

UBS AG  
Form 424B2  
October 23, 2018

The information in this preliminary pricing supplement is not complete and may be changed. We may not sell these Securities until the pricing supplement, the Step Strategies product supplement, the index supplement and the accompanying prospectus (collectively, the "Offering Documents") are delivered in final form. The Offering Documents are not an offer to sell these Securities and we are not soliciting offers to buy these Securities in any state where the offer or sale is not permitted.

## Subject to Completion

### PRELIMINARY PRICING SUPPLEMENT

Dated October 23, 2018

Filed Pursuant to Rule 424(b)(2)

Registration Statement No. 333-204908

(To Prospectus dated April 29, 2016,

Index Supplement dated April 29, 2016

and Product Supplement

dated May 2, 2016)

UBS AG \$ n Trigger Absolute Return Step Securities

**Linked to the S&P 500® Index due on or about October 31, 2023**

### Investment Description

UBS AG Trigger Absolute Return Step Securities (the "Securities") are unsubordinated, unsecured debt securities issued by UBS AG ("UBS" or the "issuer") linked to the performance of the S&P 500 Index (the "underlying asset"). The amount you receive at maturity will be based on the direction and percentage change in the level of the underlying asset from the trade date to the final valuation date (the "underlying return") and whether the closing level of the underlying asset on the final valuation date (the "final level") is less than the downside threshold. If the underlying return is zero or positive, at maturity, UBS will pay you a cash payment per Security equal to the principal amount plus a return equal to the greater of (i) the step return and (ii) the underlying return. If the underlying return is negative and the final level is equal to or greater than the downside threshold, at maturity, UBS will pay you a cash payment per Security equal to the principal amount plus a return equal to the absolute value of the underlying return (the "contingent absolute return"). If, however, the final level is less than the downside threshold, at maturity, UBS will pay you a cash payment per Security that is less than the principal amount, if anything, resulting in a percentage loss on your initial investment equal to the underlying return, and in extreme situations, you could lose all of your initial investment. **Investing in the Securities involves significant risks. The Securities do not pay interest. You may lose a significant portion or all of your initial investment. Any payment on the Securities, including any repayment of principal, is subject to the creditworthiness of UBS. If UBS were to default on its payment obligations you may not receive any amounts owed to you under the Securities and you could lose all of your initial investment.**

Features

**Participation in the Positive Underlying Return with Step Return Feature:** At maturity, if the underlying return is zero or positive, the Securities provide a return equal to the greater of (i) the step return and (ii) the underlying return.

**Downside Exposure with Contingent Absolute Return at Maturity:** If the underlying return is negative and the final level is equal to or greater than the downside threshold, at maturity, UBS will pay you a cash payment per Security equal to the principal amount plus the contingent absolute return. If, however, the underlying return is negative and the final level is less than the downside threshold, at maturity, UBS will pay you a cash payment per Security that is less than the principal amount, if anything, resulting in a percentage loss on your investment equal to the underlying return and, in extreme situations, you could lose all of your initial investment. Any payment on the Securities, including any repayment of principal, is subject to the creditworthiness of UBS.

Key Dates\*

Trade Date\*\*           October 26, 2018  
 Settlement Date\*\*    October 31, 2018  
 Final Valuation Date   October 26, 2023  
 Maturity Date         October 31, 2023

\* Expected. See page 2 for additional details.

We expect to deliver the Securities against payment on or about the third business day following the trade date.

Under Rule 15c6-1 of the Securities Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in two business days (T+2), unless the parties to a trade expressly agree otherwise.

\*\*Accordingly, purchasers who wish to trade the Securities in the secondary market on any date prior to two business days before delivery of the Securities will be required, by virtue of the fact that each Security initially will settle in three business days (T+3), to specify alternative settlement arrangements to prevent a failed settlement of the secondary market trade.

**Notice to investors: the Securities are significantly riskier than conventional debt instruments. The issuer is not necessarily obligated to repay the principal amount of the Securities at maturity, and the Securities may have the same downside market risk as the underlying asset. This market risk is in addition to the credit risk inherent in purchasing a debt obligation of UBS. You should not purchase the Securities if you do not understand or are not comfortable with the significant risks involved in investing in the Securities.**

**You should carefully consider the risks described under “Key Risks” beginning on page 3 and under “Risk Factors” beginning on page PS-25 of the Step Strategies product supplement before purchasing any Securities. Events relating to any of those risks, or other risks and uncertainties, could adversely affect the market value of, and the return on, your Securities. You may lose a significant portion or all of your initial investment in the Securities. The Securities will not be listed or displayed on any securities exchange or any electronic communications network.**

Security Offering

These preliminary terms relate to the Securities. The final terms for the Securities will be set on the trade date. The Securities are offered at a minimum investment of \$1,000, or 100 Securities at \$10 per Security, and integral multiples of \$10 in excess thereof.

Underlying Asset	Bloomberg Ticker	Step Return	Initial Level	Downside Threshold	CUSIP	ISIN
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S&P 500® Index SPX 28.00% to 30.30% • 75% of the Initial Level 90281B387 US90281B3877

The estimated initial value of the Securities as of the trade date is expected to be between \$9.30 and \$9.60. The range of the estimated initial value of the Securities was determined on the date hereof by reference to UBS' internal pricing models, inclusive of the internal funding rate. For more information about secondary market offers and the estimated initial value of the Securities, see "Key Risks — Fair value considerations" and "Key Risks — Limited or no secondary market and secondary market price considerations" on pages 3 and 4 herein.

**See "Additional Information about UBS and the Securities" on page ii. The Securities will have the terms specified in the Step Strategies product supplement relating to the Securities, dated May 2, 2016, the accompanying prospectus and this document.**

**Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the adequacy or accuracy of this document, the Step Strategies product supplement, the index supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.**

The Securities are not bank deposits and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

Offering of Securities	Issue Price to Public		Underwriting Discount		Proceeds to UBS AG	
	Total	Per Security	Total	Per Security	Total	Per Security
Securities linked to the S&P 500® Index	\$•	\$10.00	\$•	\$0.35	\$•	\$9.65

**UBS Financial Services Inc. UBS Investment Bank**

## Additional Information about UBS and the Securities

UBS has filed a registration statement (including a prospectus, as supplemented by a product supplement for the Securities and an index supplement for various securities we may offer, including the Securities), with the Securities and Exchange Commission (the “SEC”), for the Securities to which this document relates. Before you invest, you should read these documents and any other documents relating to the Securities that UBS has filed with the SEC for more complete information about UBS and this offering. You may obtain these documents without cost by visiting EDGAR on the SEC website at [www.sec.gov](http://www.sec.gov). Our Central Index Key, or CIK, on the SEC website is 0001114446.

### **You may access these documents on the SEC website at [www.sec.gov](http://www.sec.gov) as follows:**

- .. Step Strategies product supplement dated May 2, 2016:  
<http://www.sec.gov/Archives/edgar/data/1114446/000119312516571800/d181019d424b2.htm>
- .. Index supplement dated April 29, 2016:  
<http://www.sec.gov/Archives/edgar/data/1114446/000119312516569883/d163530d424b2.htm>
- ..Prospectus dated April 29, 2016:  
<http://www.sec.gov/Archives/edgar/data/1114446/000119312516569341/d161008d424b3.htm>

*References to “UBS,” “we,” “our” and “us” refer only to UBS AG and not to its consolidated subsidiaries and references to, “Securities” refer to the Trigger Absolute Return Step Securities that are offered hereby, unless the context otherwise requires. Also, references to the “Step Strategies product supplement” mean the UBS product supplement, dated May 2, 2016, references to the “index supplement” mean the UBS index supplement, dated April 29, 2016 and references to “accompanying prospectus” mean the UBS prospectus titled “Debt Securities and Warrants,” dated April 29, 2016.*

This document, together with the documents listed above, contains the terms of the Securities and supersedes all other prior or contemporaneous oral statements as well as any other written materials including all other prior pricing terms, correspondence, trade ideas, structures for implementation, sample structures, brochures or other educational materials of ours. You should carefully consider, among other things, the matters set forth in “Key Risks” herein and in “Risk Factors” in the accompanying product supplement, as the Securities involve risks not associated with conventional debt securities. We urge you to consult your investment, legal, tax, accounting and other advisors before deciding to invest in the Securities.

If there is any inconsistency between the terms of the Securities described in the accompanying prospectus, the Step Strategies product supplement and this document, the following hierarchy will govern: first, this document; second, the accompanying product supplement; and last, the accompanying prospectus.

UBS reserves the right to change the terms of, or reject any offer to purchase, the Securities prior to their issuance. In the event of any changes to the terms of the Securities, UBS will notify you and you will be asked to accept such changes in connection with your purchase. You may also choose to reject such changes in which case UBS may reject your offer to purchase.

Investor Suitability

**The Securities may be suitable for you if:**

- .. You fully understand the risks inherent in an investment in the Securities, including the risk of loss of all of your initial investment.
  - .. You can tolerate a loss of a significant portion or all of your initial investment and are willing to make an investment that may have the same downside market risk as the underlying asset or stocks comprising the underlying asset (the “underlying equity constituents”).
  - .. You believe that the level of the underlying asset will remain flat or appreciate over the term of the Securities, or you believe that the level of the underlying asset will depreciate over the term of the Securities and that the final level will be equal to or greater than the downside threshold.
- .. You would be willing to invest in the Securities if the step return was set equal to the bottom of the range indicated on the cover hereof (the actual step return will be set on the trade date).
  - .. You understand and accept that your potential positive downside return from the contingent absolute return is limited by the downside threshold and you would be willing to invest in the Securities based on the downside threshold indicated on the cover hereof.
- .. You can tolerate fluctuations in the price of the Securities prior to maturity that may be similar to or exceed the downside fluctuations in the level of the underlying asset.
- .. You do not seek current income from your investment and are willing to forgo any dividends paid on the underlying equity constituents.
  - .. You understand and are willing to accept the risks associated with the underlying asset.
- .. You are willing to hold the Securities to maturity and accept that there may be little or no secondary market for the Securities.
- .. You are willing to assume the credit risk of UBS for all payments under the Securities, and understand that if UBS defaults on its obligations you may not receive any amounts due to you including any repayment of principal.
  - .. You understand that the estimated initial value of the Securities determined by our internal pricing models is lower than the issue price and that should UBS Securities LLC or any affiliate make secondary markets for the Securities, the price (not including their customary bid-ask spreads) will temporarily exceed the internal pricing model price.

**The Securities may not be suitable for you if:**

- .. You do not fully understand the risks inherent in an investment in the Securities, including the risk of loss of all of your initial investment.
  - .. You require an investment designed to provide a full return of principal at maturity.
  - .. You cannot tolerate a loss of a significant portion or all of your initial investment or are unwilling to make an investment that may have the same downside market risk as the underlying asset or the underlying equity constituents.
- .. You believe that the level of the underlying asset will decline during the term of the Securities and is likely to be less than the downside threshold on the final valuation date.
- .. You would be unwilling to invest in the Securities if the step return was set equal to the bottom of the range indicated on the cover hereof (the actual step return will be set on the trade date).
  - .. You do not understand or accept that your potential positive downside return from the contingent absolute return is limited by the downside threshold or you would be unwilling to invest in the Securities based on the downside threshold indicated on the cover hereof.
  - .. You seek an investment that benefits from the full depreciation in the level of the underlying asset.
- .. You cannot tolerate fluctuations in the price of the Securities prior to maturity that may be similar to or exceed the downside fluctuations in the level of the underlying asset.
  - .. You do not understand or are not willing to accept the risks associated with the underlying asset.
- .. You seek current income from your investment or prefer to receive any dividends paid on the underlying equity constituents.

- .. You are unable or unwilling to hold the Securities to maturity or you seek an investment for which there will be an active secondary market.
- .. You are not willing to assume the credit risk of UBS for all payments under the Securities, including any repayment of principal.

**The investor suitability considerations identified above are not exhaustive. Whether or not the Securities are a suitable investment for you will depend on your individual circumstances and you should reach an investment decision only after you and your investment, legal, tax, accounting and other advisors have carefully considered the suitability of an investment in the Securities in light of your particular circumstances. You should review “Information About the Underlying Asset” herein for more information on the underlying asset. You should also review “Key Risks” herein and the more detailed “Risk Factors” in the Step Strategies product supplement for risks related to an investment in the Securities.**

Preliminary Terms

Issuer UBS AG London Branch  
 Principal Amount \$10 per Security (subject to a minimum investment of 100 Securities)  
 Term Approximately 5 years. In the event that we make any change to the expected trade date and settlement date, the calculation agent may adjust the final valuation date and maturity date to ensure that the stated term of the Securities remains the same.  
 Underlying Asset S&P 500® Index  
 Step Return Between 28.00% and 30.30%. The actual step return will be determined on the trade date.  
 Payment at Maturity (per Security) **If the underlying return is zero or positive**, UBS will pay you an amount in cash equal to:  
 \$10 x (1 + the greater of (i) Step Return and (ii) Underlying Return)

**If the underlying return is negative and the final level is equal to or greater than the downside threshold**, UBS will pay you an amount in cash equal to:

\$10 × (1 + Contingent Absolute Return)

**If the underlying return is negative and the final level is less than the downside threshold**, UBS will pay you an amount in cash that is less than your principal amount, if anything, equal to:  
 \$10 x (1 + Underlying Return)

*In this scenario, the contingent absolute return will not apply and you will suffer a percentage loss on your initial investment equal to the underlying return.*

The quotient, expressed as a percentage, of the following formula:

Underlying Return 
$$\frac{\text{Final Level} - \text{Initial Level}}{\text{Initial Level}}$$

Contingent Absolute Return The absolute value of the underlying return. For example, if the underlying return is -5%, the absolute value of the underlying return will be equal to 5%.

Initial Level<sup>(1)</sup> The closing level of the underlying asset on the trade date.

Final Level<sup>(1)</sup> The closing level of the underlying asset on the final valuation date.

Downside Threshold<sup>(1)</sup> A specified level of the underlying asset that is less than the initial level, equal to a percentage of the initial level, as indicated on the cover hereof.

<sup>(1)</sup> As determined by the calculation agent and as may be adjusted as described under “General Terms of the Securities — Discontinuance of or Adjustment to an Underlying Index; Alteration of Method of Calculation”, as described in the Step Strategies product supplement.

Investment Timeline

**Trade Date** The initial level is observed and the final terms of the Securities are set.

**Maturity Date** The final level is observed on the final valuation date and the underlying return is calculated.

**If the underlying return is zero or positive**, UBS will pay you an amount in cash per Security equal to:  
 \$10 x (1 + the greater of (i) Step Return and (ii) Underlying Return)

**If the underlying return is negative and the final level is equal to or greater than the downside threshold, UBS will pay you an amount in cash per Security equal to:**

$\$10 \times (1 + \text{Contingent Absolute Return})$

**If the underlying return is negative and the final level is less than the downside threshold, UBS will pay you an amount in cash that is less than your principal amount, if anything, equal to:**

$\$10 \times (1 + \text{Underlying Return})$

***In this scenario, the contingent absolute return will not apply and you will suffer a percentage loss on your initial investment equal to the underlying return.***

**Investing in the Securities involves significant risks. You may lose a significant portion or all of your initial investment. Any payment on the Securities, including any repayment of principal, is subject to the creditworthiness of UBS. If UBS were to default on its payment obligations, you may not receive any amounts owed to you under the Securities and you could lose all of your initial investment.**



## Key Risks

An investment in the Securities involves significant risks. Some of the key risks that apply to the Securities are summarized here, but we urge you to read the more detailed explanation of risks relating to the Securities generally in the “Risk Factors” section of the Step Strategies product supplement. We also urge you to consult your investment, legal, tax, accounting and other advisors before you invest in the Securities.

**Risk of loss at maturity** — The Securities differ from ordinary debt securities in that UBS will not necessarily repay the principal amount of the Securities. If the underlying return is negative and the final level is less than the downside threshold, the contingent absolute return will not apply and, you will lose a percentage of your principal amount equal to the underlying return and, in extreme situations, you could lose all of your initial investment.

**The step return feature and potential participation in appreciation of the underlying asset apply only at maturity** — You should be willing to hold your Securities to maturity. If you are able to sell your Securities prior to maturity in the secondary market, if any, the price you receive likely will not reflect the full economic value of the step return or participation in the underlying return in excess of the step return, and the return you realize may be less than the underlying return, even if that return is positive. You can receive the full benefit of the step return or the participation in the appreciation of the underlying asset only if you hold your Securities to maturity.

**The contingent absolute return applies only at maturity** — You should be willing to hold your Securities to maturity. If you are able to sell your Securities in the secondary market, if any, prior to maturity, you may have to sell them at a loss relative to your initial investment even if the closing level of the underlying asset is equal to or greater than the downside threshold. If you hold the Securities to maturity and the final level is less than the initial level, you will receive at maturity equal to your principal amount plus the contingent absolute return, unless the final level is below the downside threshold. However, if the final level is less than the downside threshold, the contingent absolute return will not apply and you will receive less than the principal amount, if anything, resulting in a loss that is proportionate to the decline in the level of the underlying asset from the initial level to the final level. You can receive the full benefit of the contingent absolute return only if you hold your Securities to maturity.

**Your potential positive downside return from the contingent absolute return is limited by the downside threshold** — Your potential positive downside gain on the Securities from the contingent absolute return is limited by the downside threshold. You will receive a return equal to the contingent absolute return only if the underlying return is negative and the final level is equal to or greater than the downside threshold. If the final level is less than the downside threshold, you will not benefit from the contingent absolute return and instead will be exposed to the negative underlying return and you could lose a significant portion or all of your initial investment.

**No interest payments** — UBS will not pay any interest with respect to the Securities.

**Credit risk of UBS** — The Securities are unsubordinated, unsecured debt obligations of UBS and are not, either directly or indirectly, an obligation of any third party. Any payment to be made on the Securities, including any repayment of principal at maturity, depends on the ability of UBS to satisfy its obligations as they come due. As a result, UBS’ actual and perceived creditworthiness may affect the market value of the Securities. If UBS were to default on its obligations, you may not receive any amounts owed to you under the terms of the Securities and you could lose all of your initial investment.

**Greater expected volatility generally indicates an increased risk of loss at maturity** — “Volatility” refers to the frequency and magnitude of changes in the level of the underlying asset. The greater the expected volatility of the underlying asset as of the trade date, the greater the expectation is as of that date that the final level of the underlying asset could be less than the downside threshold, and as a consequence, indicates an increased risk of loss. However, the underlying asset’s volatility can change significantly over the term of the Securities, and a relatively lower downside threshold may not necessarily indicate that the Securities have a greater likelihood of a return equal to the contingent absolute return at maturity. You should be willing to accept the downside market risk of the underlying asset and the potential to lose a significant portion or all of your initial investment.

**Market risk** — The return on the Securities, which may be negative, is directly linked to the performance of the underlying asset and indirectly linked to the performance of the underlying equity constituents, and will depend on

whether, and the extent to which, the underlying return is positive or negative. The level of the underlying asset can rise or fall sharply due to factors specific to the underlying equity constituents and their issuers (the “underlying constituent issuers”), such as stock price volatility, earnings and financial conditions, corporate, industry and regulatory developments, management changes and decisions and other events, as well as general market factors, such as general stock or commodity market volatility and levels, interest rates and economic and political conditions.

**Fair value considerations.**

**The issue price you pay for the Securities will exceed their estimated initial value** — The issue price you pay for the Securities will exceed their estimated initial value as of the trade date due to the inclusion in the issue price of the underwriting discount, hedging costs, issuance costs and projected profits. As of the close of the relevant markets on the trade date, we will determine the estimated initial value of the Securities by reference to our internal pricing models and it will be set forth in the pricing supplement. The pricing models used to determine the estimated initial value of the Securities incorporate certain variables, including the volatility of the underlying asset, any expected dividends on the underlying equity constituents, prevailing interest rates, the term of the Securities and our internal funding rate. Our internal funding rate is typically lower than the rate we would pay to issue conventional fixed or floating rate debt securities of a similar term. The underwriting discount, hedging costs, issuance costs, projected

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profits and the difference in rates will reduce the economic value of the Securities to you. Due to these factors, the estimated initial value of the Securities as of the trade date will be less than the issue price you pay for the Securities.

**The estimated initial value is a theoretical price; the actual price that you may be able to sell your Securities in any secondary market (if any) at any time after the trade date may differ from the estimated initial value** — The value of your Securities at any time will vary based on many factors, including the factors described above and in “— Market risk” above and is impossible to predict. Furthermore, the pricing models that we use are proprietary and rely in part on certain assumptions about future events, which may prove to be incorrect. As a result, after the trade date, if you attempt to sell the Securities in the secondary market, the actual value you would receive may differ, perhaps materially, from the estimated initial value of the Securities determined by reference to our internal pricing models. The estimated initial value of the Securities does not represent a minimum or maximum price at which we or any of our affiliates would be willing to purchase your Securities in any secondary market at any time.

**Our actual profits may be greater or less than the differential between the estimated initial value and the issue price of the Securities as of the trade date** — We may determine the economic terms of the Securities, as well as hedge our obligations, at least in part, prior to pricing the Securities on the trade date. In addition, there may be ongoing costs to us to maintain and/or adjust any hedges and such hedges are often imperfect. Therefore, our actual profits (or potentially, losses) in issuing the Securities cannot be determined as of the trade date and any such differential between the estimated initial value and the issue price of the Securities as of the trade date does not reflect our actual profits. Ultimately, our actual profits will be known only at the maturity of the Securities.

**Limited or no secondary market and secondary market price considerations.**

**There may be little or no secondary market for the Securities** — The Securities will not be listed or displayed on any securities exchange or any electronic communications network. UBS Securities LLC and its affiliates intend, but are not required, to make a market for the Securities and may stop making a market at any time. If you are able to sell your Securities prior to maturity, you may have to sell them at a substantial loss. Furthermore, there can be no assurance that a secondary market for the Securities will develop. The estimated initial value of the Securities does not represent a minimum or maximum price at which we or any of our affiliates would be willing to purchase your Securities in any secondary market at any time.

**The price at which UBS Securities LLC and its affiliates may offer to buy the Securities in the secondary market (if any) may be greater than UBS’ valuation of the Securities at that time, greater than any other secondary market prices provided by unaffiliated dealers (if any) and, depending on your broker, greater than the valuation provided on your customer account statements** — For a limited period of time following the issuance of the Securities, UBS Securities LLC or its affiliates may offer to buy or sell such Securities at a price that exceeds (i) our valuation of the Securities at that time based on our internal pricing models, (ii) any secondary market prices provided by unaffiliated dealers (if any) and (iii) depending on your broker, the valuation provided on customer account statements. The price that UBS Securities LLC may initially offer to buy such Securities following issuance will exceed the valuations indicated by our internal pricing models due to the inclusion for a limited period of time of the aggregate value of the underwriting discount, hedging costs, issuance costs and theoretical projected trading profit. The portion of such amounts included in our price will decline to zero on a straight line basis over a period ending no later than the date specified under “Supplemental Plan of Distribution (Conflicts of Interest); Secondary Markets (if any).” Thereafter, if UBS Securities LLC or an affiliate makes secondary markets in the Securities, it will do so at prices that reflect our estimated value determined by reference to our internal pricing models at that time. The temporary positive differential relative to our internal pricing models arises from requests from and arrangements made by UBS Securities LLC with the selling agents of structured debt securities such as the Securities. As described above, UBS Securities LLC and its affiliates intend, but are not required, to make a market for the Securities and may stop making a market at any time. The price at which UBS Securities LLC or an affiliate may make secondary markets at any time (if at all) will also reflect its then current bid-ask spread for similar sized trades of structured debt securities. UBS Financial Services Inc. and UBS Securities LLC reflect this temporary positive differential on their customer statements. Investors should inquire as to the valuation provided on customer account statements provided by unaffiliated dealers.

**Economic and market factors affecting the terms and market price of Securities prior to maturity** — Because structured notes, including the Securities, can be thought of as having a debt component and a derivative component, factors that influence the values of debt instruments and options and other derivatives will also affect the terms and features of the Securities at issuance and the market price of the Securities prior to maturity. These factors include the level of the underlying asset; the volatility of the underlying asset; the dividend rate paid on the underlying equity constituents; the time remaining to the maturity of the Securities; interest rates in the markets; geopolitical conditions and economic, financial, political, force majeure and regulatory or judicial events; the availability of comparable instruments; the creditworthiness of UBS; the then current bid-ask spread for the Securities. These and other factors are unpredictable and interrelated and may offset or magnify each other.

**Impact of fees and the use of internal funding rates rather than secondary market credit spreads on secondary market prices** — All other things being equal, the use of the internal funding rates described above under “— Fair value considerations” as well as the inclusion in the issue price of the underwriting discount, hedging costs, issuance costs and any projected profits are, subject to the temporary mitigating effect of UBS Securities LLC’s and its affiliates’ market making premium, expected to reduce the price at which you may be able to sell the Securities in any secondary market.

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**Owning the Securities is not the same as owning the underlying equity constituents and the contingent absolute return is not the same as taking a short position directly in the underlying equity constituents** — The return on your Securities may not reflect the return you would realize if you actually owned the underlying equity constituents. For instance, you will not receive or be entitled to receive any dividend payments or other distributions during the term of the Securities, and any such dividends or distributions will not be factored into the calculation of the payment at maturity on your Securities. In addition, as an owner of the Securities, you will not have voting rights or any other rights that a holder of the underlying equity constituents may have. Additionally, the return on your securities will not reflect the return you would realize if you actually took a short position directly in the underlying asset or any other exchange-traded or over-the-counter instruments based on the underlying asset or the underlying equity constituents insofar as you will lose a significant percentage or all of your stated principal amount if the final level is less than the downside threshold. In addition, to maintain a short position in the underlying equity constituents, you would have to pay dividend payments (if any) to the entity that lends you the underlying equity constituents for your short sale, and you could receive certain interest payments (the short interest rebate) from the lender.

**There can be no assurance that the investment view implicit in the Securities will be successful** — It is impossible to predict whether and the extent to which the level of the underlying asset will rise or fall and there can be no assurance that the final level of the underlying asset will be equal to or greater than the initial level or downside threshold. The final level of the underlying asset will be influenced by complex and interrelated political, economic, financial and other factors that affect the underlying constituent issuers. You should be willing to accept the risks of owning equities in general and the underlying equity constituents in particular, and the risk of losing a significant portion or all of your initial investment.

**The underlying asset reflects price return, not total return** — The return on your Securities is based on the performance of the underlying asset, which reflects the changes in the market prices of the underlying equity constituents. It is not, however, linked to a “total return” index or strategy, which, in addition to reflecting those price returns, would also reflect any dividends paid on the underlying equity constituents. The return on your Securities will not include such a total return feature or dividend component.

**Changes affecting the underlying asset could have an adverse effect on the value of the Securities** — The policies of the sponsor of the underlying asset as specified under “Information About the Underlying Asset” (the “index sponsor”), concerning additions, deletions and substitutions of the underlying equity constituents and the manner in which the index sponsor takes account of certain changes affecting those underlying equity constituents may adversely affect the level of the underlying asset. The policies of the index sponsor with respect to the calculation of the underlying asset could also adversely affect the level of the underlying asset. The index sponsor may discontinue or suspend calculation or dissemination of the underlying asset. Any such actions could have an adverse effect on the value of, and any amount payable on, the Securities.

**UBS cannot control actions by the index sponsor and the index sponsor has no obligation to consider your interests** — UBS and its affiliates are not affiliated with the index sponsor and have no ability to control or predict its actions, including any errors in or discontinuation of public disclosure regarding methods or policies relating to the calculation of the underlying asset. The index sponsor is not involved in the Securities offering in any way and has no obligation to consider your interest as an owner of the Securities in taking any actions that might affect the value of, or any amount payable on, your Securities.

**Potential UBS impact on price** — Trading or transactions by UBS or its affiliates in the underlying equity constituents, listed and/or over-the-counter options, futures or other instruments with returns linked to the performance of the underlying asset or any underlying equity constituent may adversely affect the performance and, therefore, the value of, and any amount payable on, the Securities.

**Potential conflict of interest** — UBS and its affiliates may engage in business with any underlying constituent issuer, which may present a conflict between the obligations of UBS and you, as a holder of the Securities. There are also potential conflicts of interest between you and the calculation agent, which will be an affiliate of UBS. The calculation agent can postpone the determination of the terms of the Securities on the trade date and the final level on the final valuation date, if a market disruption event occurs and is continuing on that day. As UBS determines the

economic terms of the Securities, including the step return and downside threshold, and such terms include the underwriting discount, hedging costs, issuance costs and projected profits, the Securities represent a package of economic terms. There are other potential conflicts of interest insofar as an investor could potentially get better economic terms if that investor entered into exchange-traded and/or OTC derivatives or other instruments with third parties, assuming that such instruments were available and the investor had the ability to assemble and enter into such instruments.

**Potentially inconsistent research, opinions or recommendations by UBS** — UBS and its affiliates publish research from time to time on financial markets and other matters that may influence the value of the Securities, or express opinions or provide recommendations that are inconsistent with purchasing or holding the Securities. Any research, opinions or recommendations expressed by UBS or its affiliates may not be consistent with each other and may be modified from time to time without notice. Investors should make their own independent investigation of the merits of investing in the Securities and the underlying asset to which the Securities are linked.

**The Securities are not bank deposits** — An investment in the Securities carries risks which are very different from the risk profile of a bank deposit placed with UBS or its affiliates. The Securities have different yield and/or return, liquidity and risk profiles and would not benefit from any protection provided to deposits.

**If UBS experiences financial difficulties, FINMA has the power to open restructuring or liquidation proceedings in respect of, and/or impose protective measures in relation to, UBS, which proceedings or measures may have a material adverse effect on the terms and market value of the Securities and/or the ability of UBS to make payments thereunder** — The Swiss Financial Market Supervisory Authority (“FINMA”) has broad statutory powers to take measures and actions in relation to UBS if (i) it concludes that there is justified concern that UBS is over-indebted or has serious liquidity problems or (ii) UBS fails to fulfil the applicable capital adequacy requirements (whether on a standalone or consolidated basis) after expiry of a deadline set by FINMA. If one of these pre-requisites is met, FINMA is authorized to open restructuring proceedings or liquidation (bankruptcy) proceedings in respect of, and/or impose protective measures in relation to, UBS. The Swiss Banking Act grants significant discretion to FINMA in connection with the aforementioned proceedings and measures. In particular, a broad variety of protective measures may be imposed by FINMA, including a bank moratorium or a maturity postponement, which measures may be ordered by FINMA either on a stand-alone basis or in connection with restructuring or liquidation proceedings. The resolution regime of the Swiss Banking Act is further detailed in the FINMA Banking Insolvency Ordinance (“BIO-FINMA”). In a restructuring proceeding, FINMA, as resolution authority, is competent to approve the resolution plan. The resolution plan may, among other things, provide for (a) the transfer of all or a portion of UBS’ assets, debts, other liabilities and contracts (which may or may not include the contractual relationship between UBS and the holders of Securities) to another entity, (b) a stay (for a maximum of two business days) on the termination of contracts to which UBS is a party, and/or the exercise of (w) rights to terminate, (x) netting rights, (y) rights to enforce or dispose of collateral or (z) rights to transfer claims, liabilities or collateral under contracts to which UBS is a party, (c) the conversion of UBS’ debt and/or other obligations, including its obligations under the Securities, into equity (a “debt-to-equity” swap), and/or (d) the partial or full write-off of obligations owed by UBS (a “write-off”), including its obligations under the Securities. The BIO-FINMA provides that a debt-to-equity swap and/or a write-off of debt and other obligations (including the Securities) may only take place after (i) all debt instruments issued by UBS qualifying as additional tier 1 capital or tier 2 capital have been converted into equity or written-off, as applicable, and (ii) the existing equity of UBS has been fully cancelled. While the BIO-FINMA does not expressly address the order in which a write-off of debt instruments other than debt instruments qualifying as additional tier 1 capital or tier 2 capital should occur, it states that debt-to-equity swaps should occur in the following order: first, all subordinated claims not qualifying as regulatory capital; second, all other claims not excluded by law from a debt-to-equity swap (other than deposits); and third, deposits (in excess of the amount privileged by law). However, given the broad discretion granted to FINMA as the resolution authority, any restructuring plan in respect of UBS could provide that the claims under or in connection with the Securities will be partially or fully converted into equity or written-off, while preserving other obligations of UBS that rank *pari passu* with, or even junior to, UBS’ obligations under the Securities. Consequently, holders of Securities may lose all of some of their investment in the Securities. In the case of restructuring proceedings with respect to a systemically important Swiss bank (such as UBS), the creditors whose claims are affected by the restructuring plan will not have a right to vote on, reject, or seek the suspension of the restructuring plan. In addition, if a restructuring plan has been approved by FINMA, the rights of a creditor to seek judicial review of the restructuring plan (e.g., on the grounds that the plan would unduly prejudice the rights of holders of Securities or otherwise be in violation of the Swiss Banking Act) are very limited. In particular, a court may not suspend the implementation of the restructuring plan. Furthermore, even if a creditor successfully challenges the restructuring plan, the court can only require the relevant creditor to be compensated *ex post* and there is currently no guidance as to on what basis such compensation would be calculated or how it would be funded.

**Dealer incentives** — UBS and its affiliates act in various capacities with respect to the Securities. We and our affiliates may act as a principal, agent or dealer in connection with the sale of the Securities. Such affiliates, including the sales representatives, will derive compensation from the distribution of the Securities and such compensation may serve as an incentive to sell these Securities instead of other investments. We will pay a total underwriting compensation in an amount equal to the underwriting discount listed on the cover hereof per Security to any of our affiliates acting as agents or dealers in connection with the distribution of the Securities. Given that UBS Securities LLC and its affiliates temporarily maintain a market making premium, it may have the effect of discouraging UBS Securities

LLC and its affiliates from recommending sale of your Securities in the secondary market.

**Uncertain tax treatment** — Significant aspects of the tax treatment of the Securities are uncertain. You should consult your tax advisor about your tax situation. See “What are the Tax Consequences of the Securities?” herein and “Supplemental U.S. Tax Considerations” in the Step Strategies product supplement.

6



## Hypothetical Examples and Return Table of the Securities at Maturity

**The below examples and table are based on hypothetical terms. The actual terms will be set on the trade date and will be indicated on the cover of the applicable pricing supplement.**

The examples and table below illustrate the Payment at Maturity for a \$10 Security on a hypothetical offering of the Securities, with the following assumptions (amounts may have been rounded for ease of analysis):

Term:	Approximately 5 years
Initial Level:	2,500
Downside Threshold:	1,875 (75% of the Initial Level)
Step Return:	28.00%
Range of Underlying Return:	-100% to 40%

**Example 1: The Underlying Return is 30.00%.**

Because the underlying return is positive and is greater than the step return, the payment at maturity per Security will be calculated as follows:

$$\begin{aligned}
 & \$10 \times (1 + \text{the greater of (i) 28.00\% and (ii) 30.00\%}) \\
 & = \$10 \times (1 + 30.00\%) \\
 & = \$10 \times 1.30 \\
 & = \$13.00 \text{ per Security (a 30.00\% total return).}
 \end{aligned}$$

**Example 2: The Underlying Return is 10.00%.**

Because the underlying return is positive but is less than the step return, the payment at maturity per Security will be calculated as follows:

$$\begin{aligned}
 & \$10 \times (1 + \text{the greater of (i) 28.00\% and (ii) 10.00\%}) \\
 & = \$10 \times (1 + 28.00\%) \\
 & = \$10 \times 1.28 \\
 & = \$12.80 \text{ per Security (a 28.00\% total return).}
 \end{aligned}$$

**Example 3: The Underlying Return is -15.00% and the Final Level is equal to or greater than the Downside Threshold.**

Because the underlying return is negative but the final level is equal to or greater than the downside threshold, the payment at maturity will be calculated as follows:

$$\begin{aligned}
 & \$10 \times (1 + \text{Contingent Absolute Return}) \\
 & = \$10 \times (1 + |-15.00\%|) \\
 & = \$10 \times 1.15 \\
 & = \$11.50 \text{ per Security (a 15.00\% total return).}
 \end{aligned}$$

**Example 4: The Underlying Return is -26.00% and the Final Level is less than the Downside Threshold.**

Because the underlying return is negative and the final level is less than the downside threshold, the payment at maturity per Security will be less than the principal amount, if anything, calculated as follows:

$$\begin{aligned} & \$10 \times (1 + -26.00\%) \\ & = \$10 \times 0.74 \\ & = \$7.40 \text{ per Security (a 26.00\% loss).} \end{aligned}$$

**Example 5: The Underlying Return is -60.00% and the Final Level is less than the Downside Threshold.**

Because the underlying return is negative and the final level is less than the downside threshold, the payment at maturity per Security will be less than the principal amount, if anything, calculated as follows:

$$\begin{aligned} & \$10 \times (1 + -60.00\%) \\ & = \$10 \times 0.40 \\ & = \$4.00 \text{ per Security (a 60.00\% loss).} \end{aligned}$$

*In the last two scenarios, you will suffer a percentage loss on your initial investment in an amount that is equal to the underlying return.*

Underlying Asset		Payment and Return at Maturity	
Final Level	Underlying Return <sup>(1)</sup>	Payment at Maturity	Security Total Return at Maturity
3,500.00	40.00%	\$14.00	40.00%
3,375.00	35.00%	\$13.50	35.00%
3,225.00	29.00%	\$12.90	29.00%
3,200.00	28.00%	\$12.80	28.00%
3,125.00	25.00%	\$12.80	28.00%
3,000.00	20.00%	\$12.80	28.00%
2,750.00	10.00%	\$12.80	28.00%
2,625.00	5.00%	\$12.80	28.00%
2,500.00	0.00%	\$12.80	28.00%
2,437.50	-2.50%	\$10.25	2.50%
2,375.00	-5.00%	\$10.50	5.00%
2,312.50	-7.50%	\$10.75	7.50%
2,250.00	-10.00%	\$11.00	10.00%
2,125.00	-15.00%	\$11.50	15.00%
2,000.00	-20.00%	\$12.00	20.00%
1,875.00	-25.00%	\$12.50	25.00%
1,850.00	-26.00%	\$7.40	-26.00%
1,750.00	-30.00%	\$7.00	-30.00%
1,500.00	-40.00%	\$6.00	-40.00%
1,250.00	-50.00%	\$5.00	-50.00%
1,000.00	-60.00%	\$4.00	-60.00%
750.00	-70.00%	\$3.00	-70.00%
500.00	-80.00%	\$2.00	-80.00%
250.00	-90.00%	\$1.00	-90.00%
0.00	-100.00%	\$0.00	-100.00%

(1)

The underlying return excludes any cash dividend payments.

## Information About the Underlying Asset

All disclosures contained in this document regarding the underlying asset are derived from publicly available information. UBS has not conducted any independent review or due diligence of any publicly available information with respect to the underlying asset. **You should make your own investigation into the underlying asset.**

Included on the following pages is a brief description of the underlying asset. This information has been obtained from publicly available sources. Set forth below is a table that provides the quarterly closing high and quarterly closing low for the underlying asset. We obtained the closing level information set forth below from Bloomberg Professional<sup>®</sup> service (“Bloomberg”) without independent verification. You should not take the historical levels of the underlying asset as an indication of future performance.

### **S&P 500<sup>®</sup> Index**

We have derived all information regarding the S&P 500<sup>®</sup> Index (“SPX”) contained in this document, including, without limitation, its make-up, method of calculation and changes in its components, from publicly available information. Such information reflects the policies of, and is subject to change by S&P Dow Jones Indices LLC (its “index sponsor” or “S&P Dow Jones”).

SPX is published by S&P Dow Jones, but S&P Dow Jones has no obligation to continue to publish SPX, and may discontinue publication of SPX at any time. SPX is determined, comprised and calculated by S&P Dow Jones without regard to the Securities.

As discussed more fully in the index supplement under the heading “Underlying Indices and Underlying Index Publishers — S&P 500 Index”, SPX is intended to provide an indication of the pattern of common stock price movement. The calculation of the value of SPX is based on the relative value of the aggregate market value of the common stock of 500 companies as of a particular time compared to the aggregate average market value of the common stocks of 500 similar companies during the base period of the years 1941 through 1943. Eleven main groups of companies comprise SPX, with the percentage weight of each group in the index as a whole as of September 28, 2018 as follows: Information Technology (21.0%), Health Care (15.0%), Financials (13.3%), Consumer Discretionary (10.3%), Communication Services (10.0%), Industrials (9.7%), Consumer Staples (6.7%), Energy (6.0%), Utilities (2.8%), Real Estate (2.7%) and Materials (2.4%). As of September 28, 2018, the underlier sponsor broadened the current Telecommunication Services Sector and renamed it Communication Services. The renamed Sector includes the existing telecommunication companies, as well as companies selected from the Consumer Discretionary Sector previously currently classified under the Media Industry Group and the Internet & Direct Marketing Retail Sub-Industry, along with select companies currently previously classified in the Information Technology Sector. Effective March 10, 2017, company additions to the underlying asset should have an unadjusted company market capitalization of \$6.1 billion or more (an increase from the previous requirement of an unadjusted company market capitalization of \$5.3 billion or more).

Information from outside sources is not incorporated by reference in, and should not be considered part of, this document or any document incorporated herein by reference. UBS has not conducted any independent review or due diligence of any publicly available information with respect to the S&P 500<sup>®</sup> Index.

### **Historical Information**

The following table sets forth the quarterly closing high and quarterly closing low for SPX, based on the daily closing levels as reported by Bloomberg, without independent verification. UBS has not conducted any independent review or due diligence of publicly available information obtained from Bloomberg. The closing level of SPX on October 18,

2018 was 2,768.78 (the “hypothetical initial level”). The actual initial level will be the closing level of SPX on the trade date. **Past performance of SPX is not indicative of the future performance of SPX.**

Quarter Begin	Quarter End	Quarterly Closing		Quarterly Close
		High	Low	
1/1/2014	3/31/2014	1,878.04	1,741.89	1,872.34
4/1/2014	6/30/2014	1,962.87	1,815.69	1,960.23
7/1/2014	9/30/2014	2,011.36	1,909.57	1,972.29
10/1/2014	12/31/2014	2,090.57	1,862.49	2,058.90
1/1/2015	3/31/2015	2,117.39	1,992.67	2,067.89
4/1/2015	6/30/2015	2,130.82	2,057.64	2,063.11
7/1/2015				
				March 31,
				2009
				2010
REVENUES		\$	21,251,000	\$ 15,995,000
COSTS AND EXPENSES:				
Operations and support			6,002,000	5,106,000
Sales and marketing			4,740,000	3,798,000
Technology			2,720,000	2,712,000
General and administrative			4,023,000	3,547,000
Total costs and expenses			17,485,000	15,163,000
Income from operations			3,766,000	832,000
Other income, net			69,000	55,000
Income before taxes			3,835,000	887,000
Income tax expense			1,311,000	521,000
NET INCOME		\$	2,524,000	\$ 366,000
Net income per share (See Note 7):				
Basic		\$	0.11	\$ 0.00
Diluted		\$	0.11	\$ 0.00
Weighted average shares outstanding:				
Basic			22,199,000	10,276,000
Diluted			23,537,000	10,276,000

See notes to condensed consolidated financial statements.

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OPENTABLE, INC.

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 2,524,000	\$ 366,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,467,000	1,263,000
Amortization of intangibles	74,000	
Provision for doubtful accounts	246,000	402,000
Stock-based compensation	1,534,000	959,000
Write-off of property, equipment and software	139,000	200,000
Deferred taxes		272,000
Excess tax benefit related to stock compensation	(1,290,000)	
Changes in operating assets and liabilities:		
Accounts receivable	(841,000)	(1,104,000)
Prepaid expenses and other current assets	(89,000)	(129,000)
Accounts payable	2,000	774,000
Accrued expenses	1,305,000	(119,000)
Accrued compensation	652,000	31,000
Deferred revenue	(21,000)	19,000
Dining rewards payable	877,000	760,000
Net cash provided by operating activities	6,579,000	3,694,000
<b>INVESTING ACTIVITIES:</b>		
Purchases of property, equipment and software	(1,981,000)	(1,368,000)
Purchases of investments	(9,367,000)	(700,000)
Sales of investments	5,060,000	4,700,000
Net cash provided by (used in) investing activities	(6,288,000)	2,632,000
<b>FINANCING ACTIVITIES:</b>		
Excess tax benefit related to stock-based compensation	1,290,000	
Proceeds from issuance of common stock upon exercise of employee stock options	1,038,000	15,000
Cash overdrafts	(988,000)	
Proceeds from early exercise of common stock options		1,000
Net cash provided by financing activities	1,340,000	16,000
<b>EFFECT OF EXCHANGE RATES ON CASH</b>	<b>94,000</b>	<b>140,000</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,725,000</b>	<b>6,482,000</b>

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CASH AND CASH EQUIVALENTS	Beginning of period	19,807,000	5,528,000
CASH AND CASH EQUIVALENTS	End of period	\$ 21,532,000	\$ 12,010,000

(Continued)

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**OPENTABLE, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>SUPPLEMENTAL DISCLOSURE OF OTHER CASH FLOW INFORMATION:</b>		
Cash paid for income taxes	\$ 114,000	\$ 411,000
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Purchase of property and equipment recorded in accounts payable and accrued expenses	\$ 1,146,000	\$ 334,000
Vesting of early exercised stock options	\$ 298,000	\$ 313,000
Accrued offering costs	\$	\$ 792,000
See notes to condensed consolidated financial statements.	(Concluded)	



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**OPENTABLE, INC.**

**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 and 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. 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 in real time, 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 in terms of its 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.

***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 consolidated financial statements should be read in conjunction with the condensed 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 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 including notes required by GAAP.

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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 March 31, 2010 and December 31, 2009, and the Company's results of operations and its cash flows for the three months ended March 31, 2010 and 2009. The results for the three months ended March 31, 2010 are not necessarily indicative of the results to be expected for the year ending December 31, 2010. All references to March 31, 2010 or to the three months ended March 31, 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 three months ended March 31, 2009 to conform the presentation of accounts payable and accrued expenses to the current period's presentation.

*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.

*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 June 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.



Table of Contents**3. Short-Term Investments and Fair Value Measurements**

Short-term investments are summarized as follows:

	Amortized Cost		Unrealized Gains		Unrealized Losses		Estimated Fair Value
<b>At March 31, 2010:</b>							
U.S. government and agency securities	\$ 28,901,000	\$	7,000	\$	(4,000)	\$	28,904,000
Certificates of deposit	25,430,000		2,000		(6,000)		25,426,000
Total	\$ 54,331,000	\$	9,000	\$	(10,000)	\$	54,330,000

	Amortized Cost		Unrealized Gains		Unrealized Losses		Estimated Fair Value
<b>At December 31, 2009:</b>							
Commercial paper	\$ 2,400,000	\$		\$		\$	2,400,000
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
Total	\$ 50,253,000	\$	13,000	\$	(45,000)	\$	50,221,000

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 March 31, 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 because 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:

	Aggregate Fair Value	March 31, 2010		Aggregate Fair Value	December 31, 2009	
		Level 1	Level 2		Level 1	Level 2
Commercial paper	\$	\$		\$ 2,400,000	\$ 2,400,000	\$
U.S. government and agency securities	28,904,000	28,904,000		20,721,000	20,721,000	
Certificates of deposit	25,426,000		25,426,000	27,100,000		27,100,000
Total short-term investments	\$ 54,330,000	\$ 28,904,000	\$ 25,426,000	\$ 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.

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**4. Acquired Intangible Assets**

As of March 31, 2010, intangible assets included customer relationships of \$597,000 (net of accumulated amortization of \$80,000), developed technology of \$312,000 (net of accumulated amortization of \$62,000) and trademarks of \$9,000 (net of accumulated amortization of \$6,000). 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 succeeding five years is as follows: 2010 (remainder): \$222,000; 2011: \$284,000; 2012: \$253,000; 2013: \$159,000.

**5. Commitments and Contingencies**

The Company leases its facilities under operating leases. Leases expire at various dates through April 2013. 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.

***Litigation***

On May 12, 2009, a patent infringement lawsuit was filed against the Company by Mount Hamilton Partners, LLC ( Mount Hamilton ). Mount Hamilton seeks damages and injunctive relief. 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 believes it has substantial and meritorious defenses to these claims and intends to vigorously defend its position. 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**

***Stock-Based Compensation***

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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.



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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 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 our 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 months ended March 31, 2010:

	<b>Three Months Ended, March 31, 2010 (Unaudited)</b>	
Dividend yield	0%	
Volatility	52%	53%
Risk free interest rate	2.75% - 2.93%	
Expected term, in years	6.02	6.56

The Company granted 759,980 stock options during the three months ended March 31, 2010 and no stock options were granted in the three months ended March 31, 2009. The Company recorded stock-based compensation expense of \$1,534,000 and \$959,000 for three months ended March 31, 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 will reduce net operating cash flows and increase net financing cash flows in periods after adoption. For the period ended March 31, 2010, the Company recorded \$1,290,000 of excess tax benefits from stock-based compensation.

## **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. The Company's weighted average unvested shares subject to repurchase and settle in shares of common stock upon vesting have the non-forfeitable right to receive dividends on an equal basis with common stock

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and therefore are considered participating securities that must be included in the calculation of net income per share using the two-class method. In addition, prior to the conversion of the Series A and Series B convertible preferred stock into common stock in connection with the Company's initial public offering, holders of Series A and Series B convertible preferred stock were each entitled to receive annual non-cumulative dividends of \$0.10 and \$0.69 per share for Series A and B, respectively, payable prior and in preference to holders of common stock. In the event a dividend was paid on common stock, Series A and Series B convertible preferred stockholders were entitled to a proportionate share of any such dividend as if they were holders of common shares (on an as-if converted basis). In May 2009, all of the Company's outstanding convertible preferred stock converted into common stock in connection with the Company's initial public offering.

For periods with net income that ended prior to such conversion of Series A and Series B convertible preferred stock, net income per share information is computed by using the two-class method. Under the two-class method, basic net income per share attributable to common stockholders is computed by dividing the net income attributable to common stockholders by the weighted average number of common shares outstanding during the period. Basic net income attributable to common stockholders is computed by an adjustment to subtract from net income the portion of current year earnings that the preferred stockholders would have been entitled to receive pursuant to their dividend rights had all of the year's earnings been distributed as well as an adjustment to subtract the non-forfeitable right to receive dividends by holders of unvested shares subject to repurchase. No such adjustment to earnings is made during periods with a net loss, as the holders of the convertible preferred shares had no obligation to fund losses. Diluted net income per share is computed by using the weighted-average number of common shares outstanding, plus, for periods with net income attributable to common stock, the dilutive effect of stock options. Potential dilutive shares are composed of incremental common shares issuable upon the exercise of stock options and warrants, and unvested common shares subject to repurchase.

*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. 281,000 and 343,000 shares were excluded from the dilutive shares outstanding for the three months ended March 31, 2010 and 2009, respectively, as the performance criteria had not been met as of the respective dates. Anti-dilutive shares in the amounts of 706,000 and 821,000 were excluded from the dilutive shares outstanding for the three months ended March 31, 2010 and 2009, respectively.

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

	Three Months Ended March 31,	
	2010	2009
<i>Basic net income per common share calculation:</i>		
Net income	\$ 2,524,000	\$ 366,000
Less: Undistributed earnings allocated to participating securities	(38,000)	(366,000)
Net income attributable to common shares - basic	2,486,000	
Basic weighted average common shares outstanding	22,199,000	10,276,000
Basic net income per share	\$ 0.11	\$ 0.00
<i>Diluted net income per common share calculation:</i>		
Net income	\$ 2,524,000	\$ 366,000
Less: Undistributed earnings allocated to participating securities	(25,000)	(366,000)
Net income attributable to common shares - diluted	2,499,000	
Weighted average shares used to compute basic net income per share	22,199,000	10,276,000
<i>Effect of potentially dilutive securities:</i>		
Unvested common shares subject to repurchase	234,000	
Employee stock options	1,104,000	
Weighted average shares used to compute diluted net income per share	23,537,000	10,276,000
Diluted net income per share	\$ 0.11	\$ 0.00

**Correction of Earnings Per Share** Subsequent to the issuance of the Company's interim financial statements as of March 31, 2009, management of the Company determined that the quarter ended March 31, 2009 basic and diluted net income per share was computed under the if-converted method rather than the required two-class method. In particular, the Company failed to subtract from net income the portion of current year earnings that the preferred stockholders would have been entitled to receive pursuant to their dividend rights had all of the year's earnings been distributed. Accordingly, corrections have been made herein to the previously reported net income per share amounts for the quarter ended March 31, 2009. Basic and diluted net income per share for the quarter ended March 31, 2009 were previously reported as \$0.04 and \$0.02, respectively. Using the two-class method, basic and diluted net income per share amounts for quarter ended March 31, 2009 are \$0.00 and \$0.00, respectively. The corrections in the March 31, 2009 quarterly net income per share calculation did not impact the total net income previously reported for such period. The foregoing corrections are not considered material by the Company.

**8. Income Taxes**

During the three months ended March 31, 2010, the Company recorded income tax expense of \$1.3 million, which resulted in an effective tax rate of 34.2%. During the three months ended March 31, 2009, we recorded income tax expense of \$0.5 million, which resulted in an effective tax rate of 58.6%. The expected tax provision derived from applying the federal statutory rate to our income before income tax provision for the three months ended March 31, 2010 differed from our recorded income tax provision primarily due to benefits of the recognition of current year state research and development credits offset by compensation expense related to non-deductible share-based payments. The Company's effective tax rate for the three months ended March 31, 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 March 31, 2010 and December 31, 2009 were \$15.0 million. No significant interest or penalties have been recorded to date.

Table of Contents**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.

Accumulated other comprehensive loss of \$157,000 as of March 31, 2010 was comprised of \$1,000 of unrealized loss on investments and \$156,000 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.

Summarized financial information concerning the reportable segments is as follows:

	North America Segment(1)	International Segment	Total Consolidated
<i>Three months ended March 31, 2010</i>			
Revenues subscription	\$ 9,091,000	\$ 960,000	\$ 10,051,000
Revenues reservations	9,798,000	239,000	10,037,000
Revenues installation and other	1,135,000	28,000	1,163,000
Income (loss) from operations	5,293,000	(1,527,000)	3,766,000
Interest income	66,000		66,000
Depreciation and amortization expense	1,403,000	138,000	1,541,000
Purchases of property, equipment and software	1,818,000	163,000	1,981,000
<i>Three months ended March 31, 2009</i>			
Revenues subscription	\$ 7,734,000	\$ 655,000	\$ 8,389,000
Revenues reservations	6,790,000	114,000	6,904,000
Revenues installation and other	665,000	37,000	702,000
Income (loss) from operations	2,326,000	(1,494,000)	832,000
Interest income	86,000		86,000
Depreciation and amortization expense	1,159,000	104,000	1,263,000
Purchases of property, equipment and software	1,318,000	50,000	1,368,000

(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.

Table of Contents**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:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<i>Revenues:</i>		
United States	\$ 18,862,000	\$ 14,402,000
International all others	2,389,000	1,593,000
Total revenues	\$ 21,251,000	\$ 15,995,000

	<b>As of March 31, 2010</b>	<b>As of December 31, 2009</b>
<i>Long-lived assets(1):</i>		
United States	\$ 11,054,000	\$ 9,872,000
International all others	2,049,000	2,022,000
Total long-lived assets	\$ 13,103,000	\$ 11,894,000

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(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.

## 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 Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed on March 11, 2010 with the Securities and Exchange Commission.*

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



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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,

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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 Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed on March 11, 2010 with the SEC. 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.

**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 for restaurant customers and [www.opentable.com](http://www.opentable.com), a popular restaurant reservation website for diners. The OpenTable network includes approximately 13,000 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 150 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. Our online restaurant reservation service is free to diners. For the three months ended March 31, 2010 and 2009, our net revenues were \$21.3 million and \$16.0 million, respectively. For the three months ended March 31, 2010 and 2009, our subscription revenues accounted for 47% and 52% of our total revenues, respectively. For the three months ended March 31, 2010 and 2009, our reservation revenues accounted for 47% and 43% of our total revenues, 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 March 31, 2010 and 2009 represented 6% and 5% of our total revenues, 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**

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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 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.

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See Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Dining Rewards Loyalty Program in our Annual Report on Form 10-K.

***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 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 Annual Report on Form 10-K). 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 tax in the United States as well as other tax jurisdictions or countries in which we conduct business. Earnings from our non-U.S. activities are subject to local country income tax and may be subject to current U.S. income tax.

During the three months ended March 31, 2010, we recorded income tax expense of \$1.3 million, which resulted in an effective tax rate of 34.2%. During the three months ended March 30, 2009, we recorded income tax expense of \$0.5 million, which resulted in an effective tax rate of 58.6%. The expected tax provision derived from applying the federal statutory rate to our income before income tax provision for

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the three months ended March 31, 2010 differed from our recorded income tax provision primarily due to benefits of the recognition of current year state research and development credits offset by compensation expense related to non-deductible share-based payments. Our effective tax rate for the three months ended March 31, 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 Annual Report on Form 10-K.

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
- Stock-Based Compensation



Table of Contents**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.

	Three Months Ended March 31,	
	2010 (In thousands, except per share amounts)	2009 (2)
REVENUES	\$ 21,251	\$ 15,995
COSTS AND EXPENSES:		
Operations and support (1)	6,002	5,106
Sales and marketing (1)	4,740	3,798
Technology (1)	2,720	2,712
General and administrative (1)	4,023	3,547
Total costs and expenses	17,485	15,163
Income from operations	3,766	832
Other income, net	69	55
Income before taxes	3,835	887
Income tax expense	1,311	521
NET INCOME	\$ 2,524	\$ 366
Net income per share:		
Basic	\$ 0.11	\$ 0.00
Diluted	\$ 0.11	\$ 0.00
Weighted average shares outstanding:		
Basic	22,199	10,276
Diluted	23,537	10,276

(1) Stock-based compensation included in above line items:

Operations and support	\$ 187	\$ 86
Sales and marketing	394	223
Technology	283	174
General and administrative	670	476
	\$ 1,534	\$ 959

(2) Certain corrections have been made to previously reported Earnings Per Share amounts for the three months ended March 31, 2009. See Note 7 of the accompanying notes to our condensed consolidated financial statements.



**Other Operational Data:**

## Installed restaurants (at period end):

North America	11,487	9,548
International	1,642	1,097
Total	13,129	10,645

## Seated diners (in thousands):

North America	14,093	9,922
International	408	186
Total	14,501	10,108

## Headcount (at period end):

North America	275	245
International	68	55
Total	343	300

**Additional Financial Data:**

## Revenues:

North America	\$	20,024	\$	15,189
International		1,227		806
Total	\$	21,251	\$	15,995

## Income (loss) from operations:

North America	\$	5,293	\$	2,326
International		(1,527)		(1,494)
Total	\$	3,766	\$	832

## Depreciation and amortization:

North America	\$	1,403	\$	1,159
International		138		104
Total	\$	1,541	\$	1,263

## Stock-based compensation:

North America	\$	1,479	\$	834
International		55		125
Total	\$	1,534	\$	959

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	Three Months Ended March 31,	
	2010	2009
	(as a percentage of revenue)	
REVENUES	100%	100%
<b>COSTS AND EXPENSES:</b>		
Operations and support	28	32
Sales and marketing	22	24
Technology	13	17
General and administrative	19	22
Total costs and expenses	82	95
Income from operations	18	5
Other income, net		
Income before taxes	18	5
Income tax expense	6	3
NET INCOME	12%	2%

*Revenues*

	Three Months Ended March 31,		Three Month % Change
	2010	2009	
	(Dollars in thousands)		
<b>Revenues by Type:</b>			
Subscription	\$ 10,051	\$ 8,389	20%
Reservation	10,037	6,904	45%
Installation and other	1,163	702	66%
Total	\$ 21,251	\$ 15,995	33%
<b>Percentage of Revenues by Type:</b>			
Subscription	47%	52%	
Reservation	47%	43%	
Installation and other	6%	5%	
Total	100%	100%	
<b>Revenues by Location:</b>			
North America	\$ 20,024	\$ 15,189	32%
International	1,227	806	52%
Total	\$ 21,251	\$ 15,995	33%
<b>Percentage of Revenues by Location:</b>			
North America	94%	95%	
International	6%	5%	
Total	100%	100%	

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Total revenues increased \$5.3 million, or 33%, for the three months ended March 31, 2010 compared to the three months ended March 31, 2009. Subscription revenues increased \$1.7 million, or 20%, for the three months ended March 31, 2010 compared to the three months ended March 31, 2009. Subscription revenues increased as a result of the increase in installed restaurants. Reservation revenues increased \$3.1 million, or 45%, for the three months ended March 31, 2010 compared to the three months ended March 31, 2009. Reservation revenues increased as a result of the increase in seated diners.

Table of Contents*Costs and Expenses**Operations and Support*

	Three Months Ended March 31,		Three Month % Change
	2010	2009	
	(Dollars in thousands)		
Operations and support	\$ 6,002	\$ 5,106	18%
Headcount (at period end):			
North America	83	75	11%
International	28	25	12%
Total	111	100	11%

Our operations and support expenses increased \$0.9 million, or 18%, for the three months ended March 31, 2010 compared to the three months ended March 31, 2009. The increase in operations and support expenses was primarily attributable to an increase of \$0.4 million in headcount related costs, related to the increase in operations and support headcount, as well as a \$0.2 million increase in depreciation and amortization, primarily related to capitalized website and development costs and a \$0.2 million increase in referral payments.

*Sales and Marketing*

	Three Months Ended March 31,		Three Month % Change
	2010	2009	
	(Dollars in thousands)		
Sales and marketing	\$ 4,740	\$ 3,798	25%
Headcount (at period end):			
North America	77	57	35%
International	32	24	33%
Total	109	81	35%

Our sales and marketing expenses increased \$0.9 million, or 25%, for the three months ended March 31, 2010 compared to the three months ended March 31, 2009. The increase in sales and marketing expenses was primarily attributable to increases in headcount related costs.

*Technology*

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	Three Months Ended March 31,		Three Month % Change
	2010	2009	
Technology	\$ 2,720	\$ 2,712	0%
Headcount (at period end):			
North America	69	69	0%
International	0	0	
Total	69	69	0%

Our technology expenses remained relatively constant at \$2.7 million for the three months ended March 31, 2010 and 2009.

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	<b>Three Months Ended March 31,</b>			<b>Three Month % Change</b>
	<b>2010</b>	<b>2009</b>		
	<b>(Dollars in thousands)</b>			
General and administrative	\$ 4,023	\$ 3,547		13%
<b>Headcount (at period end):</b>				
North America	46	44		5%
International	8	6		33%
Total	54	50		8%

Our general and administrative expenses increased \$0.5 million or 13% for the three months ended March 31, 2010 compared to the three months ended March 31, 2009. The increase was primarily attributable to a \$0.5 million increase in headcount and related costs, related to the increase in general and administrative headcount.

*Other Income, Net*

	<b>Three Months Ended March 31,</b>			<b>Three Month % Change</b>
	<b>2010</b>	<b>2009</b>		
	<b>(Dollars in thousands)</b>			
Other income, net	\$ 69	\$ 55		25%

Other income, net remained relatively constant at \$0.1 million for the three months ended March 31, 2010 and 2009.

*Income Taxes*

	<b>Three Months Ended March 31,</b>			<b>Three Month % Change</b>
	<b>2010</b>	<b>2009</b>		
	<b>(Dollars in thousands)</b>			
Income tax expense	\$ 1,311	\$ 521		152%

Income tax expense increased \$0.8 million or 152% for the three months ended March 31, 2010 compared to the three months ended March 31, 2009. Our effective tax rate has decreased in 2010 as compared to 2009 due to our largest permanent difference, non-deductible stock-based compensation, being a smaller percentage of taxable income than experienced in 2009. The increase in income tax expense reflects the increase in income before taxes.



Table of Contents**Liquidity and Capital Resources**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(in thousands)</b>	
<b>Consolidated Statements of Cash Flows Data:</b>		
Purchases of property, equipment and software	\$ 1,981	\$ 1,368
Depreciation and amortization		
North America	1,403	1,159
International	138	104
Total depreciation and amortization	1,541	1,263
Cash provided by operating activities	6,579	3,694
Cash provided by (used in) investing activities	(6,288)	2,632
Cash provided by financing activities	1,340	16

As of March 31, 2010, we had cash and cash equivalents of \$21.5 million and short-term investments of \$54.3 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 March 31, 2010. This line of credit expires in July 2010.

Prior to 2005, we financed our operations and capital expenditures through operations, private sales of preferred stock, lease financing 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 \$21.5 million at March 31, 2010, which is an increase of \$1.7 million from December 31, 2009. We believe we will have sufficient cash to support our operating activities for at least the next twelve months.

**Operating Activities**





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For the three months ended March 31, 2010, operating activities provided \$6.6 million in cash, as a result of net income of \$2.5 million, plus \$1.5 million in depreciation and amortization, \$1.5 million in stock-based compensation and a \$2.0 million increase in accrued expenses and compensation.

For the three months ended March 31, 2009, operating activities provided \$3.7 million in cash, primarily as a result of net income of \$0.4 million, depreciation and amortization of \$1.3 million and stock-based compensation of \$1.0 million.

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**Investing Activities**



Our primary investing activities have consisted of purchases and sales of short-term investments and purchases of property and equipment. 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 and equipment, we purchased \$4.3 million (net of sales) of short-term investments in the three months ended March 31, 2010 and sold \$4.0 million (net of purchases) of short-term investments in the three months ended March 31, 2009.

**Financing Activities**



Our primary financing activities consist of proceeds from the issuance and repurchase of common stock, the excess tax benefit from our stock-based compensation plan plus the repayment of cash overdrafts during the three months ended March 31, 2010.

**Off Balance Sheet Arrangements**





As of March 31, 2010, we did not have any off balance sheet arrangements.

**Contractual Obligations**



As of March 31, 2010, there were no significant changes to the Company's contractual obligations.

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 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**



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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.

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**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 4T. 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 March 31, 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 March 31, 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.

##### **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 the Company by Mount Hamilton in the United States District Court for the Northern District of California, seeking, among other things, a judgment that OpenTable 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 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 U.S. PTO, asking the PTO to re-examine the patent in question and requesting that the claims of the Mount Hamilton patent be cancelled. 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. In addition, the district court has stayed all proceedings pending re-examination of the patent, which is currently ongoing. While we believe we have substantial and meritorious defenses to these claims and intend to vigorously defend our position, neither the outcome of



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the re-examination or litigation, nor the amount and range of potential damages or exposure associated with the litigation, can be assessed with certainty.

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 that the final disposition of such matters will not have a material adverse effect on the Company's 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 Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed on March 11, 2010 with the SEC. 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 March 31, 2010, our directors and executive officers, together with their affiliates, beneficially owned approximately 32% of our outstanding common stock. Of this 32%, 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 March 31, 2010, approximately 33% of our outstanding common stock was held by other holders of more than 5% of our common stock and their affiliates.

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.

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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**

- 3.1 (1) Amended and Restated Certificate of Incorporation of OpenTable, Inc.
- 3.2 (2) Amended and Restated Bylaws of OpenTable, Inc.
- 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.
- 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.

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

(2) Filed as Exhibit 3.5 to Amendment No. 4 to Registrant'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: May 5, 2010

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