GrubHub Inc.
Form 10-Q
November 06, 2014

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 September 30, 2014

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 October 31, 2014, 81,525,072 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.

(F/K/A GRUBHUB SEAMLESS INC.)

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 212,020	$ 86,542
Short term investments	65,736	—
Accounts receivable, less allowances for doubtful accounts	42,690	29,304
Deferred taxes, current	3,844	3,688
Prepaid expenses	3,116	2,625
Total current assets	327,406	122,159
PROPERTY AND EQUIPMENT:		
Property and equipment, net of depreciation and amortization	16,449	17,096
OTHER ASSETS:		
Other assets	3,610	2,328
Goodwill	352,788	352,788
Acquired intangible assets, net of amortization	257,864	268,441
Total other assets	614,262	623,557
TOTAL ASSETS	$ 958,117	$ 762,812
LIABILITIES, REDEEMABLE COMMON STOCK AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Restaurant food liability	$ 91,719	$ 78,245
Accounts payable	2,005	3,353
Accrued payroll	4,283	1,720
Taxes payable	249	1,768
Restructuring accrual	674	176
Other accruals	8,799	7,329
Total current liabilities	107,729	92,591
LONG TERM LIABILITIES:		
Deferred taxes, non-current	98,862	90,495

Other accruals	5,636	3,936
Total long term liabilities	104,498	94,431
Commitments and Contingencies		
Redeemable common stock, $0.0001 par value, no shares and 1,344,236 shares outstanding as of September 30, 2014 and December 31, 2013, respectively	—	18,415
STOCKHOLDERS' EQUITY:		
Series A Convertible Preferred Stock, $0.0001 par value. Authorized: 25,000,000 shares as of September 30, 2014 and December 31, 2013; issued and outstanding: no shares as of September 30, 2014 and 19,284,113 shares as of December 31, 2013; aggregate liquidation preference of $86,200 as of December 31, 2013	—	2
Common stock, $0.0001 par value. Authorized: 500,000,000 and 165,000,000 shares at September 30, 2014 and December 31, 2013, respectively; issued and outstanding: 81,042,800 and 53,757,437 shares as of September 30, 2014 and December 31, 2013, respectively	8	5
Accumulated other comprehensive income	18	132
Additional paid-in capital	675,806	500,356
Retained earnings	70,058	56,880
Total Stockholders' Equity	$ 745,890	$ 557,375
TOTAL LIABILITIES, REDEEMABLE COMMON STOCK AND STOCKHOLDERS' EQUITY	$ 958,117	$ 762,812

(See Notes to Unaudited Condensed Consolidated Financial Statements)

GRUBHUB INC.

(F/K/A GRUBHUB SEAMLESS INC.)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues	$61,941	$35,461	$180,560	$88,119
Costs and expenses:				
Sales and marketing	14,883	8,829	47,168	24,993
Operations and support	14,902	9,303	44,743	21,278
Technology (exclusive of amortization)	6,560	4,459	17,973	9,803
General and administrative	8,143	5,884	25,087	14,596
Depreciation and amortization	5,748	3,821	16,878	7,494
Total costs and expenses	50,236	32,296	151,849	78,164
Income before provision for income taxes	11,705	3,165	28,711	9,955
Provision for income taxes	5,252	1,111	15,213	4,822
Net income	6,453	2,054	13,498	5,133
Preferred stock tax distributions	—	(425)	(320)	(1,073)
Net income attributable to common stockholders	$6,453	$1,629	$13,178	$4,060
Net income per share attributable to common stockholders:				
Basic	$0.08	$0.04	$0.19	$0.11
Diluted	$0.08	$0.03	$0.17	$0.10
Weighted average shares used to compute net income per share attributable to common stockholders:				
Basic	79,426	45,072	70,893	35,936
Diluted	82,771	63,114	80,826	49,942

(See Notes to Unaudited Condensed Consolidated Financial Statements)

GRUBHUB INC.

(F/K/A GRUBHUB SEAMLESS INC.)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	$6,453	$2,054	$13,498	$5,133
OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign currency translation adjustments	(298)	272	(114)	47
COMPREHENSIVE INCOME	$6,155	$2,326	$13,384	$5,180

(See Notes to Unaudited Condensed Consolidated Financial Statements)

GRUBHUB INC.

(F/K/A GRUBHUB SEAMLESS INC.)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(UNAUDITED)

	Nine Months Ended September 30, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$13,498	$5,133
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	3,708	2,123
Provision for doubtful accounts	232	178
Loss on disposal of fixed assets	11	—
Deferred taxes	8,211	(1,971)
Intangible asset amortization	13,170	5,371
Tenant allowance amortization	(119)	(119)
Stock-based compensation	6,981	3,024
Deferred rent	16	(87)
Change in assets and liabilities, net of the effects of business acquisitions:		
Accounts receivable	(13,618)	(8,035)
Prepaid expenses and other assets	(1,773)	(1,827)
Accounts payable	(1,348)	1,262
Restaurant food liability	13,474	19,184
Accrued payroll	2,563	1,148
Other accruals	2,252	(2,784)
Net cash provided by operating activities	47,258	22,600
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash acquired in merger of GrubHub Holdings Inc.	—	13,266
Capitalized website and development costs	(2,396)	(1,939)
Purchases of property and equipment	(3,189)	(3,828)
Purchases of investments	(65,736)	—
Net cash provided by (used in) investing activities	(71,321)	7,499
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from the issuance of common stock	142,936	—
Proceeds from exercise of stock options	4,656	565
Excess tax benefit related to stock-based compensation	4,569	—
Taxes paid related to net settlements of stock-based compensation awards	(2,070)	—

Repurchases of common stock	(116)	(1,362)
Preferred stock tax distributions	(320)	(1,893)
Net cash provided by (used in) financing activities	149,655	(2,690)
Net change in cash and cash equivalents	125,592	27,409
Effect of exchange rates on cash	(114)	47
Cash and cash equivalents at beginning of year	86,542	41,161
Cash and cash equivalents at end of the period	$212,020	$68,617
SUPPLEMENTAL DISCLOSURE OF NON CASH ITEMS		
Fair value of common and preferred stock issued in acquisition of GrubHub Holdings Inc.	$—	$421,485
Cash paid for income taxes	1,324	2,584
Cashless exercise of stock options	1,053	—
Settlement of receivable through cashless acquisition of treasury shares in connection with the cashless exercise of stock options	(3,123)	—

(See Notes to Unaudited Condensed Consolidated Financial Statements)

GRUBHUB INC.

(F/K/A GRUBHUB SEAMLESS, INC.)

Notes to Condensed Consolidated Financial Statements

1. Organization and Reorganization

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 location through an online interface and the Company displays the menus and other relevant information for restaurants in its network. Orders may be placed directly online or over the phone at no cost to the diner. The Company charges the restaurant a per order commission that is largely fee based.

Initial Public Offering

On April 4, 2014, the Company completed an initial public offering (the "IPO") in which it issued and sold 4,000,000 shares of class A common stock at a public offering price of $26.00 per share. The Company received net proceeds of $94.9 million after deducting underwriting discounts and commissions of $6.5 million and other offering expenses of approximately $2.6 million. These expenses were recorded against the proceeds received from the IPO.

Certain selling stockholders offered an additional 3,405,614 shares of common stock in the IPO and also granted the underwriters an option to purchase up to 1,110,842 additional shares of common stock. The Company did not receive any proceeds from the sale of the shares sold by the selling stockholders.

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. Additionally, the put rights for the Company's redeemable common stock were terminated upon the closing of the IPO.

Follow-on Offering

On September 3, 2014, the Company completed a follow-on offering in which it issued and sold 1,250,000 shares of common stock at a public offering price of $40.25 per share. The Company received net proceeds of $48.0 million after deducting underwriting discounts and commissions of $1.9 million and other offering expenses of approximately $0.4 million. These expenses were recorded against the proceeds received from the follow-on offering.

Certain selling stockholders offered an additional 9,218,198 shares of common stock. These selling stockholders also granted the underwriters an option to purchase up to 1,570,229 additional shares of common stock, which was not exercised. The Company did not receive any proceeds from the sale of the shares sold by the selling stockholders.

The Company invested the funds received from the IPO and the follow-on offering in non-interest bearing accounts, short-term interest-bearing obligations and investment-grade investments.

Reorganization and History

On August 8, 2013, GrubHub Inc. acquired, through a series of transactions, all of the equity interests of each of Seamless North America, LLC, Seamless Holdings Corporation (“Seamless Holdings”) and GrubHub Holdings Inc. pursuant to that certain Reorganization and Contribution Agreement, dated as of May 19, 2013, by and among GrubHub Inc., Seamless North America, LLC, Seamless Holdings, GrubHub Holdings Inc. and the other parties thereto (the “Reorganization Agreement”). Following this transaction, the Company concluded that Seamless Holdings was deemed the acquirer for financial reporting purposes. See Note 3, Acquisitions, for additional details. Accordingly, the acquisition of GrubHub Holdings Inc. has been accounted for as a business combination. The results of operations of GrubHub Holdings Inc. have been included in the Company’s financial statements since August 9, 2013. In February 2014, GrubHub Seamless Inc. was renamed GrubHub Inc.

The financial position and results of operations of Seamless Holdings and Seamless North America, LLC have been included in the condensed consolidated financial statements for all periods presented.

GRUBHUB INC.

(F/K/A GRUBHUB SEAMLESS, INC.)

Notes to Condensed Consolidated Financial Statements (Continued)

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 Company's prospectus filed with the SEC pursuant to Rule 424(b) under the Securities Act of 1933 on September 5, 2014 (the "Prospectus"). All significant intercompany transactions have been eliminated in consolidation. Operating results for the three and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2014.

Marketable Securities

Marketable securities consist primarily of commercial paper and investment grade U.S. and non-U.S.-issued corporate debt securities with maturities within one year of the balance sheet date. Marketable securities with original maturities of three months or less are included in cash and cash equivalents and marketable securities with original maturities greater than three months, but less than one year, are included in short term investments on the balance sheet. The Company determines the classification of its marketable securities as available-for-sale or held-to-maturity at the time of purchase and reassesses these determinations at each balance sheet date. Debt securities are classified as held-to-maturity when the Company has the positive intent to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost and are periodically assessed for other-than-temporary impairment. The amortized cost of debt securities is adjusted for the amortization of premiums and accretion of discounts to maturity, which is recognized as interest income within general and administrative expenses in the condensed consolidated statements of operations. Interest income is recognized when earned.

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 and stock-based compensation. Actual results could differ from these estimates.

Reverse Stock Split Ratio

On April 2, 2014, the Company effected a 1-for-2 reverse stock split of its issued and outstanding common stock and preferred stock. Any fractional shares resulting from the reverse stock split were rounded up to the nearest whole share. All share and per-share amounts for all periods presented in these financial statements have been adjusted retroactively to reflect the reverse stock split.

There have been no material changes to the Company’s significant accounting policies described in the Prospectus.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“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.

In July 2013, the FASB issued Accounting Standards Update No. 2013-11 “Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists” (“ASU 2013-11”), which requires that a liability related to an unrecognized tax benefit be presented as a reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward that the entity intends to use and is available for settlement at the reporting date. ASU 2013-11 was effective for and adopted by the Company in the first quarter of 2014 and applied prospectively to unrecognized tax benefits that existed at the effective date. The adoption of ASU 2013-11 impacted the Company's financial statement presentation and disclosures, but otherwise did not impact the Company's condensed consolidated financial position, results of operations or cash flows.

3. Acquisitions

GrubHub Holdings Inc.

On August 8, 2013, the Company acquired all of the equity interests of each of Seamless North America, LLC, Seamless Holdings and GrubHub Holdings Inc. pursuant to the Reorganization Agreement. In February 2014, GrubHub, Inc. changed its name to GrubHub Holdings Inc. The Company issued 23,318,580 shares of common stock and 8,098,430 shares of preferred stock to GrubHub Holdings Inc. in exchange for all of GrubHub Holdings Inc.'s equity interests (the "Merger"). The Company concluded that Seamless Holdings was deemed the acquirer for financial reporting purposes based on key deciding factors such as a majority ownership and majority of the board of director seats. Accordingly, the acquisition of GrubHub Holdings Inc. has been accounted for as a business combination. The results of operations of GrubHub Holdings Inc. have been included in the Company's financial statements since August 9, 2013. GrubHub Holdings Inc. provides online food ordering through its website grubhub.com, and also operates allmenus.com, a website that stores and displays approximately 275,000 menus. The Merger has expanded the Company's existing markets and access to new customers and created revenue and cost synergies which management believes will contribute to future profits.

The fair value of the equity issued to GrubHub Holdings Inc. in connection with the Merger was approximately $421.5 million. The value of the equity was determined using the estimated fair value of the stock of GrubHub Holdings Inc. at the merger date based on a valuation of GrubHub Holdings Inc. performed by management. The assets acquired and liabilities assumed were recorded at their estimated fair values as of August 8, 2013. The fair value of the equity of $421.5 million included approximately $11.0 million related to the fair value of the replacement awards that were attributed to the pre-combination service period for GrubHub Holdings Inc. option holders. The fair value of the replacement awards was determined using the Black-Scholes option pricing model. Post combination expense of $12.5 million is expected to be recognized post-Merger for the unrecognized compensation expense related to GrubHub Holdings Inc. stock options. See Note 8, Stock-Based Compensation, for further details.

The excess of the consideration transferred in the acquisition over the net amounts assigned to the fair value of the assets acquired was recorded as goodwill, which represents the opportunity to expand existing markets and access new customers and to create revenue and cost synergies that management believes will contribute to future profits. The goodwill is not deductible for income tax purposes.

The Company incurred certain expenses directly and indirectly related to the Merger of $1.3 million and $4.7 million during the three and nine months ended September 30, 2013, respectively, which were recognized in general and administrative expenses within the condensed consolidated statements of operations.

GRUBHUB INC.

(F/K/A GRUBHUB SEAMLESS, INC.)

Notes to Condensed Consolidated Financial Statements (Continued)

The following table summarizes the August 8, 2013 acquisition-date fair value of the assets and liabilities acquired in connection with the GrubHub Holdings Inc. business combination:

	(in thousands)
Cash and cash equivalents	$ 13,266
Accounts receivable	2,108
Other identifiable assets	4,422
Customer and vendor relationships	167,450
Deferred tax asset	4,013
Deferred tax liability	(88,937)
Developed technology	5,143
Goodwill	239,346
Liabilities assumed	(10,602)
Trademarks	85,276
Total net assets acquired	$ 421,485

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 following unaudited pro forma information presents a summary of the operating results of the Company for the three and nine months ended September 30, 2013 as if GrubHub Inc. had acquired GrubHub Holdings Inc. as of January 1, 2013:

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
	(in thousands)	
Revenues	$41,035	$ 121,062
Net income	1,473	2,246

The pro forma adjustments reflect the additional amortization that would have been recognized for the intangible assets, replacement stock option awards compensation cost for services performed after the Merger, elimination of transaction costs incurred and pro forma tax adjustments for the three and nine months ended September 30, 2013 as follows:

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
	(in thousands)	
Amortization of intangible assets	$1,141	$ 6,475
Stock-based compensation	573	2,997
Transaction costs	(1,701)	(9,131)
Income tax expense (benefit)	17	(2,750)

The unaudited pro forma revenues 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 Merger 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.

GRUBHUB INC.

(F/K/A GRUBHUB SEAMLESS, INC.)

Notes to Condensed Consolidated Financial Statements (Continued)

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 September 30, 2014 were as follows:

	September 30, 2014			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
	(in thousands)			
Cash and cash equivalents				
Commercial paper	$8,999	$ —	$ (1)	$ 8,998
Corporate bonds	600	—	—	600
Short term investments				
Commercial paper	24,228	—	(8)	24,220
Corporate bonds	41,508	2	(24)	41,486
Total	$75,335	$ 2	$ (33)	$ 75,304

All of the Company’s marketable securities were classified as held-to-maturity investments and have maturities within one year of September 30, 2014.

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, 2014 were as follows:

	September 30, 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	$33,218	$ (9)	$ —	$ —	$33,218	$ (9)
Corporate bonds	32,756	(24)	—	—	32,756	(24)
Total	$65,974	$ (33)	$ —	$ —	$65,974	$ (33)

During the three months ended September 30, 2014, the Company did not recognize any other-than-temporary impairment losses related to its marketable securities. The Company did not have any marketable securities other than money market funds 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 September 30, 2014 and December 31, 2013 were as follows:

	September 30, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
	(in thousands)		
Developed technology	$5,143	$ (1,963)	$3,180
Customer and vendor relationships, databases	191,979	(26,971)	165,008
Total amortizable intangible assets	197,122	(28,934)	168,188
Indefinite-lived trademarks	89,676	—	89,676
Total acquired intangible assets	$286,798	$ (28,934)	$257,864

GRUBHUB INC.

(F/K/A GRUBHUB SEAMLESS, INC.)

Notes to Condensed Consolidated Financial Statements (Continued)

	December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
	(in thousands)		
Developed technology	$5,143	$ (677)	$4,466
Customer and vendor relationships, databases	191,979	(17,680)	174,299
Total amortizable intangible assets	197,122	(18,357)	178,765
Indefinite-lived trademarks	89,676	—	89,676
Total acquired intangible assets	$286,798	$ (18,357)	$268,441

Amortization expense for acquired intangible assets was $3.6 million and $2.3 million for the three months ended September 30, 2014 and 2013, respectively, and $10.6 million and $3.4 million for the nine months ended September 30, 2014 and 2013, respectively.

There were no changes in the carrying amount of goodwill for the nine months ended September 30, 2014.

Estimated future amortization expense of acquired intangible assets as of September 30, 2014 was as follows:

	(in thousands)
The remainder of 2014	$ 3,525
2015	14,102
2016	13,344
2017	12,068
2018	12,068
Thereafter	113,081
Total	$ 168,188

6. Property and Equipment

The components of the Company’s property and equipment as of September 30, 2014 and December 31, 2013 were as follows:

	September 30, 2014	December 31, 2013
	(in thousands)	
Computer equipment	$12,204	$9,739

Furniture and fixtures	2,530	2,176
Developed software	16,406	13,930
Purchased software	2,129	2,124
Leasehold improvement	6,474	6,120
Property and equipment	39,743	34,089
Accumulated amortization and depreciation	(23,294)	(16,993)
Property and equipment, net	$16,449	$17,096

The Company recorded depreciation and amortization expense for property and equipment other than developed software for the three months ended September 30, 2014 and 2013 of $1.5 million and $0.5 million, respectively, and $4.2 million and $2.1 million for the nine months ended September 30, 2014 and 2013, respectively.

The Company capitalized developed software costs of $1.3 million and $0.5 million for the three months ended September 30, 2014 and 2013, respectively, and $2.4 million and $1.9 million for the nine months ended September 30, 2014 and 2013, 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, 2014 and 2013 was $0.7 million and $1.0 million, respectively, and $2.1 million and $2.0 million for the nine months ended September 30, 2014 and 2013, respectively.

GRUBHUB INC.

(F/K/A GRUBHUB SEAMLESS, INC.)

Notes to Condensed Consolidated Financial Statements (Continued)

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 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.

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 September 30, 2014, 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. As of September 30, 2014, the Company had reserved $0.2 million for such litigation, which included an aggregate reserve of $0.6 million less an expected insurance recovery of $0.4 million.

Indemnification

In connection with the Merger, 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, including its solicitation of acquirers to purchase the Company prior to October 29, 2014, and in certain other 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. This amount represents the service vesting requirements for identified employees required to work for various periods beyond the communication date, including through the expected closure date of the facility of November 30, 2014, and related lease termination costs. The Company estimates total restructuring costs to be incurred will be approximately $1.2 million, including expense of $0.5 million recognized during the three months ended September 30, 2014 related to the termination of the Sandy, Utah office lease agreement. For the three and nine months ended September 30, 2014, restructuring expense of $0.7 million and $1.2 million, respectively, was recognized in general and administrative expenses in the condensed consolidated statements of operations.

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Notes to Condensed Consolidated Financial Statements (Continued)

The following table summarizes the Company's restructuring activity during the nine months ended September 30, 2014:

	(in thousands)
Restructuring accrual balance at December 31, 2013	$ 176
Restructuring expense	1,162
Cash payments	(664)
Restructuring accrual balance at September 30, 2014	$ 674

8. Stock-Based Compensation

As part of the Reorganization Agreement, the Company was required to replace GrubHub Holdings Inc.'s share-based payment awards. The fair value of the replacement awards attributable to pre-combination services at the time of the Merger was approximately $11.0 million, which was included as additional consideration transferred in the business combination in the total purchase price of $421.5 million. The fair value of the replacement options attributable to post combination services was approximately $12.5 million and will be recognized as compensation cost in the Company's post-Merger consolidated financial statements over the remaining vesting period.

The Company granted 1,838,073 and 3,669,958 stock options during the nine months ended September 30, 2014 and 2013, 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 historical volatilities of comparable publicly traded companies. 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 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 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, 2014 and 2013 were as follows:

	Nine Months Ended September 30,	
	2014	2013
Weighted average fair value options granted	$13.54	$7.96
Average risk-free interest rate	1.99 %	1.40 %
Expected stock price volatilities(a)	50.4 %	50.7 %
Dividend yield	None	None
Expected stock option life (years)	6.28	5.20

a) There was no active external or internal market for the Company's shares until April of 2014. Thus, it was not possible to estimate the expected volatility of the Company's share price in estimating fair value of options granted. As a substitute for such volatility, the Company used the historical volatility of comparable companies.

Stock option awards as of December 31, 2013 and September 30, 2014, and changes during the nine months ended September 30, 2014, were as follows:

	Options	Weighted Average Exercise Price	Average Intrinsic Value (thousands)	Weighted Average Exercise Term (years)
Outstanding at December 31, 2013	7,669,553	$ 4.08	$ 56,844	8.29
Granted	1,838,073	16.66		
Forfeited	(713,754)	5.94		
Exercised	(1,674,905)	3.48		
Outstanding at September 30, 2014	7,118,967	7.29	192,800	8.00
Vested and expected to vest at September 30, 2014	5,588,472	6.32	156,604	7.84
Exercisable at September 30, 2014	2,932,418	$ 4.02	$ 88,612	7.45

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 on September 30, 2014 and December 31, 2013, respectively, 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 and nine months ended September 30, 2014 was $35.7 million and $47.3 million, respectively. The aggregate intrinsic value of awards exercised during the three and nine months ended September 30, 2013 was $0.8 million and $0.9 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 of $2.3 million and $1.8 million for the three months ended September 30, 2014 and 2013, respectively, and $7.0 million and $3.0 million for the nine months ended September 30, 2014 and 2013, respectively. As of September 30, 2014, total unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock options was $20.0 million and is expected to be recognized over a weighted average period of 2.97 years.

Excess Tax Benefits

During the nine months ended September 30, 2014, the Company reported excess tax benefits as a decrease in cash flows from operations and an increase in cash flows from financing activities of $4.6 million. There were no excess tax benefits during the nine months ended September 30, 2013. 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. The Company has elected to use the with-and-without method in determining the order in which tax attributes are utilized. As a result, the Company will only recognize a tax benefit for stock-based awards in additional paid-in capital if an incremental tax benefit is realized after all other tax attributes currently available to the Company have been utilized.

9. Stockholders' Equity

As of September 30, 2014 and December 31, 2013, the Company was authorized to issue two classes of stock: common stock and Series A Preferred 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. The Company entered into a stockholders agreement in 2013 with certain stockholders. The agreement prevented those stockholders from transferring their shares without the consent of a majority of the stockholders.

On April 4, 2014, the Company completed the IPO in which the Company issued and sold 4,000,000 shares of common stock at a public offering price of $26.00 per share. The Company received net proceeds of $94.9 million after deducting underwriting discounts and commissions of $6.5 million and other offering expenses of approximately $2.6 million. Upon the closing of the IPO, the stockholder's agreement ceased to be in effect.

On September 3, 2014, the Company completed a follow-on offering in which it issued and sold 1,250,000 shares of common stock at a public offering price of $40.25 per share. The Company received net proceeds of $48.0 million after deducting underwriting discounts and commissions of $1.9 million and other offering expenses of approximately $0.4 million. These expenses were recorded against the proceeds received from the follow-on offering.

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. Upon liquidation, the common stock was junior to the rights and preferences of the Series A Preferred Stock as of December 31, 2013. At September 30, 2014 and December 31, 2013, there were 500,000,000 and 165,000,000 shares of common stock authorized, respectively. At September 30, 2014 and December 31, 2013, there were 81,042,800 and 53,757,437 shares issued and outstanding, respectively. The Company did not hold any shares as treasury shares as of September 30, 2014 or December 31, 2013.

Series A Preferred Stock

The Company was authorized to issue 25,000,000 shares of preferred stock as of September 30, 2014 and December 31, 2013. Upon the closing of the 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. There were no issued or outstanding shares of preferred stock as of September 30, 2014.

As of December 31, 2013, the 19,284,113 outstanding shares of Series A Preferred Stock had a liquidation preference of an amount per share equal to the original Series A Preferred Stock issue price of approximately $86.2 million.

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Notes to Condensed Consolidated Financial Statements (Continued)

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.

As of December 31, 2013, there were 1,344,236 shares of common stock with put rights. As the redemption price was equivalent to the fair value of the instrument, the Company adjusted the carrying value of the redeemable common stock to its fair value with an adjustment to equity. The fair value of the redeemable common stock was $18.4 million at December 31, 2013. The Company had an annual redemption limit of $4.0 million.

The Company's equity as of December 31, 2013 and September 30, 2014, and changes during the nine months ended September 30, 2014, were as follows:

	(in thousands)
Balance at December 31, 2013	$ 557,375
Net income	13,498
Currency translation	(114)
Termination of put rights of redeeemable common stock, in connection with the IPO	34,950
Issuance of common stock, net of issuance costs	142,936
Change in fair value of redeemable common stock	(16,535)
Stock-based compensation	7,061
Tax benefit related to stock-based compensation	4,569
Stock option exercises, net of withholdings and other	5,709
Preferred stock tax distributions	(320)
Common stock repurchases	(3,239)
Balance at September 30, 2014	$ 745,890

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, 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 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 September 30, 2014 and 2013:

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except per share data)					
Net income	$6,453			$2,054		
Preferred stock tax distributions	—			(425)		
Basic EPS						
Net income attributable to common stockholders	6,453	79,426	$ 0.08	1,629	45,072	$ 0.04
Effect of Dilutive Securities						
Preferred stock	—	—		425	15,902	
Stock options	—	3,345		—	2,140	
Diluted EPS						
Net income attributable to common stockholders	$6,453	82,771	$ 0.08	$2,054	63,114	$ 0.03

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Notes to Condensed Consolidated Financial Statements (Continued)

The following table presents the calculation of basic and diluted net income per share attributable to common stock holders for the nine months ended September 30, 2014 and 2013:

	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except per share data)					
Net income	$13,498			$5,133		
Preferred stock tax distributions	(320)			(1,073)		