$	1,308,000	$	1,385,000
Accrued expenses		5,787,000		5,827,000
Accrued compensation		3,838,000		2,993,000
Deferred revenue		1,891,000		1,538,000
Dining rewards payable		14,084,000		11,611,000
Total current liabilities		26,908,000		23,354,000
Deferred revenue non-current		2,971,000		3,572,000

Other long-term liabilities		2,190,000		
Total liabilities		32,069,000		26,926,000
COMMITMENTS AND CONTINGENCIES (Note 5)				
STOCKHOLDERS EQUITY:				
Common stock, $0.0001 par value 100,000,000 shares authorized; 23,182,862 and 22,652,716 shares issued, 22,972,615 and 22,442,469 shares outstanding at September 30, 2010 and December 31, 2009		2,000		2,000
Additional paid-in capital		140,844,000		127,454,000
Treasury stock, at cost (210,247 shares at September 30, 2010 and December 31, 2009)		(647,000)		(647,000)
Accumulated other comprehensive loss		(105,000)		(128,000)
Accumulated deficit		(44,333,000)		(53,276,000)
Total stockholders equity		95,761,000		73,405,000
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	127,830,000	$	100,331,000

See notes to condensed consolidated financial statements.

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OPENTABLE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
REVENUES	$ 24,520,000	$ 17,042,000	$ 68,224,000	$ 49,427,000
COSTS AND EXPENSES:				
Operations and support	6,769,000	5,077,000	19,095,000	15,195,000
Sales and marketing	5,185,000	3,845,000	14,971,000	11,652,000
Technology	2,967,000	2,378,000	8,707,000	7,689,000
General and administrative	5,045,000	3,379,000	12,947,000	10,321,000
Total costs and expenses	19,966,000	14,679,000	55,720,000	44,857,000
Income from operations	4,554,000	2,363,000	12,504,000	4,570,000
Other income, net	67,000	111,000	209,000	256,000
Income before taxes	4,621,000	2,474,000	12,713,000	4,826,000
Income tax expense	786,000	1,578,000	3,770,000	2,872,000
NET INCOME	$ 3,835,000	$ 896,000	$ 8,943,000	$ 1,954,000
Net income per share (See Note 7):				
Basic	$ 0.17	$ 0.04	$ 0.39	$ 0.12
Diluted	$ 0.16	$ 0.04	$ 0.37	$ 0.09
Weighted average shares outstanding:				
Basic	22,706,000	21,640,000	22,471,000	15,791,000
Diluted	24,102,000	23,713,000	23,866,000	22,360,000

See notes to condensed consolidated financial statements.

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OPENTABLE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
OPERATING ACTIVITIES:		
Net income	$ 8,943,000	$ 1,954,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,653,000	3,796,000
Amortization of intangibles	227,000	
Provision for doubtful accounts	858,000	1,462,000
Stock-based compensation	5,361,000	2,330,000
Write-off of property, equipment and software	383,000	521,000
Deferred taxes	(1,728,000)	1,968,000
Excess tax benefit related to stock compensation	(4,354,000)	
Changes in operating assets and liabilities:		
Accounts receivable	(3,087,000)	(1,771,000)
Prepaid expenses and other current assets	(1,000)	(1,129,000)
Accounts payable	(224,000)	42,000
Accrued expenses	5,806,000	1,514,000
Accrued compensation	835,000	305,000
Deferred revenue	(264,000)	(43,000)
Other long-term liabilities	664,000	
Dining rewards payable	2,473,000	2,293,000
Net cash provided by operating activities	20,545,000	13,242,000
INVESTING ACTIVITIES:		
Purchases of property, equipment and software	(6,737,000)	(4,220,000)
Purchases of investments	(24,926,000)	(48,183,000)
Sales of investments	60,993,000	16,048,000
Acquisition of business	(1,350,000)	
Net cash provided by (used in) investing activities	27,980,000	(36,355,000)
FINANCING ACTIVITIES:		
Excess tax benefit related to stock-based compensation	4,354,000	
Proceeds from issuance of common stock upon exercise of employee stock options	2,626,000	804,000
Proceeds from issuance of common stock in connection with initial public offering, net of offering costs		34,638,000
Cash overdrafts	(988,000)	
Net cash provided by financing activities	5,992,000	35,442,000

EFFECT OF EXCHANGE RATES ON CASH		(46,000)		260,000
NET INCREASE IN CASH AND CASH EQUIVALENTS		54,471,000		12,589,000
CASH AND CASH EQUIVALENTS Beginning of period		19,807,000		5,528,000
CASH AND CASH EQUIVALENTS End of period	$	74,278,000	$	18,117,000
		(Continued)		

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OPENTABLE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(Unaudited)

	Nine Months Ended September 30, 2010		Nine Months Ended September 30, 2009	
SUPPLEMENTAL DISCLOSURE OF OTHER CASH FLOW INFORMATION:				
Cash paid for income taxes	$	683,000	$	883,000
SUPPLEMENTAL DISCLOSURE OF NONCASH OPERATING ACTIVITIES:				
Contingent liability recorded in other long-term liabilities	$	1,526,000	$	
Unpaid portion of acquisition purchase price recorded in accrued expenses	$	150,000	$	
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:				
Purchase of property, equipment and software recorded in accounts payable and accrued expenses	$	629,000	$	301,000
Vesting of early exercised stock options	$	896,000	$	935,000
Accrued offering costs	$		$	11,000
Conversion of convertible preferred stock to common stock	$		$	21,909,000

See notes to condensed consolidated financial statements. (Concluded)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Organization and Description of Business

OpenTable, Inc., a Delaware corporation (together with its wholly-owned subsidiaries, the Company), was formed on October 13, 1998. The Company provides solutions that form an online network connecting reservation-taking restaurants and people who dine at those restaurants. For restaurant customers, in addition to other products, the Company provides a proprietary Electronic Reservation Book (ERB), which combines proprietary software with computer hardware to deliver a solution that computerizes restaurant host-stand operations and replaces traditional pen-and-paper reservation books. The OpenTable ERB streamlines and enhances a number of business-critical functions and processes for restaurants, including reservation management, table management, guest recognition and email marketing. The Company also provides a web-based product for restaurants called OpenTable Connect (Connect). Like the ERB, Connect allows restaurants to take online reservations via the OpenTable website; however, Connect does not provide the operational benefits that the ERB delivers to reservation-intensive restaurants. For diners, the Company operates www.opentable.com, a popular restaurant reservation website. The OpenTable website enables diners to find, choose and book tables at restaurants on the OpenTable network, overcoming the inefficiencies associated with the traditional process of reserving by phone.

Certain Significant Risks and Uncertainties

The Company operates in a dynamic industry, and accordingly, can be affected by a variety of factors. For example, management of the Company believes that changes in any of the following areas could have a significant negative effect on the Company s future financial position, results of operations or cash flows: the ability to maintain an adequate rate of growth; the impact of the current economic climate on its business; the ability to effectively manage its growth; the ability to attract new restaurant customers; the ability to increase the number of visitors to its website and convert those visitors into diners; and the ability to retain existing restaurant customers and diners or encourage repeat reservations.

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Revenue Recognition

During the third quarter of 2010, the Company began selling third-party restaurant coupons through its website. The Company earns a commission for acting as an agent in these transactions which is recorded on a net basis and is included in revenue upon completion of the third-party coupon sale. The liability for redemption and potential income for breakage remain with the third-party restaurants; therefore, the Company does not record redemption or breakage of the coupons. The Company applies a sales allowance for potential coupon refunds.

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Acquisition of Table Maestro

In August 2010, the Company acquired substantially all of the assets and certain liabilities of Table Maestro, LLC (Table Maestro), a provider of telephone reservation services for a purchase price of $1,500,000 in cash and additional contingent performance-based cash payments valued at $1,526,000. The Company recorded $2,732,000 of goodwill and $289,000 of identifiable intangible assets in connection with the acquisition which is being accounted for as a business combination. The Company has included the effects of the transaction within the results of operations prospectively from August 12, 2010, the date of acquisition. Pro forma financial information for this business combination has not been presented, as the effects were not material to the Company s historical consolidated financial statements.

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 (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 and notes thereto contained in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed on March 11, 2010 with the SEC (the 2009 Annual Report). The condensed consolidated balance sheet as of December 31, 2009, 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 include all adjustments (consisting only of normal recurring adjustments) necessary for the fair presentation of the Company s statement of financial position at September 30, 2010 and December 31, 2009, and the Company s results of operations for the three and nine months ended September 30, 2010 and 2009, and its cash flows for the nine months ended September 30, 2010 and 2009. The results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results to be expected for the year ending December 31, 2010. All references to September 30, 2010 or to the three or nine months ended September 30, 2010 and 2009 in the notes to the condensed consolidated financial statements are unaudited.

The Company has made a reclassification on its condensed consolidated statement of cash flows for the nine months ended September 30, 2009 to conform the presentation of accounts payable and accrued expenses to the current period presentation. In addition, proceeds from issuance of common stock upon exercise of employee stock options have been included in a separate line item within financing activities. These reclassifications did not change cash flows from operating activities, financing activities or total cash flows.

Use of Estimates

The preparation of the Company s 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 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 financial statements; therefore, actual results could differ from those estimates.

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Recently Issued Accounting Standards

In October 2009, the Financial Accounting Standards Board (FASB) issued Topic 605 Revenue Recognition (EITF 08-1, Multiple-Deliverable Revenue Arrangements, (amendments to Topic 605, Revenue Recognition)) and Topic 985 Software (EITF 09-3, Certain Arrangements That Include Software Elements, (amendments to Topic 985, Software)). Topic 605 Revenue Recognition requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. Topic 985 Software removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. Topic 605 Revenue Recognition and Topic 985 Software should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after September 15, 2010, with early adoption permitted. The Company is currently evaluating the impact of Topic 605 Revenue Recognition and Topic 985 Software on its consolidated financial statements.

Effective January 1, 2010, the Company adopted the FASB s updated guidance related to fair value measurements and disclosures which requires a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and to describe the reasons for the transfers. In addition, in the reconciliation for fair value measurements using significant unobservable inputs, or Level 3 inputs, a reporting entity should disclose separately information about purchases, sales, issuances and settlements (that is, on a gross basis rather than one net number). The updated guidance also requires that an entity should provide fair value measurement disclosures for each class of assets and liabilities and disclosures about the valuation techniques and inputs used to measure fair value for both recurring and non-recurring fair value measurements for Level 2 and Level 3 fair value measurements. The guidance is effective for interim or annual financial reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. Adoption of the updated guidance did not have an impact on the Company s consolidated results of operations or financial condition.

3. Short-Term Investments and Fair Value Measurements

Short-term investments are summarized as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
At September 30, 2010:				
U.S. government and agency securities	$ 5,553,000	$ 5,000	$	$ 5,558,000
Certificates of deposit	_8,047,000		(1,000)	8,046,000
Total	$ 13,600,000	$ 5,000	$ (1,000)	$ 13,604,000

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
At December 31, 2009:				
U.S. government and agency securities	$ 20,722,000	$ 6,000	$ (7,000)	$ 20,721,000
Certificates of deposit	27,131,000	7,000	(38,000)	27,100,000
Commercial paper	2,400,000			2,400,000
Total	$ 50,253,000	$ 13,000	$ (45,000)	$ 50,221,000

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As of December 31, 2009, certain investments with a total estimated fair value of $976,000 had maturity dates of greater than one year. As of September 30, 2010, there were no investments that had maturity dates of greater than one year.

Investment instruments are classified within Level 1 or Level 2 of the fair value hierarchy when they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The types of instruments that are generally classified within Level 1 of the fair value hierarchy include money market securities, U.S. government and agency securities and commercial paper. The types of investments that are generally classified within Level 2 of the fair value hierarchy include certificates of deposit. The Company classifies items in Level 2 if the investments are valued using observable inputs to quoted market prices, or other inputs that are observable or can be corroborated by observable market data. Investments are held by a custodian who obtains investment prices from a third party pricing provider that uses standard inputs to models which vary by asset class.

In accordance with Topic 820 Fair Value Measurements and Disclosures, the following table represents the Company s fair value hierarchy for its financial assets:

	September 30, 2010			December 31, 2009		
	Aggregate Fair Value	**Level 1**	**Level 2**	**Aggregate Fair Value**	**Level 1**	**Level 2**
U.S. government and agency securities	$ 5,558,000	$ 5,558,000	$	$ 20,721,000	$ 20,721,000	$
Certificates of deposit	8,046,000		8,046,000	27,100,000		27,100,000
Commercial paper				2,400,000	2,400,000	
Total short-term investments	$ 13,604,000	$ 5,558,000	$ 8,046,000	$ 50,221,000	$ 23,121,000	$ 27,100,000

The Company chose not to elect the fair value option as prescribed by Topic 825 Financial Instruments (Statement of Financial Accounting Standards (SFAS) No. 159) for its financial assets and liabilities that had not been previously carried at fair value. Therefore, financial assets and liabilities not carried at fair value, such as accounts payable, are still reported at their carrying values.

4. Acquired Intangible Assets

As of September 30, 2010, intangible assets included customer relationships of $684,000 (net of accumulated amortization of $163,000), developed technology of $250,000 (net of accumulated amortization of $125,000) and trademarks of $120,000 (net of accumulated amortization of $13,000). As of December 31, 2009, intangible assets included customer relationships of $637,000 (net of accumulated amortization of $40,000), developed technology of $344,000 (net of accumulated amortization of $30,000) and trademarks of $11,000 (net of accumulated amortization of $4,000). Intangible assets are amortized on a straight-line basis over the estimated useful lives which range from one to four years. Based on the current amount of intangibles subject to amortization, the estimated amortization expense for the remainder of this year and the succeeding four years is as follows: 2010 (remainder): $91,000; 2011: $351,000; 2012: $320,000; 2013: $226,000; 2014: $66,000.

5. Commitments and Contingencies

The Company leases its facilities under operating leases. Leases expire at various dates through April 2016. 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.

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Litigation

On May 12, 2009, a patent infringement lawsuit was filed against the Company by Mount Hamilton Partners, LLC (Mount Hamilton) in the United States District Court for the Northern District of California, seeking, among other things, a judgment that the Company has infringed a certain patent held by Mount Hamilton, an injunctive order against the alleged infringing activities and an award for damages. If an injunction is granted, it could force the Company to stop or alter certain of its business activities, such as certain aspects of the OpenTable Dining Rewards Program. The Company has denied Mount Hamilton s allegations and asserted counterclaims seeking judicial declarations that the Mount Hamilton patent is not infringed, is unenforceable and is invalid. On October 6, 2009, the Company filed a petition for re-examination with the U.S. Patent and Trademark Office (PTO), asking the PTO to re-examine the patent in question and requesting that the claims of the Mount Hamilton patent be rejected. In addition, on October 21, 2009, the Company filed a motion in the district court asking the court to stay the current litigation pending the outcome of the requested re-examination proceeding. On December 7, 2009, the PTO granted the Company s petition for re-examination, and in its first non-final office action, rejected all of the claims of the patent at issue. In addition, the district court has stayed all proceedings pending re-examination of the patent, which is currently ongoing. The Company is not currently able to estimate the potential loss, if any, that may result from this claim.

The Company is also subject to various other legal proceedings and claims arising in the ordinary course of business. Although occasional adverse decisions or settlements may occur, management believes there is no litigation pending that could, individually or in the aggregate, have a material adverse effect on the Company s business, financial position, results of operations or cash flows.

6. Stockholders Equity

Common Stock

On May 21, 2009, the Company completed its initial public offering whereby the Company sold 2,022,684 shares of common stock for a price of $20.00 per share. As part of the offering 1,427,316 shares were also sold by existing stockholders at a price of $20.00 per share. Approximately $5.8 million in offering costs were incurred and have been deducted from additional paid-in capital.

Preferred Stock

Prior to the initial public offering, the Company had outstanding 6,898,187 shares of Series A convertible preferred stock and 2,177,550 shares of Series B convertible preferred stock. Each share of preferred stock was convertible into one share of common stock. The conversion of all shares of preferred stock into 9,075,737 shares of common stock occurred automatically upon the completion of the Company s initial public offering on May 21, 2009.

Stock-Based Compensation

The Company accounts for stock-based compensation under Topic 718 Stock Compensation (SFAS No. 123R), which requires compensation costs related to share-based transactions, including employee stock options, to be recognized in the financial statements based on fair value.

Under Topic 718 Stock Compensation, the fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model.

The Company determined weighted average valuation assumptions as follows:

• Volatility As the Company does not have an extensive trading history for its common stock, the expected stock price volatility for the Company s common stock was estimated by taking the median historic price volatility for industry peers based on daily price observations over a

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period equivalent to the expected term of the stock option grants. Industry peers consist of several public companies in the technology industry similar in size, stage of life cycle and financial leverage. The Company did not rely on implied volatilities of traded options in its industry peers common stock because the volume of activity was relatively low.

- Expected term The expected term was estimated using the simplified method allowed under Topic 718 (Securities and Exchange Commission Staff Accounting Bulletin No. 110, Share-Based Payment).

- Risk-free rate The risk-free interest rate is based on the yields of U.S. Treasury securities with maturities similar to the expected term of the options for each option group.

- Forfeiture rate The Company estimated the forfeiture rate based on its historical experience with forfeitures. The Company reviews the estimated forfeiture rates each period end and makes changes as factors affecting the forfeiture rate calculations and assumptions change.

- Dividend yield The Company has never declared or paid any cash dividends and does not presently plan to pay cash dividends in the foreseeable future. Consequently, the Company used an expected dividend yield of zero.

The following table summarizes the assumptions relating to the Company s stock options for the three and nine months ended September 30, 2010 and 2009, respectively:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2010	**2009**	**2010**	**2009**
Dividend yield	0%	0%	0%	0%
Volatility	52%	53%	52%-53%	53%
Risk-free interest rate	1.66%-1.68%	2.63%-2.65%	1.66%-2.95%	2.63%-2.65%
Expected term, in years	6.02-6.08	6.02-6.08	5.50-6.56	6.02-6.08

The Company granted 47,780 stock options during the three months ended September 30, 2010 and 945,210 stock options during the nine months ended September 30, 2010. The Company granted 53,487 stock options during the three and nine months ended September 30, 2009. The Company recorded stock-based compensation expense of $2,027,000 and $647,000 for three months ended September 30, 2010 and 2009, respectively, and $5,361,000 and $2,330,000 for the nine months ended September 30, 2010 and 2009, respectively.

Topic 718 requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow, rather than as an operating cash flow. This requirement reduces net operating cash flows and increases net financing cash flows. For the three and nine months ended September 30, 2010, the Company recorded $1,620,000 and $4,354,000, respectively, of excess tax benefits from stock-based compensation and none for the three and nine months ended September 30, 2009.

7. Net Income Per Share

The Company calculates net income per share in accordance with Topic 260 Earnings per Share (SFAS No. 128, Earnings Per Share). Basic and diluted net income per share attributable to common stockholders are presented in conformity with the two-class method required for participating securities.

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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 income per share using the two-class method.

Performance-Based Awards

Non-vested performance-based awards are included in the diluted shares outstanding each period if established performance criteria have been met at the end of the respective periods. 220,000 and 281,000 shares were excluded from the dilutive shares outstanding for the three and nine months ended September 30, 2010 and 2009, respectively, as the performance criteria had not been met as of the respective dates. Anti-dilutive shares in the amounts of 111,000 and 15,000 were excluded from the dilutive shares outstanding for the three months ended September 30, 2010 and 2009, respectively. Anti-dilutive shares in the amounts of 71,000 and 355,000 were excluded from the dilutive shares outstanding for the nine months ended September 30, 2010 and 2009, respectively.

The following table sets forth the computation of basic and diluted net income per share for the periods indicated:

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Basic net income per common share calculation:				
Net income	$ 3,835,000	$ 896,000	$ 8,943,000	$ 1,954,000
Less: Undistributed earnings allocated to participating securities	(33,000)	(20,000)	(105,000)	(70,000)
Net income attributable to common shares - basic	3,802,000	876,000	8,838,000	1,884,000
Basic weighted average common shares outstanding	22,706,000	21,640,000	22,471,000	15,791,000
Basic net income per share	$ 0.17	$ 0.04	$ 0.39	$ 0.12
Diluted net income per common share calculation:				
Net income	$ 3,835,000	$ 896,000	$ 8,943,000	$ 1,954,000
Less: Undistributed earnings allocated to participating securities	(20,000)	(13,000)	(68,000)	(37,000)
Net income attributable to common shares - diluted	3,815,000	883,000	8,875,000	1,917,000
Weighted average shares used to compute basic net income per share	22,706,000	21,640,000	22,471,000	15,791,000
Effect of potentially dilutive securities:				
Unvested common shares subject to repurchase	126,000	352,000	181,000	424,000
Warrants to purchase convertible preferred stock		86,000		84,000
Employee stock options	1,270,000	1,635,000	1,214,000	1,390,000
Convertible preferred stock				4,671,000
	24,102,000	23,713,000	23,866,000	22,360,000

Weighted average shares used to compute diluted net income per share				
Diluted net income per share	$ 0.16	$ 0.04	$ 0.37	$ 0.09

8. Income Taxes

During the three and nine months ended September 30, 2010, the Company recorded income tax expense of $786,000 and $3,770,000, respectively, which resulted in an effective tax rate of 17% and 30%, respectively. During the three and nine months ended September 30, 2009, the Company recorded income tax expense of $1,578,000 and $2,872,000, respectively, which resulted in an effective tax rate of 64% and 60%, respectively. The tax provisions and the effective tax rates for the three and nine months ended September 30, 2010 differed from those of the same periods ended September 30, 2009, primarily due to the increase in income before taxes, a reduction in compensation expense related to non-deductible share-

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based payments in the current year and the recognition of certain pre-2010 Federal and California research and development tax credit benefits during the three months ended September 30, 2010. The expected tax provision derived from applying the federal statutory rate to the Company s income before taxes for the three and nine months ended September 30, 2010 differed from the Company s recorded income tax provision primarily due to compensation expense related to non-deductible share-based payments offset by the benefits of the recognition of current year state research and development credits and the recognition of certain pre-2010 Federal and California research and development tax credit benefits during the three months ended September 30, 2010. The Company s effective tax rate for the three and nine months ended September 30, 2010 is not necessarily indicative of the effective tax rate that may be expected for fiscal year 2010.

Topic 740 Income Taxes (SFAS No. 109) prescribes that a tax position is required to meet a minimum recognition threshold before being recognized in the financial statements. The Company s gross unrecognized tax benefits as of September 30, 2010 and December 31, 2009 were $17,400,000 and $15,000,000, respectively. As of September 30, 2010 and December 31, 2009, the Company recorded $173,000 and $32,000, respectively, of accrued interest. No significant penalties have been recorded to date.

9. Comprehensive Income (Loss)

In accordance with Topic 220 Comprehensive Income (SFAS No. 130, Reporting Comprehensive Income), the Company reports by major components and as a single total, the change in its net assets during the period from non-owner sources. Comprehensive income (loss) consists of net income and accumulated other comprehensive income (loss), which includes certain changes in equity that are excluded from net income. Specifically, it includes cumulative foreign currency translation and the unrealized gain (loss) from investments. Comprehensive income for the three months ended September 30, 2010 and 2009 was $3,973,000 and $893,000, respectively.

Accumulated other comprehensive loss of $105,000 as of September 30, 2010 was comprised of $4,000 of unrealized gain on investments and $109,000 of foreign currency translation losses. Accumulated other comprehensive loss of $128,000 as of December 31, 2009 was comprised of $32,000 of unrealized loss on investments and $96,000 of foreign currency translation losses.

10. Segment Information

The Company operates in one industry online reservations and guest management solutions. The Company has two reportable segments: North America and International, as defined by Topic 280 Segment Reporting (SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information). Reportable segments have been identified based on how management makes operating decisions, assesses performance and allocates resources. The Chief Executive Officer acts as the chief operating decision maker on behalf of both segments. The Company does not allocate assets discretely by reportable segments, and reviews asset information on a global basis, not by segment.

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Summarized financial information concerning the reportable segments is as follows:

	North America Segment(1)	International Segment	Total Consolidated
Three months ended September 30, 2010			
Revenues subscription	$ 9,868,000	$ 1,146,000	$ 11,014,000
Revenues reservations	11,059,000	323,000	11,382,000
Revenues installation and other	2,101,000	23,000	2,124,000
Income (loss) from operations	6,646,000	(2,092,000)	4,554,000
Interest income	59,000		59,000
Depreciation and amortization expense	1,546,000	163,000	1,709,000
Purchases of property, equipment and software	1,601,000	153,000	1,754,000
Three months ended September 30, 2009			
Revenues subscription	$ 8,321,000	$ 820,000	$ 9,141,000
Revenues reservations	6,932,000	143,000	7,075,000
Revenues installation and other	797,000	29,000	826,000
Income (loss) from operations	3,972,000	(1,609,000)	2,363,000
Interest income	100,000		100,000
Depreciation and amortization expense	1,138,000	124,000	1,262,000
Purchases of property, equipment and software	1,302,000	185,000	1,487,000
Nine months ended September 30, 2010			
Revenues subscription	$ 28,409,000	$ 3,118,000	$ 31,527,000
Revenues reservations	31,325,000	825,000	32,150,000
Revenues installation and other	4,474,000	73,000	4,547,000
Income (loss) from operations	17,592,000	(5,088,000)	12,504,000
Interest income	196,000		196,000
Depreciation and amortization expense	4,444,000	436,000	4,880,000
Purchases of property, equipment and software	6,161,000	576,000	6,737,000
Nine months ended September 30, 2009			
Revenues subscription	$ 24,048,000	$ 2,182,000	$ 26,230,000
Revenues reservations	20,522,000	386,000	20,908,000
Revenues installation and other	2,205,000	84,000	2,289,000
Income (loss) from operations	9,256,000	(4,686,000)	4,570,000
Interest income	267,000		267,000
Depreciation and amortization expense	3,457,000	339,000	3,796,000
Purchases of property, equipment and software	3,896,000	324,000	4,220,000

(1) A significant majority of the Company s Technology costs are incurred in the United States and as such are allocated to the North America segment. There are no internal revenue transactions between the Company s reporting segments.

Geographical Information

The Company is domiciled in the United States and has international operations in Canada, Germany, Japan, Mexico and the United Kingdom. Information regarding the Company s operations by geographic area is presented below:

	Three Months Ended	Nine Months Ended

	September 30,		September 30,	
	2010	**2009**	**2010**	**2009**
Revenues:				
United States	$ 21,693,000	$ 15,162,000	$ 60,413,000	$ 44,338,000
International all others	2,827,000	1,880,000	7,811,000	5,089,000
Total revenues	$ 24,520,000	$ 17,042,000	$ 68,224,000	$ 49,427,000

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	As of September 30, 2010	As of December 31, 2009
Long-lived assets(1):		
United States	$ 11,915,000	$ 9,872,000
International all others	2,193,000	2,022,000
Total long-lived assets	$ 14,108,000	$ 11,894,000

(1) Includes all non-current assets except deferred tax assets, goodwill and intangible assets.

The Company has no customers that individually, or in the aggregate, exceed 10% of revenues or accounts receivable as of and for any of the period presented above.

11. Subsequent Events

On September 15, 2010, the Company announced that it had agreed to acquire all of the issued and outstanding share capital of toptable.com, a leading restaurant reservation site in the United Kingdom, for approximately $55.0 million in cash. The transaction closed on October 1, 2010.

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

Forward Looking Statements

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our 2009 Annual Report.

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, will, plan, project, seek, should, target, will, would and similar ex 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 below and in our 2009 Annual Report. 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.

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Overview

We provide solutions that form an online network connecting reservation-taking restaurants and people who dine at those restaurants. Our solutions include our proprietary ERB and Connect for restaurant customers and www.opentable.com, a popular restaurant reservation website for diners. The OpenTable network includes approximately 15,000 OpenTable restaurant customers spanning all 50 states as well as select markets outside of the United States. Since our inception in 1998, we have seated approximately 175 million diners through OpenTable reservations. Restaurants that use our ERB pay us a one-time installation fee for onsite installation and training, a monthly subscription fee for the use of our software and hardware and a fee for each restaurant guest seated through online reservations. Restaurants that use Connect pay us a monthly subscription fee for the use of our service and a fee for each restaurant guest seated through online reservations. Our online restaurant reservation service is free to diners. For the three months ended September 30, 2010 and 2009, our net revenues were $24.5 million and $17.0 million, respectively. For the nine months ended September 30, 2010 and 2009, our net revenues were $68.2 million and $49.4 million, respectively. For the three months ended September 30, 2010 and 2009, our subscription revenues accounted for 45% and 54% of our total revenues, respectively, and 46% and 53% of total revenues for the nine months ended September 30, 2010 and 2009, respectively. For the three months ended September 30, 2010 and 2009, our reservation revenues accounted for 46% and 41% of our total revenues, respectively, and 47% and 42% of total revenues for the nine months ended September 30, 2010 and 2009, respectively.

In 2004, we began to selectively expand outside of North America into countries that are characterized by large numbers of online consumer transactions and reservation-taking restaurants. To date, we have concentrated our international efforts in Germany, Japan and the United Kingdom. Our revenues outside of North America for the three months ended September 30, 2010 and 2009 represented 6% and 6% of our total revenues, respectively, and 6% and 5% of total revenues for the nine months ended September 30, 2010 and 2009, respectively. We intend to continue to incur substantial expenses in advance of recognizing material related revenues as we attempt to further penetrate our existing international markets and selectively enter new markets. Some international markets may fail to meet our expectations, and we may decide to realign our focus, as we did when we closed our offices in Spain and France in the fourth quarter of 2008.

Basis of Presentation

General

We report consolidated operations in U.S. dollars and operate in two geographic segments: North America and International. The North America segment is comprised of all of our operations in the United States, Canada and Mexico, and the International segment is comprised of all non-North America operations, which includes operations in Europe and Asia.

Revenues

We generate substantially all of our revenues from our restaurant customers; we do not charge any fees to diners. Our revenues include installation fees for our ERB (including training), monthly subscription fees for our ERB and Connect and a fee for each restaurant guest seated through online reservations. Installation fees are recognized on a straight-line basis over an estimated customer life of approximately six years. Subscription revenues are recognized on a straight-line basis during the contractual period over which the service is delivered to our restaurant customers. Revenues from online reservations are recognized on a transaction basis as the diners are seated by the restaurant. Revenues are shown net of redeemable Dining Points issued to diners. See Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Dining Rewards Loyalty Program in our 2009 Annual Report.

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Costs and Expenses

Operations and support. Our operations and support expenses consist primarily of payroll and related costs, including bonuses and stock-based compensation, for those employees associated with installation, support and maintenance for our restaurant customers, as well as costs related to our outsourced call center. Operations and support expenses also include restaurant equipment costs, such as depreciation on restaurant-related hardware, shipping costs related to restaurant equipment, restaurant equipment costs that do not meet the capitalization threshold, referral payments and website connectivity costs. Operations and support expenses also include amortization of capitalized website and internal use software development costs (see Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Website and Software Development Costs in our 2009 Annual Report). Also included in operations and support expenses are travel and related expenses incurred by the employees providing installation and support services for our restaurant customers, plus allocated facilities costs.

Sales and marketing. Our sales and marketing expenses consist primarily of salaries, benefits and incentive compensation for sales and marketing employees, including stock-based compensation. Also included are expenses for trade shows, public relations and other promotional and marketing activities, travel and entertainment expenses and allocated facilities costs.

Technology. Our technology expenses consist primarily of salaries and benefits, including bonuses and stock-based compensation, for employees and contractors engaged in the development and ongoing maintenance of our website, infrastructure and software, as well as allocated facilities costs.

General and administrative. Our general and administrative costs consist primarily of salaries and benefits, including stock-based compensation, for general and administrative employees and contractors involved in executive, finance, accounting, risk management, human resources and legal roles. In addition, general and administrative costs include consulting, legal, accounting and other professional fees. Bad debt, third party payment processor, credit card, bank processing fees and allocated facilities costs are also included in general and administrative expenses.

Headcount consists of full-time equivalent employees, as well as full-time equivalent contractors, in all of the sections noted below.

Other Income, Net

Other income, net consists primarily of the interest income earned on our cash accounts. Foreign exchange gains and losses are also included in other income, net.

Income Taxes

We are subject to income tax in the United States as well as other foreign tax jurisdictions in which we conduct business. Earnings from our foreign operations are subject to local jurisdictional income tax and may also be subject to current U.S. income tax.

During the three and nine months ended September 30, 2010, we recorded income tax expense of $0.8 million and $3.8 million, respectively, which resulted in an effective tax rate of 17% and 30%, respectively. During the three and nine months ended September 30, 2009, we recorded income tax expense of $1.6 million and $2.9 million, respectively, which resulted in an effective tax rate of 64% and 60%, respectively. The tax provisions and the effective tax rates for the three and nine months ended September 30, 2010 differed from those of the same periods ended September 30, 2009, primarily due to the increase in income before taxes, a reduction in compensation expense related to non-deductible share-based payments in the current year and the recognition of certain pre-2010 Federal and California research

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development tax credit benefits during the three months ended September 30, 2010. The expected tax provision derived from applying the federal statutory rate to our income before taxes for the three and nine months ended September 30, 2010 differed from our recorded income tax provision primarily due to compensation expense related to non-deductible share-based payments offset by the benefits of the recognition of current year state research and development credits and the recognition of certain pre-2010 Federal and California research and development tax credit benefits during the three months ended September 30, 2010. Our effective tax rate for the three and nine months ended September 30, 2010 is not necessarily indicative of the effective tax rate that may be expected for fiscal year 2010.

Factors that impact our income tax provision include, but are not limited to, the compensation expense related to non-deductible share-based payments, recognition of research and development tax benefits and discrete tax benefits arising from the disqualified disposition of certain stock-based compensation awards.

Critical Accounting Policies and Estimates

In presenting our financial statements in conformity with accounting principles generally accepted in the United States, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures.

Some of the estimates and assumptions we are required to make relate to matters that are inherently uncertain as they pertain to future events. We base these estimates and assumptions on historical experience or on various other factors that we believe to be reasonable and appropriate under the circumstances. On an ongoing basis, we reconsider and evaluate our estimates and assumptions. Our future estimates may change if the underlying assumptions change. Actual results may differ significantly from these estimates.

There have been no material changes to our critical accounting policies. For further information on our critical and other significant accounting policies, see our 2009 Annual Report.

We believe that the following critical accounting policies involve our more significant judgments, assumptions and estimates and, therefore, could have the greatest potential impact on our consolidated financial statements:

- Revenue Recognition;
- Dining Rewards Loyalty Program;
- Website and Software Development Costs;
- Income Taxes; and
- Stock-Based Compensation.

Results of Operations

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

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	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(In thousands, except per share amounts)			
REVENUES	$ 24,520	$ 17,042	$ 68,224	$ 49,427
COSTS AND EXPENSES:				
Operations and support (1)	6,769	5,077	19,095	15,195
Sales and marketing (1)	5,185	3,845	14,971	11,652
Technology (1)	2,967	2,378	8,707	7,689
General and administrative (1)	5,045	3,379	12,947	10,321
Total costs and expenses	19,966	14,679	55,720	44,857
Income from operations	4,554	2,363	12,504	4,570
Other income, net	67	111	209	256
Income before taxes	4,621	2,474	12,713	4,826
Income tax expense	786	1,578	3,770	2,872
NET INCOME	$ 3,835	$ 896	$ 8,943	$ 1,954
Net income per share:				
Basic	$ 0.17	$ 0.04	$ 0.39	$ 0.12
Diluted	$ 0.16	$ 0.04	$ 0.37	$ 0.09
Weighted average shares outstanding:				
Basic	22,706	21,640	22,471	15,791
Diluted	24,102	23,713	23,866	22,360

(1) Stock-based compensation included in above line items:				
Operations and support	$ 229	$ 79	$ 648	$ 232
Sales and marketing	494	180	1,359	588
Technology	416	91	1,059	382
General and administrative	888	297	2,295	1,128
	$ 2,027	$ 647	$ 5,361	$ 2,330
Other Operational Data:				
Installed restaurants (at period end):				
North America	13,025	10,338	13,025	10,338
International	2,221	1,337	2,221	1,337
Total	15,246	11,675	15,246	11,675
Seated diners (in thousands):				
North America	15,368	10,114	44,591	30,106
International	531	227	1,403	620
Total	15,899	10,341	45,994	30,726
Headcount (at period end):				
North America	302	247	302	247
International	74	63	74	63
Total	376	310	376	310

Additional Financial Data:								
Revenues:								
North America	$	23,028	$	16,050	$	64,208	$	46,775
International		1,492		992		4,016		2,652
Total	$	24,520	$	17,042	$	68,224	$	49,427
Income (loss) from operations:								
North America	$	6,646	$	3,972	$	17,592	$	9,256
International		(2,092)		(1,609)		(5,088)		(4,686)
Total	$	4,554	$	2,363	$	12,504	$	4,570
Depreciation and amortization:								
North America	$	1,546	$	1,138	$	4,444	$	3,457
International		163		124		436		339
Total	$	1,709	$	1,262	$	4,880	$	3,796
Stock-based compensation:								
North America	$	1,932	$	559	$	5,100	$	2,049
International		95		88		261		281
Total	$	2,027	$	647	$	5,361	$	2,330

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	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
	(as a percentage of revenue)			
REVENUES	100%	100%	100%	100%
COSTS AND EXPENSES:				
Operations and support	28	30	28	31
Sales and marketing	21	22	22	24
Technology	12	14	13	15
General and administrative	20	20	19	21
Total costs and expenses	81	86	82	91
Income from operations	19	14	18	9
Other income, net	0	0	0	0
Income before taxes	19	14	18	9
Income tax expense	3	9	5	5
NET INCOME	16%	5%	13%	4%

Revenues

	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009	Three Month % Change	Nine Month % Change
	(Dollars in thousands)					
Revenues by Type:						
Subscription	$ 11,014	$ 9,141	$ 31,527	$ 26,230	20%	20%
Reservation	11,382	7,075	32,150	20,908	61%	54%
Installation and other	2,124	826	4,547	2,289	157%	99%
Total	$ 24,520	$ 17,042	$ 68,224	$ 49,427	44%	38%
Percentage of Revenues by Type:						
Subscription	45%	54%	46%	53%		
Reservation	46%	41%	47%	42%		
Installation and other	9%	5%	7%	5%		
Total	100%	100%	100%	100%		
Revenues by Location:						
North America	$ 23,028	$ 16,050	$ 64,208	$ 46,775	43%	37%
International	1,492	992	4,016	2,652	50%	51%
Total	$ 24,520	$ 17,042	$ 68,224	$ 49,427	44%	38%
Percentage of Revenues by Location:						
North America	94%	94%	94%	95%		
International	6%	6%	6%	5%		
Total	100%	100%	100%	100%		

Total revenues increased $7.5 million, or 44%, for the three months ended September 30, 2010 compared to the three months ended September 30, 2009 and $18.8 million, or 38%, for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009. Subscription revenues increased $1.9 million, or 20%, for the three months ended September 30, 2010 compared to the three months ended September 30, 2009 and $5.3 million, or 20%, for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009. Subscription revenues increased as a result of the increase in installed restaurants. Reservation revenues increased $4.3 million, or 61%, for the three months ended September 30, 2010 compared to the three months ended September 30, 2009 and $11.2 million, or 54%, for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009. Reservation revenues increased as a result of the increase in seated diners. Installation and other revenues increased $1.3 million, or 157%, for the three months ended September 30, 2010 compared to the three months ended September 30, 2009 and $2.3 million, or 99%, for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009. Installation and other

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revenues increased primarily as a result of an increase in revenue from other product offerings, including advertising sales, web service licensing, featured private dining listings and third-party restaurant coupon sales.

Costs and Expenses

Operations and Support

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Three Month % Change	Nine Month % Change
	(Dollars in thousands)					
Operations and support	$ 6,769	$ 5,077	$ 19,095	$ 15,195	33%	26%
Headcount (at period end):						
North America	85	74	85	74	15%	15%
International	32	25	32	25	28%	28%
Total	117	99	117	99	18%	18%

Our operations and support expenses increased $1.7 million, or 33%, for the three months ended September 30, 2010 compared to the three months ended September 30, 2009 and $3.9 million, or 26%, for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009. The increase in operations and support expenses was primarily attributable to an increase of $0.9 million for the three months and $2.1 million for the nine months in headcount related costs, related to the increase in operations and support headcount, as well as a $0.3 million increase for the three months and $0.8 million for the nine months in depreciation and amortization, primarily related to capitalized website and software development costs and an increase of $0.1 million for the three months and $0.4 million for the nine months in restaurant equipment shipping and depreciation expense, as a result of the increased installed base of restaurants.

Sales and Marketing

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Three Month % Change	Nine Month % Change
	(Dollars in thousands)					
Sales and marketing	$ 5,185	$ 3,845	$ 14,971	$ 11,652	35%	28%
Headcount (at period end):						
North America	90	61	90	61	48%	48%
International	33	31	33	31	6%	6%
Total	123	92	123	92	34%	34%

Our sales and marketing expenses increased $1.3 million, or 35%, for the three months ended September 30, 2010 compared to the three months ended September 30, 2009 and $3.3 million, or 28%, for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009. The increase in sales and marketing expenses for both the three and nine month periods was primarily attributable to increases in headcount related costs, including stock-based compensation expense.

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Technology

	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009	Three Month % Change	Nine Month % Change
	(Dollars in thousands)					
Technology	$ 2,967	$ 2,378	$ 8,707	$ 7,689	25%	13%
Headcount (at period end):						
North America	81	68	81	68	19%	19%
International	0	0	0	0		
Total	81	68	81	68	19%	19%

Our technology expenses increased $0.6 million, or 25%, for the three months ended September 30, 2010 compared to the three months ended September 30, 2009 and $1.0 million, or 13%, for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009. The increase in technology expenses for both the three and nine month periods was primarily attributable to increases in headcount related costs, including stock-based compensation expense.

General and Administrative

	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009	Three Month % Change	Nine Month % Change
	(Dollars in thousands)					
General and administrative	$ 5,045	$ 3,379	$ 12,947	$ 10,321	49%	25%
Headcount (at period end):						
North America	46	44	46	44	5%	5%
International	9	7	9	7	29%	29%
Total	55	51	55	51	8%	8%

Our general and administrative expenses increased $1.7 million, or 49%, for the three months ended September 30, 2010 compared to the three months ended September 30, 2009 and $2.6 million, or 25%, for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009. The increase in general and administrative expense for both the three and nine month periods was primarily attributable to an increase in headcount related costs, including stock-based compensation expense plus an increase in expenses related to the acquisitions of Table Maestro, LLC and toptable.com.

Other Income, Net

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Three Month % Change	Nine Month % Change
	(Dollars in thousands)					
Other income, net	$ 67	$ 111	$ 209	$ 256	-40%	-18%

Other income, net remained relatively constant for the three and nine months ended September 30, 2010 compared to the three and nine months ended September 30, 2009 and consisted primarily of interest income earned on cash, cash equivalents and short-term investments.

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Income Taxes

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Three Month % Change	Nine Month % Change
	(Dollars in thousands)					
Income tax expense	$ 786	$ 1,578	$ 3,770	$ 2,872	-50%	31%

Income tax expense decreased $0.8 million, or 50%, for the three months ended September 30, 2010 compared to the three months ended September 30, 2009 and increased $0.9 million, or 31%, for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009. Our effective tax rate has decreased in 2010 as compared to 2009 due to a reduction of non-deductible stock-based compensation expense and the recognition of certain pre-2010 Federal and California research and development tax credit benefits during the three months ended September 30, 2010.

Liquidity and Capital Resources

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(in thousands)	
Condensed Consolidated Statements of Cash Flows Data:		
Purchases of property, equipment and software	6,737	4,220
Depreciation and amortization		
North America	4,444	3,457
International	436	339
Total depreciation and amortization	4,880	3,796
Cash provided by operating activities	20,545	13,242
Cash provided by (used in) investing activities	27,980	(36,355)
Cash provided by financing activities	5,992	35,442

As of September 30, 2010, we had cash and cash equivalents of $74.3 million and short-term investments of $13.6 million. Cash and cash equivalents consist of cash, money market accounts, certificates of deposit and commercial paper. Short-term investments consist of U.S. government agency securities and certificates of deposit. To date we have experienced no loss or lack of access to our invested cash or cash equivalents; however, we can provide no assurances that access to our invested cash, cash equivalents and short-term investments will not be impacted by adverse conditions in the financial markets.

Amounts deposited with third party financial institutions exceed the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation insurance limits, as applicable. These cash, cash equivalents and short-term investment balances could be impacted if the underlying financial institutions fail or are subjected to other adverse conditions in the financial markets. To date we have experienced no loss or lack of access to our cash, cash equivalents or short-term investments.

We have a $3.0 million line of credit to fund working capital under which we have no amounts drawn down as of September 30, 2010. This line of credit expires in July 2011.

Prior to 2005, we financed our operations and capital expenditures through operations, private sales of preferred stock, lease financings and the use of a bank-provided line of credit and operations. Since 2005, we have been able to finance our operations, including international expansion, through cash from operating activities and proceeds from the exercise of vested and unvested employee stock options. We had cash and cash equivalents of $74.3 million at September 30, 2010 and we believe we will have sufficient cash to support our operating activities for at least the next twelve months.

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Operating Activities

For the nine months ended September 30, 2010, operating activities provided $20.5 million in cash, as a result of net income of $9.0 million, plus $4.9 million in depreciation and amortization expense, $5.4 million in stock-based compensation and a $6.8 million increase in accrued expenses and compensation. These amounts were offset by a cash usage of $3.1 million as a result of an increased accounts receivable balance.

For the nine months ended September 30, 2009, operating activities provided $13.2 million in cash, as a result of net income of $2.0 million, plus $3.8 million in depreciation and amortization expense, $1.5 million in provision for doubtful accounts and $2.3 million in stock-based compensation. These amounts were offset by a cash usage of $1.8 million as a result of an increased accounts receivable balance.

Investing Activities

Our primary investing activities have consisted of purchases and maturities of short-term investments and purchases of property, equipment and software. We expect to have ongoing capital expenditure requirements to support our growing restaurant installed base and other infrastructure needs. We expect to fund this investment with our existing cash, cash equivalents and short-term investments.

In addition to purchases of property, equipment and software, we sold $36.1 million (net of purchases) of short-term investments in the nine months ended September 30, 2010 and purchased $32.1 million (net of sales) of short-term investments in the nine months ended September 30, 2009. Also in the nine months ended September 30, 2010, we paid approximately $1.4 million in cash related to the acquisition of Table Maestro, LLC.

Financing Activities

Our primary financing activities consist of proceeds from the issuance of common stock, the excess tax benefit from our stock-based compensation plan plus the repayment of cash overdrafts during the nine months ended September 30, 2010.

Off Balance Sheet Arrangements

As of September 30, 2010, we did not have any off balance sheet arrangements.

Contractual Obligations

As of September 30, 2010, there were no significant changes to our contractual obligations.

Other

On September 15, 2010, we announced that we had agreed to acquire all of the issued and outstanding share capital of toptable.com, a leading restaurant reservation site in the United Kingdom, for approximately $55.0 million in cash. The transaction closed on October 1, 2010.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks in the ordinary course of our business. These risks include primarily interest rate and foreign exchange risks.

Interest Rate Fluctuation Risk

We do not have any long-term borrowings.

Our investments include cash, cash equivalents and short-term investments. Cash and cash equivalents consist of cash, money market accounts, certificates of deposit and commercial paper. Short-term investments consist of U.S. government agency securities, commercial paper and certificates of deposit. The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. We do not enter into investments for trading or speculative purposes. Our investments are exposed to market risk due to a fluctuation in interest rates, which may affect our interest income and the fair market value of our investments. Due to the short-term nature of our investment portfolio, we do not believe an immediate 10% increase in interest rates would have a material effect on the fair market value of our portfolio, and therefore we do not expect our operating results or cash flows to be materially affected to any degree by a sudden change in market interest rates.

Foreign Currency Exchange Risk

We have foreign currency risks related to our revenues and operating expenses denominated in currencies other than the U.S. dollar, principally the British pound sterling, the euro, the Japanese yen, the Canadian dollar and the Mexican peso. We do not believe movements in the foreign currencies in which we transact will significantly affect future net earnings. Foreign currency risk can be quantified by estimating the change in cash flows resulting from a hypothetical 10% adverse change in foreign exchange rates. We believe such a change would not have a material impact on our results of operations.

Inflation Risk

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2010. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2010, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

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Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On May 12, 2009, a patent infringement lawsuit was filed against us by Mount Hamilton in the United States District Court for the Northern District of California, seeking, among other things, a judgment that we have infringed a certain patent held by Mount Hamilton, an injunctive order against the alleged infringing activities and an award for damages. If an injunction is granted, it could force us to stop or alter certain of our business activities, such as certain aspects of the OpenTable Dining Rewards Program. We have denied Mount Hamilton s allegations and asserted counterclaims seeking judicial declarations that the Mount Hamilton patent is not infringed, is unenforceable and is invalid. On October 6, 2009, we filed a petition for re-examination with the PTO, asking the PTO to re-examine the patent in question and requesting that the claims of the Mount Hamilton patent be rejected. In addition, on October 21, 2009, we filed a motion in the district court asking the court to stay the current litigation pending the outcome of the requested re-examination proceeding. On December 7, 2009, the PTO granted our petition for re-examination, and in its first non-final office action, rejected all of the claims of the patent at issue. In addition, the district court has stayed all proceedings pending re-examination of the patent, which is currently ongoing. We are not currently able to estimate the potential loss, if any, that may result from this claim.

We are also subject to various other legal proceedings and claims arising in the ordinary course of business. Although occasional adverse decisions or settlements may occur, management believes that there is no litigation pending that could, individually or in the aggregate, have a material adverse effect on our business, financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this Quarterly Report, you should carefully consider the risk factors previously disclosed in Part 1, Item 1A of our 2009 Annual Report. The risks described in our 2009 Annual Report are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Our directors, executive officers and principal stockholders have substantial control over us and could delay or prevent a change in corporate control.

As of September 30, 2010, our directors and executive officers, together with their affiliates, beneficially owned approximately 30% of our outstanding common stock. Of this 30%, approximately 17% was beneficially owned by Benchmark Capital Partners IV, L.P. and J. William Gurley, an individual partner of Benchmark Capital Partners IV, L.P. who serves on our board of directors. In addition, as of September 30, 2010, approximately 32% of our outstanding common stock was held by other holders of more than 5% of our common stock and their affiliates.

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These stockholders, acting together, have the ability to control, or have significant influence over, the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, these stockholders, acting together, have the ability to control, or have significant influence over, the management and affairs of our company. Accordingly, this concentration of ownership might harm the market price of our common stock by:

- delaying, deferring or preventing a change in corporate control;
- impeding a merger, consolidation, takeover or other business combination involving us; or
- discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us.

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

Unregistered Sales of Equity Securities

None.

Use of Proceeds

On May 21, 2009, our registration statement on Form S-1 (File No. 333-157034) was declared effective for our initial public offering.

The net offering proceeds have been invested into short-term investment-grade securities and money market accounts.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. [REMOVED AND RESERVED]

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibits

2.1 (1)	Share Purchase Agreement, dated September 15, 2010, among OpenTable UK Holdings Limited, OpenTable, Inc. and the shareholders of Toptable Holdings Limited.
3.1 (2)	Amended and Restated Certificate of Incorporation of OpenTable, Inc.
3.2 (3)	Amended and Restated Bylaws of OpenTable, Inc.
10.1	2009 Equity Incentive Award Plan Form of Restricted Stock Unit Award Grant Notice and Restricted Stock Unit Award Agreement.
10.2	2009 Equity Incentive Award Plan Form of Stock Option Grant Notice and Stock Option Agreement.
31.1	Certification of Chief Executive Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Filed as Exhibit 2.1 to the Company s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 16, 2010, and incorporated herein by reference.

(2) Filed as Exhibit 3.3 to Amendment No. 4 to the Company s Registration Statement on Form S-1 filed with the Securities and Exchange Commission on May 6, 2009, and incorporated herein by reference.

(3) Filed as Exhibit 3.5 to Amendment No. 4 to the Company s Registration Statement on Form S-1 filed with the Securities and Exchange Commission on May 6, 2009, and incorporated herein by reference.

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SIGNATURES

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

OPENTABLE, INC.

/s/ MATTHEW ROBERTS

Matthew Roberts
Chief Financial Officer
(Principal Financial Officer and Duly Authorized Signatory)

Date: November 5, 2010

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