

GrubHub Inc.
Form 10-Q
November 08, 2016

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, 2016

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

Chicago, Illinois (Address of principal executive offices) (877) 585-7878	60602 (Zip code)
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(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 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 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 (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

As of November 4, 2016, 85,592,803 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, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 177,838	\$ 169,293
Short term investments	118,743	141,448
Accounts receivable, less allowances for doubtful accounts	65,729	42,051
Prepaid expenses	6,264	3,482
Total current assets	368,574	356,274
PROPERTY AND EQUIPMENT:		
Property and equipment, net of depreciation and amortization	43,398	19,082
OTHER ASSETS:		
Other assets	4,873	3,105
Goodwill	437,009	396,220
Acquired intangible assets, net of amortization	318,431	285,567
Total other assets	760,313	684,892
TOTAL ASSETS	\$ 1,172,285	\$ 1,060,248
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Restaurant food liability	\$ 78,321	\$ 64,326
Accounts payable	9,532	8,189
Accrued payroll	6,103	4,841
Taxes payable	785	426
Other accruals	16,054	11,830
Total current liabilities	110,795	89,612
LONG TERM LIABILITIES:		
Deferred taxes, non-current	105,642	87,584
Other accruals	6,245	5,456
Total long term liabilities	111,887	93,040
Commitments and contingencies		
STOCKHOLDERS' EQUITY:		
Series A Convertible Preferred Stock, \$0.0001 par value. Authorized: 25,000,000 shares as of September 30, 2016 and December 31, 2015; issued and outstanding: no shares as of September 30, 2016 and December 31, 2015.	—	—
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Common stock, \$0.0001 par value. Authorized: 500,000,000 shares at September 30, 2016 and December 31, 2015; issued and outstanding: 85,490,296 and 84,979,869 shares as of September 30, 2016 and December 31, 2015, respectively		
Accumulated other comprehensive loss	(1,641)	(604)
Additional paid-in capital	796,414	759,292
Retained earnings	154,821	118,900
Total Stockholders' Equity	\$949,603	\$ 877,596
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,172,285	\$ 1,060,248

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

GRUBHUB INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(UNAUDITED)

	Three Months		Nine Months Ended	
	Ended September 30,		September 30,	
	2016	2015	2016	2015
Revenues	\$123,461	\$85,662	\$355,874	\$261,866
Costs and expenses:				
Sales and marketing	26,499	21,443	80,687	66,229
Operations and support	44,346	27,637	120,029	74,941
Technology (exclusive of amortization)	11,006	8,412	31,765	23,980
General and administrative	11,754	10,203	37,501	29,049
Depreciation and amortization	9,089	6,299	25,282	21,377
Total costs and expenses	102,694	73,994	295,264	215,576
Income before provision for income taxes	20,767	11,668	60,610	46,290
Provision for income taxes	7,585	4,801	24,690	19,501
Net income attributable to common stockholders	\$13,182	\$6,867	\$35,920	\$26,789
Net income per share attributable to common stockholders:				
Basic	\$0.15	\$0.08	\$0.42	\$0.32
Diluted	\$0.15	\$0.08	\$0.42	\$0.31
Weighted-average shares used to compute net income per share attributable to common stockholders:				
Basic	85,217	84,583	84,889	83,827
Diluted	86,424	85,867	85,957	85,599

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

GRUBHUB INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$13,182	\$6,867	\$35,920	\$26,789
OTHER COMPREHENSIVE LOSS				
Foreign currency translation adjustments	(245)	(266)	(1,037)	(163)
COMPREHENSIVE INCOME	\$12,937	\$6,601	\$34,883	\$26,626

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

GRUBHUB INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(UNAUDITED)

	Nine Months Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$35,920	\$26,789
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	5,567	3,846
Provision for doubtful accounts	719	565
Deferred taxes	(1,908)	(2,793)
Amortization of intangible assets	19,715	17,531
Stock-based compensation	17,755	9,378
Deferred rent	980	(73)
Other	(292)	553
Change in assets and liabilities, net of the effects of business acquisitions:		
Accounts receivable	(22,299)	(6,912)
Prepaid expenses and other assets	(2,874)	(1,456)
Restaurant food liability	11,361	(31,444)
Accounts payable	(4,592)	(633)
Accrued payroll	582	(2,150)
Other accruals	1,799	389
Net cash provided by operating activities	62,433	13,590
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(187,456)	(154,268)
Proceeds from maturity of investments	210,567	122,856
Capitalized website and development costs	(8,859)	(4,961)
Purchases of property and equipment	(17,083)	(2,866)
Acquisitions of businesses, net of cash acquired	(65,849)	(55,687)
Acquisition of other intangible assets	(250)	—
Other cash flows from investing activities	(540)	—
Net cash used in investing activities	(69,470)	(94,926)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchases of common stock	(14,774)	—
Proceeds from exercise of stock options	11,814	10,689
Excess tax benefits related to stock-based compensation	22,114	21,987
Taxes paid related to net settlement of stock-based compensation awards	(1,205)	—
Payments for debt issuance costs	(1,477)	—
Net cash provided by financing activities	16,472	32,676
Net change in cash and cash equivalents	9,435	(48,660)
Effect of exchange rates on cash	(890)	(108)
Cash and cash equivalents at beginning of year	169,293	201,796
Cash and cash equivalents at end of the period	\$177,838	\$153,028

SUPPLEMENTAL DISCLOSURE OF NON CASH ITEMS

Fair value of common stock issued for acquisitions	\$—	\$15,980
Cash paid for income taxes	5,757	—
Capitalized property, equipment and website and development costs in		
accounts payable at period end	5,911	414

(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

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, 2015 filed with the SEC on February 26, 2016 (the “2015 Form 10-K”). All significant intercompany transactions have been eliminated in consolidation. Operating results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2016.

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.

There have been no material changes to the Company's significant accounting policies described in the 2015 Form 10-K.

Recently Issued Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (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. ASU 2016-15 is effective for the Company beginning in fiscal year 2018 and early adoption is permitted. The amendments should be applied using a retrospective transition method to each period presented. The adoption of ASU 2016-15 may impact the Company's disclosures but is otherwise not expected to have a material impact on its consolidated financial position, results of operations or cash flows.

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 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.

GRUBHUB INC.

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

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, “Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”), which simplifies several aspects of the accounting for share-based payment transactions. Under ASU 2016-09, excess tax benefits and tax deficiencies are recognized as income tax expense or benefit in the income statement. ASU 2016-09 also provides entities with the option to elect an accounting policy to continue to estimate forfeitures of stock-based awards over the service period (current GAAP) or account for forfeitures when they occur. Under ASU 2016-09, previously unrecognized excess tax benefits should be recognized using a modified retrospective transition. In addition, amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement, as well as changes in the computation of weighted-average diluted shares outstanding, should be applied prospectively. The Company believes the most significant impact of the adoption of ASU 2016-09 to the Company’s consolidated financial statements will be to recognize certain tax benefits or tax shortfalls upon a restricted-stock award or unit vesting or stock option exercise relative to the deferred tax asset position established in the provision for income taxes line of the consolidated statement of operations instead of to consolidated stockholders’ equity. During the nine months ended September 30, 2016, and the years ended 2015 and 2014, the Company recorded \$22.1 million, \$27.8 million and \$13.0 million to consolidated stockholders’ equity as tax benefits related to stock-based compensation, respectively. ASU 2016-09 is effective beginning in the first quarter of 2017 with early adoption permitted. The Company plans to adopt ASU 2016-09 during the first quarter of 2017.

In February 2016, the FASB issued ASU 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 (the lease liability) 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. The Company will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently evaluating the impact of adoption of ASU 2016-02 on its consolidated financial statements, but anticipates that it will result in a significant increase in its long-term assets and liabilities and minimal impact to its results of operations and cash flows.

In September 2015, the FASB issued Accounting Standards Update No. 2015-16, “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments” (“ASU 2015-16”), which eliminates the requirement to account for adjustments identified during the measurement-period in a business combination retrospectively. Instead, the acquirer must recognize measurement-period adjustments during the period in which they are identified, including the effect on earnings of any amounts that would have been recorded in previous periods had the purchase accounting been completed at the acquisition date. ASU 2015-16 was effective for and adopted by the Company in the first quarter of 2016. The adoption of ASU 2015-16 eliminates costs related to retrospective application of any measurement-period adjustments that may be identified, but has not had a material impact on the Company’s consolidated financial position, results of operations or cash flows.

In April 2015, the FASB issued Accounting Standards Update 2015-05, “Intangibles -Goodwill and Other – Internal Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement” (“ASU 2015-05”), which provides guidance on accounting for fees paid in a cloud computing arrangement. Under ASU 2015-05, if a cloud computing arrangement includes a software license, the software license element should be accounted for consistent with the purchase of other software licenses. If the cloud computing arrangement does not

include a software license, it should be accounted for as a service contract. ASU 2015-05 was effective for and adopted by the Company in the first quarter of 2016. The Company elected to apply ASU 2015-05 prospectively; however, its adoption did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In April 2015, the FASB issued ASU No. 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). ASU 2015-03 simplifies the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Under the previous practice, debt issuance costs were recognized as a deferred charge (that is, an asset). The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. In August 2015, the FASB issued ASU 2015-15 "Interest - Imputed Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements" ("ASU 2015-15"), which clarifies that the guidance in ASU 2015-03 does not apply to line-of-credit arrangements. According to ASU 2015-15, debt issuance costs related to line-of-credit arrangements will continue to be deferred and presented as an asset and subsequently amortized ratably over the term of the arrangement. The amendments in ASU 2015-03 and clarifications of ASU 2015-15 are effective for the Company in the first quarter of 2016. The Company entered into a credit agreement on April 29, 2016 (see Note 8, Debt, for additional details). The adoption of ASU 2015-03 and ASU 2015-15 have not had a material impact on the Company's consolidated financial position, results of operations or cash flows.

GRUBHUB INC.

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

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"), which supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific requirements. ASU 2014-09 establishes a five-step revenue recognition process in which an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. In August 2015, the FASB issued Accounting Standards Update 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date", which defers the effective date of ASU 2014-09 by one year. In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)" ("ASU 2016-08"), which clarifies the implementation guidance on principal versus agent considerations in the new revenue recognition standard. ASU 2016-08 clarifies how an entity should identify the unit of accounting (i.e. the specified good or service) for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements. In April 2016, the FASB issued Accounting Standards Update No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing" ("ASU 2016-10"), which clarifies the implementation guidance on identifying performance obligations and licensing. ASU 2016-10 reduces the cost and complexity of identifying promised goods or services and improves the guidance for determining whether promises are separately identifiable. In May 2016, the FASB issued Accounting Standards Update No. 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients" ("ASU 2016-12"), which amends the guidance in the new revenue standard on collectability, non-cash consideration, presentation of sales tax, and transition. ASU 2014-09, ASU 2016-08, ASU 2016-10 and ASU 2016-12 will be effective for the Company in the first quarter of 2018. Management is currently evaluating the impact the adoption of these ASUs will have on the Company's consolidated financial position, results of operations or cash flows. The Company currently anticipates applying the modified retrospective approach when adopting these ASUs.

3. Acquisitions

2016 Acquisitions

On May 5, 2016, the Company acquired all of the issued and outstanding stock of KMLEE Investments Inc. and LABite.com, Inc. (collectively, "LABite"). The purchase price for LABite was \$65.8 million in cash, net of cash acquired of \$2.6 million. LABite provides online and mobile food ordering and delivery services for restaurants in numerous western and southwestern cities of the United States. The acquisition has expanded the Company's restaurant, diner and delivery networks.

The results of operations of LABite have been included in the Company's financial statements since May 5, 2016 and have not had a material impact on the Company's consolidated results of operations as of September 30, 2016.

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 restaurant delivery services and enhance the breadth and depth of the Company's restaurant networks. Of the \$40.8 million of goodwill related to the

acquisition, \$4.4 million is expected to be deductible for income tax purposes.

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GRUBHUB INC.

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

The assets acquired and liabilities assumed of LABite were recorded at their estimated fair values as of the closing date of May 5, 2016. The following table summarizes the preliminary purchase price allocation acquisition-date fair values of the assets and liabilities acquired in connection with the LABite acquisition:

	(in thousands)
Cash and cash equivalents	\$ 2,566
Accounts receivable	2,320
Prepaid expenses and other assets	68
Customer and vendor relationships	46,513
Property and equipment	257
Developed technology	1,731
Goodwill	40,789
Trademarks	440
Accounts payable and accrued expenses	(6,303)
Net deferred tax liability	(19,966)
Total purchase price plus cash acquired	68,415
Cash acquired	(2,566)
Net cash paid	\$ 65,849

2015 Acquisitions

On February 4, 2015, the Company acquired assets of DiningIn.com, Inc. and certain of its affiliates (collectively, “DiningIn”), and, on February 27, 2015, the Company acquired the membership units of Restaurants on the Run, LLC (“Restaurants on the Run”) and on December 4, 2015, the Company acquired the membership units of Mealport USA LLC (“Delivered Dish”). Aggregate consideration for the three acquisitions was approximately \$73.9 million in cash and 407,812 restricted shares of the Company’s common stock, or an estimated total transaction value of approximately \$89.9 million based on the Company’s closing share price on the respective closing dates, net of cash acquired of \$0.7 million. DiningIn, Restaurants on the Run and Delivered Dish provide delivery options for individual diners, group orders and corporate catering. The acquisitions have expanded and enhanced the Company’s service offerings for its customers, particularly in the delivery space.

The results of operations of DiningIn, Restaurants on the Run and Delivered Dish have been included in the Company’s financial statements since February 4, 2015, February 27, 2015 and December 4, 2015, respectively.

The excess of the consideration transferred in the acquisitions over the net amounts assigned to the fair value of the assets acquired was recorded as goodwill, which represents the opportunity to expand restaurant delivery services and enhance the breadth and depth of the Company’s restaurant networks. The goodwill related to these acquisitions of \$43.4 million is expected to be deductible for income tax purposes.

GRUBHUB INC.

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

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

	(in thousands)
Cash and cash equivalents	\$ 698
Accounts receivable	2,331
Prepaid expenses and other assets	325
Customer and vendor relationships	44,259
Property and equipment	161
Developed technology	4,676
Goodwill	43,432
Trademarks	529
Accounts payable and accrued expenses	(5,826)
Total purchase price plus cash acquired	90,585
Cash acquired	(698)
Fair value of common stock issued	(15,980)
Net cash paid	\$ 73,907

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 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 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, 2016 and 2015 of \$0.2 million and \$0.1 million, respectively, and for the nine months ended September 30, 2016 and 2015 of \$1.7 million and \$0.8 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, 2016 and 2015 as if the acquisitions had occurred as of January 1 of the year prior to acquisition:

	Three Months		Nine Months Ended	
	Ended September 30, 2016	2015	September 30, 2016	2015
	(in thousands, except per share data)			
Revenues	\$123,461	\$92,826	\$364,834	\$286,395
Net income	13,334	6,680	34,897	28,170
Net income per share attributable to common shareholders:				
Basic	\$0.16	\$0.08	\$0.41	\$0.34
Diluted	\$0.15	\$0.08	\$0.41	\$0.33

GRUBHUB INC.

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

The pro forma adjustments reflect the amortization that would have been recognized for intangible assets, elimination of transaction costs incurred and pro forma tax adjustments for three and nine months ended September 30, 2016 and 2015 as follows:

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	2016	2015	2016	2015
	(in thousands)			
Depreciation and amortization	\$—	\$914	\$1,364	\$3,296
Transaction costs	(256)	(107)	(1,729)	(807)
Income tax expense (benefit)	105	(344)	151	(1,061)

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

4. Marketable Securities

The amortized cost, unrealized gains and losses and estimated fair value of the Company's held-to-maturity marketable securities as of September 30, 2016 and December 31, 2015 were as follows:

	September 30, 2016			Estimated
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Cash and cash equivalents				
Commercial paper	\$35,871	\$ —	\$ (21)	\$35,850
Short term investments				
Commercial paper	100,652	—	(219)	100,433
Corporate bonds	18,091	4	(1)	18,094
Total	\$154,614	\$ 4	\$ (241)	\$154,377

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December 31, 2015

Estimated

	Amortized Cost (in thousands)	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents				
Commercial paper	\$22,744	\$ —	\$ (5)	\$22,739
Short term investments				
Commercial paper	90,949	—	(102)	90,847
Corporate bonds	41,503	9	(39)	41,473
U.S. government agency bonds	8,996	8	—	9,004
Total	\$164,192	\$ 17	\$ (146)	\$164,063

All of the Company's marketable securities were classified as held-to-maturity investments and have maturities within one year of September 30, 2016.

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GRUBHUB INC.

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

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, 2016 and December 31, 2015 were as follows:

	September 30, 2016					
	Less Than 12 Months		12 Months or Greater		Total	
	Estimated		Estimated		Estimated	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)					
Commercial paper	\$ 136,283	\$ (240)	\$ —	\$ —	\$ 136,283	\$ (240)
Corporate bonds	4,882	(1)	—	—	4,882	(1)
Total	\$ 141,165	\$ (241)	\$ —	\$ —	\$ 141,165	\$ (241)

	December 31, 2015					
	Less Than 12 Months		12 Months or Greater		Total	
	Estimated		Estimated		Estimated	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)					
Commercial paper	\$ 113,586	\$ (107)	\$ —	\$ —	\$ 113,586	\$ (107)
Corporate bonds	31,952	(39)	—	—	31,952	(39)
Total	\$ 145,538	\$ (146)	\$ —	\$ —	\$ 145,538	\$ (146)

During the three and nine months ended September 30, 2016 and 2015, 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 13, Fair Value Measurement, for further details).

5. Goodwill and Acquired Intangible Assets

The components of acquired intangible assets as of September 30, 2016 and December 31, 2015 were as follows:

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	September 30, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
	(in thousands)					
Developed technology	\$10,640	\$ (9,097)	\$ 1,543	\$9,819	\$ (6,288)	\$ 3,531
Customer and vendor relationships, databases	282,751	(56,242)	226,509	236,238	(44,192)	192,046
Trademarks	969	(474)	495	529	(215)	314
Other	250	(42)	208	—	—	—
Total amortizable intangible assets	294,610	(65,855)	228,755	246,586	(50,695)	195,891
Indefinite-lived trademarks	89,676	—	89,676	89,676	—	89,676
Total acquired intangible assets	\$384,286	\$ (65,855)	\$ 318,431	\$336,262	\$ (50,695)	\$ 285,567

The gross carrying amount and accumulated amortization of the Company's developed technology intangible assets were adjusted by \$0.9 million as of June 30, 2016 for certain fully amortized assets that are no longer in use.

Amortization expense for acquired intangible assets was \$5.4 million and \$4.7 million for the three months ended September 30, 2016 and 2015, respectively, and \$16.1 million and \$13.5 million for the nine months ended September 30, 2016 and 2015, respectively.

GRUBHUB INC.

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

Changes in the carrying amount of goodwill during the nine months ended September 30, 2016 were as follows:

	Goodwill (in thousands)	Accumulated Impairment Losses	Net Book Value
Balance as of December 31, 2015	396,220	—	396,220
Acquisitions	40,789	—	40,789
Balance as of September 30, 2016	\$ 437,009	\$	— \$437,009

During the nine months ended September 30, 2016, the Company recorded additions to acquired intangible assets of \$48.7 million as a result of the acquisition of LABite. The components of the acquired intangibles assets added during the nine months ended September 30, 2016 were as follows:

	Nine Months Ended September 30, 2016 (in thousands)	Weighted-Average Amortization Period (years)
Customer and vendor relationships	\$ 46,513	20.0
Developed technology	1,731	1.0
Trademarks	440	2.0
Total	\$ 48,684	

Estimated future amortization expense of acquired intangible assets as of September 30, 2016 was as follows:

	(in thousands)
The remainder of 2016	\$ 5,023
2017	18,021
2018	16,937
2019	15,389
2020	14,987
Thereafter	158,398

Total	\$ 228,755
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6. Property and Equipment

The components of the Company's property and equipment as of September 30, 2016 and December 31, 2015 were as follows:

	September 30, 2016	December 31, 2015
	(in thousands)	
Computer equipment	\$15,466	\$ 10,080
Delivery equipment	1,904	555
Furniture and fixtures	4,776	2,092
Developed software	21,758	11,129
Purchased software and digital assets	1,050	361
Leasehold improvements	15,547	6,050
Construction in progress	2,547	—
Property and equipment	63,048	30,267
Accumulated amortization and depreciation	(19,650)	(11,185)
Property and equipment, net	\$43,398	\$ 19,082

The Company recorded depreciation and amortization expense for property and equipment other than developed software of \$2.3 million and \$1.1 million for the three months ended September 30, 2016 and 2015, respectively, and \$5.6 million and \$4.5 million for the nine months ended September 30, 2016 and 2015, respectively.

GRUBHUB INC.

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

The Company capitalized developed software costs of \$4.1 million and \$2.0 million for the three months ended September 30, 2016 and 2015, respectively, and \$10.8 million and \$5.5 million for the nine months ended September 30, 2016 and 2015, 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, 2016 and 2015 was \$1.4 million and \$0.5 million, respectively, and \$3.6 million and \$3.4 million for the nine months ended September 30, 2016 and 2015, respectively. During the nine months ended September 30, 2015, the Company recorded approximately \$1.9 million of accelerated depreciation and amortization expense related to certain developed and purchased software and computer equipment assets that were disposed of with the migration of nearly all of the Seamless consumer diner traffic to a new web and mobile platform during the second quarter of 2015.

7. 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 September 2011, Ameranth amended its complaint in the ’1810 action to also allege patent infringement against Seamless North America, LLC. 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 August and September 2016, the Patent and Trademark Office (“PTO”) issued final written decisions determining the infringement claims by Ameranth of the ’850 and ’325 patents are invalid. Ameranth has appealed those PTO decisions.

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.

No trial date has been set for this case and the consolidated district court case remains stayed. 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, 2016, 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. For example, in the ordinary course of business, the Company receives labor and employment claims, including those related to misclassification of independent contractors. The Company does not believe these claims will have a material impact on its consolidated financial statements. However, there is no assurance that these claims 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.

GRUBHUB INC.

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

8. Debt

On April 29, 2016, the Company entered into a secured revolving credit facility (the “Credit Agreement”), which provides for aggregate revolving loans up to \$185.0 million, subject to an increase of up to an additional \$30 million under certain conditions. The credit facility will be available to the Company until April 28, 2021. There were no borrowings outstanding under the Credit Agreement as of September 30, 2016.

Under the Credit Agreement, borrowings bear interest, at the Company’s option, based on LIBOR or an alternate base rate plus a margin. In the case of LIBOR loans the margin ranges between 1.25% and 2.00% and, in the case of alternate base rate loans, between 0.25% and 1.0%, in each case, based upon the Company’s consolidated leverage ratio (as defined in the Credit Agreement). The Company is also required to pay a commitment fee on the undrawn portion available under the revolving loan facility of between 0.20% and 0.30% per annum, based upon the Company’s consolidated leverage ratio.

The Company incurred origination fees at closing of the Credit Agreement of \$1.5 million, which were recorded in other assets on the condensed consolidated balance sheet and will be amortized over the term of the facility.

The Credit Agreement will be used for general corporate purposes, including funding working capital and acquisitions. The Company’s obligations under the Credit Agreement are secured by a lien on substantially all of the tangible and intangible property of the Company and by a pledge of all of the equity interests of the Company’s domestic subsidiaries.

The Credit Agreement contains customary covenants that, among other things, require the Company to satisfy certain financial covenants and may restrict the Company’s ability to incur additional debt, pay dividends and make distributions, make certain investments and acquisitions, create liens, transfer and sell material assets and merge or consolidate. Non-compliance with one or more of the covenants could result in the amounts outstanding, if any, under the Credit Agreement becoming immediately due and payable and termination of the commitments. The Company was in compliance with the covenants as of September 30, 2016.

9. Stock-Based Compensation

The Company has granted 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 \$5.4 million and \$3.1 million during the three months ended September 30, 2016 and 2015, respectively, and \$17.8 million and \$9.4 million during the nine months ended September 30, 2016 and 2015, respectively. During the nine months ended September 30, 2016 and 2015, the Company reported excess tax benefits as a decrease in cash flows from operations and an increase in

cash flows from financing activities of \$22.1 million and \$22.0 million, respectively. Excess tax benefits reflect the total of the individual stock option exercise transactions and vesting of restricted stock awards and restricted stock units in which the reduction to the Company's income tax liability is greater than the deferred tax assets that were previously recorded. The Company capitalized stock-based compensation expense as website and software development costs of \$0.6 million and \$0.1 million during the three months ended September 30, 2016 and 2015, respectively, and \$1.4 million and \$0.3 million during the nine months ended September 30, 2016 and 2015, respectively. As of September 30, 2016, \$52.9 million of total unrecognized stock-based compensation expense is expected to be recognized over a weighted-average period of 3.1 years. The total unrecognized stock-based compensation expense to be recognized in future periods as of September 30, 2016 does not consider the effect of stock-based awards that may be granted in subsequent periods.

Stock Options

The Company granted 131,816 and 1,496,861 stock options during the nine months ended September 30, 2016 and 2015, respectively. The fair value of each stock option award was estimated based on the assumptions below as of the grant date using the Black-Scholes-Merton option pricing model. Expected volatilities are based on a combination of the historical and implied volatilities of comparable publicly-traded companies and the historical volatility of the Company's own common stock due to its limited trading history 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. 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 risk-free rate for the period within the contractual life of

GRUBHUB INC.

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

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, 2016 and 2015 were as follows:

	Nine Months Ended September 30,	
	2016	2015
Weighted-average fair value options granted	\$ 10.74	\$ 16.48
Average risk-free interest rate	1.41 %	1.46 %
Expected stock price volatilities	50.3 %	47.0 %
Dividend yield	None	None
Expected stock option life (years)	5.78	6.06

Stock option awards as of December 31, 2015 and September 30, 2016, and changes during the nine months ended September 30, 2016, were as follows:

	Options	Aggregate Intrinsic Weighted-Average		
		Weighted-Average Value	(thousands)	Exercise Term (years)
Outstanding at December 31, 2015	5,078,297	\$ 19.66	\$ 41,107	8.21
Granted	131,816	22.54		
Forfeited	(795,391)	26.39		
Exercised	(1,227,543)	9.63		
Outstanding at September 30, 2016	3,187,179	21.96	67,059	7.85
Vested and expected to vest at September 30, 2016	2,675,453	21.11	58,572	7.85
Exercisable at September 30, 2016	1,069,786	\$ 16.61	\$ 28,246	6.79

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the fair value of the common stock and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their in-the-money options on each date. This amount will change in future periods based on the fair value of the Company's stock and the number of options outstanding. The aggregate intrinsic value of awards exercised during the three months ended September 30, 2016 and 2015 was \$13.8 million and \$4.6 million, respectively. The aggregate intrinsic value of awards exercised during the nine months ended September 30, 2016 and 2015 was \$26.9 million and \$82.6 million, respectively.

The Company recorded compensation expense for stock options of \$2.5 million and \$2.3 million for the three months ended September 30, 2016 and 2015, respectively, and \$9.5 million and \$7.8 million for the nine months ended September 30, 2016 and 2015, respectively. As of September 30, 2016, total unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock options was \$19.5 million and is expected to be recognized over a weighted-average period of 2.6 years.

Restricted Stock Units and Restricted Stock Awards

Non-vested restricted stock units and restricted stock awards as of December 31, 2015 and September 30, 2016, and changes during the nine months ended September 30, 2016 were as follows:

	Restricted Stock Units		Restricted Stock Awards	
	Weighted-Average		Weighted-Average	
	Grant Date Fair		Grant Date Fair	
	Shares	Value	Shares	Value
Outstanding at December 31, 2015	888,483	\$ 27.85	67,744	\$ 42.01
Granted	952,239	28.35	—	—
Forfeited	(178,305)	27.19	—	—
Vested	(52,810)	37.32	(67,744)	42.01
Outstanding at September 30, 2016	1,609,607	\$ 27.91	—	\$ —

Compensation expense recognized related to restricted stock awards was \$0.6 million during the three months ended September 30, 2015, and \$1.7 million and \$1.3 million during the nine months ended September 30, 2016 and 2015, respectively. There were no non-vested restricted stock awards or related expense during the three months ended September 30, 2016. During the three and nine

GRUBHUB INC.

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

months ended September 30, 2016, compensation expense related to restricted stock units was \$2.9 million and \$6.6 million, respectively. Compensation expense related to restricted stock units was \$0.2 million and \$0.3 million for the three and nine months ended September 30, 2015, respectively. The aggregate fair value as of the vest date of restricted stock units that vested during the three months ended September 30, 2016 was \$0.7 million. The aggregate fair value as of the vest date of restricted stock awards and restricted stock units that vested during the nine months ended September 30, 2016 was \$1.7 million and \$1.5 million, respectively. As of September 30, 2016, \$33.4 million of total unrecognized compensation cost, adjusted for estimated forfeitures, related to 1,609,607 non-vested restricted stock units with weighted-average grant date fair values of \$27.91 is expected to be recognized over a weighted-average period of 3.3 years. As of September 30, 2016, there were no remaining non-vested restricted stock awards or related unrecognized compensation cost. 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.

10. Income Taxes

As of September 30, 2016, the Company is under routine examination by the New York State Department of Taxation and Finance for the 2013, 2014 and 2015 income tax years. The Company does not believe, but cannot predict with certainty whether, there will be any additional tax liabilities, penalties and/or interest as a result of the audit.

During the nine months ended September 30, 2016, the Illinois Department of Revenue completed an audit of the Company's corporate income tax returns for the tax years ended December 31, 2013 and 2012 and proposed no changes. Therefore, the Company does not expect any additional tax liabilities, penalties and/or interest as a result of the audit.

11. Stockholders' Equity

As of September 30, 2016 and December 31, 2015, the Company was authorized to issue two classes of stock: common stock and Series A 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, 2016 and December 31, 2015, there were 500,000,000 shares of common stock authorized. At September 30, 2016 and December 31, 2015, there were 85,490,296 and 84,979,869 shares issued and outstanding, respectively. The Company did not hold any shares as treasury shares as of September 30, 2016 or December 31, 2015.

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, 2016, the Company repurchased and retired 724,473 shares of its common stock at a weighted-average share price of \$20.37, or an aggregate of \$14.8 million.

Series A 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, 2016 or December 31, 2015.

GRUBHUB INC.

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

The Company's equity as of December 31, 2015 and September 30, 2016, and changes during the nine months ended September 30, 2016, were as follows:

	(in thousands)
Balance at December 31, 2015	\$ 877,596
Net income	35,920
Currency translation	(1,037)
Stock-based compensation	19,175
Repurchases of common stock	(14,774)
Shares repurchased and retired to satisfy tax withholding upon vesting	(1,205)
Tax benefit related to stock-based compensation	22,114
Stock option exercises, net of withholdings and other	11,814
Balance at September 30, 2016	\$ 949,603

12. Earnings Per Share Attributable to Common Stockholders

Basic earnings per share is computed by dividing net income attributable to common stockholders by the weighted-average number of common shares outstanding during the period without consideration for common stock equivalents. Diluted net income per share attributable to common stockholders is computed by dividing net income by the weighted-average number of common shares outstanding during the period and potentially dilutive common stock equivalents, including stock options, restricted stock units and restricted stock awards, except in cases where the effect of the common stock equivalent would be antidilutive. Potential common stock equivalents consist of common stock issuable upon exercise of stock options and vesting of restricted stock units and restricted stock awards using the treasury stock method.

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, 2016 and 2015:

	Three Months Ended September 30, 2016			Three Months Ended September 30, 2015		
	Income	Shares	Per Share	Income	Shares	Per Share
	(Numerator)/(Denominator) Amount			(Numerator)/(Denominator) Amount		
	(in thousands, except per share data)					
Basic EPS						
Net income attributable to common stockholders	\$ 13,182	85,217	\$ 0.15	\$ 6,867	84,583	\$ 0.08
Effect of Dilutive Securities						

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Stock options	—	776	—	1,267
Restricted stock units and restricted stock awards	—	431	—	17
Diluted EPS				
Net income attributable to common stockholders	\$13,182	86,424	\$ 0.15	\$6,867 85,867 \$ 0.08

	Nine Months Ended September 30, 2016			Nine Months Ended September 30, 2015		
	Income	Shares	Per Share	Income	Shares	Per Share
	(Numerator)(Denominator) Amount			(Numerator)(Denominator) Amount		
	(in thousands, except per share data)					
Basic EPS						
Net income attributable to common stockholders	\$35,920	84,889	\$ 0.42	\$26,789	83,827	\$ 0.32
Effect of Dilutive Securities						
Stock options	—	837	—	—	1,761	—
Restricted stock units and restricted stock awards	—	231	—	—	11	—
Diluted EPS						
Net income attributable to common stockholders	\$35,920	85,957	\$ 0.42	\$26,789	85,599	\$ 0.31

During the nine months ended September 30, 2016, the Company repurchased and retired 724,473 shares of its common stock. The repurchases resulted in a reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted net earnings per share from the dates of the repurchases. See Note 11, Stockholders' Equity, for additional details.

GRUBHUB INC.

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

The number of shares of common stock underlying stock-based awards excluded from the calculation of diluted net income per share attributable to common stockholders because their effect would have been antidilutive for the three and nine months ended September 30, 2016 and 2015 were as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Anti-dilutive shares underlying stock-based awards:				
Stock options	916,154	1,725,267	916,154	1,517,215
Restricted stock awards	—	—	—	—
Restricted stock units	178,551	88,063	178,551	—

13. Fair Value Measurement

Certain assets and liabilities are required to be recorded at fair value on a recurring basis. Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. The standards also establish a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The accounting guidance for fair value measurements prioritizes valuation methodologies based on the reliability of the inputs in the following three-tier value hierarchy:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Assets and liabilities valued based on observable market data for similar instruments, such as quoted prices for similar assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity; instruments valued based on the best available data, some of which is internally developed, and considers risk premiums that a market participant would require.

The Company applied the following methods and assumptions in estimating its fair value measurements: the Company's commercial paper, investments in corporate and U.S. government agency bonds and certain money market funds are classified as Level 2 within the fair value hierarchy because they are valued using inputs other than quoted prices in active markets that are observable directly or indirectly. Accounts receivable and accounts payable approximate fair value due to their generally short-term maturities.

The following table presents the balances of assets measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015:

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	September 30, 2016			December 31, 2015		
	Level	Level	Level	Level	Level	Level
	1	Level 2	3	1	Level 2	3
	(in thousands)					
Money market funds	\$—	\$547	\$	—	\$—	\$ 1,083
Commercial paper	—	136,283	—	—	113,586	—
Corporate bonds	—	18,094	—	—	41,473	—
U.S. government agency bonds	—	—	—	—	9,004	—
Total	\$—	\$154,924	\$	—	\$—	\$ 165,146

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Company is required to record certain assets and liabilities at fair value on a nonrecurring basis, generally as a result of acquisitions. See Note 3, Acquisitions, for further discussion of the fair value of assets and liabilities associated with acquisitions.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following should be read in conjunction with the condensed consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q and with the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015 (“2015 Form 10-K”) filed with the United States Securities and Exchange Commission (the “SEC”) on February 26, 2016. In addition to historical condensed consolidated financial information, the following discussion contains forward-looking statements that reflect the Company’s plans, estimates, and beliefs. Actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report on Form 10-Q, including those set forth in “Cautionary Statement Regarding Forward-Looking Statements” below.

Company Overview

Grubhub Inc. and its wholly-owned subsidiaries (collectively referred to as the “Company,” “Grubhub,” “we,” “us,” and “our”) the leading online and mobile platform for restaurant pick-up and delivery orders, which the Company refers to as takeout. The Company connects more than 45,000 local restaurants with hungry diners in more than 1,100 cities across the United States and is focused on transforming the takeout experience. In certain markets, the Company also provides delivery services to restaurants on its platform that do not have their own delivery operations. As of September 30, 2016, the Company was providing delivery services in over 60 markets across the country. For restaurants, Grubhub generates higher margin takeout orders at full menu prices. The Grubhub platform empowers diners with a “direct line” into the kitchen, avoiding the inefficiencies, inaccuracies and frustrations associated with paper menus and phone orders. The Company has a powerful two-sided network that creates additional value for both restaurants and diners as it grows. The Company charges restaurants a per-order commission that is primarily percentage-based. Most of the restaurants on the Company’s platform can choose their level of commission rate, at or above the minimum rate, to affect their relative priority in the Company’s sorting algorithms, with restaurants paying higher commission rates generally appearing higher in the search order than restaurants paying lower commission rates. Additionally, restaurants that use the Company’s delivery services pay an additional commission on the transaction for the use of those services.

Acquisitions

On May 5, 2016, the Company acquired all of the issued and outstanding capital stock of KMLEE Investments Inc. and LABite.com, Inc. (collectively, “LABite”), a restaurant delivery service. In February 2015, the Company acquired the assets of DiningIn.com, Inc. and certain of its affiliates (collectively, “DiningIn”) and the membership units of Restaurants on the Run, LLC (“Restaurants on the Run”), and, in December 2015, the Company acquired the membership units of Mealport USA LLC d/b/a Delivered Dish (“Delivered Dish”). For a description of the Company’s acquisition of these restaurant delivery services, see Note 3, Acquisitions.

Key Business Metrics

Within this Management’s Discussion and Analysis of Results of Operations, the Company discusses key business metrics, including Active Diners, Daily Average Grubs and Gross Food Sales. The Company’s key business metrics are defined as follows:

• **Active Diners.** The number of unique diner accounts from which an order has been placed in the past twelve months through the Company’s platform. Some diners could have more than one account if they were to set up multiple accounts using a different e-mail address for each account. As a result, it is possible that the Active Diner metric may count certain diners more than once during any given period.

Daily Average Grubs. The number of revenue generating orders placed on the Company’s platform divided by the number of days for a given period.

Gross Food Sales. The total value of food, beverages, taxes, prepaid gratuities, and any delivery fees processed through the Company’s platform. The Company includes all revenue generating orders placed on its platform in this metric; however, revenues are only recognized for the Company’s commissions from the transaction, which are a percentage of the total Gross Food Sales for such transaction.

The Company’s key business metrics were as follows for the periods presented:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
Active Diners	7,685,000	6,431,000	19 %	7,685,000	6,431,000	19 %
Daily Average Grubs	267,500	211,500	26 %	268,800	222,000	21 %
Gross Food Sales (in millions)	\$735.0	\$553.6	33 %	\$2,180.4	\$1,711.1	27 %

The Company experienced significant growth across all of its key business metrics, Active Diners, Daily Average Grubs and Gross Food Sales, during the three and nine months ended September 30, 2016 as compared to the same periods in the prior year. Growth in all metrics was primarily attributable to increased product and brand awareness by diners largely as a result of marketing efforts and word-of-mouth referrals, better restaurant choices for diners in our markets, technology and product improvements, as well as, to a lesser extent, an increase from the inclusion of results from recent acquisitions.

Results of Operations

Three Months Ended September 30, 2016 and 2015

The following table sets forth the Company's results of operations for the three months ended September 30, 2016 as compared to the same period in the prior year presented in dollars and as a percentage of revenues:

	Three Months Ended September 30, 2016		2015			\$ Change	% Change	
	Amount	% of revenue	Amount	% of revenue				
	(in thousands, except percentages)							
Revenues	\$123,461	100 %	\$85,662	100 %		\$37,799	44 %	
Costs and expenses:								
Sales and marketing	26,499	21 %	21,443	25 %		5,056	24 %	
Operations and support	44,346	36 %	27,637	32 %		16,709	60 %	
Technology (exclusive of amortization)	11,006	9 %	8,412	10 %		2,594	31 %	
General and administrative	11,754	10 %	10,203	12 %		1,551	15 %	
Depreciation and amortization	9,089	7 %	6,299	7 %		2,790	44 %	
Total costs and expenses ^(a)	102,694	83 %	73,994	86 %		28,700	39 %	
Income before provision for income taxes	20,767	17 %	11,668	14 %		9,099	78 %	
Provision for income taxes	7,585	6 %	4,801	6 %		2,784	58 %	
Net income attributable to common stockholders	\$13,182	11 %	\$6,867	8 %		\$6,315	92 %	

NON-GAAP FINANCIAL MEASURES:

Adjusted EBITDA ^(b)	\$35,466	29 %	\$21,463	25 %		\$14,003	65 %	
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(a) Totals of percentage of revenues may not foot due to rounding.

(b) For an explanation of Adjusted EBITDA as a measure of the Company's operating performance and a reconciliation to net earnings, see "Non-GAAP Financial Measure—Adjusted EBITDA."

Revenues

Revenues increased by \$37.8 million, or 44%, for the three months ended September 30, 2016 compared to the same period in 2015. The increase was primarily related to growth in Active Diners, which increased from 6.4 million to 7.7 million at the end of each period, driving an increase in Daily Average Grubs to 267,500 during the three months ended September 30, 2016 from 211,500 Daily Average Grubs during the same period in 2015. The growth in Active

Diners and Daily Average Grubs was due primarily to marketing efforts, investments in the Company's platform to drive more orders, and organic growth from word-of-mouth referrals. In addition, revenue increased during the three months ended September 30, 2016 compared to the same period in 2015 due to the inclusion of results from the Company's recent acquisitions (see Note 3, Acquisitions), as well as an increase in the Company's average commission rates driven by higher commission rates on delivery services and a higher average order size.

Sales and Marketing

Sales and marketing expense increased by \$5.1 million, or 24%, for the three months ended September 30, 2016 compared to the same period in 2015. The increase was primarily attributable to an increase of \$3.0 million in the Company's advertising campaigns across most channels in the third quarter of 2016. The increase in sales and marketing expense was also due to growth in the Company's sales and marketing teams and related salaries, benefits, payroll taxes, stock-based compensation expense and bonuses, including the impact of recent acquisitions.

Operations and Support

Operations and support expense increased by \$16.7 million, or 60%, for the three months ended September 30, 2016 compared to the same period in 2015. This increase was primarily attributable to an increase in expenses related to delivery services, the inclusion of results from recent acquisitions, higher customer service and operations personnel costs to support higher order volume, and higher payment processing costs related to the growth in orders. Delivery expenses increased during the three months ended September 30, 2016 compared to the prior year due to organic growth of our delivery network and the acquisitions of LABite and Delivered Dish.

Technology (exclusive of amortization)

Technology expense increased by \$2.6 million, or 31%, for the three months ended September 30, 2016 compared to the same period in 2015. The increase was primarily attributable to growth in the Company's technology team, including salaries, benefits, payroll taxes, stock-based compensation expense and bonuses to support the growth and development of the Seamless and Grubhub platforms.

General and Administrative

General and administrative expense increased by \$1.6 million, or 15%, for the three months ended September 30, 2016 compared to the same period in 2015. The increase was attributable to the inclusion of general and administrative expenses from the Company's recent acquisitions as well as increases in a number of miscellaneous expenses required to support growth in the business.

Depreciation and Amortization

Depreciation and amortization expense increased by \$2.8 million, or 44%, for the three months ended September 30, 2016 compared to the same period in 2015. The increase was primarily attributable to increased capital spending on leasehold improvements, software, furniture and office equipment to support the growth of the business and the amortization of intangible assets acquired in the recent acquisitions.

Provision for Income Taxes

Income tax expense increased by \$2.8 million for the three months ended September 30, 2016 compared to the same period in 2015. The increase was primarily due to the increase in income before provision for income taxes due to the factors described above, partially offset by the impact of a lower tax rate forecast for the full year ended December 31, 2016 due to the Company qualifying for income tax deductions for franchise taxes that were previously unavailable. The Company has provided income tax expense for the periods presented based on the expected annual effective tax rate.

Nine Months Ended September 30, 2016 and 2015

The following table sets forth the Company's results of operations for the nine months ended September 30, 2016 as compared to the same period in the prior year presented in dollars and as a percentage of revenues:

	Nine Months Ended September 30, 2016		2015		\$ Change	% Change	
	Amount (in thousands, except percentages)	% of revenue	Amount	% of revenue			
Revenues	\$355,874	100 %	\$261,866	100 %	\$94,008	36 %	
Costs and expenses:							
Sales and marketing	80,687	23 %	66,229	25 %	14,458	22 %	
Operations and support	120,029	34 %	74,941	29 %	45,088	60 %	
Technology (exclusive of amortization)	31,765	9 %	23,980	9 %	7,785	32 %	
General and administrative	37,501	11 %	29,049	11 %	8,452	29 %	
Depreciation and amortization	25,282	7 %	21,377	8 %	3,905	18 %	
Total costs and expenses ^(a)	295,264	83 %	215,576	82 %	79,688	37 %	
Income before provision for income taxes	60,610	17 %	46,290	18 %	14,320	31 %	
Provision for income taxes	24,690	7 %	19,501	7 %	5,189	27 %	
Net income attributable to common stockholders	\$35,920	10 %	\$26,789	10 %	\$9,131	34 %	

NON-GAAP FINANCIAL MEASURES:

Adjusted EBITDA ^(b)	\$105,436	30 %	\$78,131	30 %	\$27,305	35 %
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(a) Totals of percentage of revenues may not foot due to rounding.

(a) For an explanation of Adjusted EBITDA as a measure of the Company's operating performance and a reconciliation to net earnings, see "Non-GAAP Financial Measure—Adjusted EBITDA."

Revenues

Revenues increased by \$94.0 million, or 36%, for the nine months ended September 30, 2016 compared to the same period in 2015. The increase was primarily related to growth in Active Diners, which increased from 6.4 million to 7.7 million at the end of each period, driving an increase in Daily Average Grubs to 268,800 during the nine months ended September 30, 2016 from 222,000 Daily Average Grubs during the same period in 2015. The growth in Active Diners and Daily Average Grubs was due primarily to marketing efforts, investments in the Company's platform to drive more orders, and organic growth from word-of-mouth referrals. In addition, revenue increased during the nine months ended September 30, 2016 compared to the same period in 2015 due to the inclusion of results from the Company's recent acquisitions (see Note 3, Acquisitions), as well as an increase in the Company's average commission rates driven by higher commission rates on delivery services and a higher average order size.

Sales and Marketing

Sales and marketing expense increased by \$14.5 million, or 22%, for the nine months ended September 30, 2016 compared to the same period in 2015. The increase was primarily attributable to an increase of \$8.8 million in the Company's advertising campaigns across most channels in the nine months ended September 30, 2016. The increase in

sales and marketing expense was also due to growth in the Company's sales and marketing teams and related salaries, benefits, payroll taxes, stock-based compensation expense and bonuses, including the impact of recent acquisitions.

Operations and Support

Operations and support expense increased by \$45.1 million, or 60%, for the nine months ended September 30, 2016 compared to the same period in 2015. This increase was primarily attributable to an increase in expenses related to delivery services, higher customer service and operations personnel costs to support higher order volume, and higher payment processing costs related to the growth in orders. Delivery expenses increased during the nine months ended September 30, 2016 compared to the prior year due to organic growth of our delivery network and the current and prior year acquisitions. In addition, payment processing costs increased \$7.4 million, or 25%, for the nine months ended September 30, 2016 compared to the same period in the prior year due to the 27% growth in Gross Food Sales.

Technology (exclusive of amortization)

Technology expense increased by \$7.8 million, or 32%, for the nine months ended September 30, 2016 compared to the same period in 2015. The increase was primarily attributable to 22% growth in the Company's technology team, including salaries, benefits, payroll taxes, stock-based compensation expense and bonuses, as well as higher consulting costs to support the growth and development of the Seamless and Grubhub platforms.

General and Administrative

General and administrative expense increased by \$8.5 million, or 29%, for the nine months ended September 30, 2016 compared to the same period in 2015. The increase was primarily attributable to higher stock-based compensation expense including the impact of the accelerated vesting of restricted stock awards to certain terminated employees in the first quarter of 2016, and a number of miscellaneous expenses required to support growth in the business including an increase in expenses for fraudulent charges due to the increase in order volume, the inclusion of general and administrative expenses from the Company's recent acquisitions and acquisition-related expenses.

Depreciation and Amortization

Depreciation and amortization expense increased by \$3.9 million, or 18%, for the nine months ended September 30, 2016 compared to the same period in 2015. The increase was primarily attributable to the amortization of intangible assets acquired in the recent acquisitions and increased capital spending on leasehold improvements, software, furniture and office equipment to support the growth of the business. The current period increase was partially offset by \$1.9 million of accelerated amortization and depreciation expense recognized during the nine months ended September 30, 2015 for certain assets that were disposed of with the migration of nearly all of the Seamless consumer diner traffic to a new web and mobile platform during the same period.

Provision for Income Taxes

Income tax expense increased by \$5.2 million for the nine months ended September 30, 2016 compared to the same period in 2015. The increase was primarily due to the increase in income before provision for income taxes due to the factors described above. The Company has provided income tax expense for the periods presented based on the expected annual effective tax rate.

Non-GAAP Financial Measure - Adjusted EBITDA

Adjusted EBITDA is a financial measure that is not calculated in accordance with GAAP. The Company defines Adjusted EBITDA as net income adjusted to exclude acquisition and restructuring costs, income taxes, depreciation and amortization and stock-based compensation expense. A reconciliation of Adjusted EBITDA to net income, the most directly comparable financial measure calculated and presented in accordance with GAAP, is provided below. Adjusted EBITDA should not be considered as an alternative to net income or any other measure of financial performance calculated and presented in accordance with GAAP. The Company's Adjusted EBITDA may not be comparable to similarly titled measures of other organizations because other organizations may not calculate Adjusted EBITDA in the same manner.

The Company included Adjusted EBITDA in this Quarterly Report on Form 10-Q because it is an important measure upon which management assesses the Company's operating performance. The Company uses Adjusted EBITDA as a key performance measure because management believes it facilitates operating performance comparisons from period to period by excluding potential differences primarily caused by variations in capital structures, tax positions, the impact of acquisitions and restructuring, the impact of depreciation and amortization expense on the Company's fixed

assets and the impact of stock-based compensation expense. Because Adjusted EBITDA facilitates internal comparisons of the Company's historical operating performance on a more consistent basis, the Company also uses Adjusted EBITDA for business planning purposes and in evaluating business opportunities. In addition, management believes Adjusted EBITDA and similar measures are widely used by investors, securities analysts, ratings agencies and other parties in evaluating companies in the industry as a measure of financial performance and debt-service capabilities.

The Company's use of Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of the Company's results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect the Company's cash expenditures for capital equipment or other contractual commitments.
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect capital expenditure requirements for such replacements.

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Adjusted EBITDA does not reflect changes in, or cash requirements for, the Company's working capital needs. Other companies, including companies in the same industry, may calculate Adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

In evaluating Adjusted EBITDA, you should be aware that in the future the Company will incur expenses similar to some of the adjustments in this presentation. The presentation of Adjusted EBITDA should not be construed as indicating that the Company's future results will be unaffected by these expenses or by any unusual or non-recurring items. When evaluating the Company's performance, you should consider Adjusted EBITDA alongside other financial performance measures, including net income and other GAAP results.

The following table sets forth Adjusted EBITDA and a reconciliation to net income for each of the periods presented below:

	Three Months		Nine Months Ended	
	Ended September		September 30,	
	30,		2016	2015
	2016	2015	2016	2015
	(in thousands)			
Net income	\$ 13,182	\$ 6,867	\$ 35,920	\$ 26,789
Income taxes	7,585	4,801	24,690	19,501
Depreciation and amortization	9,089	6,299	25,282	21,377
EBITDA	29,856	17,967	85,892	67,667
Acquisition and restructuring costs ^(a)	261	383	1,789	1,086
Stock-based compensation	5,349	3,113	17,755	9,378
Adjusted EBITDA	\$ 35,466	\$ 21,463	\$ 105,436	\$ 78,131

(a) Acquisition and restructuring costs include transaction and integration-related costs, such as legal and accounting costs, associated with the acquisitions and restructuring initiatives.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2016, the Company had cash and cash equivalents of \$177.8 million consisting of cash, money market funds, commercial paper and U.S. and non-U.S.-issued corporate debt securities with original maturities of three months or less and short term investments of \$118.7 million consisting of commercial paper and U.S. and non-U.S.-issued corporate debt securities with original maturities greater than three months, but less than one year. The Company generates a significant amount of cash flows from operations and has access to a secured revolving credit facility as necessary.

Amounts deposited with third-party financial institutions exceed Federal Deposit Insurance Corporation and Securities Investor Protection insurance limits, as applicable. These cash, cash equivalents and short term investments balances could be affected if the underlying financial institutions fail or if there are other adverse conditions in the financial markets. The Company has not experienced any loss or lack of access to its invested cash, cash equivalents or short term investments; however, such access could be adversely impacted by conditions in the financial markets in the future.

Management believes that the Company's existing cash, cash equivalents, short term investments and available credit facility will be sufficient to meet its working capital requirements for at least the next twelve months. However, the Company's liquidity assumptions may prove to be incorrect, and the Company could utilize its available financial

resources sooner than currently expected. The Company's future capital requirements and the adequacy of available funds will depend on many factors, including those set forth in "Cautionary Statement Regarding Forward-Looking Statements" below. If the Company is unable to obtain needed additional funds, it will have to reduce operating costs, which could impair the Company's growth prospects and could otherwise negatively impact its business.

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. Outstanding credit card receivables are generally settled with the payment processors within two to four business days. The Company generally accumulates funds and remits the net proceeds to the restaurants on at least a monthly basis. Restaurants have different contractual arrangements regarding payment frequency. They may be paid bi-weekly, weekly, monthly or, in some cases, more frequently when requested by the restaurant. The Company generally holds accumulated funds prior to remittance to the restaurants in a non-interest bearing operating bank account that is used to fund daily operations, including the liability to the restaurants. However, the Company is not restricted from earning investment income on these funds under its restaurant contract terms and has made short-term investments of proceeds in excess of our restaurant liability as described above.

Seasonal fluctuations in the Company’s business may also affect the timing of cash flows. In metropolitan markets, the Company generally experiences a relative increase in diner activity from September to April and a relative decrease in diner activity from May to August. In addition, the Company benefits from increased order volume in its campus markets when school is in session and experiences a decrease in order volume when school is not in session, during summer breaks and other vacation periods. Diner activity can also be impacted by colder or more inclement weather, which typically increases order volume, and warmer or sunny weather, which typically decreases order volume. These changes in diner activity and order volume have a direct impact on operating cash flows. While management expects this seasonal cash flow pattern to continue, changes in the Company’s business model could affect the timing or seasonal nature of its cash flows.

On January 22, 2016, the Company’s Board of Directors approved a program that authorizes the repurchase of up to \$100 million of our 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, 2016, the Company repurchased and retired 724,473 shares of our common stock at a weighted-average share price of \$20.37, or an aggregate of \$14.8 million.

On April 29, 2016, the Company entered into a secured revolving credit facility (the “Credit Agreement”), which provides for aggregate revolving loans up to \$185.0 million, subject to an increase of up to an additional \$30 million under certain conditions. The credit facility will be available to the Company until April 28, 2021. The Credit Agreement will be used for general corporate purposes, including funding working capital and acquisitions. There were no borrowings outstanding under the Credit Agreement as of September 30, 2016. See Note 8, Debt, for additional information.

The Credit Agreement contains customary covenants that, among other things, require the Company to satisfy certain financial covenants and may restrict the Company’s ability to incur additional debt, pay dividends and make distributions, make certain investments and acquisitions, create liens, transfer and sell material assets and merge or consolidate. The Company was in compliance with the covenants of the Credit Agreement as of September 30, 2016 and expects to remain in compliance for the foreseeable future. See Part II, Item 1A, Risk Factors, for additional information.

The following table sets forth certain cash flow information for the periods presented:

	Nine Months Ended September 30,	
	2016	2015
	(in thousands)	
Net cash provided by operating activities	\$62,433	\$13,590

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Net cash used in investing activities	(69,470)	(94,926)
Net cash provided by financing activities	16,472	32,676

Cash Flows Provided by Operating Activities

For the nine months ended September 30, 2016, net cash provided by operating activities was \$62.4 million compared to \$13.6 million for the same period in 2015. The increase in cash flows from operations was driven primarily by changes in the Company's operating assets and liabilities and increases of \$13.5 million in non-cash expenses and \$9.1 million of net income. The increase in non-cash expenses primarily related to an increase of \$8.4 million related to stock-based compensation, an increase in depreciation and amortization of \$3.9 million and an increase in deferred rent of \$1.1 million. In addition, during the nine months ended September 30, 2016 and 2015, significant changes in the Company's operating assets and liabilities, net of the effects of business acquisitions, resulted from the following:

- an increase in the restaurant food liability of \$11.4 million for the nine months ended September 30, 2016 due to growth in our business and the timing of payments compared to a decrease of \$31.4 million for the nine months ended September 30, 2015;
- an increase in accounts receivable of \$22.3 million primarily due to the timing of processor payments to the Company at quarter-end and growth in our business for the nine months ended September 30, 2016 compared to an increase of \$6.9 million for the nine months ended September 30, 2015;

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an increase in accrued expenses of \$2.4 million during the nine months ended September 30, 2016, primarily related to an increase in payables, compared to a decrease of \$1.8 million during the nine months ended September 30, 2015; and

a decrease in accounts payable of \$4.6 million for the nine months ended September 30, 2016 due to timing of payments compared to a decrease of \$0.6 million for the nine months ended September 30, 2015.

Cash Flows Used in Investing Activities

The Company's investing activities during the periods presented consisted primarily of purchases of and proceeds from maturities of short-term investments, acquisitions of businesses, the purchase of leasehold improvements and equipment to support increased headcount and website and internal-use software development.

For the nine months ended September 30, 2016, net cash used in investing activities was \$69.5 million compared to \$94.9 million for the same period in the prior year. The decrease in net cash used in investing activities during the nine months ended September 30, 2016 was primarily the result of an increase in proceeds from maturities of short-term investments of \$87.7 million, partially offset by increases in purchases of short-term investments of \$33.2 million, purchases of leasehold improvements and equipment of \$14.2 million and acquisitions of businesses of \$10.2 million.

Cash Flows Provided by Financing Activities

The Company's financing activities during the periods presented consisted primarily of excess tax benefits related to stock-based compensation, repurchases of the Company's common stock, proceeds from the exercise of stock options and payments of debt issuance costs related to the Credit Agreement.

For the nine months ended September 30, 2016, net cash provided by financing activities was \$16.5 million compared to \$32.7 million for the nine months ended September 30, 2015. The decrease in cash provided by financing activities during the nine months ended September 30, 2016 as compared to the same period in the prior year primarily resulted from repurchases of the Company's common stock of \$14.8 million.

Acquisitions

On May 5, 2016, the Company acquired LABite for \$65.8 million in cash, net of cash acquired of \$2.6 million.

On February 4, 2015, February 27, 2015 and December 4, 2015, the Company completed the acquisitions of restaurant delivery services, DiningIn, Restaurants on the Run and Delivered Dish, respectively. Aggregate consideration for the three acquisitions was a total of approximately \$73.9 million in cash and 407,812 restricted shares of our common stock, or an estimated total transaction value of approximately \$89.9 million, net of cash acquired of \$0.7 million, based on our closing share price on the respective closing dates.

Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to certain market risks in the ordinary course of business. These risks primarily consist of interest rate fluctuations, inflation rate risk and other market related risks as follows:

Interest Rate Risk

The Company did not have any long-term borrowings as of September 30, 2016. The Company will be exposed to interest rate risk on variable-rate debt drawn under the Credit Agreement described above. The Company does not use

interest rate derivative instruments to manage exposure to interest rate changes.

The Company invests its excess cash primarily in money market accounts, commercial paper and U.S. and non-U.S.-issued corporate debt securities. The Company intends to hold its investments to maturity. The Company's current investment strategy seeks first to preserve principal, second to provide liquidity for its operating and capital needs and third to maximize yield without putting principal at risk. The Company does not enter into investments for trading or speculative purposes.

The Company's investments are exposed to market risk due to the fluctuation of prevailing interest rates that may reduce the yield on its investments or their fair value. The Company assesses market risk utilizing a sensitivity analysis that measures the potential change in fair values, interest income and cash flows. As the Company's investment portfolio is short-term in nature, management does not believe an immediate 100 basis point increase in interest rates would have a material effect on the fair value of the Company's portfolio, and therefore does not expect the Company's results of operations or cash flows to be materially affected to

any degree by a sudden change in market interest rates. In the unlikely event that the Company would need to sell its investments prior to their maturity, any unrealized gains and losses arising from the difference between the amortized cost and the fair value of the investments at that time would be recognized in the condensed consolidated statements of operations. See Note 4, Marketable Securities, to the accompanying Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional details.

Inflation Risk

Management does not believe that inflation has had a material effect on the Company's business, results of operations or financial condition.

Risks Related to Market Conditions

The Company performs its annual goodwill impairment tests as of September 30, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of the Company below its carrying value. Such indicators may include the following, among others: a significant decline in expected future cash flows, a sustained, significant decline in the Company's stock price and market capitalization, a significant adverse change in legal factors or in the business climate, unanticipated competition, the testing for recoverability of a significant asset group and slower growth rates. Any adverse change in these factors could have a significant impact on the recoverability of the Company's goodwill and could have a material impact on the consolidated financial statements. Goodwill represents the excess of the purchase price of an acquired business over the fair value of the net assets acquired. As of September 30, 2016, the Company had \$437.0 million in goodwill.

The annual goodwill impairment test is a two-step process. First, the Company determines if the carrying value of its reporting unit exceeds fair value, which would indicate that goodwill may be impaired. The Company is considered one reporting unit. Second, if the Company then determines that goodwill may be impaired, it compares the implied fair value of the goodwill to its carrying amount to determine if there is an impairment loss.

Management determined the fair value of the Company by using a market-based approach that utilized the market capitalization of the Company, as adjusted for factors such as a control premium. After consideration of the Company's market capitalization, business growth and other factors, management determined that it was more likely than not that the fair value of the Company exceeded its carrying amount and further analysis was not necessary. Nevertheless, significant changes in global economic and market conditions could result in changes to expectations of future financial results and key valuation assumptions. Such changes could result in revisions of management's estimates of our fair value and could result in a material impairment of goodwill.

OTHER INFORMATION

Off-Balance Sheet Arrangements

The Company did not have any off-balance sheet arrangements as of September 30, 2016.

Contractual Obligations

The Company's total contractual obligations under operating leases have increased by \$2.6 million as of September 30, 2016 due to the expansion of office space to support the growth in the business and the acquisition of LABite.

There were no other material changes to the Company's commitments under contractual obligations as compared to the contractual obligations disclosed in the Company's 2015 Form 10-K.

Contingencies

For a discussion of certain litigation involving the Company, see Note 7, Commitments and Contingencies, to the accompanying Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

New Accounting Pronouncements and Pending Accounting Standards

See Note 2, Significant Accounting Policies, to the accompanying Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for pending standards and their estimated effect on the Company's consolidated financial statements and accounting standards adopted during the nine months ended September 30, 2016.

Critical Accounting Policies and Estimates

The condensed consolidated financial statements are prepared in accordance with GAAP. The preparation of these condensed consolidated financial statements requires the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. These estimates form the basis for judgments management makes about the carrying values of the Company's assets and liabilities, which are not readily apparent from other sources. The Company bases its estimates and judgments on historical experience and on various other assumptions that management believes are reasonable under the circumstances. On an ongoing basis, the Company evaluates its estimates and assumptions. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes that the assumptions and estimates associated with revenue recognition, website and software development costs, recoverability of intangible assets with definite lives and other long-lived assets, stock-based compensation, goodwill and income taxes have the greatest potential impact on the condensed consolidated financial statements. Therefore, these are considered to be the Company's critical accounting policies and estimates.

There have been no material changes to the Company's critical accounting policies and estimates as compared to the critical accounting policies and estimates described in in the Company's 2015 Form 10-K.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

In this section and elsewhere in this Quarterly Report on Form 10-Q, we discuss and analyze the results of operations and financial condition of the Company. In addition to historical information about the Company, we also make statements relating to the future called "forward-looking statements," which are provided under the "safe harbor" of the U.S. Private Securities Litigation Act of 1995. Forward-looking statements involve substantial risks, known or unknown, and uncertainties that may cause actual results to differ materially from future results or outcomes expressed or implied by such forward-looking statements. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as "anticipates," "believes," "contemplates," "continue," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "should," "target" or "will" or the negative of these words or other similar terms or expressions that concern the Company's expectations, strategy, plans or intentions.

We cannot guarantee that any forward-looking statement will be realized. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including the following important factors, in addition to those discussed elsewhere in this Quarterly Report on Form 10-Q, in Part I, Item 1A, Risk Factors, of the Company's 2015 Form 10-K and Part II, Item 1A, Risk Factors, in subsequent quarterly reports, that could affect the future results of the Company and could cause those results or other outcomes to differ materially from those expressed or implied in the Company's forward-looking statements:

- our ability to accurately forecast revenue and appropriately plan expenses;
- our ability to effectively assimilate, integrate and maintain acquired businesses;
- our ability to attract and retain restaurants to use the Company's platform in a cost effective manner;
- our ability to maintain, protect and enhance our brand in an effort to increase the number of and retain existing diners and their level of engagement using the Company's websites and mobile applications;
- our ability to strengthen the Company's two-sided network;
- the impact of interruptions or disruptions to our service on our business, reputation or brand;
- our ability to choose and effectively manage third-party service providers;
- the seasonality of our business, including the effect of academic calendars on college campuses and seasonal patterns in restaurant dining;

- our ability to generate positive cash flow and achieve and maintain profitability;
- our ability to maintain an adequate rate of growth and effectively manage that growth;
- the impact of worldwide economic conditions, including the resulting effect on diner spending on takeout;
- the exposure to potential liability and expenses for legal claims and harm to our business;
- our ability to defend the classification of members of our delivery network as independent contractors;
- our ability to keep pace with technology changes in the takeout industry;

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- our ability to grow the usage of the Company's mobile applications and monetize this usage;
- our ability to properly use, protect and maintain the security of personal information and data provided by diners;
- the impact of payment processor costs and procedures;
- our ability to successfully compete with the traditional takeout ordering process and the effects of increased competition on our business;
- our ability to innovate and provide a superior experience for restaurants and diners;
- our ability to successfully expand in existing markets and into new markets;
- our ability to attract and retain qualified employees and key personnel;
- our ability to grow our restaurant delivery services in an effective and cost efficient manner;
- the impact of weather and the effects of natural or man-made catastrophic events on the Company's business;
- our ability to maintain, protect and enhance the Company's intellectual property;
- our ability to obtain capital to support business growth;
- our ability to comply with the operating and financial covenants of our secured, revolving credit facility; and
- our ability to comply with modified or new legislation and governmental regulations affecting our business.

While forward-looking statements are our best prediction at the time they are made, you should not rely on them. Forward-looking statements speak only as of the date of this document or the date of any document that may be incorporated by reference into this document.

Consequently, you should consider forward-looking statements only as the Company's current plans, estimates and beliefs. The Company does not undertake and specifically declines any obligation to publicly update or revise forward-looking statements, including those set forth in this Quarterly Report on Form 10-Q, to reflect any new events, information, events or any change in conditions or circumstances unless required by law. You are advised, however, to consult any further disclosures we make on related subjects in our Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and Annual Reports on Form 10-K and our other filings with the SEC.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resource – Quantitative and Qualitative Disclosures About Market Risk, of this Quarterly Report on Form 10-Q.

Item 4. Controls and Procedures

Disclosure controls and procedures.

As required by Rule 13a-15(b) and Rule 15d-15(e) of the Exchange Act, the Company's management, including the Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) of the Exchange Act. As of September 30, 2016, an evaluation was performed under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that disclosure controls and procedures as of September 30, 2016 were effective in ensuring information required to be disclosed in the Company's SEC reports was recorded, processed, summarized,

and reported within the time periods specified in the SEC's rules and forms, and that such information was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting.

There have not been any changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II— OTHER INFORMATION

Item 1. Legal Proceedings

For a description of the Company's material pending legal proceedings, see Note 7, Commitments and Contingencies, to the accompanying Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

There have been no material changes to the risk factors affecting our business, financial condition or future results from those set forth in Part I, Item 1A (Risk Factors) in the 2015 Form 10-K, which was filed with the Securities and Exchange Commission on February 26, 2016, other than as set forth below. However, you should carefully consider the factors discussed in the 2015 Form 10-K and in this Quarterly Report on Form 10-Q, which could materially affect our business, financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Our credit agreement contains operating and financial covenants that may restrict our business and financing activities.

We are party to a credit agreement in connection with our secured, revolving credit facility. The obligations under the credit agreement are guaranteed by the Company and its domestic subsidiaries and secured by a lien on substantially all of the tangible and intangible property of the Company, and by a pledge of all of the equity interests of the Company's domestic subsidiaries.

The credit agreement contains customary covenants that, among other things, require the Company to satisfy certain financial covenants and restrict the Company's and its subsidiaries' ability to, among other things, incur additional debt, create liens, make certain investments and acquisitions, pay dividends and make distributions, transfer and sell material assets and merge or consolidate. As a result, we are limited in the manner in which we conduct our business, and we may be unable to engage in favorable business activities. These restrictions could place us at a competitive disadvantage to competitors.

Our ability to comply with these covenants may be affected by events beyond our control, and we may not be able to meet these covenants. From time to time, we may be required to seek waivers or amendments to the credit agreement to maintain compliance with these covenants, and there can be no certainty that any such waiver or amendment will be available, or what the cost of such waiver or amendment, if obtained, would be. Non-compliance with one or more of these covenants could result in any amounts outstanding under the credit agreement becoming immediately due and payable and termination of the commitments.

If we are unable to generate sufficient cash available to repay our debt obligations, if any, when they become due and payable, either when they mature or in the event of a default, we may not be able to obtain additional debt or equity financing on favorable terms, if at all.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Use of Proceeds

On April 3, 2014, the Company's registration statement on Form S-1 (File No. 333-194219) was declared effective by the SEC for an initial public offering pursuant to which the Company issued and sold 4,000,000 shares of common stock at a public offering price of \$26.00 per share. The offering resulted in 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. There have been no material changes in the planned use of proceeds from the initial public offering from that described in the Company's final prospectus filed with the SEC pursuant to Rule 424(b) under the Securities Act of 1933, as amended (the "Securities Act") on April 7, 2014.

Unregistered Sales of Equity Securities

There were no sales of unregistered equity securities during the three months ended September 30, 2016.

Issuer Purchases of Equity Securities

On January 22, 2016, the Board of Directors of the Company approved a program (the "Repurchase 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 the Company'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 three months ended September 30, 2016, the Company did not repurchase any of its common stock. See Part I, Item 1, Item 1, Note 11, Stockholders' Equity, for additional details of common stock repurchased during the nine months ended September 30, 2016.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

Item 6: Exhibits

Exhibit No.	Description	Incorporated by Reference		Filed Herewith
		File Form No.	Filing Exhibit Date	
31.1	Certification of Matthew Maloney, Chief Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.			X
31.2	Certification of Adam DeWitt, Chief Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.			X
32.1	Certification of Matthew Maloney, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.			X
32.2	Certification of Adam DeWitt, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.			X
101.INS	XBRL Instance Document.			X
101.SCH	XBRL Taxonomy Extension Schema Document.			X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.			X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.			X
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.			X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.			X

SIGNATURES

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

GRUBHUB INC.

By: /s/ Matthew Maloney
Matthew Maloney
Chief Executive Officer and Director

(Principal Executive Officer)

By: /s/ Adam DeWitt
Adam DeWitt
Chief Financial Officer and Treasurer

(Principal Financial Officer and Principal Accounting Officer)

Date: November 8, 2016