GrubHub Inc.
Form 10-Q
November 06, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large Accelerated filer	Accelerated filer
Non-Accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 2, 2018, 90,701,489 shares of common stock were outstanding.

GRUBHUB INC.

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Part I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

GRUBHUB INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

(UNAUDITED)

	September 30, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$294,550	$ 234,090
Short-term investments	16,687	23,605
Accounts receivable, less allowances for doubtful accounts	120,306	87,377
Income tax receivable	14,125	8,593
Prepaid expenses and other current assets	17,024	6,818
Total current assets	462,692	360,483
PROPERTY AND EQUIPMENT:		
Property and equipment, net of depreciation and amortization	105,434	71,384
OTHER ASSETS:		
Other assets	11,666	6,487
Goodwill	885,350	589,862
Acquired intangible assets, net of amortization	520,867	515,553
Total other assets	1,417,883	1,111,902
TOTAL ASSETS	$1,986,009	$ 1,543,769
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Restaurant food liability	$122,900	$ 119,922
Accounts payable	17,184	7,607
Accrued payroll	19,036	13,186
Taxes payable	1,566	3,109
Short-term debt	6,250	3,906
Other accruals	33,186	26,818
Total current liabilities	200,122	174,548
LONG-TERM LIABILITIES:		
Deferred taxes, non-current	44,073	74,292
Other accruals	19,683	7,468
Long-term debt	290,073	169,645
Total long-term liabilities	353,829	251,405
Commitments and contingencies		
STOCKHOLDERS' EQUITY:		
	—	—

Preferred Stock, $0.0001 par value. Authorized: 25,000,000 shares as of September 30, 2018 and December 31, 2017; issued and outstanding: no shares as of September 30, 2018 and December 31, 2017.		
Common stock, $0.0001 par value. Authorized: 500,000,000 shares at September 30, 2018 and December 31, 2017; issued and outstanding: 90,598,259 and 86,790,624 shares as of September 30, 2018 and December 31, 2017, respectively	9	9
Accumulated other comprehensive loss	(1,620)	(1,228)
Additional paid-in capital	1,079,165	849,043
Retained earnings	354,504	269,992
Total Stockholders' Equity	$1,432,058	$ 1,117,816
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,986,009	$ 1,543,769

(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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues	$247,225	$163,059	$719,536	$477,987
Costs and expenses:				
Operations and support	111,511	65,352	310,239	187,795
Sales and marketing	49,426	35,138	144,413	105,346
Technology (exclusive of amortization)	21,258	14,292	57,306	41,560
General and administrative	22,195	18,617	58,072	46,627
Depreciation and amortization	20,987	12,613	61,787	33,067
Total costs and expenses	225,377	146,012	631,817	414,395
Income from operations	21,848	17,047	87,719	63,592
Interest (income) expense - net	337	(373)	1,367	(908)
Income before provision for income taxes	21,511	17,420	86,352	64,500
Income tax (benefit) expense	(1,234)	4,432	2,721	19,043
Net income attributable to common stockholders	$22,745	$12,988	$83,631	$45,457
Net income per share attributable to common stockholders:				
Basic	$0.25	$0.15	$0.94	$0.53
Diluted	$0.24	$0.15	$0.91	$0.52
Weighted-average shares used to compute net income per share attributable to common stockholders:				
Basic	90,494	86,449	89,027	86,162
Diluted	93,678	88,543	92,091	87,788

GRUBHUB INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$22,745	$12,988	$83,631	$45,457
OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign currency translation adjustments	(92)	299	(392)	749
COMPREHENSIVE INCOME	$22,653	$13,287	$83,239	$46,206

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

GRUBHUB INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(UNAUDITED)

	Nine Months Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$83,631	$45,457
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	16,189	7,949
Provision for doubtful accounts	741	338
Deferred taxes	2,048	(2,162)
Amortization of intangible assets	45,598	25,118
Stock-based compensation	36,445	23,913
Deferred rent	3,975	130
Amortization of deferred loan costs	588	349
Other	(732)	(823)
Change in assets and liabilities, net of the effects of business acquisitions:		
Accounts receivable	(17,969)	(15,903)
Income taxes receivable	(5,533)	3,795
Prepaid expenses and other assets	(15,455)	4,193
Restaurant food liability	1,608	4,591
Accounts payable	5,265	2,965
Accrued payroll	5,311	1,575
Other accruals	3,752	6,351
Net cash provided by operating activities	165,462	107,836
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of businesses, net of cash acquired	(366,856)	(51,859)
Purchases of investments	(47,642)	(145,667)
Proceeds from maturity of investments	54,916	164,733
Capitalized website and development costs	(21,471)	(15,281)
Purchases of property and equipment	(31,984)	(12,549)
Acquisition of other intangible assets	—	(25,147)
Other cash flows from investing activities	38	589
Net cash used in investing activities	(412,999)	(85,181)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of common stock	200,000	—
Proceeds from borrowings under the Credit Agreement	175,000	—
Repayments of borrowings under the Credit Agreement	(52,344)	—
Proceeds from exercise of stock options	13,010	12,505
Taxes paid related to net settlement of stock-based compensation awards	(28,238)	(7,696)
Payments for debt issuance costs	—	(285)
Net cash provided by financing activities	307,428	4,524
Net change in cash, cash equivalents, and restricted cash	59,891	27,179
Effect of exchange rates on cash, cash equivalents and restricted cash	(406)	709
Cash, cash equivalents, and restricted cash at beginning of year	238,239	242,214

Cash, cash equivalents, and restricted cash at end of the period	$297,724	$270,102
SUPPLEMENTAL DISCLOSURE OF NON-CASH ITEMS		
Cash paid for income taxes	$7,508	$16,340
Capitalized property, equipment and website and development costs in accounts payable at period end	4,069	1,048
Net working capital adjustment receivable	530	887
Fair value of equity awards assumed on acquisition	2,594	—
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH		
Cash and cash equivalents	$294,550	$265,958
Restricted cash included in prepaid expenses and other current assets	—	1,500
Restricted cash included in other assets	3,174	2,644
Total cash, cash equivalents, and restricted cash	$297,724	$270,102

(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 restaurants on its platform that do not have their own delivery operations.

2. Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

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 accompanying notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the SEC on February 28, 2018 (the “2017 Form 10-K”). All significant intercompany transactions have been eliminated in consolidation. Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2018.

On January 1, 2018, the Company adopted Financial Accounting Standards Board (the “FASB”) Accounting Standards Codification Topic 606, Revenue from Contracts with Customers (“ASC Topic 606”) using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning on or after January 1, 2018 are presented under ASC Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with historic accounting guidance under ASC Topic 605. See Recently Issued Accounting Pronouncements and Note 3, Revenue, below for additional details.

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 and internal-use software 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.

Changes in Accounting Principle

See “Recently Issued Accounting Pronouncements” below for a description of accounting principle changes adopted during the nine months ended September 30, 2018 related to revenue and the statement of cash flows. There have been no other material changes to the Company’s significant accounting policies described in the 2017 Form 10-K.

Recently Issued Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update No. 2018-15, “Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract” (“ASU 2018-15”). ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in hosting arrangements that are service contracts and that include an internal-use software license with the requirement for capitalizing implementation costs incurred to develop or obtain internal-use software. The capitalized implementation costs are required to be expensed over the term of the hosting arrangement. The guidance also clarifies the presentation requirements for reporting such costs in the entity’s financial statements. The Company has elected to early adopt ASU 2018-15. The amendments will be applied prospectively to all implementation costs incurred after the date of adoption. The adoption of ASU 2018-15 is not expected to have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

In May 2017, the FASB issued Accounting Standards Update No. 2017-09, “Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting” (“ASU 2017-09”). ASU 2017-09 provides clarification on when modification accounting should

GRUBHUB INC.

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

be used for changes to the terms or conditions of a share-based payment award. This ASU does not change the accounting for modifications but clarifies that modification accounting guidance should only be applied if there is a change to the value, vesting conditions, or award classification and would not be required if the changes are considered non-substantive. ASU 2017-09 is effective for the Company beginning in the first quarter of 2018 on a prospective basis. The adoption of ASU 2017-09 has not had and is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). ASU 2016-15 adds or clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows with the intent of reducing diversity in practice related to eight types of cash flows including, among others, debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, and separately identifiable cash flows and application of the predominance principle. In addition, in November 2016, the FASB issued Accounting Standards Update No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash" ("ASU 2016-18"). ASU 2016-18 requires companies to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statement of cash flow. ASU 2016-15 and ASU 2016-18 were effective for and adopted by the Company beginning in the first quarter of 2018. The amendments were applied using a retrospective transition method to each period presented and impacted the Company's presentation of the consolidated statements of cash flows. The adoption of ASU 2016-15 and ASU 2016-18 had no material impact on the Company's consolidated financial position, results of operations or cash flows as the Company's restricted cash balances are immaterial.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). ASU 2016-13 introduces a new forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments, including trade receivables and held-to-maturity debt securities, which will require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. This ASU also expands disclosure requirements. ASU 2016-13 is effective for the Company beginning in the first quarter of 2020 and early adoption is permitted. The guidance will be applied using the modified-retrospective approach. The adoption of ASU 2016-13 is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). Under ASU 2016-02, a lessee will recognize in the statement of financial position a liability to make lease payments and a right-of-use asset for all leases (with the exception of short-term leases) at the commencement date. The recognition, measurement, and presentation of expenses and cash flows arising from a lease under ASU 2016-02 will not significantly change from current GAAP. ASU 2016-02 is effective beginning in the first quarter of 2019 with early adoption permitted. In July 2018, the FASB issued Accounting Standards Update No. 2018-11 "Leases (Topic 842): Targeted Improvements" ("ASU 2018-11"), which provides for the election of transition methods between the modified retrospective method and the optional transition relief method. The modified retrospective method is applied to all prior reporting periods presented with a cumulative-effect adjustment recorded in the earliest comparative period while the optional transition relief method is applied beginning in the period of adoption with a cumulative-effect adjustment recorded in the first quarter of 2019. The Company will apply the optional transition relief method and has elected the optional practical expedient package, which includes retaining the current classification of leases. The Company is currently evaluating the impact of adoption of ASU 2016-02 on its consolidated financial statements under ASU 2018-11. Management anticipates that it will result in a significant increase in the Company’s long-term assets and liabilities but will have no material impact to its results of operations or cash flows.

In May 2014, and in subsequent updates, the FASB issued ASC Topic 606, Revenue from Contracts with Customers, which supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific requirements. ASC Topic 606 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. ASC Topic 606 also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. ASC Topic 606 was effective for and adopted by the Company in the first quarter of 2018. The Company applied the modified retrospective approach to contracts which were not completed as of January 1, 2018. The adoption of these ASUs did not have and is not expected to have a material impact on the Company’s consolidated financial position, results of operations or cash flows or its business processes, systems and controls.

The adoption of ASC Topic 606 resulted in an increase in revenues of $0.1 million and $0.9 million for the three and nine months ended September 30, 2018, respectively, and primarily had the following impact on the Company’s financial statements:

- Beginning in January 1, 2018, the Company defers the incremental costs of obtaining contracts as contract acquisition assets resulting in a net decrease of $2.0 million and $6.6 million in sales and marketing expense in the condensed consolidated statements of operations for the three and nine months ended September 30, 2018, respectively, and corresponding increase in other assets on the condensed consolidated balance sheets. Contract acquisition assets are amortized to sales and marketing

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

expense in the consolidated statements of operations over the period in which services are expected to be provided to the customer, which is estimated to be approximately 4 years. Prior to the adoption of ASC Topic 606, the cost of obtaining a contract was recognized as it was incurred.

- Beginning in the first quarter of 2018, the Company recognizes revenue from estimated unredeemed gift cards that are not subject to unclaimed property laws over the expected customer redemption period, rather than when the likelihood of redemption became remote. The Company recorded a cumulative-effect adjustment to opening retained earnings as of January 1, 2018 of $0.9 million related to unredeemed gift cards, breakage income of $0.3 million and $0.9 million in revenues in the condensed consolidated statements of operations during the three and nine months ended September 30, 2018, respectively, and a corresponding decrease in other accruals of $2.0 million on the condensed consolidated balance sheets.
- Changes in the timing of revenue recognition under ASC Topic 606 related to incentives, refunds and adjustments resulted in a $0.1 million decrease and $0.1 million increase in revenues in the condensed consolidated statements of operations during the three and nine months ended September 30, 2018, respectively.
- The adoption of ASC Topic 606 had no impact to the Company's total net cash provided by or used in operations, investing or financing activities within the Company's condensed consolidated statement of cash flows for the nine months ended September 30, 2018.

See Note 3, Revenue, for additional details.

3. Revenue

Revenues are recognized when control of the promised goods or services is transferred to the customer, in the amount that reflects the consideration the Company expects to receive in exchange for those good or services.

The Company generates revenues primarily when diners place an order on the platform through its mobile applications, its websites, or through third-party websites that incorporate the Company's API or one of the Company's listed phone numbers. Restaurants pay a commission, typically a percentage of the transaction, on orders that are processed through the platform. Most of the restaurants on the Company's platform can choose their level of commission rate, at or above a base rate. A restaurant can choose to pay a higher rate that affects its prominence and exposure to diners on the platform. Additionally, restaurants that use the Company's delivery services pay an additional commission for the use of those services. The Company may also charge a delivery fee directly to the diner.

Revenues from online and phone pick-up and delivery orders are recognized when the orders are transmitted to the restaurants, including revenues for managed delivery services due to the simultaneous nature of the Company's delivery operations. The amount of revenue recognized by the Company is based on the arrangement with the related restaurant and is adjusted for any expected refunds or adjustments based on historical experience and any cash credits related to the transaction, including incentive offers provided to restaurants and diners. The Company also recognizes as revenue any fees charged to the diner for delivery services provided by the Company. Although the Company processes and collects the entire amount of the transaction with the diner, it records revenue for transmitting orders to restaurants on a net basis because the Company is acting as an agent for takeout orders, which are prepared by the restaurants. The Company is the principal in the transaction with respect to credit card processing and managed delivery services because it controls the respective services. As a result, costs incurred for processing the credit card transactions and providing delivery services are included in operations and support expense in the consolidated statements of operations.

The Company periodically provides incentive offers to restaurants and diners to use our platform. These promotions are generally cash credits to be applied against purchases. These incentive offers are recorded as a reduction in revenues, generally on the date the corresponding order revenue is recognized. For those incentives related to current orders that create an obligation to discount future orders, the Company allocates the incentives that are expected to be redeemed proportionally to current and future orders based on their relative expected transaction prices.

For most orders, diners use a credit card to pay for their meal when the order is placed. For these transactions, the Company collects the total amount of the diner's order net of payment processing fees from the payment processor and remits the net proceeds to the restaurant less commission. The Company generally accumulates funds and remits the net proceeds to the restaurants on at least a monthly basis, depending on the payment terms with the restaurant. The Company also accepts payment for orders via gift cards offered on its platform. For gift cards that are not subject to unclaimed property laws, the Company recognizes revenue from estimated unredeemed gift cards, based on its historical breakage experience, over the expected customer redemption period.

Certain governmental taxes are imposed on the products and services provided through the Company's platform and are included in the order fees charged to the diner and collected by the Company. Sales taxes are either remitted to the restaurant for payment or are paid directly to certain states. These fees are recorded on a net basis, and, as a result, are excluded from revenues.

GRUBHUB INC.

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

The Company also generates a small amount of revenues directly from companies that participate in our corporate ordering program and by selling advertising to third parties on our allmenus.com website. The Company does not anticipate that the foregoing will generate a material portion of our revenues in the foreseeable future.

During the three months ended September 30, 2018, the Company recognized a small amount of revenues from software and professional services, which are generally recognized ratably over the subscription period beginning on the date the software is available. Revenues for certain professional services may be recognized in full once the services are performed if they are distinct and separately identifiable.

Accounts Receivable

Accounts receivable primarily represent the net cash due from the Company's payment processor for cleared transactions and amounts owed from corporate customers, which are generally invoiced on a monthly basis. The carrying amount of the Company's receivables is reduced by an allowance for doubtful accounts that reflects management's best estimate of amounts that will not be collected based on historical loss experience and any current or forecasted specific risks.

Deferred Revenues

The Company's deferred revenues consist primarily of gift card liabilities and certain incentive liabilities. These amounts are included within other accruals on the consolidated balance sheets and are not material to the Company's consolidated financial position. The majority of gift cards and incentives issued by the Company are redeemed within a year.

Contract Acquisition Costs

The Company defers the incremental costs of obtaining contracts including certain commissions and bonuses and related payroll taxes as contract acquisition assets within other assets on the consolidated balance sheets. Contract acquisition assets are amortized using the straight-line method to sales and marketing expense in the consolidated statements of operations over the useful life of the contract, which is estimated to be approximately 4 years. During the three and nine months ended September 30, 2018, the Company deferred $2.4 million and $7.3 million, respectively, of contract acquisitions costs. During the three and nine months ended September 30, 2018, the Company amortized $0.4 million and $0.7 million, respectively, of related expense.

4. Acquisitions

2018 Acquisitions

On September 13, 2018, the Company acquired SCVNGR, Inc. d/b/a LevelUp ("LevelUp") for approximately $369.7 million, including $367.6 million of cash paid (net of cash acquired of $6.0 million), $2.6 million of other non-cash consideration and a net working capital adjustment receivable of $0.5 million. LevelUp is a leading provider of mobile diner engagement and payment solutions for national and regional restaurant brands. The acquisition of LevelUp is expected to simplify the Company's integrations with restaurants' systems, increase diner engagement and accelerate product development.

The Company assumed LevelUp employees' unvested incentive stock option ("ISO") awards as of the closing date. Approximately $2.6 million of the fair value of the assumed ISO awards granted to acquired LevelUp employees was attributable to the pre-combination services of the LevelUp awardees and was included in the $369.7 million purchase price. This amount is reflected within goodwill in the purchase price allocation. As of the acquisition date, post-combination expense of approximately $17.0 million is expected to be recognized related to the assumed ISO awards over the remaining post-combination service period.

The results of operations of LevelUp have been included in the Company's financial statements since September 13, 2018 but did not have a material impact on the Company's condensed consolidated results of operations for the three and nine months ended September 30, 2018.

The excess of the consideration transferred in the acquisition over the net amounts assigned to the fair value of the assets was recorded as goodwill, which represents the value of LevelUp's technology team and the ability to simplify integrations with restaurants on the Company's platform. The goodwill related to this acquisition of $295.5 million is not deductible for income tax purposes.

The assets acquired and liabilities assumed of LevelUp were recorded at their estimated fair values as of the closing date of September 13, 2018.

The following table summarizes the preliminary purchase price allocation acquisition-date fair values of the asset and liabilities acquired in connection with the LevelUp acquisition:

GRUBHUB INC.

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

	LevelUp (in thousands)
Accounts receivable	$ 6,201
Prepaid expenses and other current assets	1,396
Property and equipment	895
Restaurant relationships	10,217
Diner acquisition	3,912
Below-market lease intangible	2,205
Developed technology	20,107
Goodwill	295,488
Net deferred tax asset	32,267
Accounts payable and accrued expenses	(3,031)
Total purchase price net of cash acquired	$ 369,657
Net working capital adjustment receivable	530
Fair value of assumed ISOs attributable to pre-combination service	(2,594)
Net cash paid	$ 367,593

2017 Acquisitions

On October 10, 2017, the Company acquired all of the issued and outstanding equity interests of Eat24, LLC ("Eat24"), a wholly owned subsidiary of Yelp Inc., for approximately $281.8 million, including $281.4 million in net cash paid and $0.3 million of other non-cash consideration. Of such amount, $28.8 million will be held in escrow for an 18-month period after closing to secure the Company's indemnification rights under the purchase agreement. Eat24 provides online and mobile food ordering for restaurants and diners across the United States. The acquisition expanded the breadth and depth of the Company's national network of restaurant partners and active diners.

The Company granted RSU awards to acquired Eat24 employees in replacement of their unvested equity awards as of the closing date. Approximately $0.3 million of the fair value of the replacement RSU awards granted to acquired Eat24 employees was attributable to the pre-combination services of the Eat24 awardees and was included in the $281.8 million purchase price. This amount is reflected within goodwill in the purchase price allocation. As of the acquisition date, post-combination expense of approximately $4.1 million is expected to be recognized related to the replacement awards over the remaining post-combination service period.

On August 23, 2017, the Company acquired substantially all of the assets and certain expressly specified liabilities of A&D Network Solutions, Inc. and Dashed, Inc. (collectively, "Foodler"). The purchase price for Foodler was $51.2 million in cash, net of cash acquired of $0.1 million. Foodler is an independent online food-ordering company with an established diner base in the Northeast United States. The acquisition expanded the breadth and depth of the Company's restaurant network, active diners and delivery network.

The results of operations of Eat24 and Foodler have been included in the Company's financial statements since October 10, 2017 and August 23, 2017, respectively.

The excess of the consideration transferred in the acquisitions over the net amounts assigned to the fair value of the assets were recorded as goodwill, which represents the value of increasing the breadth and depth of the Company's network of restaurants and diners. The total goodwill related to the acquisitions of Eat24 and Foodler of $153.4

million is expected to be deductible for income tax purposes.

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

The assets acquired and liabilities assumed of Eat24 and Foodler were recorded at their estimated fair values as of the respective closing dates of October 10, 2017 and August 23, 2017. The following table summarizes the final purchase price allocation acquisition-date fair values of the assets and liabilities acquired in connection with the Eat24 and Foodler acquisitions:

	Eat24	Foodler	Total
	(in thousands)		
Cash	$40	$86	$126
Accounts receivable	8,267	307	8,574
Prepaid expenses and other current assets	221	—	221
Property and equipment	1,113	—	1,113
Restaurant relationships	126,232	35,217	161,449
Diner acquisition	35,226	1,354	36,580
Trademarks	2,225	74	2,299
Developed technology	2,559	1,955	4,514
Goodwill	135,955	17,452	153,407
Accounts payable and accrued expenses	(30,082)	(5,237)	(35,319)
Total purchase price plus cash acquired	281,756	51,208	332,964
Fair value of replacement RSUs attributable to pre-combination service	(274)	—	(274)
Cash acquired	(40)	(86)	(126)
Net cash paid	$281,442	$51,122	$332,564

Additional Information

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 restaurant relationships, diner acquisition, developed technology and trademarks as follows:

	Valuation Method		
	LevelUp	Foodler	Eat24
Restaurant relationships	With or without comparative business valuation	Multi-period excess earnings	Multi-period excess earnings
Diner acquisition	Cost to recreate	Cost to recreate	Cost to recreate
Developed technology	Multi-period excess earnings	Cost to recreate	Cost to recreate
Trademark	n/a	Relief from royalty	Relief from royalty

The fair value of the below market lease was measured based on the present value of the difference between the contractual amounts to be paid pursuant to the lease and an estimate of current fair market lease rates measured over the non-cancelable remaining term of the lease. 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 Company incurred certain expenses directly and indirectly related to acquisitions which were recognized in general and administrative expenses within the condensed consolidated statements of operations for the three months ended September 30, 2018 and 2017 of $2.6 million and $1.7 million, respectively, and for the nine months ended

September 30, 2018 and 2017 of $5.1 million and $3.6 million, respectively.

Pro Forma

The following unaudited pro forma information presents a summary of the operating results of the Company for the three and nine months ended September 30, 2018 and 2017 as if the acquisitions of LevelUp, Eat24 and Foodler had occurred as of January 1 of the year prior to acquisition:

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands, except per share data)			
Revenues	$255,777	$190,833	$746,545	$562,364
Net income	22,352	5,084	75,348	15,869
Net income per share attributable to common shareholders:				
Basic	$0.25	$0.06	$0.85	$0.18
Diluted	$0.24	$0.06	$0.82	$0.18

The pro forma adjustments that reflect the amortization that would have been recognized for intangible assets, elimination of transaction costs incurred, stock-based compensation expense for replacement awards, interest expense for transaction financings and other adjustments, as well as the pro forma tax impact of such adjustments for the three and nine months ended September 30, 2018 and 2017 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Depreciation and amortization	$(186)	$2,085	$(248)	$9,488
Transaction costs	(2,646)	(1,799)	(5,010)	846
Stock-based compensation	(458)	728	2,325	3,748
Interest expense	33	1,128	244	3,547
Other	—	1,571	—	4,401
Income tax (benefit) expense	964	(1,546)	796	(9,367)

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.

5. Marketable Securities

The amortized cost, unrealized gains and losses and estimated fair value of the Company's held-to-maturity marketable securities as of September 30, 2018 and December 31, 2017 were as follows:

	September 30, 2018			
				Estimated
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Cash and cash equivalents				
Commercial paper	$ 10,231	$ —	$ (12)	$ 10,219
Short-term investments				
Commercial paper	14,938	—	(112)	14,826
Corporate bonds	1,749	—	—	1,749
Total	$ 26,918	$ —	$ (124)	$ 26,794

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

	December 31, 2017			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
	(in thousands)			
Cash and cash equivalents				
Commercial paper	$39,979	$ —	$ (43)	$ 39,936
Corporate bonds	1,250	—	—	1,250
Short-term investments				
Commercial paper	21,480	—	(99)	21,381
Corporate bonds	2,125	—	(1)	2,124
Total	$64,834	$ —	$ (143)	$ 64,691

All of the Company's marketable securities were classified as held-to-maturity investments and have maturities within one year of September 30, 2018. Approximately $40 million of the Company's marketable securities matured during the nine months ended September 30, 2018, which was invested in other interest-bearing accounts upon maturity.

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 September 30, 2018 and December 31, 2017 were as follows:

	September 30, 2018					
	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	$25,045	$ (124)	$ —	$ —	$25,045	$ (124)
Total	$25,045	$ (124)	$ —	$ —	$25,045	$ (124)

	December 31, 2017					
	Less Than 12 Months		12 Months or Greater		Total	
	Estimated	Unrealized Loss	Estimated	Unrealized Loss	Estimated	Unrealized Loss

	Fair Value (in thousands)		Fair Value		Fair Value	
Commercial paper	$61,317	$ (142)	$ —	$ —	$61,317	$ (142)
Corporate bonds	3,374	(1)	—	—	3,374	(1)
Total	$64,691	$ (143)	$ —	$ —	$64,691	$ (143)

The Company recognized interest income during the three months ended September 30, 2018 and 2017 of $1.3 million and $0.5 million, respectively, and for the nine months ended September 30, 2018 and 2017 of $3.2 million and $1.5 million, respectively, within net interest (income) expense on the condensed consolidated statements of operations. During the three and nine months ended September 30, 2018 and 2017, the Company did not recognize any other-than-temporary impairment losses related to its marketable securities.

The Company's marketable securities are classified within Level 2 of the fair value hierarchy (see Note 14, Fair Value Measurement, for further details).

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

6. Goodwill and Acquired Intangible Assets

The components of acquired intangible assets as of September 30, 2018 and December 31, 2017 were as follows:

	September 30, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
	(in thousands)					
Restaurant relationships	$467,797	$ (96,321)	$ 371,476	$457,580	$ (76,852)	$ 380,728
Diner acquisition	44,159	(7,982)	36,177	40,247	(1,906)	38,341
Developed technology	28,630	(8,591)	20,039	8,523	(6,418)	2,105
Trademarks	2,225	(2,225)	—	2,225	(402)	1,823
Below-market lease intangible	2,206	(21)	2,185	—	—	—
Other	3,676	(2,362)	1,314	6,888	(4,008)	2,880
Total amortizable intangible assets	548,693	(117,502)	431,191	515,463	(89,586)	425,877
Indefinite-lived trademarks	89,676	—	89,676	89,676	—	89,676
Total acquired intangible assets	$638,369	$ (117,502)	$ 520,867	$605,139	$ (89,586)	$ 515,553

The gross carrying amount and accumulated amortization of the Company’s other intangible assets as of September 30, 2018 were adjusted by $3.2 million and $2.5 million, respectively, for certain assets that were no longer in use. Amortization expense for acquired intangible assets was $10.0 million and $6.4 million for the three months ended September 30, 2018 and 2017, respectively, and $31.1 million and $16.8 million for the nine months ended September 30, 2018 and 2017, respectively. Amortization of the acquired below-market lease intangible is recognized as rent expense within the condensed consolidated statements of operations.

The changes in the carrying amount of goodwill during the nine months ended September 30, 2018 were as follows:

	Goodwill	Accumulated Impairment Losses	Net Book Value
	(in thousands)		
Balance as of December 31, 2017	$589,862	$ —	$589,862
Acquisition of LevelUp	295,488	—	295,488
Balance as of September 30, 2018	$885,350	$ —	$885,350

During the nine months ended September 30, 2018, the Company recorded additions to acquired intangible assets of $36.4 million as a result of the acquisition of LevelUp. The components of the acquired intangible assets added during the nine months ended September 30, 2018 were as follows:

	Nine Months Ended September 30, 2018	
	Amount (in thousands)	Weighted-Average Amortization Period (years)
Developed technology	$20,107	6.0
Restaurant relationships	10,217	19.0
Diner acquisition	3,912	5.0
Below-market lease intangible	2,205	5.8
Total	$36,441	

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

Estimated future amortization expense of acquired intangible assets as of September 30, 2018 was as follows:

	(in thousands)
The remainder of 2018	$ 10,117
2019	38,485
2020	37,315
2021	37,304
2022	35,334
Thereafter	272,636
Total	$ 431,191

7. Property and Equipment

The components of the Company's property and equipment as of September 30, 2018 and December 31, 2017 were as follows:

	September 30, 2018	December 31, 2017
	(in thousands)	
Developed software	$78,332	$ 52,041
Computer equipment	44,896	31,601
Leasehold improvements	31,809	23,400
Furniture and fixtures	8,704	6,857
Purchased software and digital assets	3,581	2,881
Construction in progress	5,559	—
Property and equipment	172,881	116,780
Accumulated depreciation and amortization	(67,447)	(45,396)
Property and equipment, net	$105,434	$ 71,384

The Company recorded depreciation and amortization expense for property and equipment other than developed software of $5.7 million and $2.9 million for the three months ended September 30, 2018 and 2017, respectively, and $16.2 million and $8.0 million for the nine months ended September 30, 2018 and 2017, respectively.

The gross carrying amount and accumulated amortization of the Company’s leasehold improvements, developed software, furniture and fixtures and purchased software and digital assets as of September 30, 2018 were adjusted in aggregate by $8.6 million and $8.2 million, respectively, for certain assets that were no longer in use. The Company capitalized developed software costs of $10.8 million and $6.8 million for the three months ended September 30, 2018 and 2017, respectively, and $28.1 million and $18.9 million for the nine months ended September 30, 2018 and 2017, respectively. Amortization expense for developed software costs, recognized in depreciation and amortization in the condensed consolidated statements of operations, for the three months ended September 30, 2018 and 2017 was $5.3 million and $3.3 million, respectively, and $14.5 million and $8.3 million for the nine months ended September 30, 2018 and 2017, respectively.

8. Commitments and Contingencies

Legal

In August 2011, Ameranth, Inc. (“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 March 2012, Ameranth initiated eight additional actions for infringement of a 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

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

answers, Grubhub Holdings Inc. and Seamless North America, LLC denied infringement and interposed various defenses, including non-infringement, invalidity, unenforceability and inequitable conduct.

The consolidated district court case was stayed until January 2017, when Ameranth's motion to lift the stay and proceed on only the '077 patent was granted. In September 2018, the court granted summary judgment of unpatentability on the '077 patent and vacated the December 3, 2018 jury trial date for the claims against Grubhub Holdings Inc. and Seamless North America, LLC. 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 September 30, 2018, 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 status of the case 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 matter described above, from time to time, the Company is involved in various other legal proceedings arising from the normal course of business activities, including labor and employment claims, some of which relate to the alleged misclassification of independent contractors. In September 2015, a claim was brought in the United States District Court for the Northern District of California under the Private Attorneys General Act by an individual plaintiff on behalf of himself and seeking to represent other drivers and the State of California. The claim sought monetary penalties and injunctive relief for alleged violations of the California Labor Code based on the alleged misclassification of drivers as independent contractors. A decision was issued on February 8, 2018, and the court ruled in favor of the Company, finding that plaintiff was properly classified as an independent contractor. In March 2018, the plaintiff appealed this decision to the Ninth Circuit. The Company does not believe any of the foregoing claims will have a material impact on its consolidated financial statements. However, there is no assurance that any claim will not be combined into a collective or class action.

Indemnification

In connection with the merger of Seamless North America, LLC, Seamless Holdings Corporation and Grubhub Holdings Inc. in August 2013, the Company agreed to indemnify Aramark Holdings Corporation for negative income tax consequences associated with the October 2012 spin-off of Seamless Holdings Corporation 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.

9. Debt

The following table summarizes the carrying value of the Company's debt as of September 30, 2018 and December 31, 2017:

December 31, 2017

	September 30, 2018	
	(in thousands)	
Term loan	$121,875	$ 124,219
Revolving loan	175,000	50,000
Total debt	296,875	174,219
Less current portion	(6,250)	(3,906)
Less unamortized deferred debt issuance costs	(552)	(668)
Long-term debt	$290,073	$ 169,645

On October 10, 2017, the Company entered into a credit agreement which provides, among other things, for aggregate revolving loans up to $225 million and term loans in an aggregate principal amount of $125 million (the "Credit Agreement"). In addition, the Company may incur up to $150 million of incremental revolving loans or incremental revolving term loans pursuant to the terms and conditions of the Credit Agreement. The credit facility will be available to the Company until October 9, 2022. There have been no changes in the terms of the Credit Agreement during the nine months ended September 30, 2018.

During the nine months ended September 30, 2018, the Company borrowed $175.0 million of revolving loans under the Credit Agreement. The Company utilized the revolving loan proceeds to finance a portion of the purchase price and transaction costs in connection with the acquisition of LevelUp. During the nine months ended September 30, 2018, the Company made principal payments of $52.3 million from cash on hand. As of September 30, 2018, outstanding borrowings under the Credit Agreement were $296.9 million. The fair value of the Company's outstanding debt approximates its carrying value as of September 30, 2018 (see Note 14, Fair Value Measurement, for additional details). The Company was in compliance with the covenants of the Credit Agreement as of September 30, 2018. Additional capacity under the Credit Agreement may be used for general corporate purposes, including funding working capital and future acquisitions.

As of September 30, 2018, total unamortized debt issuance costs of $2.0 million were recorded as other assets and as a reduction of long-term debt on the condensed consolidated balance sheets in proportion to the borrowing capacities of the revolving and term loans.

Interest expense includes interest on outstanding borrowings, amortization of debt issuance costs and commitment fees on the undrawn portion available under the Credit Agreement. The Company recognized interest expense of $1.7 million and $0.2 million, during the three months ended September 30, 2018 and 2017, respectively, and $4.6 million and $0.6 million during the nine months ended September 30, 2018 and 2017, respectively.

10. Stock-Based Compensation

The Company has granted non-qualified and incentive stock options, restricted stock units and restricted stock awards under its incentive plans. 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-based Compensation Expense

The total stock-based compensation expense related to all stock-based awards was $14.2 million and $8.5 million during the three months ended September 30, 2018 and 2017, respectively, and $36.4 million and $23.9 million during the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018, $175.7 million of total unrecognized stock-based compensation expense is expected to be recognized over a weighted-average period of 3.0 years.

Excess tax benefits reflect the total realized value of the Company’s tax deductions from individual stock option exercise transactions and the vesting of restricted stock units in excess of the deferred tax assets that were previously recorded. During the three months ended September 30, 2018 and 2017, the Company recognized excess tax benefits from stock-based compensation of $7.6 million and $2.2 million, respectively, and $21.5 million and $5.7 million during the nine months ended September 30, 2018 and 2017, respectively, within income tax (benefit) expense on the condensed consolidated statements of operations and within cash flows from operating activities on the condensed consolidated statements of cash flows.

The Company capitalized stock-based compensation expense as website and software development costs of $2.6 million and $1.2 million during the three months ended September 30, 2018 and 2017, respectively, and $6.3 million and $3.3 million during the nine months ended September 30, 2018 and 2017, respectively.

Stock Options

The Company granted 584,305, including unvested ISOs assumed with the acquisition of LevelUp, and 618,899 stock options during the nine months ended September 30, 2018 and 2017, 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. Beginning in the first quarter of 2018, expected volatility is based on the historical and implied volatilities of the Company's own common stock. 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 calculation for option awards considers a combination of the Company's historical and estimated future exercise behavior. The risk-free rate for the period within the 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 nine months ended September 30, 2018 and 2017 were as follows:

	Nine Months Ended September 30,	
	2018	2017
Weighted-average fair value options granted	$65.86	$15.19
Average risk-free interest rate	2.55 %	1.65 %
Expected stock price volatility (a)	46.1 %	48.7 %
Dividend yield	None	None
Expected stock option life (years) (b)	3.64	4.00

(a) Prior to the first quarter of 2018, the expected stock price volatility was based on a combination of the historical and implied volatilities of comparable publicly-traded companies and the historical volatility of the Company's

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

own common stock due to its limited trading history as there was no active external or internal market for the Company's common stock prior to the Company's initial public offering in April 2014.

(b) The expected term for the LevelUp assumed ISO awards was calculated based on their respective remaining vesting periods as of the acquisition date.

Stock option awards as of December 31, 2017 and September 30, 2018, and changes during the nine months ended September 30, 2018, were as follows:

	Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value (thousands)	Weighted-Average Exercise Term (years)
Outstanding at December 31, 2017	2,705,849	$ 25.53	$ 125,197	7.28
Granted	584,305	68.74		
Forfeited	(115,035)	34.21		
Exercised	(487,317)	26.70		
Outstanding at September 30, 2018	2,687,802	34.34	280,279	7.11
Vested and expected to vest at September 30, 2018	2,682,769	34.28	279,912	7.10
Exercisable at September 30, 2018	1,415,269	$ 21.73	$ 165,427	6.10

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. The aggregate intrinsic value of assumed LevelUp ISOs as of September 30, 2018 was approximately $23.0 million. 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 stock options exercised during the three months ended September 30, 2018 and 2017 was $13.6 million and $5.6 million, respectively. The aggregate intrinsic value of awards exercised during the nine months ended September 30, 2018 and 2017 was $36.1 million and $13.7 million, respectively.

The Company recorded compensation expense for stock options of $4.5 million and $3.0 million for the three months ended September 30, 2018 and 2017, respectively, and $9.4 million and $8.9 million for the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018, total unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock options was $40.1 million and is expected to be recognized over a weighted-average period of 2.7 years, including post-combination expense of approximately $14.5 million expected to be recognized related to the assumed LevelUp ISO awards.

Restricted Stock Units

Non-vested restricted stock units as of December 31, 2017 and September 30, 2018, and changes during the nine months ended September 30, 2018 were as follows:

	Restricted Stock Units	
	Shares	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2017	2,454,801	$ 37.56
Granted	1,107,806	94.35
Forfeited	(292,409)	51.67
Vested	(796,579)	35.94
Outstanding at September 30, 2018	2,473,619	$ 61.84

Compensation expense related to restricted stock units was $9.7 million and $5.5 million during the three months ended September 30, 2018 and 2017, respectively, and $27.0 million and $15.0 million during the nine months ended September 30, 2018 and 2017, respectively. The aggregate fair value as of the vest date of restricted stock units that vested during the three months ended September 30, 2018 and 2017 was $26.3 million and $5.7 million, respectively, and $76.3 million and $19.9 million during the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018, $135.6 million of total unrecognized compensation cost, adjusted for estimated forfeitures, related to 2,458,380 non-vested restricted stock units expected to vest with weighted-average grant date fair values of $61.60 is expected to be recognized over a weighted-average period of 3.0 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.

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

11. Income Taxes

The Company’s effective tax rate was negative 5.7% and 25.4% during the three months ended September 30, 2018 and 2017, respectively, and 3.2% and 29.5% during the nine months ended September 30, 2018 and 2017, respectively. The income tax expense included the net impact of excess tax benefits for stock-based compensation of $7.6 million and $2.2 million for the three months ended September 30, 2018 and 2017, respectively, and $21.5 million and $5.7 million for the nine months ended September 30, 2018 and 2017, respectively (see Note 10, Stock-based Compensation, for additional details). Additionally, the federal corporate income tax rate decreased from 35% to 21% during the same periods as a result of the Tax Cuts and Jobs Act.

In July 2018, the examination in New York for corporate income tax returns for the tax years ended December 31, 2014, 2015 and 2016 was completed with no material findings. The Company does not expect any material additional tax liabilities, penalties and/or interest as a result of the audit.

12. Stockholders’ Equity

As of September 30, 2018 and December 31, 2017, the Company was authorized to issue two classes of stock: common stock and preferred stock.

Common Stock

Each holder of common stock has one vote per share of common stock held on all matters that are submitted for stockholder vote. At September 30, 2018 and December 31, 2017, there were 500,000,000 shares of common stock authorized. At September 30, 2018 and December 31, 2017, there were 90,598,259 and 86,790,624 shares issued and outstanding, respectively. The Company did not hold any shares as treasury shares as of September 30, 2018 or December 31, 2017.

On April 25, 2018, the Company issued and sold 2,820,464 shares of the Company’s common stock to Yum Restaurant Services Group, LLC (the “Investor”), a wholly owned subsidiary of Yum! Brands, Inc., for an aggregate purchase price of $200 million pursuant to an investment agreement dated February 7, 2018, by and between the Company and the Investor. The Company has used and expects to use the proceeds for general corporate purposes.

On January 22, 2016, the Company’s Board of Directors approved a program that authorizes the repurchase of up to $100 million of the Company’s common stock exclusive of any fees, commissions or other expenses relating to such repurchases through open market purchases or privately negotiated transactions at the prevailing market price at the time of purchase. The repurchase program was announced on January 25, 2016. The repurchased stock may be retired or held as authorized but unissued treasury shares. The repurchase authorizations do not obligate the Company to acquire any particular amount of common stock or adopt any particular method of repurchase and may be modified, suspended or terminated at any time at management's discretion. Repurchased and retired shares will result in an immediate reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted net income per share at the time of the transaction. During the nine months ended September 30, 2018, the Company did not repurchase any shares of its common stock.

Preferred Stock

The Company was authorized to issue 25,000,000 shares of preferred stock. There were no issued or outstanding shares of preferred stock as of September 30, 2018 or December 31, 2017.

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

The Company's equity as of December 31, 2017 and September 30, 2018, and changes during the nine months ended September 30, 2018, were as follows:

	(in thousands)
Balance at December 31, 2017	$1,117,816
Net income	83,631
Cumulative effect of change in accounting principle(a)	882
Currency translation	(392)
Stock-based compensation	42,755
Shares repurchased and retired to satisfy tax withholding upon vesting	(28,238)
Stock option exercises, net of withholdings and other	13,010
Stock-based compensation, assumed ISO awards	2,594
Issuance of common stock	200,000
Balance at September 30, 2018	$1,432,058

(a) See Note 2, Significant Accounting Policies, for additional details related to the impact of the adoption of ASC Topic 606 during the nine months ended September 30, 2018.

13. 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 and restricted stock units, 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 using the treasury stock method.

The sale of 2,820,464 shares of the Company's common stock to the Investor on April 25, 2018 resulted in an immediate increase in the outstanding shares used to calculate the weighted-average common shares outstanding for the nine months ended September 30, 2018 (see Note 12, Stockholders' Equity).

The following tables present the calculation of basic and diluted net income per share attributable to common stockholders for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30, 2018			Three Months Ended September 30, 2017		
	Income (Numerator)	Shares (Denominator)	Per Share	Income (Numerator)	Shares (Denominator)	Per Share

			Amount			Amount
	(in thousands, except per share data)					
Basic EPS						
Net income attributable to common stockholders	$22,745	90,494	$ 0.25	$12,988	86,449	$