GrubHub Inc.
Form 10-Q
May 07, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2015

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 1-36389

GRUBHUB INC.

(Exact name of registrant as specified in its charter)

Delaware	46-2908664
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
111 W. Washington Street, Suite 2100 Chicago, Illinois	60602

(Address of principal executive offices) (Zip code)
(877) 585-7878

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

As of May 1, 2015, 83,929,112 shares of common stock were outstanding.

GRUBHUB INC.

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PART I

FINANCIAL INFORMATION

Part I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

GRUBHUB INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	March 31, 2015 (Unaudited)	December 31, 2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 188,155	$ 201,796
Short term investments	110,069	111,341
Accounts receivable, less allowances for doubtful accounts	49,614	36,127
Deferred taxes, current	792	825
Prepaid expenses	2,915	2,940
Total current assets	351,545	353,029
PROPERTY AND EQUIPMENT:		
Property and equipment, net of depreciation and amortization	16,102	16,003
OTHER ASSETS:		
Other assets	3,507	3,543
Goodwill	387,385	352,788
Acquired intangible assets, net of amortization	289,495	254,339
Total other assets	680,387	610,670
TOTAL ASSETS	$ 1,048,034	$ 979,702
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Restaurant food liability	$ 115,892	$ 91,575
Accounts payable	4,060	3,371
Accrued payroll	3,695	5,958
Taxes payable	707	1,660
Other accruals	12,211	8,441
Total current liabilities	136,565	111,005
LONG TERM LIABILITIES:		
Deferred taxes, non-current	93,430	92,244
Other accruals	5,826	5,931
Total long term liabilities	99,256	98,175
Commitments and Contingencies		

STOCKHOLDERS' EQUITY:		
Common stock, $0.0001 par value. Authorized: 500,000,000 shares at March 31, 2015 and December 31, 2014; issued and outstanding: 83,789,008 and 81,905,325 shares as of March 31, 2015 and December 31, 2014, respectively	8	8
Accumulated other comprehensive loss	(555)	(262)
Additional paid-in capital	721,366	689,953
Retained earnings	91,394	80,823
Total Stockholders' Equity	$812,213	$770,522
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,048,034	$979,702

(See Notes to Condensed Consolidated Financial Statements (unaudited))

GRUBHUB INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(UNAUDITED)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Revenues	$88,249	$58,613
Costs and expenses:		
Sales and marketing	24,107	16,117
Operations and support	22,701	15,107
Technology (exclusive of amortization)	7,666	5,347
General and administrative	9,101	8,324
Depreciation and amortization	6,249	5,515
Total costs and expenses	69,824	50,410
Income before provision for income taxes	18,425	8,203
Provision for income taxes	7,855	3,850
Net income attributable to common stockholders	$10,570	$4,353
Net income per share attributable to common stockholders:		
Basic	$0.13	$0.08
Diluted	$0.12	$0.06
Weighted average shares used to compute net income per share attributable to common stockholders:		
Basic	82,783	55,210
Diluted	85,098	77,635

(See Notes to Condensed Consolidated Financial Statements (unaudited))

GRUBHUB INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(UNAUDITED)

	Three Months Ended March 31,	
	2015	2014
Net income	$10,570	$4,353
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency translation adjustments	(293)	49
COMPREHENSIVE INCOME	$10,277	$4,402

(See Notes to Condensed Consolidated Financial Statements (unaudited))

GRUBHUB INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(UNAUDITED)

	Three Months Ended March 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$10,570	$4,353
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	1,215	1,168
Provision for doubtful accounts	93	361
Deferred taxes	1,219	3,208
Intangible asset amortization	5,034	4,347
Tenant allowance amortization	(40)	(40)
Stock-based compensation	3,007	2,403
Deferred rent	(1)	(21)
Investment premium amortization	280	—
Change in assets and liabilities, net of the effects of business acquisitions:		
Accounts receivable	(11,862)	(10,994)
Prepaid expenses and other assets	255	626
Restaurant food liability	24,376	18,678
Accounts payable	(1,826)	(56)
Accrued payroll	(3,146)	943
Other accruals	1,248	2,860
Net cash provided by operating activities	30,422	27,836
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(37,068)	—
Proceeds from maturity of investments	38,060	—
Capitalized website and development costs	(1,213)	(449)
Purchases of property and equipment	(441)	(1,776)
Acquisitions of businesses, net of cash acquired	(55,506)	—
Net cash used in investing activities	(56,168)	(2,225)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchases of common stock	—	(116)
Proceeds from exercise of stock options	5,823	1,036
Excess tax benefit related to stock-based compensation	6,492	—
Taxes paid related to net settlement of stock-based compensation awards	—	(362)
Net cash provided by financing activities	12,315	558
Net change in cash and cash equivalents	(13,431)	26,169
Effect of exchange rates on cash	(210)	49

Cash and cash equivalents at beginning of year	201,796	86,542
Cash and cash equivalents at end of the period	$188,155	$112,760
SUPPLEMENTAL DISCLOSURE OF NON CASH ITEMS		
Fair value of common stock issued for acquisitions	15,980	—
Cash paid for income taxes	—	395
Capitalized property, equipment and website and development costs in accounts payable at period end	308	—
Cashless exercise of stock options	—	332
Settlement of receivable through cashless acquisition of treasury shares in connection with the cashless exercise of stock options	—	(694)

(See Notes to Condensed Consolidated Financial Statements (unaudited))

GRUBHUB INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

1. Organization

GrubHub Inc., a Delaware corporation, and its wholly-owned subsidiaries (collectively referred to as the “Company”) provide an online and mobile platform for restaurant pick-up and delivery orders. Diners enter their delivery address or use geo-location within the mobile applications and the Company displays the menus and other relevant information for restaurants in its network. Orders may be placed directly online, via mobile applications or over the phone at no cost to the diner. The Company charges the restaurant a per order commission that is largely fee based. In certain markets, the Company also provides delivery services to a small percentage of restaurants on its platform.

2. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated interim financial statements include the accounts of GrubHub Inc. and have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and in accordance with the rules and regulations of the United States Securities and Exchange Commission (the “SEC”). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These unaudited condensed consolidated interim financial statements include all wholly-owned subsidiaries and reflect all normal and recurring adjustments, as well as any other than normal adjustments, that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods and should be read in conjunction with the consolidated financial statements and accompany notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014 filed with the SEC on March 5, 2015. All significant intercompany transactions have been eliminated in consolidation. Operating results for the three months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2015.

Use of Estimates

The preparation of condensed consolidated financial statements in accordance with GAAP requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the related disclosures at the date of the financial statements, as well as the reported amounts of revenue and expenses during the periods presented. Estimates include revenue recognition, the allowance for doubtful accounts, website development costs, goodwill, depreciable lives of property and equipment, recoverability of intangible assets with definite lives and other long-lived assets, stock-based compensation and income taxes. Actual results could differ from these estimates.

There have been no material changes to the Company’s significant accounting policies described in the Annual Report on Form 10-K.

Recently Issued Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2015-05, “Intangibles -Goodwill and Other – Internal Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement” (“ASU 2015-05”), which provides guidance on accounting for fees paid in a cloud computing arrangement. Under ASU 2015-05, if a cloud computing arrangement includes a software license, the software license element should be accounted for consistent with the purchase of other software licenses. If the cloud computing arrangement does not include a software license, it should be accounted for as a service contract. ASU 2015-05 will be effective for the Company in the first quarter of 2016 and may be applied either prospectively or retrospectively. The Company has elected to apply ASU 2015-05 prospectively, however, its adoption is not expected to have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”), which supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific requirements. ASU 2014-09 establishes a five-step revenue recognition process in which an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. ASU 2014-09 will be effective for the Company in the first quarter of 2017. Management is currently evaluating the impact the adoption of ASU 2014-09 will have on the Company’s condensed consolidated financial position, results of operations or cash flows and the method of retrospective application, either full or modified. On April 29, 2015, the FASB issued an exposure draft proposing a one-year deferral of the effective date of ASU 2014-09; however, no decisions have been reached as of the filing date of this Quarterly Report on Form 10-Q.

GRUBHUB INC.

Notes to Condensed Consolidated Financial Statements (unaudited) (Continued)

3. Acquisitions

On February 4, 2015, the Company acquired assets of DiningIn.com, Inc. and certain of its affiliates (collectively, “DiningIn”), and on February 27, 2015, the Company acquired the membership units of Restaurants on the Run, LLC (“Restaurants on the Run”). Aggregate consideration for the two acquisitions was approximately $55.5 million in cash and 407,812 restricted shares of the Company’s common stock, or an estimated total transaction value of approximately $71.5 million based on the Company’s closing share price on the respective closing dates, net of cash acquired of $0.7 million. DiningIn and Restaurants on the Run provide delivery options for individual diners, group orders and corporate catering. The acquisitions will expand and enhance the Company’s service offerings for its customers, particularly in the delivery space.

The excess of the consideration transferred in the acquisitions over the net amounts assigned to the fair value of the assets acquired was recorded as goodwill, which represents the opportunity to expand restaurant delivery services and enhance the breadth and depth of the Company’s restaurant networks. The goodwill related to these acquisitions is not expected to be deductible for income tax purposes.

During the three months ended March 31, 2015, the Company incurred certain expenses directly and indirectly related to the acquisitions of $0.6 million, which were recognized in general and administrative expenses within the condensed consolidated statements of operations.

The assets acquired and liabilities assumed of DiningIn and Restaurants on the Run were recorded at their estimated fair values as of the closing dates of February 4, 2015 and February 27, 2015, respectively. The following table summarizes the final purchase price allocation acquisition-date fair value of the assets and liabilities acquired in connection with the acquisitions:

	(in thousands)
Cash and cash equivalents	$ 698
Accounts receivable	1,978
Prepaid expenses and other assets	266
Customer and vendor relationships	35,604
Property and equipment	161
Developed technology	3,295
Goodwill	34,597
Trademarks	372
Accounts payable and accrued expenses	(4,787)
Total purchase price plus cash acquired	72,184
Cash acquired	(698)
Fair value of common stock issued	(15,980)
Net cash paid	$ 55,506

The estimated fair values of the intangible assets acquired were determined based on a combination of the income, cost, and market approaches to measure the fair value of the customer (restaurant) relationships, developed technology and trademarks. The fair value of the trademarks was measured based on the relief from royalty method. The cost approach, specifically the cost to recreate method, was used to value the developed technology. The income approach, specifically the multi-period excess earnings method, was used to value the customer (restaurant) relationships. These fair value measurements were based on significant inputs not observable in the market and thus represent Level 3 measurements within the fair value hierarchy.

The results of operations of DiningIn and Restaurants on the Run have been included in the Company’s financial statements since February 4, 2015 and February 27, 2015, respectively. The total amount of revenues and net income from the acquisitions included in the Company’s operating results since the respective acquisition dates through March 31, 2015 were \$3.5 million and \$0.1 million, respectively.

GRUBHUB INC.

Notes to Condensed Consolidated Financial Statements (unaudited) (Continued)

The following unaudited pro forma information presents a summary of the operating results of the Company for the three months ended March 31, 2015 and 2014 as if the acquisitions had occurred on January 1, 2014:

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
	(in thousands)	
Revenues	$92,010	$65,170
Net income	11,110	4,230

The unaudited pro forma revenues and net income are not intended to represent or be indicative of the Company's condensed consolidated results of operations or financial condition that would have been reported had the acquisitions been completed as of the beginning of the periods presented and should not be taken as indicative of the Company's future consolidated results of operations or financial condition.

4. Marketable Securities

The amortized cost, unrealized gains and losses and estimated fair value of the Company's held-to-maturity marketable securities as of March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
	(in thousands)			
Cash and cash equivalents				
Commercial paper	$2,500	$ —	$ —	$2,500
Corporate bonds	1,936	—	(11)	1,925
Short term investments	—	—	—	—
Commercial paper	26,456	—	(22)	26,434
Corporate bonds	83,613	36	(40)	83,609
Total	$114,505	$ 36	$ (73)	$114,468

	December 31, 2014			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated

				Fair Value
	(in thousands)			
Cash and cash equivalents				
Corporate bonds	$1,882	$ 1	$ (1)	$1,882
Short term investments				
Commercial paper	38,081	—	(26)	38,055
Corporate bonds	73,260	2	(64)	73,198
Total	$113,223	$ 3	$ (91)	$113,135

All of the Company's marketable securities were classified as held-to-maturity investments and have maturities within one year of March 31, 2015.

The gross unrealized losses, estimated fair value and length of time the individual marketable securities were in a continuous loss position for those marketable securities in an unrealized loss position as of March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015					
	Less Than 12 Months		12 Months or Greater		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
	(in thousands)					
Commercial paper	$28,934	$ (22)	$ —	$ —	$28,934	$ (22)
Corporate bonds	45,290	(51)	—	—	45,290	(51)
Total	$74,224	$ (73)	$ —	$ —	$74,224	$ (73)

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GRUBHUB INC.

Notes to Condensed Consolidated Financial Statements (unaudited) (Continued)

	December 31, 2014					
	Less Than 12 Months		12 Months or Greater		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
	(in thousands)					
Commercial paper	$38,055	$ (26)	$ —	$ —	$38,055	$ (26)
Corporate bonds	64,557	(65)	—	—	64,557	(65)
Total	$102,612	$ (91)	$ —	$ —	$102,612	$ (91)

During the three months ended March 31, 2015, the Company did not recognize any other-than-temporary impairment losses related to its marketable securities. The Company did not have any marketable securities prior to July 1, 2014.

The Company's marketable securities are classified within Level 2 of the fair value hierarchy (see Note 11, Fair Value Measurement, for further details).

5. Goodwill and Acquired Intangible Assets

The components of acquired intangible assets as of March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
	(in thousands)					
Developed technology	$8,438	$ (3,145)	$ 5,293	$5,143	$ (2,392)	$ 2,751
Customer and vendor relationships, databases	227,583	(33,400)	194,183	191,979	(30,067)	161,912
Trademarks	372	(29)	343	—	—	—
Total amortizable intangible assets	236,393	(36,574)	199,819	197,122	(32,459)	164,663
Indefinite-lived trademarks	89,676	—	89,676	89,676	—	89,676
Total acquired intangible assets	$326,069	$ (36,574)	$ 289,495	$286,798	$ (32,459)	$ 254,339

Amortization expense for acquired intangible assets was $4.1 million and $3.5 million for the three months ended March 31, 2015 and 2014, respectively.

Changes in the carrying amount of goodwill for the three months ended March 31, 2015 were as follows:

	Goodwill	Accumulated Impairment Losses	Net Book Value
	(in thousands)		
Balance as of December 31, 2014	$352,788	—	$352,788

Acquisitions	34,597	—	34,597
Balance as of March 31, 2015	$387,385	$ —	$387,385

During the three months ended March 31, 2015, the Company recorded additions to acquired intangible assets of $39.3 million as a result of the acquisitions of DiningIn and Restaurants on the Run. The components of the acquired intangibles assets added during the three months ended March 31, 2015 were as follows:

	Three Months Ended March 31, 2015 (in thousands)	Weighted-Average Amortization Period (years)
Customer and vendor relationships	$35,604	18.4
Developed technology	3,295	1.5
Trademarks	372	1.7
Total	$39,271	

GRUBHUB INC.

Notes to Condensed Consolidated Financial Statements (unaudited) (Continued)

Estimated future amortization expense of acquired intangible assets as of March 31, 2015 was as follows:

	(in thousands)
The remainder of 2015	$ 14,021
2016	16,461
2017	14,193
2018	14,022
2019	12,610
Thereafter	128,512
Total	$ 199,819

6. Property and Equipment

The components of the Company’s property and equipment as of March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015	December 31, 2014
	(in thousands)	
Computer equipment	$ 12,706	$ 12,114
Furniture and fixtures	1,915	1,876
Developed software	13,854	12,378
Purchased software	2,228	2,149
Leasehold improvements	5,947	5,900
Property and equipment	36,650	34,417
Accumulated amortization and depreciation	(20,548)	(18,414)
Property and equipment, net	$ 16,102	$ 16,003

The Company recorded depreciation and amortization expense for property and equipment other than developed software for the three months ended March 31, 2015 and 2014 of $1.4 million and $1.3 million, respectively.

The Company capitalized developed software costs of $1.5 million and $0.4 million for the three months ended March 31, 2015 and 2014, respectively. Amortization expense for developed software costs, recognized in depreciation and amortization in the condensed consolidated statements of operations, for the three months ended March 31, 2015 and 2014 was $0.7 million.

7. Commitments and Contingencies

Legal

In August 2011, Ameranth filed a patent infringement action against a number of defendants, including GrubHub Holdings Inc., in the U.S. District Court for the Southern District of California (the “Court”), Case No. 3:11-cv-1810 (“’1810 action”). In September 2011, Ameranth amended its complaint in the ’1810 action to also accuse Seamless North America, LLC of patent infringement. Ameranth alleged that the GrubHub Holdings Inc. and Seamless North America, LLC ordering systems, products and services infringe claims 12 through 15 of U.S. Patent No. 6,384,850 (“’850 patent”) and claims 11 and 15 of U.S. Patent No. 6,871,325 (“’325 patent”).

In March 2012, Ameranth initiated eight additional actions for infringement of a third, related patent, U.S. Patent No. 8,146,077 (“’077 patent”), in the same forum, including separate actions against GrubHub Holdings Inc., Case No. 3:12-cv-739 (“’739 action”), and Seamless North America, LLC, Case No. 3:12-cv-737 (“’737 action”). In August 2012, the Court severed the claims against GrubHub Holdings Inc. and Seamless North America, LLC in the ’1810 action and consolidated them with the ’739 action and the ’737 action, respectively. Later, the Court consolidated these separate cases against GrubHub Holdings Inc. and Seamless North America, LLC, along with the approximately 40 other cases Ameranth filed in the same district, with the original ’1810 action. In their answers, GrubHub Holdings Inc. and Seamless North America, LLC denied infringement and interposed various defenses, including non-infringement, invalidity, unenforceability and inequitable conduct.

On November 26, 2013, the consolidated case was stayed pending the disposition of petitions for post-grant review of all the patents in the suit. These petitions were filed in the United States Patent and Trademark Office (the “PTO”) under the new Transitional Program for Covered Business Method Patents (the “CBM proceedings”). The CBM proceedings resulted in a March 26, 2014 ruling denying defendants’ petitions on the claims most relevant to GrubHub Holdings Inc. and Seamless North America LLC. The consolidated case remains stayed.

GRUBHUB INC.

Notes to Condensed Consolidated Financial Statements (unaudited) (Continued)

No trial date has been set for this case. The Company believes this case lacks merit and that it has strong defenses to all of the infringement claims. The Company intends to defend the suit vigorously. However, the Company is unable to predict the likelihood of success of Ameranth's infringement claims and is unable to predict the likelihood of success of its counterclaims. The Company has not recorded an accrual related to this lawsuit as of March 31, 2015, as it does not believe a material loss is probable. It is a reasonable possibility that a loss may be incurred; however, the possible range of loss is not estimable given the early stage of the dispute and the uncertainty as to whether the claims at issue are with or without merit, will be settled out of court, or will be determined in the Company's favor, whether the Company may be required to expend significant management time and financial resources on the defense of such claims, and whether the Company will be able to recover any losses under its insurance policies.

In addition to the matters described above, from time to time, the Company is involved in various other legal proceedings arising from the normal course of business activities. During the three months ended March 31, 2015, a final settlement was approved by the court for one such litigation in which the Company incurred $0.2 million in previously reserved or accrued settlement fees and related expenses, net of insurance recovery proceeds received of $0.4 million.

Indemnification

In connection with the merger of GrubHub and Seamless in August 2013, the Company agreed to indemnify Aramark Holdings for negative income tax consequences associated with the October 2012 spin-off of Seamless Holdings that were the result of certain actions taken by the Company through October 29, 2014, in certain instances subject to a $15.0 million limitation. Management is not aware of any actions that would impact the indemnification obligation.

Restructuring

On November 20, 2013, the Company announced plans to close its Sandy, Utah office location in 2014. The Company recorded a restructuring accrual in the condensed consolidated balance sheets for severance and payroll related benefits and other facility closure costs as a result of the restructuring announcement. The amounts recorded represented the service vesting requirements for identified employees who worked for various periods beyond the communication date and related lease termination costs. The facility was closed on November 30, 2014, however, certain employees worked until January 2, 2015. Total restructuring costs incurred were approximately $1.3 million, including expense of $0.5 million related to the termination of the Sandy, Utah office lease agreement. For the three months ended March 31, 2014, restructuring expense of $0.3 million was recognized in general and administrative expenses in the condensed consolidated statements of operations. The Company did not incur any restructuring expense during the three months ended March 31, 2015 and does not expect to incur any additional restructuring expense related to the Sandy, Utah facility closure.

The following table summarizes the Company's restructuring activity during the three months ended March 31, 2015:

	(in thousands)
Restructuring accrual balance at December 31, 2014	$ 748
Restructuring expense	—
Cash payments	(748)
Restructuring accrual balance at March 31, 2015	$ —

8. Stock-Based Compensation

The Company recognizes compensation expense based on estimated grant date fair values for all stock-based awards issued to employees and directors, including stock options, restricted stock awards and restricted stock units.

Stock Options

The Company granted 1,239,410 and 1,598,990 stock options during the three months ended March 31, 2015 and 2014, respectively. The fair value of each stock option award was estimated based on the assumptions below as of the grant date using the Black-Scholes-Merton option pricing model. Expected volatilities are based on a combination of the historical and implied volatilities of comparable publicly-traded companies and the historical volatility of the Company's own common stock due to its limited trading history. The Company uses historical data to estimate option exercises and employee terminations within the valuation model. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of the award is estimated using a simplified method. The fair value at grant date prior to the Company's initial public offering in April 2014 (the "IPO") was determined considering the performance of the Company at the grant date as well as future growth and profitability expectations by applying market and income approaches. The risk-free rate for the period within the

GRUBHUB INC.

Notes to Condensed Consolidated Financial Statements (unaudited) (Continued)

contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The assumptions used to determine the fair value of the stock options granted during the three months ended March 31, 2015 and 2014 were as follows:

	2015	2014
Weighted-average fair value options granted	$16.35	$12.95
Average risk-free interest rate	1.39 %	2.02 %
Expected stock price volatilities(a)	47.3 %	50.7 %
Dividend yield	None	None
Expected stock option life (years)	6.08	6.31

(a) There was no active external or internal market for the Company's common stock prior to the IPO in April 2014. Due to the Company's limited trading history, the Company estimated expected volatility based on a combination of the historical and implied volatilities of comparable publicly-traded companies and the historical volatility of the Company's own common stock. During the three months ended March 31, 2014, the expected volatility was based on the historical and implied volatilities of comparable publicly-traded companies as there was no trading history for the Company's common stock prior to the IPO.

Stock option awards as of December 31, 2014 and March 31, 2015, and changes during the three months ended March 31, 2015, were as follows:

	Options	Weighted-Average Exercise Price	Average Intrinsic Value (thousands)	Weighted-Average Exercise Term (years)
Outstanding at December 31, 2014	6,180,795	$ 8.49	$ 172,661	7.87
Granted	1,239,410	35.23		
Forfeited	(192,642)	11.50		
Exercised	(1,374,255)	4.26		
Outstanding at March 31, 2015	5,853,308	15.05	177,605	8.20
Vested and expected to vest at March 31, 2015	3,898,660	12.74	127,299	7.93
Exercisable at March 31, 2015	1,723,525	$ 4.99	$ 69,625	7.10

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the fair value of the common stock and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their in-the-money options on each date. This amount will change in future periods based on the fair value of the Company's stock and the number of options outstanding. The aggregate intrinsic value of awards exercised during the three months ended March 31, 2015 and 2014 was $49.8 million and $6.5 million, respectively.

The stock options vest over different lengths of time depending upon the grantee. Compensation expense is recognized over the vesting period. The Company recorded compensation expense for stock options of $2.8 million and $2.4 million for the three months ended March 31, 2015 and 2014, respectively. During the three months ended March 31, 2015, the Company capitalized $0.1 million of stock-based compensation expense as website and software development costs. As of March 31, 2015, total unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock options was $24.2 million and is expected to be recognized over a weighted-average period of 3.21 years.

During the three months ended March 31, 2015, the Company reported excess tax benefits as a decrease in cash flows from operations and an increase in cash flows from financing activities of $6.5 million. Excess tax benefits were suspended during the three months ended March 31, 2014 due to net operating losses. Excess tax benefits reflect the total of the individual stock option exercise transactions in which the reduction to the Company’s income tax liability is greater than the deferred tax assets that were previously recorded.

GRUBHUB INC.

Notes to Condensed Consolidated Financial Statements (unaudited) (Continued)

Restricted Stock Units and Restricted Stock Awards

Non-vested restricted stock units and restricted stock awards as of December 31, 2014 and March 31, 2015, and changes during the three months ended March 31, 2015 were as follows:

	Restricted Stock Units			Restricted Stock Awards		
	Shares	Weighted-Average Grant Date Fair Value		Shares	Weighted-Average Grant Date Fair Value	
Outstanding at December 31, 2014	2,899	$	31.90	—	$	—
Granted	4,790		43.49	101,616		42.01
Forfeited	—		—	—		—
Vested	—		—	—		—
Outstanding at March 31, 2015	7,689	$	39.12	101,616	$	42.01

During the three months ended March 31, 2015, compensation expense recognized related to restricted stock units and restricted stock awards was $0.2 million. There were no non-vested restricted stock units or restricted stock awards or related expense during the three months ended March 31, 2014. As of March 31, 2015, $0.3 million of total unrecognized compensation cost, adjusted for estimated forfeitures, related to 7,689 non-vested restricted stock units with weighted-average grant date fair values of $39.12 is expected to be recognized over a weighted-average period of 3.8 years. As of March 31, 2015, $4.1 million of total unrecognized compensation cost, adjusted for estimated forfeitures, related to 101,616 non-vested restricted stock awards with weighted-average grant date fair values of $42.01 is expected to be recognized over a weighted-average period of 1.9 years. The fair value of these awards was determined based on the Company’s stock price at the grant date and assumes no expected dividend payments through the vesting period.

There were no excess tax benefits related to restricted stock units or restricted stock awards during the three months ended March 31, 2015 and 2014.

9. Stockholders’ Equity

As of March 31, 2015 and December 31, 2014, the Company was authorized to issue two classes of stock: common stock and Series A Preferred Stock.

Common Stock

Each holder of common stock will have one vote per share of common stock held on all matters that are submitted for stockholder vote. At March 31, 2015 and December 31, 2014, there were 500,000,000 shares of common stock authorized. At March 31, 2015 and December 31, 2014, there were 83,789,008 and 81,905,325 shares issued and outstanding, respectively. The Company did not hold any shares as treasury shares as of March 31, 2015 or December 31, 2014.

Series A Preferred Stock

The Company was authorized to issue 25,000,000 shares of preferred stock as of March 31, 2015 and December 31, 2014. Upon the closing of the Company's IPO on April 4, 2014, all shares of the Company's then-outstanding convertible Series A Preferred Stock automatically converted on a one-for-one basis into an aggregate of 19,284,113 shares of common stock. Each share of Series A Preferred Stock was convertible, at the option of the holder thereof, into common stock on a one-for-one basis, subject to adjustment as defined in the Company's amended and restated certificate of incorporation. There were no issued or outstanding shares of preferred stock as of March 31, 2015 or December 31, 2014.

Redeemable Common Stock

The put rights that would have required the Company to repurchase the Company's then outstanding redeemable common stock at fair value (as defined in the stockholders agreement) determined at the redemption date were terminated and the shares converted on a one-for-one basis into an aggregate of 1,344,236 shares common stock upon the closing of the IPO on April 4, 2014. There were no outstanding shares of redeemable common stock as of March 31, 2015 or December 31, 2014.

GRUBHUB INC.

Notes to Condensed Consolidated Financial Statements (unaudited) (Continued)

The Company's equity as of December 31, 2014 and March 31, 2015, and changes during the three months ended March 31, 2015, were as follows:

	(in thousands)
Balance at December 31, 2014	$ 770,522
Net income	10,570
Currency translation	(293)
Issuance of common stock, acquisitions	15,980
Stock-based compensation	3,119
Tax benefit related to stock-based compensation	6,492
Stock option exercises, net of withholdings and other	5,823
Balance at March 31, 2015	$ 812,213

10. Earnings Per Share Attributable to Common Stockholders

Basic earnings per share is computed by dividing net income attributable to common stockholders by the weighted-average number of common shares outstanding during the period without consideration for common stock equivalents. Diluted net income per share attributable to common stockholders is computed by dividing net income by the weighted-average number of common shares outstanding during the period and potentially dilutive common stock equivalents, including stock options, restricted stock units and restricted stock awards, except in cases where the effect of the common stock equivalent would be antidilutive. Potential common stock equivalents consist of common stock issuable upon exercise of stock options and vesting of restricted stock units and restricted stock awards using the treasury stock method and common stock issuable upon conversion of the Series A Preferred Stock. Upon the closing of the IPO, all shares of the Company's then-outstanding convertible Series A Preferred Stock automatically converted into an aggregate of 19,284,113 shares of common stock.

The following table presents the calculation of basic and diluted net income per share attributable to common stockholders for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except per share data)					
Basic EPS						

Net income attributable to common stockholders	$10,570	82,783	$ 0.13	$4,353	55,210	$ 0.08
Effect of Dilutive Securities						