

Groupon, Inc.  
Form 10-Q  
November 08, 2013

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, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-353335

Groupon, Inc.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

27-0903295  
(I.R.S. Employer  
Identification No.)

600 West Chicago Avenue, Suite 400  
Chicago, Illinois  
(Address of principal executive offices)

60654  
(Zip Code)

312-676-5773  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 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 a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Edgar Filing: Groupon, Inc. - Form 10-Q

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 5, 2013, there were 665,719,847 shares of the registrant's Class A Common Stock outstanding and 2,399,976 shares of the registrant's Class B Common Stock outstanding.

1

---

TABLE OF CONTENTS

PART I. Financial Information	Page
Forward-Looking Statements	<u>3</u>
Item 1. Financial Statements	<u>4</u>
Condensed Consolidated Balance Sheets as of September 30, 2013 (unaudited) and December 31, 2012	<u>4</u>
Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2013 and 2012 (unaudited)	<u>5</u>
Condensed Consolidated Statements of Comprehensive (Loss) Income for the three and nine months ended September 30, 2013 and 2012 (unaudited)	<u>6</u>
Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012 (unaudited)	<u>7</u>
Condensed Consolidated Statement of Stockholders' Equity for the nine months ended September 30, 2013 (unaudited)	<u>9</u>
Notes to Condensed Consolidated Financial Statements	<u>10</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>35</u>
Item 3. Quantitative and Qualitative Disclosures about Market Risk	<u>79</u>
Item 4. Controls and Procedures	<u>80</u>
PART II. Other Information	
Item 1. Legal Proceedings	<u>81</u>
Item 1A. Risk Factors	<u>81</u>
Item 2. Unregistered sales of equity securities and use of proceeds	<u>95</u>
Item 5. Other Events	<u>95</u>
Item 6. Exhibits	<u>95</u>
Signatures	<u>96</u>
Exhibits	<u>97</u>

PART I. Financial Information

FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements regarding our future results of operations and financial position, business strategy and plans and our objectives for future operations. The words "may," "will," "should," "could," "expect," "anticipate," "believe," "estimate," "intend," "continue" and other similar expressions are intended to identify forward-looking statements. We have based these forward looking statements largely on current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, short term and long-term business operations and objectives, and financial needs. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, among others, those discussed in "Item 1A: Risk Factors" of our 2012 Annual Report on Form 10-K and Part II, Item 1A of this Quarterly Report on Form 10-Q, as well as in our condensed consolidated financial statements, related notes, and the other financial information appearing elsewhere in this report and our other filings with the Securities and Exchange Commission, or the SEC. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. We do not intend, and undertake no obligation, to update any of our forward-looking statements after the date of this report to reflect actual results or future events or circumstances. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

As used herein, "Groupon," "we," "our," and similar terms include Groupon, Inc. and its subsidiaries, unless the context indicates otherwise.

## ITEM 1. FINANCIAL STATEMENTS

## GROUPON, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	September 30, 2013 (unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$1,139,857	\$1,209,289
Accounts receivable, net	86,233	96,713
Deferred income taxes	30,692	31,211
Prepaid expenses and other current assets	136,543	150,573
Total current assets	1,393,325	1,487,786
Property, equipment and software, net of accumulated depreciation and amortization of \$93,853 and \$46,236, respectively	126,881	121,072
Goodwill	218,224	206,684
Intangible assets, net	33,182	42,597
Investments	104,130	84,209
Deferred income taxes, non-current	29,476	29,916
Other non-current assets	45,322	59,210
Total Assets	\$1,950,540	\$2,031,474
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$33,684	\$59,865
Accrued merchant and supplier payables	591,476	671,305
Accrued expenses	211,718	246,924
Deferred income taxes	52,216	53,700
Other current liabilities	126,764	136,647
Total current liabilities	1,015,858	1,168,441
Deferred income taxes, non-current	20,356	20,860
Other non-current liabilities	105,529	100,072
Total Liabilities	1,141,743	1,289,373
Commitments and contingencies (see Note 6)		
Stockholders' Equity		
Class A common stock, par value \$0.0001 per share, 2,000,000,000 shares authorized, 666,100,949 shares issued and 665,330,049 shares outstanding at September 30, 2013 and 654,523,706 shares issued and outstanding at December 31, 2012	66	65
Class B common stock, par value \$0.0001 per share, 10,000,000 shares authorized, 2,399,976 shares issued and outstanding at September 30, 2013 and December 31, 2012	—	—
Common stock, par value \$0.0001 per share, 2,010,000,000 shares authorized, no shares issued and outstanding at September 30, 2013 and December 31, 2012	—	—
Additional paid-in capital	1,563,815	1,485,006

Edgar Filing: Groupon, Inc. - Form 10-Q

Treasury stock, at cost, 770,900 shares at September 30, 2013 and no shares at December 31, 2012	(9,014	) —	
Accumulated deficit	(767,623	) (753,477	)
Accumulated other comprehensive income	23,579	12,446	
Total Groupon, Inc. Stockholders' Equity	810,823	744,040	
Noncontrolling interests	(2,026	) (1,939	)
Total Equity	808,797	742,101	
Total Liabilities and Equity	\$1,950,540	\$2,031,474	

See Notes to unaudited Condensed Consolidated Financial Statements.

GROUPON, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (in thousands, except share and per share amounts)  
 (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenue:				
Third party and other	\$ 394,987	\$ 423,564	\$ 1,252,966	\$ 1,466,602
Direct	200,072	144,988	552,242	229,568
Total revenue	595,059	568,552	1,805,208	1,696,170
Cost of revenue:				
Third party and other	54,001	54,173	179,524	233,834
Direct	181,436	127,613	502,359	202,634
Total cost of revenue	235,437	181,786	681,883	436,468
Gross profit	359,622	386,766	1,123,325	1,259,702
Operating expenses:				
Marketing	53,265	70,919	158,319	275,941
Selling, general and administrative	294,074	287,978	904,880	871,455
Acquisition-related (benefit) expense, net	(1,529)	) 2,431	(2,276)	) 744
Total operating expenses	345,810	361,328	1,060,923	1,148,140
Income from operations	13,812	25,438	62,402	111,562
Loss on equity method investments	(25)	) (138)	) (58)	) (8,694)
Other income (expense), net	857	617	(9,772)	) 54,445
Income before provision for income taxes	14,644	25,917	52,572	157,313
Provision for income taxes	15,936	26,857	62,657	128,297
Net (loss) income	(1,292)	) (940)	) (10,085)	) 29,016
Net income attributable to noncontrolling interests	(1,288)	) (706)	) (4,061)	) (2,806)
Net (loss) income attributable to Groupon, Inc.	(2,580)	) (1,646)	) (14,146)	) 26,210
Adjustment of redeemable noncontrolling interests to redemption value	—	(1,333)	) —	(12,498)
Net (loss) income attributable to common stockholders	\$(2,580)	) \$(2,979)	) \$(14,146)	) \$13,712
Net (loss) earnings per share				
Basic	\$(0.00)	\$(0.00)	\$(0.02)	\$0.02
Diluted	\$(0.00)	\$(0.00)	\$(0.02)	\$0.02
Weighted average number of shares outstanding				
Basic	666,432,848	653,223,610	662,531,567	648,021,943
Diluted	666,432,848	653,223,610	662,531,567	663,557,250

See Notes to unaudited Condensed Consolidated Financial Statements.

GROUPON, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME  
 (in thousands)  
 (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2013	2012	2013	2012	
Net (loss) income	\$(1,292	) \$(940	) \$(10,085	) \$29,016	
Other comprehensive (loss) income, net of tax:					
Foreign currency translation adjustments	(1,072	) (387	) 11,416	(378	)
Unrealized loss on available-for-sale debt security	(109	) —	(19	) —	
Other comprehensive (loss) income	(1,181	) (387	) 11,397	(378	)
Comprehensive (loss) income	(2,473	) (1,327	) 1,312	28,638	
Comprehensive income attributable to noncontrolling interests	(1,302	) (1,300	) (4,325	) (3,400	)
Comprehensive (loss) income attributable to Groupon, Inc.	\$(3,775	) \$(2,627	) \$(3,013	) \$25,238	

See Notes to unaudited Condensed Consolidated Financial Statements.



GROUPON, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (in thousands)  
 (unaudited)

	Nine Months Ended September 30,	
	2013	2012
Operating activities		
Net (loss) income	\$(10,085	) \$29,016
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	65,317	39,836
Stock-based compensation	89,223	77,706
Deferred income taxes	(1,225	) 9,608
Excess tax benefits on stock-based compensation	(12,116	) (24,620
Loss on equity method investments	58	8,694
Acquisition-related (benefit) expense, net	(2,276	) 744
Gain on E-Commerce transaction	—	(56,032
Change in assets and liabilities, net of acquisitions:		
Restricted cash	(81	) (1,855
Accounts receivable	8,999	(2,189
Prepaid expenses and other current assets	13,146	(24,937
Accounts payable	(25,867	) 13,174
Accrued merchant and supplier payables	(72,290	) 53,889
Accrued expenses and other current liabilities	(27,790	) 68,010
Other, net	15,144	10,073
Net cash provided by operating activities	40,157	201,117
Investing activities		
Purchases of property and equipment and capitalized software	(43,574	) (55,802
Acquisitions of businesses, net of acquired cash	(6,349	) (44,790
Purchases of investments	(19,583	) (33,097
Settlement of liability related to purchase of additional interest in consolidated subsidiary	(1,959	) —
Purchases of additional interests in consolidated subsidiaries	—	(8,527
Purchases of intangible assets	(1,520	) (10
Net cash used in investing activities	(72,985	) (142,226
Financing activities		
Payments for purchases of treasury stock	(7,376	) —
Excess tax benefits on stock-based compensation	12,116	24,620
Taxes paid related to net share settlements of stock-based compensation awards	(26,504	) (7,586
Payments of contingent consideration from acquisitions	(780	) (4,250
Settlements of purchase price obligations related to acquisitions	(5,000	) —
Proceeds from stock option exercises and employee stock purchase plan	6,578	8,868
Partnership distributions to noncontrolling interest holders	(4,286	) (3,062
Payments of capital lease obligations	(1,001	) —
Net cash (used in) provided by financing activities	(26,253	) 18,590
Effect of exchange rate changes on cash and cash equivalents	(10,351	) 595
Net (decrease) increase in cash and cash equivalents	(69,432	) 78,076
Cash and cash equivalents, beginning of period	1,209,289	1,122,935
Cash and cash equivalents, end of period	\$ 1,139,857	\$ 1,201,011

Edgar Filing: Groupon, Inc. - Form 10-Q

Non-cash investing and financing activities		
Issuance of common stock in connection with acquisition	\$3,051	\$—
Contingent consideration liabilities incurred in connection with acquisitions	\$3,567	\$2,521
Equipment acquired under capital lease obligations	\$7,377	\$—
Shares issued to settle liability-classified awards	\$3,394	\$—

7

---

Edgar Filing: Groupon, Inc. - Form 10-Q

Accounts payable and accrued expenses related to purchases of property and equipment and capitalized software	\$ 1,713	\$6,858
Contribution of investment in E-Commerce transaction	\$—	\$47,042
Stock issued in exchange for additional interests in consolidated subsidiaries	\$—	\$527
Liability for purchases of treasury stock	\$ 1,638	\$—

See Notes to unaudited Condensed Consolidated Financial Statements.

GROUPON, INC.  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
(in thousands, except share amounts)  
(unaudited)

	Groupon, Inc. Common Stock		Additional Paid-In Capital		Treasury Stock		Accumulated Deficit	Other Comp. Income	Total Groupon Inc. Stockholder's Equity	Non-contributed Interests	Total Equity
	Shares	Amount	Shares	Amount	Shares	Amount					
Balance at December 31, 2012	656,923,682	\$65	\$1,485,006	—	\$—	—	\$(753,477)	\$12,446	\$744,040	\$(1,939)	\$742,101
Net loss	—	—	—	—	—	—	(14,146 )	—	(14,146 )	4,061	(10,085)
Foreign currency translation	—	—	—	—	—	—	—	11,152	11,152	264	11,416
Unrealized loss on available-for-sale debt security, net of tax	—	—	—	—	—	—	—	(19 )	(19 )	—	(19)
Stock issued in connection with acquisitions	276,217	—	3,051	—	—	—	—	—	3,051	—	3,051
Shares issued to settle liability-classified awards	630,873	—	3,394	—	—	—	—	—	3,394	—	3,394
Exercise of stock options	3,266,115	—	3,337	—	—	—	—	—	3,337	—	3,337
Vesting of restricted stock units	10,333,706	1	(1 )	—	—	—	—	—	—	—	—
Shares issued under employee stock purchase plan	774,288	—	3,241	—	—	—	—	—	3,241	—	3,241
Tax withholdings related to net share settlements of stock-based compensation awards	(3,703,956 )	—	(26,296 )	—	—	—	—	—	(26,296 )	—	(26,296)
Stock-based compensation on equity-classified awards	—	—	89,292	—	—	—	—	—	89,292	—	89,292
Excess tax benefits, net of shortfalls, on stock-based	—	—	2,791	—	—	—	—	—	2,791	—	2,791

Edgar Filing: Groupon, Inc. - Form 10-Q

compensation awards										
Purchases of treasury stock	—	—	—	(770,900)	(9,014)	—	—	(9,014)	—	(9,014)
Partnership distributions to noncontrolling interest holders	—	—	—	—	—	—	—	—	(4,412)	(4,412)
Balance at September 30, 2013	668,500,925	\$66	\$1,563,815	(770,900)	\$(9,014)	\$(767,623)	\$23,579	\$810,823	\$(2,026)	\$808,797

See Notes to unaudited Condensed Consolidated Financial Statements.

GROUPON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Company Information

Groupon, Inc. and subsidiaries (the "Company") is an online local commerce marketplace that connects merchants to consumers by offering goods and services at a discount. The Company also offers deals on products for which it acts as the merchant of record. The Company, which commenced operations in October 2008, sends emails to its subscribers each day with discounted offers for goods and services that are targeted by location and personal preferences. Consumers also access deals directly through the Company's websites and mobile applications. The Company's operations are organized into three principal segments: North America, EMEA, which is comprised of Europe, Middle East and Africa, and the remainder of the Company's international operations ("Rest of World"). During the second quarter of 2013, the Company changed the composition of its operating segments to separate its former International segment between EMEA and Rest of World. See Note 11 "Segment Information" for further information.

Unaudited Interim Financial Information

The Company has prepared the accompanying condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial reporting. These condensed consolidated financial statements are unaudited and, in the Company's opinion, include all adjustments, consisting of normal recurring adjustments and accruals, necessary for a fair presentation of the Company's condensed consolidated balance sheets, statements of operations, comprehensive (loss) income, cash flows and stockholders' equity for the periods presented. Operating results for the periods presented are not necessarily indicative of the results to be expected for the full year ending December 31, 2013. Certain information and disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") have been omitted in accordance with the rules and regulations of the SEC. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the SEC on February 27, 2013.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The Company's condensed consolidated financial statements were prepared in accordance with U.S. GAAP and include the assets, liabilities, revenue and expenses of all wholly owned subsidiaries and majority owned subsidiaries over which the Company exercises control and variable interest entities for which the Company has determined that it is the primary beneficiary. Outside stockholders' interests in subsidiaries are shown on the condensed consolidated financial statements as "Noncontrolling interests" and "Redeemable noncontrolling interests." Equity investments in entities in which the Company does not have a controlling financial interest are accounted for under either the equity method or cost method of accounting, as appropriate.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires estimates and assumptions that affect the reported amounts and classifications of assets and liabilities, revenue and expenses, and the related disclosures of contingent liabilities in the condensed consolidated financial statements and accompanying notes. Estimates are utilized for, but not limited to, stock based compensation, income taxes, valuation of acquired goodwill and intangible assets, investments, customer refunds, contingent liabilities and the useful lives of property, equipment and software and intangible assets. Actual results could differ materially from those estimates.

## GROUPON, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

## 2. BUSINESS COMBINATIONS

The Company acquired six businesses during the nine months ended September 30, 2013. These business combinations were accounted for using the acquisition method, and the results of each of those acquired businesses have been included in the condensed consolidated financial statements beginning on the respective acquisition dates. The fair value of consideration transferred in business combinations is allocated to the tangible and intangible assets acquired and liabilities assumed at the acquisition date, with the remaining unallocated amount recorded as goodwill. The allocations of the purchase price for these acquisitions have been prepared on a preliminary basis, and changes to those allocations may occur as additional information becomes available. Acquired goodwill represents the premium the Company paid over the fair value of the net tangible and intangible assets acquired. The Company paid this premium for a number of reasons, including acquiring an experienced workforce and enhancing technology capabilities. The goodwill is generally not deductible for tax purposes.

Liabilities for contingent consideration (i.e., earn-outs) are measured at fair value each reporting period, with the acquisition-date fair value included as part of the consideration transferred and subsequent changes in fair value recorded within earnings as "Acquisition-related (benefit) expense, net." See Note 9 "Fair Value Measurements" for information about fair value measurements of contingent consideration liabilities.

The primary purpose of the Company's six acquisitions during the nine months ended September 30, 2013 was to enhance the Company's technology capabilities, acquire an experienced workforce and to expand and advance product offerings. The aggregate acquisition-date fair value of the consideration transferred for these acquisitions totaled \$15.1 million, which consisted of the following (in thousands):

Fair Value of Consideration Transferred	Fair Value
Cash	\$8,459
Issuance of Class A common stock	3,051
Contingent consideration	3,567
Total	\$15,077

The following table summarizes the allocation of the aggregate purchase price of acquisitions for the nine months ended September 30, 2013 (in thousands):

Net working capital (including acquired cash of \$2.1 million)	\$1,728
Property and equipment	99
Goodwill	8,794
Intangible assets: <sup>(1)</sup>	
Subscriber relationships	1,928
Merchant relationships	557
Developed technology	2,373
Other intangible assets	50
Net deferred tax liability	(452)
Total purchase price	\$15,077

(1) Acquired intangible assets have estimated useful lives of between 1 and 5 years.

Pro forma results of operations have not been presented because the effects of these business combinations, individually and in the aggregate, were not material to the Company's condensed consolidated results of operations.

GROUPON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

**3. GOODWILL AND OTHER INTANGIBLE ASSETS**

Goodwill is tested for impairment at the reporting unit level. Prior to the second quarter of 2013, the Company's four reporting units were North America, EMEA, Asia Pacific ("APAC") and Latin America ("LATAM"). As discussed in Note 11 "Segment Information," the Company changed the composition of its operating segments during the second quarter of 2013 to separate its former International segment between EMEA and Rest of World. As a result of this change in operating segments, the Company's former EMEA reporting unit has been disaggregated into four new reporting units for goodwill impairment testing purposes: Southern EMEA, Western EMEA, Northern EMEA and Eastern/Central EMEA. Goodwill from the former EMEA reporting unit was reallocated to the four new EMEA reporting units based on their relative fair values.

Due to the establishment of the four new reporting units during the second quarter of 2013, the Company performed an interim goodwill impairment evaluation for those reporting units as of June 30, 2013. For the Southern EMEA and Northern EMEA reporting units, there was no impairment of goodwill because the fair values of those reporting units exceeded their carrying values. As of the June 30, 2013 testing date, liabilities exceeded assets for the Western EMEA and Eastern/Central EMEA reporting units. For reporting units with a negative book value (i.e., excess of liabilities over assets), qualitative factors are evaluated to determine whether it is necessary to perform the second step of the goodwill impairment test. Based on that evaluation, which included consideration of the significant growth of the businesses and improvement in their operating performance since they were acquired in May 2010, the Company determined that the likelihood of a goodwill impairment for the two reporting units with negative book values did not reach the more-likely-than-not threshold specified in U.S. GAAP. Accordingly, the Company concluded that the goodwill relating to the Western EMEA and Eastern/Central EMEA reporting units was not impaired as of June 30, 2013 and step two of the goodwill impairment test was not required to be performed. The Company also tested the former EMEA reporting unit for goodwill impairment immediately prior to the establishment of the four new reporting units and there was no impairment of goodwill because its fair value exceeded its carrying value.

The following table summarizes the Company's goodwill activity by segment for the nine months ended September 30, 2013 (in thousands):

	North America	International	EMEA	Rest of World	Consolidated
Balance as of December 31, 2012	\$79,276	\$127,408	\$—	\$—	\$206,684
Goodwill related to acquisitions	4,401	—	4,393	—	8,794
Other adjustments <sup>(1)</sup>	1,287	(2,638 )	3,459	638	2,746
Reallocation to new segments	—	(124,770 )	105,347	19,423	—
Balance as of September 30, 2013	\$84,964	\$—	\$113,199	\$20,061	\$218,224

(1) Includes changes in foreign exchange rates for goodwill and purchase accounting adjustments.



## GROUPON, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

The following tables summarize the Company's other intangible assets (in thousands):

Asset Category	As of September 30, 2013		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Subscriber relationships	\$44,850	\$28,168	\$16,682
Merchant relationships	8,867	7,540	1,327
Trade names	6,624	6,476	148
Developed technology	22,542	17,475	5,067
Other intangible assets	16,897	6,939	9,958
Total	\$99,780	\$66,598	\$33,182

  

Asset Category	As of December 31, 2012		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Subscriber relationships	\$42,075	\$21,356	\$20,719
Merchant relationships	8,187	6,873	1,314
Trade names	6,490	5,900	590
Developed technology	20,000	10,994	9,006
Other intangible assets	15,601	4,633	10,968
Total	\$92,353	\$49,756	\$42,597

Amortization of intangible assets is computed using the straight-line method over their estimated useful lives, which range from 1 to 5 years. Amortization expense for these intangible assets was \$5.3 million and \$5.6 million for the three months ended September 30, 2013 and 2012, respectively, and \$16.1 million and \$15.6 million for the nine months ended September 30, 2013 and 2012, respectively. As of September 30, 2013, the Company's estimated future amortization expense for these intangible assets is as follows (in thousands):

Remaining amounts in 2013	\$5,568
2014	15,888
2015	8,265
2016	2,369
2017	722
Thereafter	370
	\$33,182

## GROUPON, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

## 4. INVESTMENTS

The following table summarizes the Company's investments (dollars in thousands):

	September 30, 2013	Percent Ownership of Common and Preferred Stock			December 31, 2012	Percent Ownership of Common and Preferred Stock				
Cost method investments:										
Life Media Limited (F-tuan)	\$84,021	19		%	\$77,521	19		%		
Other cost method investments	15,377	6	% to	17	%	1,867	6	% to	19	%
Total cost method investments	99,398				79,388					
Equity method investments	1,676	21	% to	50	%	1,734	21	% to	50	%
Total investments in equity interests	\$101,074				\$81,122					
Available-for-sale debt security	3,056				3,087					
Total investments	\$104,130				\$84,209					

## Cost Method Investments

In June 2012, Life Media Limited ("F-tuan"), an exempted company incorporated under the laws of the Cayman Islands with operations in China, acquired the Company's 49.8% interest in E-Commerce King Limited ("E-Commerce"). In exchange for its interest in E-Commerce and an additional \$25.0 million of cash consideration, the Company received a 19.1% interest in F-tuan in the form of common and Series E preferred shares. The Company recognized a non-operating gain of \$56.0 million as a result of the transaction, which is included within "Other income, net" on the consolidated statement of operations for the nine months ended September 30, 2012. The gain represents the excess of the fair value of the Company's 19.1% investment in F-tuan over the carrying value of its E-Commerce investment as of the date of the transaction and the \$25.0 million of cash consideration. The investment in F-tuan is accounted for using the cost method of accounting because the Company does not have the ability to exercise significant influence over the operating and financial policies of the investee. Accordingly, the investment is adjusted only for other-than-temporary declines in fair value, certain distributions and additional investments.

In August 2013, the Company entered into an exchange transaction with F-tuan whereby it received newly issued shares of Series F preferred stock in exchange for all shares of F-tuan common stock previously held by the Company and \$8.0 million of cash consideration, which was paid in two installments of \$6.5 million and \$1.5 million in August and October 2013, respectively. The transaction was recorded at cost and the \$6.5 million paid in August 2013 increased the carrying amount of the Company's investment to \$84.0 million as of September 30, 2013. The Company's entire investment in F-tuan following this transaction is in the form of Series E and Series F preferred shares. Those preferred shares rank pari passu with certain other classes of F-tuan's outstanding preferred stock and have an aggregate liquidation preference of \$84.0 million. The Company's voting interest in F-tuan remained 19.1% after the transaction and the investment continues to be accounted for under the cost method.

In February 2013, the Company acquired a 10.3% ownership interest in a non-U.S.-based payment processor for \$13.1 million. This investment is accounted for using the cost method of accounting because the Company does not have the ability to exercise significant influence over the operating and financial policies of the investee. Accordingly, the investment is adjusted only for other-than-temporary declines in fair value, certain distributions and additional investments.

## Available-for-Sale Debt Security

In November 2012, the Company purchased a convertible debt security issued by a nonpublic entity for \$3.0 million and has classified the security as available-for-sale. As of September 30, 2013, the amortized cost, gross unrealized gain and fair value of this security were \$3.0 million, \$0.1 million and \$3.1 million, respectively. As of December 31, 2012, the amortized cost, gross unrealized gain and fair value of this security were \$3.0 million, \$0.1 million and \$3.1 million, respectively. The contractual maturity date of the security is November 1, 2015.



## GROUPON, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

## Other-Than-Temporary Impairment

An unrealized loss exists when the current fair value of an investment is less than its amortized cost basis. The Company conducts periodic reviews of all of its investments with unrealized losses to evaluate whether those impairments are other-than-temporary. This evaluation, which is performed at the individual investment level, consists of several qualitative and quantitative factors regarding the severity and duration of the unrealized loss, as well as the Company's intent and ability to hold the investment for a period of time that is sufficient to allow for an anticipated recovery in value. Evidence considered in this evaluation includes the amount of the impairment, the length of time that the investment has been impaired, the factors contributing to the impairment, the financial condition and near-term prospects of the investee, recent operating trends and forecasted performance of the investee, market conditions in the geographic area or industry in which the investee operates, and the Company's strategic plans for holding the investment in relation to the period of time expected for an anticipated recovery in value. Additionally, the Company considers whether it intends to sell the investment or whether it is more likely than not that it will be required to sell the investment before recovery of its amortized cost basis. Investments with unrealized losses that are determined to be other-than-temporary are written down to fair value with a charge to earnings. Unrealized losses that are determined to be temporary in nature are not recorded for cost method investments and equity method investments, while such losses are recorded, net of tax, in accumulated other comprehensive income for available-for-sale securities.

The Company previously concluded that its cost method investment in F-tuan was other-than-temporarily impaired as of December 31, 2012, and the investment was written down to its fair value of \$77.5 million at that time. During the three months ended September 30, 2013, the Company invested an additional \$6.5 million in F-tuan, which increased the carrying amount of the Company's investment as of September 30, 2013 to \$84.0 million. For purposes of measuring the fair value of this investment as of September 30, 2013, the Company applied a discounted cash flow method, which is an income approach, and the resulting value was corroborated by a market approach. The Company used a discount rate of 31%, compared to a discount rate of 30% used in the December 31, 2012 fair value measurement, and the Company used the investee's financial projections for the remainder of the year ending December 31, 2013. However, the Company applied downward adjustments to the investee's financial projections for future years in the September 30, 2013 fair value measurement based on our expectations for the investee's future performance and related market conditions. The resulting fair value measurement of the investment in F-tuan was \$82.5 million, as compared to its carrying amount of \$84.0 million, as of September 30, 2013. The unrealized loss as a percentage of the investment's carrying amount decreased from 10.8% as of June 30, 2013 to 1.9% as of September 30, 2013. This improvement was attributable to the August 2013 exchange transaction described above, as the Company's investment in common shares was exchanged for preferred shares that have a more senior position in F-tuan's capital structure.

The factors that the Company considered in evaluating whether the unrealized loss as of September 30, 2013 constituted an other-than-temporary impairment included the severity of the impairment (i.e., an unrealized loss equal to 1.9% of the investment's carrying amount), the duration of the impairment of less than nine months and the Company's intent to hold the investment for a sufficient period of time to allow for a recovery in fair value. Based on this assessment, which also considered other qualitative factors, the Company concluded that the investment was not other-than-temporarily impaired as of September 30, 2013. However, if the operating performance of the investee deteriorates significantly in future periods or if the investee obtains additional funding at a substantially lower valuation, it may be necessary to recognize an other-than-temporary impairment charge in earnings at that time.

GROUPON, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
 (unaudited)

5. SUPPLEMENTAL CONSOLIDATED BALANCE SHEET AND STATEMENT OF OPERATIONS INFORMATION

The following table summarizes the Company's other income (expense), net for the three and nine months ended September 30, 2013 and 2012 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Interest income	\$487	\$525	\$1,348	\$1,931
Interest expense	(39)	) —	(187)	) —
Gain on E-Commerce transaction	—	—	—	56,032
Foreign exchange and other	409	92	(10,933)	) (3,518)
Other income (expense), net	\$857	\$617	\$(9,772)	) \$54,445

The following table summarizes the Company's prepaid expenses and other current assets as of September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Current portion of unamortized tax effects on intercompany transactions	\$29,513	\$37,589
Finished goods inventories	18,949	39,733
Prepaid expenses	26,627	20,964
Restricted cash	16,693	16,507
VAT and other taxes receivable	20,380	16,439
Prepaid marketing <sup>(1)</sup>	19,243	—
Prepayments of inventory purchases and other <sup>(1)</sup>	5,138	19,341
Total prepaid expenses and other current assets	\$136,543	\$150,573

The Company previously remitted prepayments to an online travel company in connection with a two-year agreement to offer discounted airline ticket deals. These prepayments were recorded within "Prepayments of inventory purchases and other." In June 2013, the parties entered into an amended agreement whereby the Company's prepayments were applied as consideration for certificates that can be used to obtain discounts on the purchase of air travel through the online travel company's website. The Company periodically issues these certificates to customers in connection with its marketing activities. The cost of the certificates is recorded as "Prepaid marketing" as of September 30, 2013, and marketing expense is recognized as the certificates are issued to customers.

The following table summarizes the Company's accrued expenses as of September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Marketing	\$11,203	\$11,237
Refunds reserve	36,382	69,209
Payroll and benefits	62,209	61,557
Subscriber credits	48,158	58,977
Professional fees	16,507	16,938
Other	37,259	29,006
Total accrued expenses	\$211,718	\$246,924

## GROUPON, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

The following table summarizes the Company's other current liabilities as of September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Income taxes payable	\$29,018	\$33,887
VAT and sales tax payable	41,614	55,728
Deferred revenue	35,154	25,780
Other	20,978	21,252
Total other current liabilities	\$126,764	\$136,647

The following table summarizes the Company's other non-current liabilities as of September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Long-term tax liabilities	\$83,910	\$77,553
Deferred rent	9,414	9,162
Other	12,205	13,357
Total other non-current liabilities	\$105,529	\$100,072

The following table summarizes the components of accumulated other comprehensive income as of September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Foreign currency translation adjustments	\$23,545	\$12,393
Unrealized gain on available-for-sale debt security, net of tax	34	53
Accumulated other comprehensive income	\$23,579	\$12,446

## 6. COMMITMENTS AND CONTINGENCIES

The Company's commitments as of September 30, 2013 did not materially change from the amounts set forth in the Company's 2012 Annual Report on Form 10-K.

### Legal Matters

From time to time, the Company is party to various legal proceedings incident to the operation of its business. For example, the Company is currently involved in proceedings by stockholders, former employees, intellectual property infringement suits and suits by customers (individually or as class actions) alleging, among other things, violation of the Credit Card Accountability, Responsibility and Disclosure Act, and state laws governing gift cards, stored value cards and coupons. Additionally, the Company is subject to general customer complaints seeking monetary damages, particularly in its Rest of World segment. The following is a brief description of the more significant legal proceedings.

On February 8, 2012, the Company issued a press release announcing its expected financial results for the fourth quarter of 2012. After finalizing its year-end financial statements, the Company announced on March 30, 2012 revised financial results, as well as a material weakness in its internal control over financial reporting related to deficiencies in its financial statement close process. The revisions resulted in a reduction to fourth quarter 2011 revenue of \$14.3 million. The revisions also resulted in an increase to fourth quarter operating expenses that reduced operating income by \$30.0 million, net income by \$22.6 million and earnings per share by \$0.04. Following this announcement, the Company and several of its current and former directors and officers were named as parties to the following outstanding securities and stockholder derivative lawsuits all arising out of the same alleged events and facts.

## GROUPON, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

The Company is currently a defendant in a proceeding pursuant to which, on October 29, 2012, a consolidated amended class action complaint was filed against the Company, certain of its directors and officers, and the underwriters that participated in the initial public offering of the Company's Class A common stock. Originally filed in April 2012, the case is currently pending before the United States District Court for the Northern District of Illinois: *In re Groupon, Inc. Securities Litigation*. The complaint asserts claims pursuant to Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. Allegations in the consolidated amended complaint include that the Company and its officers and directors made untrue statements or omissions of material fact by issuing inaccurate financial statements for the fiscal quarter and the fiscal year ending December 31, 2011 and by failing to disclose information about the Company's financial controls in the registration statement and prospectus for the Company's initial public offering of Class A common stock and in the Company's subsequently-issued financial statements. The putative class action lawsuit seeks an unspecified amount of monetary damages, reimbursement for fees and costs incurred in connection with the actions, including attorneys' fees, and various other forms of monetary and non-monetary relief. The defendants filed a motion to dismiss the consolidated amended complaint on January 18, 2013, which the Court denied on September 19, 2013. Defendants' answers to the consolidated amended class action complaint are due December 6, 2013. Plaintiff filed a motion for class certification on September 26, 2013. The defendants plan to oppose this motion. The parties have agreed to a schedule for completion of briefing on class certification.

In addition, federal and state purported stockholder derivative lawsuits have been filed against certain of the Company's current and former directors and officers. The federal purported stockholder derivative lawsuit was originally filed in April 2012 and a consolidated stockholder derivative complaint, filed on July 30, 2012, is currently pending in the United States District Court for the Northern District of Illinois: *In re Groupon Derivative Litigation*. Plaintiffs assert claims for breach of fiduciary duty and abuse of control. The state derivative cases are currently pending before the Chancery Division of the Circuit Court of Cook County, Illinois: *Orrego v. Lefkofsky, et al.*, was filed on April 5, 2012; and *Kim v. Lefkofsky, et al.*, was filed on May 25, 2012. The state derivative complaints generally allege that the defendants breached their fiduciary duties by purportedly mismanaging the Company's business by, among other things, failing to utilize proper accounting controls and, in the case of one of the state derivative lawsuits, by engaging in alleged insider trading of the Company's Class A common stock and misappropriating information. In addition, one state derivative case asserts a claim for unjust enrichment. The derivative lawsuits purport to seek to recoup for the Company an unspecified amount of monetary damages allegedly sustained by the Company, restitution from defendants, reimbursement for fees and costs incurred in connection with the actions, including attorneys' fees, and various other forms of monetary and non-monetary relief. On June 20, 2012, the Company and the individual defendants filed a motion requesting that the court stay the federal derivative actions pending resolution of the Federal Class Actions. On July 31, 2012, the court granted defendants' motion in part, and stayed the Federal derivative actions pending a separate resolution of upcoming motions to dismiss in the federal class actions. On June 15, 2012, the state plaintiffs filed a motion to consolidate the state derivative actions, which was granted on July 2, 2012, and on July 5, 2012, the plaintiffs filed a motion for appointment of co-lead plaintiffs and co-lead counsel, which was granted on July 27, 2012. No consolidated complaint has been filed in the state derivative action. On September 14, 2012, the court granted a motion filed by the parties requesting that the court stay the state derivative actions pending the federal court's resolution of anticipated motions to dismiss in the federal class actions. On April 18, 2013, the court appointed a lead plaintiff and approved its selection of lead counsel and local counsel for the purported class. In light of the *In re Groupon, Inc. Securities Litigation* proceedings, the parties are discussing whether to extend the litigation stays currently in place.

On July 1, 2013, a putative class action captioned *Weber v. Groupon, Inc.* pending in the United States District Court for the Northern District of Illinois was voluntarily dismissed without prejudice by the lead plaintiff. The putative class action was originally filed as two federal putative class action securities complaints: *Weber v. Groupon, Inc.*, et al (filed on December 21, 2012) and *Earley v. Groupon, Inc. et al.* (filed on January 22, 2013), consolidated as *Weber*

v. Groupon, Inc., et al. The actions asserted claims pursuant to Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and the allegations included that the Company and its officers and directors made untrue statements or omissions of material fact, including with respect to the Company's revenue growth and revenue mix. The putative class action lawsuit sought an unspecified amount of monetary damages, reimbursement for fees and costs incurred in connection with the actions, including attorneys' fees, and various other forms of monetary and non-monetary relief. On July 1, 2013, lead plaintiff filed a notice with the court voluntarily dismissing all claims against defendants without prejudice. On July 19, 2013, the court dismissed all claims against defendants without prejudice. Two additional state stockholder derivative complaints were filed in January 2013, in the Chancery Division of the Circuit of Court of Cook County, Illinois: Charles v. Mason, et al. was filed on January 24, 2013, and Walsh v. Mason, et al. was filed on January 31, 2013. The Charles and Walsh complaints generally allege that the defendants breached their fiduciary duties through a series of statements about the Company's financial health and business prospects beginning on May 14, 2012, through November



GROUPON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

2012 related to the Company's revenue and customer base, and alleges claims for breach of fiduciary duty, waste of corporate assets, and unjust enrichment. Both complaints seek to recoup an unspecified amount of monetary damages allegedly sustained by the Company, restitution from defendants, reimbursements for fees and costs incurred in connection with the actions, including attorneys' fees, and various other forms of non-monetary relief. On March 19, 2013, the court ordered the Charles and Walsh actions to be consolidated. On May 13, 2013, the court entered a stipulation and order granting plaintiff's request to appoint lead counsel and liaison counsel, and to stay the cases pending the Court's resolution of an anticipated motion to dismiss in *Weber v. Groupon, Inc.* As discussed above, the lead plaintiff in *Weber* subsequently voluntarily dismissed the case without prejudice. Thereafter, the state derivative plaintiffs advised that they too wished to dismiss their action without prejudice. On October 9, 2013, the court dismissed the state derivative action in its entirety without prejudice.

The Company intends to defend all of the securities and stockholder derivative lawsuits vigorously.

The Company was named as a defendant in a series of class actions that came to be consolidated into a single case in the U.S. District Court for the Southern District of California. The consolidated case is referred to as *In re Groupon Marketing and Sales Practices Litigation*. The Company denies liability, but the parties agreed to settle the litigation for \$8.5 million before any determination had been made on the merits or with respect to class certification. Because the case had been filed as a class action, the parties were required to provide proper notice and obtain court approval for the settlement. During that process, certain individuals asserted various objections to the settlement. The parties to the case opposed the objections and on December 14, 2012, the district court approved the settlement over the various objections.

Subsequent to the entry of the order approving settlement, certain of the objectors filed a notice of appeal, contesting the settlement and appealing the matter to the Ninth Circuit of the U.S. Court of Appeals, where the case remains pending. The Company believes that the settlement is valid and intends to oppose the appeal. Plaintiffs also maintain that the settlement is valid and will be opposing the appeal. The settlement, however, is not effective during the pendency of the appeal. The Company does not know when the appeal will be resolved. Depending on the outcome of the appeal, it is possible that the settlement will be rejected, or that there will be further proceedings in the appellate court or district court, or that the settlement will be enforced at that time without further objections or proceedings. In addition, third parties have from time to time claimed, and others may claim in the future, that the Company has infringed their intellectual property rights. The Company is subject to intellectual property disputes, and expects that it will increasingly be subject to intellectual property infringement claims as its services expand in scope and complexity. The Company has in the past been forced to litigate such claims, and several of these claims are currently pending. The Company may also become more vulnerable to third party claims as laws such as the Digital Millennium Copyright Act are interpreted by the courts, and as the Company becomes subject to laws in jurisdictions where the underlying laws with respect to the potential liability of online intermediaries are either unclear or less favorable. The Company believes that additional lawsuits alleging that it has violated patent, copyright or trademark laws will be filed against it. Intellectual property claims, whether meritorious or not, are time consuming and costly to resolve, could require expensive changes in the Company's methods of doing business, or could require it to enter into costly royalty or licensing agreements.

The Company is also subject to, or in the future may become subject to, a variety of regulatory inquiries across the jurisdictions where the Company conducts its business, including, for example, consumer protection, marketing practices, tax and privacy rules and regulations. Any regulatory actions against the Company, whether meritorious or not, could be time consuming, result in costly litigation, damage awards, injunctive relief or increased costs of doing business through adverse judgment or settlement, require the Company to change its business practices in expensive ways, require significant amounts of management time, result in the diversion of significant operational resources or otherwise harm the Company's business.

The Company establishes an accrued liability for loss contingencies related to legal and regulatory matters when the loss is both probable and estimable. In such cases, there may be an exposure to loss in excess of the amounts accrued.

Because of the inherent uncertainty related to the matters described above, including the early stage and lack of specific damage claims in many of them, we are unable to estimate a range of reasonably possible losses in excess of the amounts accrued, if any. Although the future results of litigation and claims cannot be determined, based on the information currently available the Company believes that the final outcome of these matters will not have a material adverse effect on its business, consolidated financial position, results of operations, or cash flows. The Company's accrued liabilities for loss contingencies related to legal and regulatory matters may change in the future due to new developments or changes in strategy in handling these matters. Regardless of the outcome,

GROUPON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources and other factors.

#### Indemnifications

In the normal course of business to facilitate transactions related to its operations, the Company indemnifies certain parties, including employees, lessors, service providers and merchants, with respect to various matters. The Company has agreed to hold certain parties harmless against losses arising from a breach of representations or covenants, or other claims made against those parties. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim. The Company is also subject to increased exposure to various claims as a result of its acquisitions, particularly in cases where the Company is entering into new businesses in connection with such acquisitions. The Company may also become more vulnerable to claims as it expands the range and scope of its services and is subject to laws in jurisdictions where the underlying laws with respect to potential liability are either unclear or less favorable. In addition, the Company has entered into indemnification agreements with its officers and directors, and the Company's bylaws contain similar indemnification obligations to agents.

It is not possible to determine the maximum potential amount under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Historically, the payments that the Company has made under these agreements have not had a material impact on the operating results, financial position, or cash flows of the Company.

### 7. STOCKHOLDERS' EQUITY AND STOCK-BASED COMPENSATION

#### Common Stock

The Company's Board of Directors ("Board") has authorized three classes of common stock: Class A common stock, Class B common stock and common stock. No shares of common stock will be issued or outstanding until November 5, 2016, at which time all outstanding shares of Class A common stock and Class B common stock will automatically convert into shares of common stock. In addition, the Board has authorized shares of undesignated preferred stock, the rights, preferences and privileges of which may be designated from time to time by the Board.

#### Share Repurchase Program

In August 2013, the Board authorized the Company to purchase up to \$300 million of its outstanding Class A common stock over the next 24 months. The timing and amount of any share repurchases is determined based on market conditions, share price and other factors, and the program may be discontinued or suspended at any time. During the three and nine months ended September 30, 2013, the Company purchased 770,900 shares of Class A common stock for an aggregate purchase price of \$9.0 million (including fees and commissions) under the share repurchase program.

#### Groupon, Inc. Stock Plans

The Groupon, Inc. Stock Plans (the "Plans") are administered by the Compensation Committee of the Board, which determines the number of awards to be issued, the corresponding vesting schedule and the exercise price for options. As of September 30, 2013, 4,735,450 shares were available for future issuance under the Plans. On November 5, 2013, an additional 15 million shares were authorized for future issuance under the Plans.

The Company recognized stock-based compensation expense of \$26.9 million and \$22.6 million for the three months ended September 30, 2013 and 2012, respectively, and \$89.2 million and \$77.7 million for the nine months ended September 30, 2013 and 2012, respectively, related to stock awards issued under the Plans, acquisition-related awards and subsidiary awards. The Company also capitalized \$2.2 million and \$3.2 million of stock-based compensation for the three months ended September 30, 2013 and 2012, respectively, and \$6.9 million and \$5.6 million for the nine months ended September 30, 2013 and 2012, respectively, in connection with internally-developed software.

## GROUPON, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

## Employee Stock Purchase Plan

The Company is authorized to grant up to 10 million shares of common stock under its employee stock purchase plan ("ESPP"). For the nine months ended September 30, 2013, 774,288 shares of common stock were issued under the ESPP. No shares of common stock were issued under the ESPP for the nine months ended September 30, 2012.

## Stock Options

The table below summarizes the stock option activity during the nine months ended September 30, 2013:

	Options	Weighted- Average Exercise Price	Aggregate Intrinsic Value (in thousands) <sup>(1)</sup>
Outstanding at December 31, 2012	7,713,421	\$ 1.09	\$29,063
Exercised	(3,266,115	) \$ 1.02	
Forfeited	(321,345	) \$ 1.50	
Expired	(15,625	) \$ 2.06	
Outstanding at September 30, 2013	4,110,336	\$ 1.09	\$41,590
Exercisable at September 30, 2013	3,322,892	\$0.88	\$34,338

The aggregate intrinsic value of options outstanding and exercisable represents the total pretax intrinsic value (the difference between the fair value of the Company's stock on the last day of each period and the exercise price, (1) multiplied by the number of options where the fair value exceeds the exercise price) that would have been received by the option holders had all option holders exercised their options as of September 30, 2013 and December 31, 2012, respectively.

## Restricted Stock Units

The table below summarizes activity regarding unvested restricted stock units under the Plans during the nine months ended September 30, 2013:

	Restricted Stock Units	Weighted- Average Grant Date Fair Value (per share)
Unvested at December 31, 2012	29,699,348	\$9.31
Granted	32,945,631	\$6.87
Vested	(10,333,706	) \$8.44
Forfeited	(8,292,731	) \$8.46
Unvested at September 30, 2013	44,018,542	\$7.88

During the quarter ended September 30, 2013, the Company modified the terms of certain key executives' restricted stock units to allow for the partial acceleration of vesting upon an eligible termination, including in connection with a change in control. This modification did not result in the recognition of any additional stock-based compensation expense.

## Restricted Stock Awards

The Company has granted restricted stock awards in connection with prior period business combinations. Compensation expense on these awards is recognized on a straight-line basis over the requisite service period.

GROUPON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

The table below summarizes activity regarding unvested restricted stock during the nine months ended September 30, 2013:

	Restricted Stock	Weighted- Average Grant Date Fair Value (per share)
Unvested at December 31, 2012	577,048	\$10.31
Vested	(384,830	) \$8.81
Unvested at September 30, 2013	192,218	\$13.32

#### 8. (LOSS) EARNINGS PER SHARE OF CLASS A AND CLASS B COMMON STOCK

The Company computes (loss) earnings per share of Class A and Class B common stock using the two-class method. Basic (loss) earnings per share is computed using the weighted-average number of common shares outstanding during the period. Diluted (loss) earnings per share is computed using the weighted-average number of common shares and the effect of potentially dilutive equity awards outstanding during the period. Potentially dilutive securities consist of stock options, restricted stock units, unvested restricted stock awards and ESPP shares. The dilutive effect of these equity awards are reflected in diluted (loss) earnings per share by application of the treasury stock method. The computation of the diluted (loss) earnings per share of Class A common stock assumes the conversion of Class B common stock, if dilutive, while the diluted (loss) earnings per share of Class B common stock does not assume the conversion of those shares.

The rights, including the liquidation and dividend rights, of the holders of Class A and Class B common stock are identical, except with respect to voting. Under the two-class method, the undistributed earnings for each period are allocated based on the contractual participation rights of the Class A and Class B common shares as if the earnings for the period had been distributed. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. Further, as the Company assumes the conversion of Class B common stock, if dilutive, in the computation of the diluted (loss) earnings per share of Class A common stock, the undistributed earnings are equal to net income for that computation.

## GROUPON, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

The following tables set forth the computation of basic and diluted (loss) earnings per share of Class A and Class B common stock for the three and nine months ended September 30, 2013 and 2012 (in thousands, except share amounts and per share amounts):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013		2012		2013		2012	
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
Basic (loss) earnings per share:								
Numerator								
Allocation of net (loss) income	\$(1,287 )	\$(5 )	\$(937 )	\$(3 )	\$(10,049 )	\$(36 )	\$28,908	\$108
Less: Allocation of adjustment of redeemable noncontrolling interests to redemption value	—	—	1,328	5	—	—	12,452	46
Less: Allocation of net income attributable to noncontrolling interests	1,283	5	703	3	4,046	15	2,796	10
Allocation of net (loss) income attributable to common stockholders	\$(2,570 )	\$(10 )	\$(2,968 )	\$(11 )	\$(14,095 )	\$(51 )	\$13,660	\$52
Denominator								
Weighted-average common shares outstanding	664,032,872	2,399,976	650,823,634	2,399,976	660,131,591	2,399,976	645,621,967	2,399,976
Basic (loss) earnings per share	\$(0.00 )	\$(0.00 )	\$(0.00 )	\$(0.00 )	\$(0.02 )	\$(0.02 )	\$0.02	\$0.02
Diluted (loss) earnings per share:								
Numerator								
Allocation of net (loss) income attributable to common stockholders	\$(2,570 )	\$(10 )	\$(2,968 )	\$(11 )	\$(14,095 )	\$(51 )	\$13,660	\$52
Reallocation of net income attributable to common stockholders as a result of conversion of Class B <sup>(1)</sup>	—	—	—	—	—	—	52	—
Allocation of net (loss) income attributable to common stockholders	\$(2,570 )	\$(10 )	\$(2,968 )	\$(11 )	\$(14,095 )	\$(51 )	\$13,712	\$52

Denominator							
Weighted-average common shares outstanding used in basic computation	664,032,872	2,399,976	650,823,634	2,399,976	660,131,591	2,399,976	645,621,967
Conversion of Class B <sup>(1)</sup>	—	—	—	—	—	—	2,399,976
Employee stock options <sup>(1)</sup>	—	—	—	—	—	—	10,909,749
Restricted shares and RSUs <sup>(1)</sup>	—	—	—	—	—	—	4,625,558
Weighted-average diluted shares outstanding <sup>(1)</sup>	664,032,872	2,399,976	650,823,634	2,399,976	660,131,591	2,399,976	663,557,250
Diluted (loss) earnings per share	\$(0.00)	)	\$(0.00)	)	\$(0.00)	)	\$(0.02)
							)
							\$0.02
							\$0.02

Conversion of Class B shares into Class A shares and outstanding equity awards have not been reflected in the (1) diluted loss per share calculation for the three and nine months ended September 30, 2013 and for the three months ended September 30, 2012 because the effect would be antidilutive.

## GROUPON, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

The following outstanding equity awards are not included in the diluted (loss) earnings per share calculation above because they would have had an antidilutive effect:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Stock options	5,023,559	8,864,956	6,242,363	9,018
Restricted stock units	43,020,496	29,093,524	39,076,490	7,249,438
Restricted stock	217,005	39,390	357,339	—
ESPP shares	334,213	—	484,184	—
Total	48,595,273	37,997,870	46,160,376	7,258,456

## 9. FAIR VALUE MEASUREMENTS

Fair value is defined under U.S. GAAP as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability.

To increase the comparability of fair value measures, the following hierarchy prioritizes the inputs in valuation methodologies used to measure fair value:

Level 1-Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2-Include other inputs that are directly or indirectly observable in the marketplace.

Level 3-Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. These fair value measurements require significant judgment.

In determining fair value, the Company uses various valuation approaches within the fair value measurement framework. The valuation methodologies used for the Company's assets and liabilities measured at fair value and their classification in the valuation hierarchy are summarized below:

Cash equivalents - Cash equivalents primarily consist of AAA-rated money market funds with overnight liquidity and no stated maturities. The Company classified cash equivalents as Level 1 due to the short-term nature of these instruments and measured the fair value based on quoted prices in active markets for identical assets.

Available-for-sale debt security - The Company has an investment in a convertible debt security issued by a nonpublic entity. This available-for-sale debt security is measured at fair value each reporting period, with unrealized gains and losses recorded in other comprehensive income. The Company measures its fair value using an income approach that incorporates probability-weighted outcomes. The Company has classified this investment as Level 3 due to the lack of observable market data over fair value inputs such as the fair value of the nonmarketable equity shares underlying the conversion option. Increases in the estimated fair value of the nonmarketable equity shares underlying the conversion option contribute to increases in the fair value of the available-for-sale debt security and decreases in the estimated fair value of the underlying shares contribute to decreases in its fair value. Additionally, increases in the assessed likelihood of a default by the convertible debt issuer contribute to decreases in the fair value of the available-for-sale debt security and decreases in the assessed likelihood of a default contribute to increases in its fair value.

Contingent consideration - The Company has contingent obligations to transfer cash payments and equity shares to the former owners in conjunction with certain acquisitions if specified operational objectives and financial results are met over future reporting periods. Liabilities for contingent consideration (i.e., earn-outs) are measured at fair value each reporting period, with the acquisition-date fair value included as part of the consideration transferred and subsequent changes in fair value recorded in earnings as acquisition-related (benefit) expense, net.

The Company uses an income approach to value contingent consideration liabilities, which is determined based on the



## GROUPON, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

present value of probability-weighted future cash flows using internal models. For contingent consideration to be settled in a variable number of shares of common stock, the Company used the most recent Groupon stock price as reported on the NASDAQ to determine the fair value of the shares potentially issuable as of September 30, 2013 and December 31, 2012. The Company has generally classified the contingent consideration liabilities as Level 3 due to the lack of relevant observable market data over fair value inputs such as probability-weighting for payment outcomes. Increases in the assessed likelihood of a higher payout under a contingent consideration arrangement contribute to increases in the fair value of the related liability. Conversely, decreases in the assessed likelihood of a higher payout under a contingent consideration arrangement contribute to decreases in the fair value of the related liability. Changes in assumptions could have an impact on the payout of contingent consideration arrangements with a maximum payout of \$17.6 million cash and 0.1 million shares of the Company's common stock as of September 30, 2013.

The following tables summarize the Company's assets and liabilities that are measured at fair value on a recurring basis (in thousands):

Description	As of September 30, 2013	Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Cash equivalents	\$585,490	\$585,490	\$—	\$—
Available-for-sale debt security	\$3,056	\$—	\$—	\$3,056
<b>Liabilities:</b>				
Contingent consideration	\$8,112	\$—	\$—	\$8,112
Description	As of December 31, 2012	Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Cash equivalents	\$585,393	\$585,393	\$—	\$—
Available-for-sale debt security	\$3,087	\$—	\$—	\$3,087
<b>Liabilities:</b>				
Contingent consideration	\$7,601	\$—	\$—	\$7,601

## GROUPON, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

The following table provides a roll-forward of the fair value of recurring Level 3 fair value measurements for the three and nine months ended September 30, 2013 and 2012 (in thousands):

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	2012		2012	
<b>Assets</b>				
<b>Available-for-Sale Debt Security:</b>				
Beginning Balance	\$3,233	\$—	\$3,087	\$—
Total losses included in other comprehensive (loss) income	(177	) —	(31	) —
Ending Balance	\$3,056	\$—	\$3,056	\$—
Unrealized losses still held <sup>(1)</sup>	\$177	\$—	\$31	\$—
<b>Liabilities</b>				
<b>Contingent Consideration:</b>				
Beginning Balance	\$6,854	\$6,081	\$7,601	\$11,230
Issuance of contingent consideration in connection with acquisitions	3,537	2,100	3,567	2,100
Settlements of contingent consideration liabilities	(750	) —	(780	) (4,250
Total (gains) losses included in earnings <sup>(2)</sup>	(1,529	) 3,176	(2,276	) 2,277
Reclass of contingent consideration from Level 2 to Level 3	—	1,244	—	1,244
Ending Balance	\$8,112	\$12,601	\$8,112	\$12,601
Unrealized (gains) losses still held <sup>(1)</sup>	\$(1,408	) \$3,176	\$(2,155	) \$2,277

(1) Represents the unrealized (gains) losses recorded in earnings or other comprehensive (loss) income during the period for assets and liabilities classified as Level 3 that are still held (or outstanding) at the end of the period.

(2) Changes in the fair value of contingent consideration liabilities are classified as "Acquisition-related (benefit) expense, net" on the condensed consolidated statements of operations.

**Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis**

Certain assets and liabilities are measured at fair value on a nonrecurring basis, including assets that are written down to fair value as a result of an impairment. The Company did not record any nonrecurring fair value measurements after initial recognition during the three and nine months ended September 30, 2013 and 2012.

## GROUPON, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

## Estimated Fair Value of Financial Assets and Liabilities Not Measured at Fair Value

The following table presents the carrying amounts and fair values of financial instruments that are not carried at fair value in the condensed consolidated financial statements (in thousands):

	As of September 30, 2013		As of December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cost method investments:				
Life Media Limited (F-tuan)	\$84,021	\$82,451	\$77,521	<sup>(1)</sup> \$77,521
Other cost method investments	\$15,377	\$16,320	\$1,867	\$2,260

(1) The Company's cost method investment in F-tuan was determined to be other-than-temporarily impaired and was written down to its fair value of \$77.5 million as of December 31, 2012.

See Note 4 "Investments" for further information regarding the Company's valuation methodology for its investment in F-tuan. The fair values of the Company's other cost method investments were determined using the market approach or the income approach, depending on the availability of fair value inputs such as financial projections for the investees and market multiples for comparable companies. The Company has classified the fair value measurements of its cost method investments as Level 3 measurements within the fair value hierarchy because they involve significant unobservable inputs.

The Company's other financial instruments not carried at fair value consist primarily of short term certificates of deposit, accounts receivable, restricted cash, accounts payable, accrued merchant and supplier payables and accrued expenses. The carrying values of these assets and liabilities approximate their respective fair values as of September 30, 2013 and December 31, 2012 due to their short term nature.

## 10. INCOME TAXES

The Company's tax provision for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items.

For the three months ended September 30, 2013, the Company recorded income tax expense of \$15.9 million on pre-tax income of \$14.6 million, for an effective tax rate of 108.8%. For the three months ended September 30, 2012, the Company recorded income tax expense of \$26.9 million on pre-tax income of \$25.9 million, for an effective tax rate of 103.6%.

For the nine months ended September 30, 2013, the Company recorded income tax expense of \$62.7 million on pre-tax income of \$52.6 million, for an effective tax rate of 119.2%. For the nine months ended September 30, 2012, the Company recorded income tax expense of \$128.3 million on pre-tax income of \$157.3 million, for an effective tax rate of 81.6%.

The Company's U.S. statutory rate is 35%. The most significant factors impacting the effective tax rate for the three and nine months ended September 30, 2013 and 2012 were losses in jurisdictions that the Company is not able to benefit due to uncertainty as to the realization of those losses, amortization of the tax effects of intercompany sales of intellectual property and nondeductible stock-based compensation expense. The effective tax rate for the nine months ended September 30, 2012 was also negatively impacted by the tax effects of the gain on the E-Commerce transaction, as described in Note 4 "Investments."

As of September 30, 2013, the unamortized tax effects of intercompany transactions of \$29.5 million and \$26.4 million are included within "Prepaid expenses and other current assets" and "Other non-current assets," respectively, on the condensed consolidated balance sheet. As of December 31, 2012, unamortized tax effects of intercompany transactions of \$37.6 million and \$46.3 million are included within "Prepaid expenses and other current assets" and "Other non-current assets," respectively, on the condensed consolidated balance sheet. As of September 30, 2013, the estimated future amortization of the tax effects of intercompany transactions to income tax expense is \$8.6 million for the remainder of 2013, \$27.5 million for 2014 and \$19.8 million for 2015. These amounts exclude the benefits, if any, for tax deductions in other jurisdictions that the Company may be entitled to as a result of the related intercompany

transactions.

27

---

GROUPON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

#### 11. SEGMENT INFORMATION

The Company previously organized its operations into two principal segments: North America, which represents the United States and Canada, and International, which represented the rest of the Company's global operations. In February 2013, the Company's former CEO was terminated by the Board of Directors and a new Office of the Chief Executive was established to serve the functions of the CEO. The Office of the Chief Executive was comprised of two members of the Board of Directors, Eric Lefkofsky and Ted Leonsis, who collectively functioned as the Company's chief operating decision-maker ("CODM"). Beginning in June 2013, the financial information reported to the CODM, which is used in making resource allocation decisions and assessing operating performance, separated the Company's former International segment between EMEA and Rest of World. As a result of this change in the financial information reported to the CODM, the Company updated its segment disclosures to separately report three segments: North America, EMEA and Rest of World. Prior period segment information has been retrospectively adjusted to reflect this change.

In August 2013, the Board of Directors appointed Mr. Lefkofsky as CEO. Mr. Lefkofsky was previously a member of the Office of the Chief Executive and will continue to be the Company's CODM.

## GROUPON, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Revenue for each segment is based on the geographic market where the sales are completed. Revenue and profit or loss information by reportable segment reconciled to consolidated net (loss) income for the three and nine months ended September 30, 2013 and 2012 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
North America				
Revenue <sup>(1)</sup>	\$360,838	\$291,603	\$1,077,574	\$790,349
Segment cost of revenue and operating expenses <sup>(2)</sup>	335,670	252,510	962,532	667,655
Segment operating income <sup>(2)</sup>	25,168	39,093	115,042	122,694
EMEA				
Revenue <sup>(3)</sup>	147,950	187,287	491,710	629,198
Segment cost of revenue and operating expenses <sup>(2)</sup>	132,346	158,179	417,222	531,968
Segment operating income <sup>(2)</sup>	15,604	29,108	74,488	97,230
Rest of World				
Revenue	86,271	89,662	235,924	276,623
Segment cost of revenue and operating expenses <sup>(2)</sup>	87,890	107,375	276,105	306,535
Segment operating loss <sup>(2)</sup>	(1,619)	(17,713)	(40,181)	(29,912)
Consolidated				
Revenue	595,059	568,552	1,805,208	1,696,170
Segment cost of revenue and operating expenses <sup>(2)</sup>	555,906	518,064	1,655,859	1,506,158
Segment operating income <sup>(2)</sup>	39,153	50,488	149,349	190,012
Stock-based compensation	26,870	22,619	89,223	77,706
Acquisition-related (benefit) expense, net	(1,529)	2,431	(2,276)	744
Loss on equity method investments	25	138	58	8,694
Other (income) expense, net	(857)	(617)	9,772	(54,445)
Income before provision for income taxes	14,644	25,917	52,572	157,313
Provision for income taxes	15,936	26,857	62,657	128,297
Net (loss) income	\$(1,292)	\$(940)	\$(10,085)	\$29,016

North America contains revenue from the United States of \$349.1 million and \$278.5 million for the three months (1) ended September 30, 2013 and 2012, respectively, and \$1,039.7 million and \$746.8 million for the nine months ended September 30, 2013 and 2012, respectively.

(2) Segment cost of revenue and operating expenses and segment operating income (loss) exclude stock-based compensation and acquisition-related (benefit) expense, net. This presentation corresponds to the measure of segment profit or loss that the Company's chief operating decision maker uses in assessing segment performance and making resource allocation decisions. For the three months ended September 30, 2013 and 2012, stock-based compensation expense was approximately \$21.1 million and \$13.1 million, respectively, for the North America segment, approximately \$2.6 million and \$3.8 million, respectively, for the EMEA segment and approximately \$3.2 million and \$5.8 million, respectively, for the Rest of World segment. For the three months ended September 30, 2013 and 2012, acquisition-related (benefit) expense, net was approximately \$1.0 million and \$1.6 million of benefit, respectively, for the North America segment and approximately \$0.5 million of benefit and \$4.1 million of expense, respectively, for the EMEA segment. For the nine months ended September 30, 2013 and 2012, stock-based compensation expense was approximately \$69.5 million and \$48.2 million, respectively, for the North America segment, approximately \$9.1 million and \$10.3 million, respectively, for the EMEA segment and approximately \$10.6 million and \$19.2 million, respectively, for the Rest of World segment. For the nine months ended September 30, 2013 and 2012, acquisition-related (benefit) expense, net was approximately \$1.4 million and

\$2.7 million of benefit, respectively, for the North America segment and approximately \$0.9 million of benefit and \$3.5 million of expense, respectively, for the EMEA segment. Acquisition-related (benefit) expense, net for the North America segment includes gains and losses relating to contingent consideration obligations incurred by U.S. legal entities relating to purchases of businesses that became part of the EMEA and Rest of World segments, which is consistent with the attribution used for internal reporting purposes.

(3) EMEA segment revenue for the three and nine months ended September 30, 2012 included an \$18.5 million one-time increase to third party revenue for unredeemed vouchers ("Groupons") in Germany, which represented the cumulative impact of deals in that jurisdiction for which, based on a German tax ruling, the Company's obligation to the merchant would have ended prior to the quarter ended September 30, 2012.

GROUPON, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
 (unaudited)

The following table summarizes the Company's total assets by reportable segment as of September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
North America <sup>(1)</sup>	\$1,186,467	\$1,177,314
EMEA	599,523	649,978
Rest of World	164,550	204,182
Consolidated total assets	\$1,950,540	\$2,031,474

North America contains assets from the United States of \$1,144.6 million and \$1,112.6 million as of September 30, (1)2013 and December 31, 2012, respectively. There were no other individual countries located outside of the United

States that represented more than 10% of consolidated total assets as of September 30, 2013 or December 31, 2012.

Category Information

The Company offers goods and services through three primary categories: Local Deals ("Local"), Groupon Goods ("Goods") and Groupon Getaways ("Travel"). The following table summarizes the Company's third party and other and direct revenue by category for its three reportable segments for the three months ended September 30, 2013 and 2012 (in thousands):

	North America		EMEA		Rest of World		Consolidated	
	Three Months Ended September 30,		Three Months Ended September 30,		Three Months Ended September 30,		Three Months Ended September 30,	
	2013	2012	2013	2012	2013	2012	2013	2012
Local <sup>(1)</sup> :								
Third party	\$158,189	\$134,993	\$91,448	\$109,552	\$51,507	\$54,632	\$301,144	\$299,177
Direct	1,040	6,450	—	—	—	—	1,040	6,450
Total revenue	159,229	141,443	91,448	109,552	51,507	54,632	302,184	305,627
Goods:								
Third party	3,999	13,064	32,008	49,649	17,215	21,661	53,222	84,374
Direct	181,915	126,608	9,271	9,880	7,846	2,050	199,032	138,538
Total revenue	185,914	139,672	41,279	59,529	25,061	23,711	252,254	222,912
Travel and other:								
Third party and other	15,695	10,488	15,223	18,206	9,703	11,319	40,621	40,013
Direct	—	—	—	—	—	—	—	—
Total revenue	15,695	10,488	15,223	18,206	9,703	11,319	40,621	40,013
Total revenue	\$360,838	\$291,603	\$147,950	\$187,287	\$86,271	\$89,662	\$595,059	\$568,552

<sup>(1)</sup> Includes revenue from deals with local merchants, from deals with national merchants, and through local events (i.e., GrouponLive deals).



## GROUPON, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

The following table summarizes the Company's third party and other and direct revenue by category for its three reportable segments for the nine months ended September 30, 2013 and 2012 (in thousands):

	North America		EMEA		Rest of World		Consolidated	
	Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012	2013	2012	2013	2012
Local <sup>(1)</sup> :								
Third party	\$503,899	\$510,310	\$311,644	\$399,153	\$139,915	\$172,058	\$955,458	\$1,081,521
Direct	1,733	12,037	—	—	—	—	1,733	12,037
Total revenue	505,632	522,347	311,644	399,153	139,915	172,058	957,191	1,093,558
Goods:								
Third party	11,794	48,392	110,821	137,322	50,262	62,217	172,877	247,931
Direct	511,357	181,664	18,903	27,373	20,249	4,241	550,509	213,278
Total revenue	523,151	230,056	129,724	164,695	70,511	66,458	723,386	461,209
Travel and other:								
Third party and other	48,791	37,946	50,342	61,097	25,498	38,107	124,631	137,150
Direct	—	—	—	4,253	—	—	—	4,253
Total revenue	48,791	37,946	50,342	65,350	25,498	38,107	124,631	141,403
Total revenue	\$1,077,574	\$790,349	\$491,710	\$629,198	\$235,924	\$276,623	\$1,805,208	\$1,696,170

(1) Includes revenue from deals with local merchants, from deals with national merchants, and through local events (i.e., GrouponLive deals).

## GROUPON, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

The following table summarizes the Company's gross profit by category for its three reportable segments for the three months ended September 30, 2013 and 2012 (in thousands):

	North America		EMEA		Rest of World		Consolidated	
	Three Months Ended September 30,		Three Months Ended September 30,		Three Months Ended September 30,		Three Months Ended September 30,	
	2013	2012	2013	2012	2013	2012	2013	2012
Local <sup>(1)</sup> :								
Third party	\$139,204	\$121,817	\$81,194	\$99,136	\$44,104	\$41,319	\$264,502	\$262,272
Direct	(847 )	1,219	—	—	—	—	(847 )	1,219
Total gross profit	138,357	123,036	81,194	99,136	44,104	41,319	263,655	263,491
Goods:								
Third party	3,519	11,789	28,036	44,928	11,530	15,680	43,085	72,397
Direct	18,090	16,279	907	2,035	486	(2,158 )	19,483	16,156
Total gross profit	21,609	28,068	28,943	46,963	12,016	13,522	62,568	88,553
Travel and other:								
Third party and other	11,603	9,464	13,544	16,475	8,252	8,783	33,399	34,722
Direct	—	—	—	—	—	—	—	—
Total gross profit	11,603	9,464	13,544	16,475	8,252	8,783	33,399	34,722
Total gross profit	\$171,569	\$160,568	\$123,681	\$162,574	\$64,372	\$63,624	\$359,622	\$386,766

<sup>(1)</sup> Includes gross profit from deals with local merchants, from deals with national merchants, and through local events (i.e., GrouponLive deals).

## GROUPON, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

The following table summarizes the Company's gross profit by category for its three reportable segments for the nine months ended September 30, 2013 and 2012 (in thousands):

	North America		EMEA		Rest of World		Consolidated	
	Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012	2013	2012	2013	2012
Local <sup>(1)</sup> :								
Third party	\$439,181	\$409,642	\$276,300	\$361,963	\$118,627	\$133,735	\$834,108	\$905,340
Direct	(790 )	1,909	—	—	—	—	(790 )	1,909
Total gross profit	438,391	411,551	276,300	361,963	118,627	133,735	833,318	907,249
Goods:								
Third party	10,317	38,346	96,264	124,550	27,507	48,006	134,088	210,902
Direct	50,725	23,402	(239 )	3,009	187	(1,915 )	50,673	24,496
Total gross profit	61,042	61,748	96,025	127,559	27,694	46,091	184,761	235,398
Travel and other:								
Third party and other	39,078	30,450	44,608	55,411	21,560	30,665	105,246	116,526
Direct	—	—	—	529	—	—	—	529
Total gross profit	39,078	30,450	44,608	55,940	21,560	30,665	105,246	117,055
Total gross profit	\$538,511	\$503,749	\$416,933	\$545,462	\$167,881	\$210,491	\$1,123,325	\$1,259,702

(1) Includes gross profit from deals with local merchants, from deals with national merchants, and through local events (i.e., GrouponLive deals).

## 12. RELATED PARTIES

## Marketing Services

During 2011, the Company engaged InnerWorkings, Inc. ("InnerWorkings") to provide marketing services. At that time Eric Lefkofsky, the Company's CEO, was the Executive Chairman of the Company and was a significant stockholder and director of InnerWorkings. Mr. Lefkofsky is no longer a director nor a significant stockholder in InnerWorkings. The Company recognized less than \$0.1 million and \$0.2 million of expense under its agreement with InnerWorkings for the three months ended September 30, 2013 and 2012, respectively, and less than \$0.1 million and \$0.9 million of expense under its agreement with InnerWorkings for the nine months ended September 30, 2013 and 2012, respectively.

## Logistics Services

In connection with the Company's expansion of Goods offerings during 2012, the Company entered into a transportation and supply chain management agreement with Echo Global Logistics, Inc. ("Echo"). Eric Lefkofsky and two of the Company's other directors, Peter Barris and Bradley Keywell, either are currently or were previously directors of Echo and have direct and/or indirect ownership interests in Echo. Pursuant to the agreement, Echo provided services either related to carrier rate negotiation and management, shipping origin and destination coordination, inventory facility set-up and management and supply chain cost analysis. Echo received payments of approximately \$1.3 million and \$1.9 million for its services under the agreement for the three and nine months ended September 30, 2012, respectively, which were expensed by the Company through "Cost of revenue" on the condensed consolidated statements of operations. The Company terminated its arrangement with Echo during 2012.



GROUPON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

### 13. SUBSEQUENT EVENT

On November 6, 2013, the Company entered into an agreement to acquire Living Social Korea Inc., including its subsidiary Ticket Monster Inc., a Korean e-commerce company, in exchange for aggregate consideration of \$260.0 million, including at least \$100.0 million in cash. The remaining \$160.0 million can be paid in cash, Class A common stock or a combination thereof at the Company's election. Any shares of Class A common stock issued will be subject to registration rights. The acquisition is expected to close in the first half of 2014, subject to regulatory approval by the Korean Fair Trade Commission and satisfaction of customary closing conditions.

34

---

## Item 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with our condensed consolidated financial statements and related notes included under Part I, Item 1 of this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements about our business and operations. Our actual results may differ materially from those we currently anticipate as a result of many factors, including those we describe under "Risk Factors" and elsewhere in this Quarterly Report.

### Overview

Our mission is to be the world's commerce operating system, increasing consumer buying power while driving more business to merchants through price and discovery. As part of that vision, we act as a local commerce marketplace that connects merchants to consumers by offering goods and services at a discount. Traditionally, local merchants have tried to reach consumers and generate sales through a variety of methods, including online advertising, the yellow pages, direct mail, newspaper, radio, television, and promotions. By bringing the brick and mortar world of local commerce onto the Internet, Groupon is helping local merchants to attract customers and sell goods and services. In our Goods category, through which we offer deals on merchandise, we often act as the merchant of record, particularly on deals in North America. We provide consumers with savings and help them discover what to do, eat, see, buy and where to travel.

Current and potential customers are able to access our deals through email, our websites and mobile applications, where we offer discounts on goods, services, travel and events that are targeted by location, purchase history and personal preferences. Our revenue from deals where we act as the third party marketing agent is the purchase price paid by the customer for a Groupon voucher ("Groupon") less an agreed upon portion of the purchase price paid to the featured merchants, excluding any applicable taxes and net of estimated refunds for which the merchant's share is recoverable. Our direct revenue from deals where we act as the merchant of record is the purchase price paid by the customer for the Groupon excluding any applicable taxes and net of estimated refunds. We generated revenue of \$595.1 million during the three months ended September 30, 2013, as compared to \$568.6 million during the three months ended September 30, 2012. We generated revenue of \$1,805.2 million during the nine months ended September 30, 2013, as compared to \$1,696.2 million during the nine months ended September 30, 2012.

Our operations are organized into three principal segments: North America, EMEA, which is comprised of Europe, Middle East and Africa, and the remainder of the Company's international operations ("Rest of World"). During the second quarter of 2013, the Company changed the composition of its operating segments to separate its former International segment between EMEA and Rest of World. See Note 11 "Segment Information" for further information. For the three months ended September 30, 2013, we derived 60.6% of our revenue from our North America segment, 24.9% of our revenue from our EMEA segment and 14.5% of our revenue from our Rest of World segment. For the nine months ended September 30, 2013, we derived 59.7% of our revenue from our North America segment, 27.2% of our revenue from our EMEA segment and 13.1% of our revenue from our Rest of World segment. We have an accumulated deficit of \$767.6 million as of September 30, 2013. Since our inception, we have driven our growth through substantial investments in infrastructure and marketing to increase customer acquisition. In particular, our significant net losses in previous years were driven in part by the rapid expansion of our EMEA and Rest of World segments, which involved investing heavily in upfront marketing, sales and infrastructure related to the build out of our operations in early stage countries.

On November 6, 2013, we entered into an agreement to acquire Living Social Korea Inc., including its subsidiary Ticket Monster Inc., a Korean e-commerce company, in exchange for aggregate consideration of \$260.0 million, including at least \$100.0 million in cash. The remaining \$160.0 million can be paid in cash, Class A common stock or a combination thereof at our election. Any shares of Class A common stock issued will be subject to registration rights. The acquisition is expected to close in the first half of 2014, subject to regulatory approval by the Korean Fair Trade Commission and satisfaction of customary closing conditions.

### How We Measure Our Business

We measure our business with several financial and operating metrics. We use these metrics to assess the progress of our business, make decisions on where to allocate capital, time and technology investments and assess the long term performance of our marketplace. Certain of the financial metrics are reported in accordance with U.S. generally

accepted accounting principles ("U.S. GAAP") and certain of these metrics are considered non-GAAP financial measures. As our business evolves, we may make changes to our key financial and operating metrics used to measure our business in future periods. For further information and a

reconciliation to the most applicable financial measure under U.S. GAAP, refer to our discussion under Non-GAAP Financial Measures in the "Results of Operations" section.

#### Financial Metrics

**Gross billings.** This metric represents the total dollar value of customer purchases of goods and services, excluding applicable taxes and net of estimated refunds. For third party revenue deals, gross billings differs from third party revenue reported in our condensed consolidated statements of operations, which is presented net of the merchant's share of the transaction price. For direct revenue deals, gross billings are equivalent to direct revenue reported in our condensed consolidated statements of operations. We consider this metric to be an important indicator of our growth and business performance as it is a proxy for the dollar volume of transactions generated through our marketplace. Tracking gross billings on third party revenue deals also allows us to track changes in the percentage of gross billings that we are able to retain after payments to our merchants.

**Revenue.** We believe revenue is an important indicator for our business. Third party revenue is derived from deals where we act as the marketing agent and is the purchase price paid by the customer for the Groupon less an agreed upon portion of the purchase price paid to the featured merchant, excluding any applicable taxes and net of estimated refunds for which the merchant's share is recoverable. Direct revenue, when the Company is selling the product as the merchant of record, is the purchase price paid by the customer, excluding any applicable taxes and net of estimated refunds.

**Gross profit.** Gross profit reflects the net margin earned after deducting our cost of revenue from our revenue. Due to the lack of comparability between third party revenue, which is presented net of the merchant's share of the transaction price, and direct revenue, which is reported on a gross basis, we believe that gross profit has become an increasingly important measure for evaluating our performance.

**Operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net.** Operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net is a non-GAAP financial measure that comprises the consolidated total of the segment operating income (loss) of our three segments, North America, EMEA and Rest of World. Stock based compensation expense and acquisition related expense (benefit), net are excluded from segment operating income (loss) that we report under U.S. GAAP for our segments. Stock-based compensation expense is primarily a non-cash item. Acquisition-related expense (benefit), net represents the change in the fair value of contingent consideration arrangements related to business combinations. We use consolidated operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net to allocate resources and evaluate performance internally. For further information and a reconciliation to the most applicable financial measure under U.S. GAAP, refer to our discussion under Non-GAAP Financial Measures in the "Results of Operations" section.

**Free cash flow.** Free cash flow is a non-GAAP financial measure that comprises net cash provided by operating activities less purchases of property and equipment and capitalized software. We use free cash flow, and ratios based on it, to conduct and evaluate our business because, although it is similar to cash flow from operations, we believe that it typically represents a more useful measure of cash flows because purchases of fixed assets, software developed for internal-use and website development costs are necessary components of our ongoing operations. Free cash flow is not intended to represent the total increase or decrease in Groupon's cash balance for the applicable period. For further information and a reconciliation to the most applicable financial measure under U.S. GAAP, refer to our discussion under Non-GAAP Financial Measures in the "Results of Operations" section.



The following table presents the above Financial Metrics for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Gross billings <sup>(1)</sup>	\$ 1,342,648	\$ 1,218,256	\$ 4,164,223	\$ 3,859,732
Revenue	595,059	568,552	1,805,208	1,696,170
Gross profit	359,622	386,766	1,123,325	1,259,702
Operating income excluding stock-based compensation and acquisition-related expense, net	39,153	50,488	149,349	190,012
Free cash flow	(26,969 )	26,078	(3,417 )	145,315

<sup>(1)</sup> Reflects the total dollar value of customer purchases of goods and services, excluding applicable taxes and net of estimated refunds.

#### Operating Metrics

**Active customers.** We define active customers as unique user accounts that have purchased Groupons during the trailing twelve months. We consider this metric to be an important indicator of our business performance as it helps us to understand how the number of customers actively purchasing Groupons is trending.

**Gross billings per average active customer.** This metric represents the trailing twelve months gross billings generated per average active customer. This metric is calculated as the total gross billings generated in the trailing twelve months, divided by the average number of active customers in such time period. Although we believe total gross billings, not trailing twelve months gross billings per average active customer, is a better indication of the overall growth of our marketplace over time, trailing twelve months gross billings per average active customer provides an opportunity to evaluate whether our growth is primarily driven by growth in total customers or in spend per customer in any given period.

**Units.** This metric represents the number of vouchers and products purchased from us by our customers, before refunds and cancellations. We consider unit growth to be an important indicator of the total volume of business conducted through our marketplace.

Our Active customers and Gross billings per average active customer for the trailing twelve months ("TTM") ended September 30, 2013 and 2012 were as follows:

	Trailing twelve months ended September 30,	
	2013	2012
TTM Active customers (in thousands)	43,471	39,525
TTM Gross billings per average active customer	\$ 136.99	\$ 148.78

Our Units for the three and nine months ended September 30, 2013 and 2012 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Units (in thousands)	45,862	42,017	137,433	125,550

#### Factors Affecting Our Performance

**Deal sourcing and quality.** We consider our merchant relationships to be a vital part of our business model and have made significant investments in order to expand the variety of tools that we can provide to our merchants. We depend on our ability to attract and retain merchants that are prepared to offer products or services on compelling terms, particularly as we attempt to expand our product and service offerings in order to create a more complete online marketplace for local commerce. In North America and certain foreign markets, we offer deals in which the merchant has a continuous presence on our websites and mobile applications by offering vouchers on an ongoing basis for an extended period of time. Currently, a substantial majority of our



merchants in North America elect to offer deals in this manner, and we expect that trend to continue. These marketplaces, which we refer to as "pull," enable customers to search for specific types of deals (e.g., steakhouse, pizza, massage, nail salon, golf lessons, yoga) on our websites and mobile applications. However, merchants have the ability to withdraw their extended deal offerings and we generally do not have noncancelable long-term arrangements to guarantee availability of deals. In order to attract merchants that may not have run deals on our platform or would have run deals on a competing platform, we are periodically willing to accept lower deal margins across all three of our segments. This has contributed to lower deal margins during the three and nine months ended September 30, 2013, as compared to the prior year periods. If new merchants do not find our marketing and promotional services effective, or if our existing merchants do not believe that utilizing our services provides them with a long-term increase in customers, revenue or profit, they may stop making offers through our marketplace.

**International operations.** Our international operations are critical to our revenue growth and our ability to achieve and maintain profitability. For the three months ended September 30, 2013 and 2012, 24.9% and 32.9% of our revenue was generated from our EMEA segment, respectively, and 14.5% and 15.8% of our revenue was generated from our Rest of World segment, respectively. For the nine months ended September 30, 2013 and 2012, 27.2% and 37.1% of our revenue was generated from our EMEA segment, respectively, and 13.1% and 16.3% of our revenue was generated from our Rest of World segment, respectively. Operating a global business requires management attention and resources and requires us to localize our services to conform to a wide variety of local cultures, business practices, laws and regulations. The different commercial and regulatory environments in other countries may make it more difficult for us to successfully operate our business. In addition, many of the automation tools that we have implemented in our North America segment are close to being fully implemented in most EMEA countries but have not yet been substantially rolled out to the countries in our Rest of World segment. Revenue declined in our EMEA and Rest of World segments for the three and nine months ended September 30, 2013, as compared to the prior year periods, which contributed to the reductions in the percentage of our total revenue generated by those segments. Additionally, the increase in direct revenue transactions from our Groupon Goods business in North America contributed to the increase in North America revenue as a percentage of our total revenue during the three and nine months ended September 30, 2013, as compared to the prior year periods, as direct revenue is presented on a gross basis in our condensed consolidated statements of operations.

**Marketing activities.** We must continue to acquire and retain customers who purchase Groupons in order to increase revenue and achieve profitability. If consumers do not perceive our Groupon offerings to be attractive, or if we fail to introduce new or more relevant deals, we may not be able to acquire or retain customers. In addition, as we build out a more complete marketplace, our success will depend on our ability to offer consumers the deals that they are most likely to purchase on our websites, through our mobile applications and through targeted emails. As discussed under "Components of Results of Operations," we consider order discounts, free shipping on merchandise sales and reducing margins on our deals to be marketing-related activities, even though these activities are not presented as marketing expenses in our consolidated statements of operations. We have, and expect to continue to, reduce our deal margins when we believe that by doing so we can offer our customers a product or service from a merchant who might not have otherwise been willing to conduct business through our marketplace. We use this as a marketing tool because we believe that in some instances this is an effective means of retaining or activating a customer, as compared to other methods of retention or activation, such as traditional advertising or discounts.

**Investment in growth.** We have aggressively invested, and intend to continue to invest, in our products and infrastructure to support our growth. We anticipate that we will make substantial investments in the foreseeable future as we continue to increase the number and variety of deals we offer each day, broaden our customer base, expand our marketing channels, expand our operations, hire additional employees and develop our technology. For example, we are developing a suite of merchant products, such as payment processing and point of sale, which require substantial investment, and these products do not currently generate a significant amount of revenue. Additionally, we believe that our efforts to automate our internal processes through investments in technology should allow us to improve our cost structure over time, as we are able to more efficiently run our business and minimize manual processes.

**Competitive pressure.** A substantial number of companies that attempt to replicate our business model have emerged around the world. In addition to such competitors, we expect to increasingly compete against other large Internet and technology based businesses that have launched initiatives which are directly competitive to our core business as well

as our other categories and our suite of merchant products, such as payment processing and point of sale. We also expect to compete against other Internet sites that are focused on specific communities or interests and offer coupons or discount arrangements related to such communities or interests. The margins on deals in our Local category, measured as the percentage of billings that we retain after deducting the merchant's share, improved sequentially during the three months ended September 30, 2013, as compared to the three months ended June 30, 2013. However, increased competition in the future may cause us to lower our margins on Local deals.

## Components of Results of Operations

### Third Party and Other Revenue

Third party revenue arises from transactions in which we are acting as a third party marketing agent and consists of the net amount we retain from the sale of Groupons after paying an agreed upon portion of the purchase price to the featured merchant, excluding any applicable taxes and net of estimated refunds for which the merchant's share is recoverable. Other revenue primarily consists of advertising revenue, payment processing revenue and point of sale revenue.

### Direct Revenue

Direct revenue arises from transactions, primarily in our Goods category, in which we are the merchant of record and consists of the gross amount we receive from the customer, excluding any applicable taxes and net of estimated refunds.

### Cost of Revenue

Cost of revenue is comprised of direct and certain indirect costs incurred to generate revenue. For direct revenue transactions, cost of revenue includes the cost of inventory, shipping and fulfillment costs and inventory markdowns. For third party revenue transactions, cost of revenue includes estimated refunds for which the merchant's share is not recoverable. Other costs incurred to generate revenue, which include credit card processing fees, editorial costs, certain technology costs, web hosting, and other processing fees, are allocated to cost of third party revenue, direct revenue and other revenue in proportion to relative gross billings during the period.

Technology costs included in cost of revenue consist of a portion of the payroll and stock based compensation expense related to the Company's technology support personnel who are responsible for operating and maintaining the infrastructure of the Company's existing website. Technology costs also include a portion of amortization expense from internal-use software, primarily related to website development. Remaining technology costs included within cost of revenue include email distribution costs. Editorial costs included in cost of revenue consist of payroll and stock based compensation expense related to the Company's editorial personnel, as these staff members are primarily dedicated to drafting and promoting deals.

### Marketing

Marketing expense consists primarily of targeted online marketing costs, such as sponsored search, advertising on social networking sites, email marketing campaigns, affiliate programs and, to a lesser extent, offline marketing costs such as television, radio and print advertising. Marketing payroll and stock based compensation expense are also classified as marketing expense. We record these costs within "Marketing" on the condensed consolidated statements of operations when incurred. Our subscriber acquisition and activation marketing activities also include elements that are not presented as "Marketing" on our condensed consolidated statements of operations, such as order discounts, free shipping on merchandise sales and accepting lower margins on our deals. Marketing is the primary method by which we acquire customers and, as such, is a critical part of our growth strategy.

### Selling, General and Administrative

Selling expenses reported within "Selling, general and administrative" on the condensed consolidated statements of operations consist of payroll, stock-based compensation expense and sales commissions for inside and outside sales representatives, as well as costs associated with supporting the sales function such as technology, telecommunications and travel. General and administrative expenses consist of payroll and stock-based compensation expense for employees involved in general corporate functions, including accounting, finance, tax, legal and human resources, among others. Additional costs included in general and administrative include customer service and operations, depreciation and amortization expense, rent, professional fees, litigation costs, travel and entertainment, charitable contributions, recruiting, office supplies, maintenance, certain technology costs and other general corporate costs.

### Acquisition Related

Acquisition-related (benefit) expense, net represents the change in the fair value of contingent consideration arrangements related to business combinations. See Note 9 "Fair Value Measurements."

Other Income (Expense), Net

Other income (expense), net, includes interest income on our cash and cash equivalents, interest expense on capital leases and foreign currency transaction gains and losses, primarily resulting from intercompany balances related to our foreign subsidiaries that are denominated in currencies other than their functional currencies. During the nine months ended September 30, 2012, other income, net also included a gain of \$56.0 million resulting from the E-Commerce transaction, which is described in Note 4 "Investments."

Edgar Filing: Groupon, Inc. - Form 10-Q

Results of Operations

Comparison of the Three Months Ended September 30, 2013 and 2012:

	Three Months Ended September 30,	
	2013	2012
	(in thousands)	
Revenue:		
Third party and other	\$394,987	\$423,564
Direct	200,072	144,988
Total revenue	595,059	568,552
Cost of revenue:		
Third party and other	54,001	54,173
Direct	181,436	127,613
Total cost of revenue	235,437	181,786
Gross profit	359,622	386,766
Operating expenses:		
Marketing	53,265	70,919
Selling, general and administrative	294,074	287,978
Acquisition-related (benefit) expense, net	(1,529	) 2,431
Total operating expenses	345,810	361,328
Income from operations	13,812	25,438
Loss on equity method investments	(25	) (138
Other income, net	857	617
Income before provision for income taxes	14,644	25,917
Provision for income taxes	15,936	26,857
Net loss	(1,292	) (940
Net income attributable to noncontrolling interests	(1,288	) (706
Net loss attributable to Groupon, Inc.	(2,580	) (1,646
Adjustment of redeemable noncontrolling interests to redemption value	—	(1,333
Net loss attributable to common stockholders	\$ (2,580	) \$ (2,979

Classification of stock-based compensation within cost of revenue and operating expenses

Cost of revenue and operating expenses include stock-based compensation as follows:

	Three Months Ended September 30,			
	2013		2012	
	Statement of Operations line item  (in thousands)	Stock-based compensation included in line item	Statement of Operations line item	Stock-based compensation included in line item
Total cost of revenue	\$235,437	\$386	\$181,786	\$858
Operating expenses:				
Marketing	\$53,265	\$2,512	\$70,919	\$739
Selling, general and administrative	294,074	23,972	287,978	21,022
Acquisition-related (benefit) expense, net	(1,529)	) —	2,431	—
Total operating expenses	\$345,810	\$26,484	\$361,328	\$21,761

Foreign exchange rate neutral operating results

The effect on our condensed consolidated statements of operations for the three months ended September 30, 2013 and 2012 from changes in exchange rates versus the U.S. dollar was as follows:

	Three Months Ended September 30, 2013			2012		
	At Avg. Q3 2012 Rates <sup>(1)</sup> (in thousands)	Exchange Rate Effect <sup>(2)</sup>	As Reported	At Avg. Q3 2011 Rates <sup>(1)</sup>	Exchange Rate Effect <sup>(2)</sup>	As Reported
Gross billings	\$1,354,362	\$(11,714)	) \$1,342,648	\$1,279,958	\$(61,702)	) \$1,218,256
Revenue	\$600,303	\$(5,244)	) \$595,059	\$594,551	\$(25,999)	) \$568,552
Cost of revenue and operating expenses	585,252	(4,005)	) 581,247	571,962	(28,848)	) 543,114
Income from operations	\$15,051	\$(1,239)	) \$13,812	\$22,589	\$2,849	\$25,438

(1) Represents the financial statement balances that would have resulted had exchange rates in the reporting period been the same as those in effect in the comparable prior year period.

(2) Represents the increase or decrease in reported amounts resulting from changes in exchange rates from those in effect in the comparable prior year period.

Gross Billings

Gross billings represents the total dollar value of customer purchases of goods and services, excluding applicable taxes and net of estimated refunds. For third party revenue deals, gross billings differs from third party revenue reported in our condensed consolidated statements of operations, which is presented net of the merchant's share of the transaction price. For direct revenue deals, gross billings are equivalent to direct revenue reported in our condensed consolidated statements of operations. For the three months ended September 30, 2013 and 2012, our gross billings were \$1,342.6 million and \$1,218.3 million, reflecting a growth rate of 10.2%. The increase in our gross billings was comprised of a \$67.9 million increase in our Goods category, a \$44.4 million increase in our Local category and a \$12.1 million increase in our Travel and other category. The increase in gross billings was driven by an increase in active customers and the volume of transactions. The unfavorable impact on gross billings from year-over-year changes in foreign exchange rates for the three months ended September 30, 2013 was \$11.7 million.





Edgar Filing: Groupon, Inc. - Form 10-Q

Gross Billings by segment for the three months ended September 30, 2013 and 2012 were as follows:

	Three Months Ended September 30,		2012	% of total	
	2013	% of total		2012	% of total
	(dollars in thousands)				
Gross billings:					
North America	\$664,999	49.5	% \$552,369	45.3	%
EMEA	443,318	33.0	396,087	32.5	
Rest of World	234,331	17.5	269,800	22.2	
Total gross billings	\$1,342,648	100.0	% \$1,218,256	100.0	%

We offer goods and services through three primary categories: Local Deals ("Local"), Groupon Goods ("Goods") and Groupon Getaways ("Travel"). Gross billings by category and segment for the three months ended September 30, 2013 and 2012 were as follows (in thousands):

	North America		EMEA		Rest of World		Consolidated	
	Three Months Ended September 30,		Three Months Ended September 30,		Three Months Ended September 30,		Three Months Ended September 30,	
	2013	2012	2013	2012	2013	2012	2013	2012
Local <sup>(1)</sup> :								
Third party	\$401,756	\$349,293	\$207,110	\$182,983	\$118,325	\$145,061	\$727,191	\$677,337
Direct	1,040	6,450	—	—	—	—	1,040	6,450
Total gross billings	402,796	355,743	207,110	182,983	118,325	145,061	728,231	683,787
Goods:								
Third party	12,650	25,508	160,578	136,960	71,127	74,504	244,355	236,972
Direct	181,915	126,608	9,271	9,880	7,846	2,050	199,032	138,538
Total gross billings	194,565	152,116	169,849	146,840	78,973	76,554	443,387	375,510
Travel and other:								
Third party and other	67,638	44,510	66,359	66,264	37,033	48,185	171,030	158,959
Direct	—	—	—	—	—	—	—	—
Total gross billings	67,638	44,510	66,359	66,264	37,033	48,185	171,030	158,959

Total gross billings \$664,999 \$552,369 \$443,318 \$396,087 \$234,331 \$269,800 \$1,342,648 \$1,218,256

(1) Includes gross billings from deals with local merchants, from deals with national merchants, and through local events (i.e., GrouponLive deals).

North America

North America segment gross billings increased by \$112.6 million to \$665.0 million for the three months ended September 30, 2013, as compared to \$552.4 million for the three months ended September 30, 2012. The increase in gross billings was comprised of a \$47.1 million increase in our Local category, a \$42.4 million increase in our Goods category and a \$23.1 million increase in our Travel and other category. The increase in gross billings in the North America segment resulted from an increase in active customers and higher unit sales for the three months ended September 30, 2013, as compared to the prior year period. We believe that increases in transaction activity on mobile devices and in the number of deals that we offered contributed to the growth in billings for our North America segment. In addition, we have continued to refine our approach to targeting customers through our emails, on our websites and through our mobile applications by sending them and highlighting deals for specific locations and personal preferences, which we believe contributed to the billings growth.

Although North America segment gross billings increased by 20.3% during the three months ended September 30, 2013, as compared to the prior year period, we believe that there were a number of factors that may have negatively impacted gross billings. For example, our subscriber email open rates declined in the current period, which we believe was due in part to subscribers who receive our emails through Gmail accounts, as Google, Inc. recently redesigned

their inboxes in a manner that causes our emails to be rerouted to a new "promotions" tab outside of the default inbox. Additionally, we believe that the continued growth

of our online marketplace of deals, where merchants have a continuous presence on our websites for an extended period of time, is impacting the timing of customer purchases in our Local category. Historically, our customers often purchased a Groupon voucher when they received our email with a limited-time offer, even though they may not have intended to use the voucher in the near term. However, our new marketplace of deals enables customers to wait until they are ready to use the related vouchers before making purchases, which we believe may adversely impact gross billings in the short term.

#### EMEA

EMEA segment gross billings increased by \$47.2 million to \$443.3 million for the three months ended September 30, 2013, as compared to \$396.1 million for the three months ended September 30, 2012. The increase in gross billings was primarily comprised of a \$24.1 million increase in our Local category and a \$23.0 million increase in our Goods category. The increase in gross billings in the EMEA segment resulted from higher gross billings per average active customer for the three months ended September 30, 2013, as compared to the prior year period. The favorable impact on gross billings from year-over-year changes in foreign exchange rates for the three months ended September 30, 2013 was \$13.2 million.

#### Rest of World

Rest of World segment gross billings decreased by \$35.5 million to \$234.3 million for the three months ended September 30, 2013, as compared to \$269.8 million for the three months ended September 30, 2012. The decrease in gross billings was comprised of a \$26.7 million decrease in our Local category and an \$11.2 million decrease in our Travel and other category, partially offset by a \$2.4 million increase in our Goods category. The net decrease in gross billings in the Rest of World segment resulted from lower gross billings per average active customer for the three months ended September 30, 2013, as compared to the prior year period, as well as overall weakness in some of our markets. The unfavorable impact on gross billings from year-over-year changes in foreign exchange rates for the three months ended September 30, 2013 was \$24.5 million.

#### Revenue

We generate revenue from third party revenue deals, direct revenue deals and other transactions. Revenue for the three months ended September 30, 2013 and 2012 was as follows:

	Three Months Ended September 30,	
	2013	2012
	(in thousands)	
Revenue:		
Third party	\$390,784	\$417,249
Direct	200,072	144,988
Other	4,203	6,315
Total revenue	\$595,059	\$568,552

Revenue increased by \$26.5 million to \$595.1 million for the three months ended September 30, 2013, as compared to \$568.6 million for the three months ended September 30, 2012. The primary driver of this increase was the \$55.1 million increase in direct revenue from transactions, primarily in our Goods category, where we are the merchant of record and for which revenue is reported on a gross basis. This increase in direct revenue was partially offset by a \$26.5 million decrease in third party revenue. The net increase in revenue was attributable to an increase in active customers and units purchased for the three months ended September 30, 2013, as compared to the prior year period. In addition, we have continued to refine our approach to targeting customers through our emails, on our websites and through our mobile applications by sending them and highlighting deals for specific locations and personal preferences, which we believe contributed to revenue growth. We also increased the number of merchant relationships and the volume of deals we offer on a daily basis to our customers. The unfavorable impact on revenue from year-over-year changes in foreign exchange rates for the three months ended September 30, 2013 was \$5.2 million.

#### Third Party Revenue

Third party revenue decreased by \$26.5 million to \$390.8 million for the three months ended September 30, 2013, as compared to \$417.2 million for the three months ended September 30, 2012. The decrease in third party revenue was primarily due to a \$31.2 million decrease in our Goods category, which resulted from a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 21.8% for the three months ended September 30,

2013, as compared to 35.6% for

44

---

the three months ended September 30, 2012. The decrease in third party revenue for the three months ended September 30, 2013, as compared to the prior year period, was also due to an \$18.5 million one-time increase during the prior year period in revenue from unredeemed Groupons in Germany, as described below.

We recognized a one-time increase of \$18.5 million to third party revenue from unredeemed Groupons during the three months ended September 30, 2012. This one-time increase represented the cumulative impact of deals in Germany for which, based on a German tax ruling, our obligation to the merchant would have ended prior to the beginning of the quarter ended September 30, 2012. For merchant payment arrangements that are structured under a redemption payment model, we retain all of the gross billings from unredeemed Groupons. We record revenue from unredeemed Groupons and derecognize the related accrued merchant payable when our legal obligation to the merchant expires, which we believe is shortly after deal expiration in most jurisdictions for which use a pay on redemption model. However, we had historically concluded based on our interpretation of applicable German law that our obligation to merchants in that jurisdiction extended for three years. Due to the German tax ruling, which requires us to remit value-added taxes (VAT) earlier on unredeemed Groupons, we began recognizing revenue from unredeemed Groupons in Germany shortly after deal expiration, consistent with most other jurisdictions in which we pay on redemption.

#### Direct Revenue

Direct revenue increased by \$55.1 million to \$200.1 million for the three months ended September 30, 2013, as compared to \$145.0 million for the three months ended September 30, 2012. We are often the merchant of record for transactions in the Goods category, particularly in North America, such that the resulting revenue is reported on a gross basis within direct revenue. Direct revenue deals have continued to grow, both overall and as a percentage of our revenue, through the continued growth of our Goods category, and we expect that trend to continue for the foreseeable future. In addition, we expect that any growth in direct revenue will result in a smaller increase in income from operations than growth in third party revenue because direct revenue includes the entire amount of gross billings, before deducting the cost of the related inventory, while third party revenue is net of the merchant's share of the transaction price. Additionally, our Goods category has lower margins than our Local category, primarily as a result of shipping and fulfillment costs related to direct revenue transactions. We believe that direct revenue transactions in our Goods category will increase in the future in the EMEA and Rest of World segments as we build out our global supply chain infrastructure.

#### Other Revenue

Other revenue decreased by \$2.1 million to \$4.2 million for the three months ended September 30, 2013, as compared to \$6.3 million for the three months ended September 30, 2012, primarily due to a decrease in non-merchant advertising. Other revenue also includes point of sale and payment processing revenue, which we launched in the third quarter of 2012, and reservation revenue, which we launched in the third quarter of 2013. Reservation revenue, point of sale revenue and payment processing revenue were not significant for the three months ended September 30, 2013 and 2012, and we do not expect them to be significant in the near term.

## Revenue by Segment

Revenue by segment for the three months ended September 30, 2013 and 2012 was as follows:

	Three Months Ended September 30,		2012		
	2013	% of total		% of total	
	(dollars in thousands)				
North America:					
Third party and other	\$ 177,883	29.9	% \$ 158,545	27.9	%
Direct	182,955	30.7	133,058	23.4	
Total segment revenue	360,838	60.6	291,603	51.3	
EMEA:					
Third party and other	138,679	23.3	177,407	31.2	
Direct	9,271	1.6	9,880	1.7	
Total segment revenue	147,950	24.9	187,287	32.9	
Rest of World:					
Third party and other	78,425	13.2	87,612	15.4	
Direct	7,846	1.3	2,050	0.4	
Total segment revenue	86,271	14.5	89,662	15.8	
Total revenue	\$ 595,059	100.0	% \$ 568,552	100.0	%

Revenue by category and segment for the three months ended September 30, 2013 and 2012 was as follows (in thousands):

	North America		EMEA		Rest of World		Consolidated	
	Three Months Ended September 30,		Three Months Ended September 30,		Three Months Ended September 30,		Three Months Ended September 30,	
	2013	2012	2013	2012	2013	2012	2013	2012
Local <sup>(1)</sup> :								
Third party	\$ 158,189	\$ 134,993	\$ 91,448	\$ 109,552	\$ 51,507	\$ 54,632	\$ 301,144	\$ 299,177
Direct	1,040	6,450	—	—	—	—	1,040	6,450
Total revenue	159,229	141,443	91,448	109,552	51,507	54,632	302,184	305,627
Goods:								
Third party	3,999	13,064	32,008	49,649	17,215	21,661	53,222	84,374
Direct	181,915	126,608	9,271	9,880	7,846	2,050	199,032	138,538
Total revenue	185,914	139,672	41,279	59,529	25,061	23,711	252,254	222,912
Travel and other:								
Third party and other	15,695	10,488	15,223	18,206	9,703	11,319	40,621	40,013
Direct	—	—	—	—	—	—	—	—
Total revenue	15,695	10,488	15,223	18,206	9,703	11,319	40,621	40,013
Total revenue	\$ 360,838	\$ 291,603	\$ 147,950	\$ 187,287	\$ 86,271	\$ 89,662	\$ 595,059	\$ 568,552

<sup>(1)</sup> Includes revenue from deals with local merchants, from deals with national merchants, and through local events (i.e., GrouponLive deals).

## North America

North America segment revenue increased by \$69.2 million to \$360.8 million for the three months ended September 30, 2013, as compared to \$291.6 million for the three months ended September 30, 2012. The increase in revenue primarily resulted from a \$55.3 million increase in direct revenue from our Goods category, an increase in active customers and higher unit sales for the three months ended September 30, 2013, as compared to the prior year period. Direct revenue, which is recorded on a gross basis, is derived primarily from selling products through our Goods category where we are the merchant of record. The increase





in revenue was also due to a \$23.2 million increase in third party revenue from our Local category, which resulted from a \$52.5 million increase in gross billings and an increase in the percentage of gross billings that we retained after deducting the merchant's share to 39.4% for the three months ended September 30, 2013, as compared to 38.6% for the three months ended September 30, 2012. The increase in revenue was partially offset by a \$9.1 million decrease in third party revenue from our Goods category, as transactions in that category were predominantly direct revenue transactions for the three months ended September 30, 2013.

We believe that increases in transaction activity on mobile devices and in the number of deals that we offered contributed to the growth in revenue for our North America segment. In addition, we have continued to refine our approach to targeting customers through our emails, on our websites and through our mobile applications by sending them and highlighting deals for specific locations and personal preferences, which we believe contributed to the revenue growth.

#### EMEA

EMEA segment revenue decreased by \$39.3 million to \$148.0 million for the three months ended September 30, 2013, as compared to \$187.3 million for the three months ended September 30, 2012. The overall decrease in EMEA segment revenue was primarily due to an \$18.3 million decrease in our Goods category and an \$18.1 million decrease in our Local category. Although gross billings on third party revenue deals in our Goods category increased by \$23.6 million, revenue on third party deals in our Goods category decreased by \$17.6 million, which resulted from a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 19.9% for the three months ended September 30, 2013, as compared to 36.3% for the three months ended September 30, 2012.

Although gross billings on third party revenue deals in our Local category increased by \$24.1 million, revenue on third party deals in our Local category decreased by \$18.1 million, which resulted from a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 44.2% for the three months ended September 30, 2013, as compared to 59.9% for the three months ended September 30, 2012.

These decreases in the percentage of gross billings that we retained during the three months ended September 30, 2013 reflect the overall results of individual deal-by-deal negotiations between our sales personnel and our merchants and can vary significantly from period-to-period. We were willing to accept lower deal margins, as compared to the prior year period, in order to improve the quality of deals offered to our customers by offering more attractive terms to merchants. Additionally, the \$18.5 million one-time increase in revenue from unredeemed Groupons in Germany during the prior year period was the primary driver of the decrease in the percentage of gross billings that we retained in the Local category of our EMEA segment and, to a lesser extent, contributed to the decrease in that percentage for the Goods category as well. The favorable impact on revenue from year-over-year changes in foreign exchange rates for the three months ended September 30, 2013 was \$4.5 million.

In our EMEA segment, revenue from transactions in our Goods category are primarily presented on a net basis within third party revenue, as we have not typically been the merchant of record for those transactions outside of the United States. However, we began increasing the number of product deals offered in our EMEA segment for which we are the merchant of record in September 2013, and we expect that the proportion of direct revenue deals in the Goods category of our EMEA segment will increase significantly in the fourth quarter of 2013.

#### Rest of World

Rest of World segment revenue decreased by \$3.4 million to \$86.3 million for the three months ended September 30, 2013, as compared to \$89.7 million for the three months ended September 30, 2012. The decrease was primarily due to a \$4.4 million decrease in third party revenue from our Goods category, which resulted from a \$3.4 million decrease in gross billings and a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 24.2% for the three months ended September 30, 2013, as compared to 29.1% for the prior year period. This decrease in the percentage of gross billings that we retained reflects the overall results of individual deal-by-deal negotiations between our sales personnel and our merchants and can vary significantly from period-to-period. We were willing to accept lower deal margins, as compared to the prior year period, in order to improve the quality of deals offered to our customers by offering more attractive terms to merchants.

The decrease in revenue for our Rest of World segment was also due to a \$3.1 million decrease in revenue from our Local category, which resulted from a \$26.7 million decrease in gross billings, partially offset by an increase in the percentage of gross billings that we retained after deducting the merchant's share to 43.5% for the three months ended

September 30, 2013, as compared to 37.7% for the prior year period. The net decrease in revenue from our Rest of World segment was partially offset by a \$5.8 million increase in direct revenue from our Goods category due to an increase in active customers. The unfavorable impact on revenue from year-over-year changes in foreign exchange rates for the three months ended September 30, 2013 was \$9.7 million.

In our Rest of World segment, revenue from transactions in our Goods category are primarily presented on a net basis within third party revenue, as we have not typically been the merchant of record for those transactions outside of the United States.

## Cost of Revenue

Cost of revenue on third party, direct and other revenue deals for the three months ended September 30, 2013 and 2012 was as follows:

	Three Months Ended September 30,	
	2013	2012
	(in thousands)	
Cost of revenue:		
Third party	\$51,276	\$54,123
Direct	181,436	127,613
Other	2,725	50
Total cost of revenue	\$235,437	\$181,786

Cost of revenue is comprised of direct and certain indirect costs incurred to generate revenue. For direct revenue transactions, cost of revenue includes the cost of inventory, shipping and fulfillment costs and inventory markdowns. For third party revenue transactions, cost of revenue includes estimated refunds for which the merchant's share is not recoverable. Other costs incurred to generate revenue, which include credit card processing fees, editorial costs, certain technology costs, web hosting and other processing fees, are allocated to cost of third party revenue, direct revenue, and other revenue in proportion to relative gross billings during the period. As a result of the significant growth we have experienced from direct revenue transactions relative to our total gross billings for the three months ended September 30, 2013, as compared to the prior year period, an increased share of those allocable costs has been allocated to cost of direct revenue in our condensed consolidated statement of operations for the three months ended September 30, 2013.

Cost of revenue increased by \$53.7 million to \$235.4 million for the three months ended September 30, 2013, as compared to \$181.8 million for the three months ended September 30, 2012, which was attributable to the growth in direct revenue from our Goods category. The increase in cost of revenue was primarily driven by cost of inventory and the related shipping and fulfillment costs on direct revenue deals, which were not as significant during the prior year period. We currently outsource most of our inventory fulfillment activities to third party logistics providers. However, we expect to reduce our usage of those third parties in future periods by transitioning a portion of inventory fulfillment work in the United States to internal resources. We entered into a warehouse lease during the three months ended September 30, 2013, and we expect that the warehouse will be operational in the fourth quarter of 2013. We believe the transition to internal fulfillment centers will ultimately reduce our fulfillment costs. However, we may incur increased fulfillment costs in the near term as we build our internal processes and transition the fulfillment work from those third parties.

## Cost of Revenue by Segment

Cost of revenue by segment for the three months ended September 30, 2013 and 2012 was as follows:

	Three Months Ended September 30,		2012		
	2013	% of total		% of total	
	(dollars in thousands)				
North America:					
Third party and other	\$23,557	10.0	% \$15,475	8.5	%
Direct	165,712	70.4	115,560	63.6	
Total segment cost of revenue	189,269	80.4	131,035	72.1	
EMEA:					
Third party and other	15,905	6.8	16,868	9.3	
Direct	8,364	3.5	7,845	4.3	
Total segment cost of revenue	24,269	10.3	24,713	13.6	
Rest of World:					
Third party and other	14,539	6.2	21,830	12.0	
Direct	7,360	3.1	4,208	2.3	
Total segment cost of revenue	21,899	9.3	26,038	14.3	
Total cost of revenue	\$235,437	100.0	% \$181,786	100.0	%

Cost of revenue by category and segment for the three months ended September 30, 2013 and 2012 was as follows (in thousands):

	North America		EMEA		Rest of World		Consolidated	
	Three Months Ended September 30,		Three Months Ended September 30,		Three Months Ended September 30,		Three Months Ended September 30,	
	2013	2012	2013	2012	2013	2012	2013	2012
Local <sup>(1)</sup> :								
Third party	\$18,985	\$13,176	\$10,254	\$10,416	\$7,403	\$13,313	\$36,642	\$36,905
Direct	1,887	5,231	—	—	—	—	1,887	5,231
Total cost of revenue	20,872	18,407	10,254	10,416	7,403	13,313	38,529	42,136
Goods:								
Third party	480	1,275	3,972	4,721	5,685	5,981	10,137	11,977
Direct	163,825	110,329	8,364	7,845	7,360	4,208	179,549	122,382
Total cost of revenue	164,305	111,604	12,336	12,566	13,045	10,189	189,686	134,359
Travel and other:								
Third party and other	4,092	1,024	1,679	1,731	1,451	2,536	7,222	5,291
Direct	—	—	—	—	—	—	—	—
Total cost of revenue	4,092	1,024	1,679	1,731	1,451	2,536	7,222	5,291
Total cost of revenue	\$189,269	\$131,035	\$24,269	\$24,713	\$21,899	\$26,038	\$235,437	\$181,786

<sup>(1)</sup> Includes cost of revenue from deals with local merchants, from deals with national merchants, and through local events (i.e., GrouponLive deals).

## North America

North America segment cost of revenue increased by \$58.2 million to \$189.3 million for the three months ended September 30, 2013, as compared to \$131.0 million for the three months ended September 30, 2012. The increase in cost of revenue was primarily driven by the cost of inventory and shipping and fulfillment costs related to direct revenue deals in our Goods category, due to the growth of that category as compared to the prior year period.



## EMEA

EMEA segment cost of revenue decreased by \$0.4 million to \$24.3 million for the three months ended September 30, 2013, as compared to \$24.7 million for the three months ended September 30, 2012. The decrease in cost of revenue was primarily driven by lower payroll expense for editorial personnel, partially offset by an increase in the cost of inventory and shipping and fulfillment costs related to direct revenue deals in our Goods category.

## Rest of World

Rest of World segment cost of revenue decreased by \$4.1 million to \$21.9 million for the three months ended September 30, 2013, as compared to \$26.0 million for the three months ended September 30, 2012. The decrease in cost of revenue was primarily driven by a reduction in estimated refunds for which the merchant's share is not recoverable, lower payroll expense for editorial personnel and reduced email distribution costs, primarily due to the migration to an internal email distribution platform. These decreases were partially offset by an increase in the cost of inventory related to direct revenue deals in our Goods category.

## Gross Profit

Gross profit for the three months ended September 30, 2013 and 2012 was as follows:

	Three Months Ended September 30,	
	2013	2012
	(in thousands)	
Gross profit:		
Third party	\$339,508	\$363,126
Direct	18,636	17,375
Other	1,478	6,265
Total gross profit	\$359,622	\$386,766

Gross profit decreased by \$27.1 million to \$359.6 million for the three months ended September 30, 2013, as compared to \$386.8 million for the three months ended September 30, 2012. This decrease in gross profit resulted from the \$53.7 million increase in cost of revenue during the three months ended September 30, 2013, partially offset by the \$26.5 million increase in revenue. Gross profit as a percentage of revenue decreased to 60.4% for the three months ended September 30, 2013, as compared to 68.0% for the three months ended September 30, 2012. The decrease in gross profit as a percentage of revenue during the three months ended September 30, 2013, as compared to the prior year period, was driven by the increase in direct revenue. Direct revenue primarily relates to deals in our Goods category that have lower margins than deals in our Local category. Additionally, direct revenue and the related cost of revenue are presented on a gross basis in our condensed consolidated statements of operations, which contributes to lower gross profit as a percentage of revenue.

Gross profit on third party revenue decreased by \$23.6 million to \$339.5 million for the three months ended September 30, 2013, as compared to \$363.1 million for the three months ended September 30, 2012. This decrease in gross profit resulted from the \$26.5 million decrease in third party revenue, partially offset by the \$2.8 million decrease in the cost of third party revenue. Gross profit as a percentage of revenue on third party revenue deals was 86.9% for the three months ended September 30, 2013, as compared to 87.0% for the three months ended September 30, 2012.

Gross profit on direct revenue increased by \$1.3 million to \$18.6 million for the three months ended September 30, 2013, as compared to \$17.4 million for the three months ended September 30, 2012. This increase in gross profit resulted from the \$55.1 million increase in direct revenue to \$200.1 million for the three months ended September 30, 2013, as compared to \$145.0 million for the three months ended September 30, 2012, partially offset by the \$53.8 million increase in cost of revenue on direct revenue deals to \$181.4 million for the three months ended September 30, 2013, as compared to \$127.6 million for the three months ended September 30, 2012. Gross profit as a percentage of revenue on direct revenue deals was 9.3% for the three months ended September 30, 2013, as compared to 12.0% for the three months ended September 30, 2012. The decrease in gross profit as a percentage of revenue on direct revenue deals was attributable, in part, to a higher proportion of the allocable costs within cost of revenue being allocated to the cost of direct revenue for the three months ended September 30, 2013, as compared to the prior year period, due to the increase in billings from direct revenue transactions relative to total gross billings.

Gross profit on other revenue decreased by \$4.8 million to \$1.5 million for the three months ended September 30, 2013,

50

---

as compared to \$6.3 million for the three months ended September 30, 2012. The decrease in gross profit was driven by the \$2.7 million increase in cost of revenue during the three months ended September 30, 2013 and the \$2.1 million decrease in other revenue, which was primarily attributable to the decrease in non-merchant advertising.

Gross Profit by Segment

Gross profit by segment for the three months ended September 30, 2013 and 2012 was as follows:

	Three Months Ended September 30,				
	2013	% of total	2012	% of total	
(dollars in thousands)					
North America:					
Third party and other	\$ 154,326	42.9	% \$ 143,070	37.0	%
Direct	17,243	4.8	17,498	4.5	
Total gross profit	171,569	47.7	160,568	41.5	
EMEA:					
Third party and other	122,774	34.1	160,539	41.5	
Direct	907	0.3	2,035	0.5	
Total gross profit	123,681	34.4	162,574	42.0	
Rest of World:					
Third party and other	63,886	17.8	65,782	17.0	
Direct	486	0.1	(2,158)	(0.5)	)
Total gross profit	64,372	17.9	63,624	16.5	
Total gross profit	\$ 359,622	100.0	% \$ 386,766	100.0	%

Gross profit by category and segment for the three months ended September 30, 2013 and 2012 was as follows (in thousands):

	North America		EMEA		Rest of World		Consolidated	
	Three Months Ended September 30,		Three Months Ended September 30,		Three Months Ended September 30,		Three Months Ended September 30,	
	2013	2012	2013	2012	2013	2012	2013	2012
Local <sup>(1)</sup> :								
Third party	\$ 139,204	\$ 121,817	\$ 81,194	\$ 99,136	\$ 44,104	\$ 41,319	\$ 264,502	\$ 262,272
Direct	(847)	) 1,219	—	—	—	—	(847)	) 1,219
Total gross profit	138,357	123,036	81,194	99,136	44,104	41,319	263,655	263,491
Goods:								
Third party	3,519	11,789	28,036	44,928	11,530	15,680	43,085	72,397
Direct	18,090	16,279	907	2,035	486	(2,158)	19,483	16,156
Total gross profit	21,609	28,068	28,943	46,963	12,016	13,522	62,568	88,553
Travel and other:								
Third party and other	11,603	9,464	13,544	16,475	8,252	8,783	33,399	34,722
Direct	—	—	—	—	—	—	—	—
Total gross profit	11,603	9,464	13,544	16,475	8,252	8,783	33,399	34,722
Total gross profit	\$ 171,569	\$ 160,568	\$ 123,681	\$ 162,574	\$ 64,372	\$ 63,624	\$ 359,622	\$ 386,766

<sup>(1)</sup> Includes gross profit from deals with local merchants, from deals with national merchants, and through local events (i.e., GrouponLive deals).



## North America

North America segment gross profit increased by \$11.0 million to \$171.6 million for the three months ended September 30, 2013, as compared to \$160.6 million for the three months ended September 30, 2012. The increase in gross profit was comprised of a \$15.3 million increase in the Local category and a \$2.1 million increase in the Travel and other category, partially offset by a \$6.5 million decrease in the Goods category.

## EMEA

EMEA segment gross profit decreased by \$38.9 million to \$123.7 million for the three months ended September 30, 2013, as compared to \$162.6 million for the three months ended September 30, 2012. The decrease in gross profit was comprised of an \$18.0 million decrease in the Goods category, a \$17.9 million decrease in the Local category and a \$2.9 million decrease in the Travel and other category.

## Rest of World

Rest of World segment gross profit increased by \$0.7 million to \$64.4 million for the three months ended September 30, 2013, as compared to \$63.6 million for the three months ended September 30, 2012. The increase in gross profit was comprised of a \$2.8 million increase in the Local category, partially offset by a \$1.5 million decrease in the Goods category and a \$0.5 million decrease in the Travel and other category.

## Marketing

For the three months ended September 30, 2013 and 2012, marketing expense was \$53.3 million and \$70.9 million, respectively. Marketing expense by segment as a percentage of segment revenue for the three months ended September 30, 2013 and 2012 was as follows:

	Three Months Ended September 30,				
	2013	% of Segment Revenue	2012	% of Segment Revenue	
	(dollars in thousands)				
North America	\$27,100	7.5	% \$20,491	7.0	%
EMEA	16,807	11.4	% 32,177	17.2	%
Rest of World	9,358	10.8	% 18,251	20.4	%
Marketing	\$53,265	9.0	% \$70,919	12.5	%

We evaluate our marketing expense as a percentage of revenue because it gives us an indication of how well our marketing spend is driving the volume of transactions. Marketing expense as a percentage of revenue for the three months ended September 30, 2013 has decreased from the prior year period, which we believe is due to efficiencies we have realized from building a subscriber base and shifting our marketing spend to customer activation.

Additionally, we continue to enhance our technology and methods for optimizing marketing expenditures, which we believe has contributed to more efficient marketing spending in recent periods.

Marketing expense by segment as a percentage of total marketing expense for the three months ended September 30, 2013 and 2012 was as follows:

	Three Months Ended September 30,				
	2013	% of total	2012	% of total	
	(dollars in thousands)				
North America	\$27,100	50.9	% \$20,491	28.9	%
EMEA	16,807	31.6	32,177	45.4	
Rest of World	9,358	17.5	18,251	25.7	
Marketing	\$53,265	100.0	% \$70,919	100.0	%

Our marketing expense decreased by \$17.7 million to \$53.3 million for the three months ended September 30, 2013, as

compared to \$70.9 million for the three months ended September 30, 2012. As our markets have developed throughout 2012 and into 2013, our marketing spend has continued to shift from customer acquisition marketing to activation, which has contributed to lower marketing expense during the three months ended September 30, 2013, as compared to the prior year period. Additionally, we have enhanced our return on investment analyses for marketing expenditures, which we believe has resulted in more efficient marketing spending in recent periods.

Our subscriber acquisition and activation marketing activities also include elements that are not presented as "Marketing" on our condensed consolidated statements of operations, such as order discounts, free shipping on merchandise sales and accepting lower margins on our deals. Marketing is the primary method by which we acquire customers, and as such, is a critical part of our growth strategy.

#### North America

North America segment marketing expense increased by \$6.6 million to \$27.1 million for the three months ended September 30, 2013, as compared to \$20.5 million for the three months ended September 30, 2012. For the three months ended September 30, 2013, marketing expense as a percentage of revenue for the North America segment was 7.5%, as compared to 7.0% for the three months ended September 30, 2012. The increases were primarily attributable to an increase in online marketing spend, in connection with our initiatives to grow our active customer base.

#### EMEA

EMEA segment marketing expense decreased by \$15.4 million to \$16.8 million for the three months ended September 30, 2013, as compared to \$32.2 million for the three months ended September 30, 2012. For the three months ended September 30, 2013, marketing expense as a percentage of revenue for the EMEA segment was 11.4%, as compared to 17.2% for the three months ended September 30, 2012. The decreases were primarily attributable to a decrease in online marketing spend. This reflects the continued execution against our plan to move from customer acquisition marketing to activation, which has contributed to lower marketing expense during the three months ended September 30, 2013.

#### Rest of World

Rest of World segment marketing expense decreased by \$8.9 million to \$9.4 million for the three months ended September 30, 2013, as compared to \$18.3 million for the three months ended September 30, 2012. For the three months ended September 30, 2013, marketing expense as a percentage of revenue for the Rest of World segment was 10.8%, as compared to 20.4% for the three months ended September 30, 2012. The decreases were primarily attributable to a decrease in online marketing spend. This reflects the continued shift from customer acquisition marketing to activation, which has contributed to lower marketing expense during the three months ended September 30, 2013.

#### Selling, General and Administrative

Selling, general and administrative expense increased by \$6.1 million to \$294.1 million for the three months ended September 30, 2013, as compared to \$288.0 million for the three months ended September 30, 2012. The increase in selling, general and administrative expense was primarily due to increases in depreciation and amortization expense, stock-based compensation, wages and benefits and system maintenance expenses, partially offset by lower general corporate costs. Depreciation and amortization recorded within selling, general and administrative expense increased by \$5.6 million for the three months ended September 30, 2013, primarily due to increased amortization expense related to a higher balance of internally-developed software, as compared to the prior year period. Stock-based compensation costs recorded within selling, general and administrative expense increased by \$3.0 million for the three months ended September 30, 2013, as compared to the prior year period. Wages and benefits (excluding stock-based compensation) within selling, general and administrative expense increased by \$2.9 million for the three months ended September 30, 2013. There was a \$2.6 million increase in system maintenance expenses for the three months ended September 30, 2013, as compared to the prior year period, as a result of investments in technology and our corporate infrastructure. General corporate costs decreased \$6.1 million for the three months ended September 30, 2013, as compared to the prior year period, primarily due to a reduction in office expenses and litigation costs.

Selling, general and administrative expense as a percentage of revenue decreased to 49.4% for the three months ended September 30, 2013, as compared to 50.7% for the three months ended September 30, 2012. Selling, general and administrative expense as a percentage of revenue has remained relatively consistent, as compared to the prior year period, as the growth in those expenses was commensurate with our revenue growth. We are continuing to refine our

sales management and selling processes, including through automation, as we endeavor to generate increased operating efficiencies.

#### Acquisition Related (Benefit) Expense, Net

For the three months ended September 30, 2013 and 2012, we incurred net acquisition-related benefits of \$1.5 million and expenses of \$2.4 million, respectively, representing changes in the fair value of contingent consideration liabilities from business acquisitions. See Note 9 "Fair Value Measurements."

#### Income from Operations

Income from operations decreased by \$11.6 million to \$13.8 million for the three months ended September 30, 2013, as compared to \$25.4 million for the three months ended September 30, 2012. The decrease in income from operations for the three months ended September 30, 2013, as compared to the prior year period, was primarily due to the decrease in gross profit of \$27.1 million, partially offset by the decrease in marketing expense of \$17.7 million. The unfavorable impact on income from operations from year-over-year changes in foreign exchange rates for the three months ended September 30, 2013 was \$1.2 million.

#### North America

Segment operating income in our North America segment, which excludes stock-based compensation and acquisition-related (benefit) expense, net, decreased by \$13.9 million to \$25.2 million for the three months ended September 30, 2013, as compared to \$39.1 million for the three months ended September 30, 2012. The decrease in segment operating income was primarily attributable to an increase in segment operating expenses, partially offset by an increase in gross profit, particularly from our Local category.

#### EMEA

Segment operating income in our EMEA segment, which excludes stock-based compensation and acquisition-related (benefit) expense, net, decreased by \$13.5 million to \$15.6 million for the three months ended September 30, 2013, as compared to \$29.1 million for the three months ended September 30, 2012. The decrease in segment operating income was primarily attributable to a decrease in gross profit, partially offset by a decrease in segment operating expenses.

#### Rest of World

Segment operating loss in our Rest of World segment, which excludes stock-based compensation and acquisition-related (benefit) expense, net, decreased by \$16.1 million to a loss of \$1.6 million for the three months ended September 30, 2013, as compared to a loss of \$17.7 million for the three months ended September 30, 2012. The decreased segment operating loss was primarily attributable to a decrease in segment operating expenses.

#### Other Income, Net

Other income, net includes interest income on our cash and cash equivalents, interest expense on our capital leases and foreign currency transaction gains and losses, primarily resulting from intercompany balances related to our foreign subsidiaries that are denominated in currencies other than their functional currencies. Other income, net increased by \$0.2 million to \$0.9 million for the three months ended September 30, 2013, as compared to \$0.6 million for the three months ended September 30, 2012.

#### Provision for Income Taxes

For the three months ended September 30, 2013 and 2012, we recorded income tax expense of \$15.9 million and \$26.9 million, respectively.

The effective tax rate was 108.8% for the three months ended September 30, 2013, as compared to 103.6% for the three months ended September 30, 2012. The most significant factors impacting our effective tax rate for three months ended September 30, 2013 and 2012 were losses in jurisdictions that we are not able to benefit due to uncertainty as to the realization of those losses, amortization of the tax effects of intercompany sales of intellectual property and nondeductible stock-based compensation expense.

We expect that our consolidated effective tax rate in future periods will continue to differ significantly from the U.S. federal income tax rate as a result of our tax obligations in jurisdictions with profits and valuation allowances in jurisdictions with losses. Our consolidated effective tax rate in future periods will also be adversely impacted by the amortization of the tax effects of intercompany transactions, including intercompany sales of intellectual property that we expect to undertake in the future.

## Results of Operations

Comparison of the Nine Months Ended September 30, 2013 and 2012:

	Nine Months Ended September 30,	
	2013	2012
	(in thousands)	
Revenue:		
Third party and other	\$1,252,966	\$1,466,602
Direct	552,242	229,568
Total revenue	1,805,208	1,696,170
Cost of revenue:		
Third party and other	179,524	233,834
Direct	502,359	202,634
Total cost of revenue	681,883	436,468
Gross profit	1,123,325	1,259,702
Operating expenses:		
Marketing	158,319	275,941
Selling, general and administrative	904,880	871,455
Acquisition-related (benefit) expense, net	(2,276	) 744
Total operating expenses	1,060,923	1,148,140
Income from operations	62,402	111,562
Loss on equity method investments	(58	) (8,694
Other (expense) income, net	(9,772	) 54,445
Income before provision for income taxes	52,572	157,313
Provision for income taxes	62,657	128,297
Net (loss) income	(10,085	) 29,016
Net income attributable to noncontrolling interests	(4,061	) (2,806
Net (loss) income attributable to Groupon, Inc.	(14,146	) 26,210
Adjustment of redeemable noncontrolling interests to redemption value	—	(12,498
Net (loss) income attributable to common stockholders	\$(14,146	) \$13,712

## Classification of stock-based compensation within cost of revenue and operating expenses

Cost of revenue and operating expenses include stock-based compensation as follows:

	Nine Months Ended September 30, 2013		2012	
	Statement of Operations line item  (in thousands)	Stock-based compensation included in line item	Statement of Operations line item	Stock-based compensation included in line item
Total cost of revenue	\$681,883	\$1,615	\$436,468	\$2,355
Operating expenses:				
Marketing	\$158,319	\$7,011	\$275,941	\$2,110
Selling, general and administrative	904,880	80,597	871,455	73,241
Acquisition-related (benefit) expense, net	(2,276)	) —	744	—
Total operating expenses	\$1,060,923	\$87,608	\$1,148,140	\$75,351

## Foreign exchange rate neutral operating results

The effect on our condensed consolidated statements of operations for the nine months ended September 30, 2013 and 2012 from changes in exchange rates versus the U.S. dollar was as follows:

	Nine Months Ended September 30, 2013			2012		
	At Avg. Q3 2012 YTD Rates <sup>(1)</sup> (in thousands)	Exchange Rate Effect <sup>(2)</sup>	As Reported	At Avg. Q3 2011 YTD Rates <sup>(1)</sup>	Exchange Rate Effect <sup>(2)</sup>	As Reported
Gross billings	\$4,196,734	\$(32,511)	\$4,164,223	\$4,023,225	\$(163,493)	\$3,859,732
Revenue	\$1,818,352	\$(13,144)	\$1,805,208	\$1,765,476	\$(69,306)	\$1,696,170
Cost of revenue and operating expenses	1,756,235	(13,429)	1,742,806	1,654,709	(70,101)	1,584,608
Income from operations	\$62,117	\$285	\$62,402	\$110,767	\$795	\$111,562

(1) Represents the financial statement balances that would have resulted had exchange rates in the reporting period been the same as those in effect in the comparable prior year period.

(2) Represents the increase or decrease in reported amounts resulting from changes in exchange rates from those in effect in the comparable prior year period.

## Gross Billings

Gross billings represents the total dollar value of customer purchases of goods and services, excluding applicable taxes and net of estimated refunds. For third party revenue deals, gross billings differs from third party revenue reported in our condensed consolidated statements of operations, which is presented net of the merchant's share of the transaction price. For direct revenue deals, gross billings are equivalent to direct revenue reported in our condensed consolidated statements of operations. For the nine months ended September 30, 2013 and 2012, our gross billings were \$4,164.2 million and \$3,859.7 million, reflecting a growth rate of 7.9%. The increase in our gross billings was comprised of a \$319.4 million increase in our Goods category and a \$36.2 million increase in our Travel and other category, partially offset by a \$51.1 million decrease in our Local category, which was driven by declines in our EMEA and Rest of World segments. The net increase in gross billings was driven by an increase in active customers and the volume of transactions. The unfavorable impact on gross billings from year-over-year changes in foreign exchange rates for the nine months ended September 30, 2013 was \$32.5 million.



Edgar Filing: Groupon, Inc. - Form 10-Q

Gross billings by segment for the nine months ended September 30, 2013 and 2012 were as follows:

	Nine Months Ended September 30,		2012	% of total	
	2013				
	(dollars in thousands)				
Gross billings:					
North America	\$2,058,523	49.4	% \$1,654,201	42.9	%
EMEA	1,417,886	34.0	1,396,027	36.2	
Rest of World	687,814	16.6	809,504	20.9	
Total gross billings	\$4,164,223	100.0	% \$3,859,732	100.0	%

We offer goods and services through three primary categories: Local Deals ("Local"), Groupon Goods ("Goods") and Groupon Getaways ("Travel"). Gross billings by category and segment for the nine months ended September 30, 2013 and 2012 were as follows (in thousands):

	North America		EMEA		Rest of World		Consolidated	
	Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012	2013	2012	2013	2012
Local:								
Third party	\$1,301,666	\$1,185,765	\$707,641	\$774,183	\$352,945	\$443,053	\$2,362,252	\$2,403,001
Direct	1,733	12,037	—	—	—	—	1,733	12,037
Total gross billings	1,303,399	1,197,802	707,641	774,183	352,945	443,053	2,363,985	2,415,038
Goods:								
Third party	45,445	141,589	467,733	377,368	208,895	220,983	722,073	739,940
Direct	511,357	181,663	18,903	27,373	20,249	4,241	550,509	213,277
Total gross billings	556,802	323,252	486,636	404,741	229,144	225,224	1,272,582	953,217
Travel and other:								
Third party and other	198,322	133,147	223,609	212,850	105,725	141,227	527,656	487,224
Direct	—	—	—	4,253	—	—	—	4,253
Total gross billings	198,322	133,147	223,609	217,103	105,725	141,227	527,656	491,477
Total gross billings	\$2,058,523	\$1,654,201	\$1,417,886	\$1,396,027	\$687,814	\$809,504	\$4,164,223	\$3,859,732

(1) Includes gross billings from deals with local merchants, from deals with national merchants, and through local events (i.e., GrouponLive deals).

North America

North America segment gross billings increased by \$404.3 million to \$2,058.5 million for the nine months ended September 30, 2013, as compared to \$1,654.2 million for the nine months ended September 30, 2012. The increase in gross billings was comprised of a \$233.6 million increase in our Goods category, a \$105.6 million increase in our Local category and a \$65.2 million increase in our Travel and other category. The increase in gross billings in the North America segment resulted from higher gross billings per average active customer, higher unit sales and an increase in active customers for the nine months ended September 30, 2013, as compared to the prior year period. We believe that increases in transaction activity on mobile devices and in the number of deals that we offered contributed to the growth in billings for our North America segment. In addition, we have continued to refine our approach to targeting customers through our emails, on our websites and through our mobile applications by sending them and



highlighting deals for specific locations and personal preferences, which we believe contributed to the billings growth. Although North America segment gross billings increased by 24.4% during the nine months ended September 30, 2013, as compared to the prior year period, we believe that there were a number of factors that may have negatively impacted gross billings. For example, our subscriber email open rates declined in the current period, which we believe was due in part to subscribers

who receive our emails through Gmail accounts, as Google, Inc. recently redesigned their inboxes in a manner that causes our emails to be rerouted to a new "promotions" tab outside of the default inbox. Additionally, we believe that the continued growth of our online marketplace of deals, where merchants have a continuous presence on our websites for an extended period of time, is impacting the timing of customer purchases in our Local category. Historically, our customers often purchased a Groupon voucher when they received our email with a limited-time offer, even though they may not have intended to use the voucher in the near term. However, our new marketplace of deals enables customers to wait until they are ready to use the related vouchers before making purchases, which we believe may adversely impact gross billings in the short term.

#### EMEA

EMEA segment gross billings increased by \$21.9 million to \$1,417.9 million for the nine months ended September 30, 2013, as compared to \$1,396.0 million for the nine months ended September 30, 2012. The increase in gross billings was comprised of an \$81.9 million increase in our Goods category and a \$6.5 million increase in our Travel and other category, partially offset by a \$66.5 million decrease in our Local category. The net increase in gross billings in the EMEA segment resulted from an increase in active customers for the nine months ended September 30, 2013, as compared to the prior year period. The favorable impact on gross billings from year-over-year changes in foreign exchange rates for the nine months ended September 30, 2013 was \$18.7 million.

#### Rest of World

Rest of World segment gross billings decreased by \$121.7 million to \$687.8 million for the nine months ended September 30, 2013, as compared to \$809.5 million for the nine months ended September 30, 2012. The decrease in gross billings was comprised of a \$90.1 million decrease in our Local category and a \$35.5 million decrease in our Travel and other category, partially offset by a \$3.9 million increase in our Goods category. The net decrease in gross billings in the Rest of World segment resulted from lower gross billings per average active customer and lower unit sales for the nine months ended September 30, 2013, as compared to the prior year period, as well as overall weakness in some of our markets. The unfavorable impact on gross billings from year-over-year changes in foreign exchange rates for the nine months ended September 30, 2013 was \$50.6 million.

#### Revenue

We generate revenue from third party revenue deals, direct revenue deals and other transactions. Revenue for the nine months ended September 30, 2013 and 2012 was as follows:

	Nine Months Ended September 30,	
	2013	2012
	(in thousands)	
Revenue:		
Third party	\$1,243,018	\$1,449,172
Direct	552,242	229,568
Other	9,948	17,430
Total revenue	\$1,805,208	\$1,696,170

Revenue increased by \$109.0 million to \$1,805.2 million for the nine months ended September 30, 2013, as compared to \$1,696.2 million for the nine months ended September 30, 2012. The primary driver of this increase was the \$322.7 million increase in direct revenue from transactions, primarily in our Goods category, where we are the merchant of record and for which revenue is reported on a gross basis. This increase in direct revenue was partially offset by a \$206.2 million decrease in third party revenue. The net increase in revenue was attributable to the increase in active customers and units purchased for the nine months ended September 30, 2013, as compared to the prior year period.

In addition, we have continued to refine our approach to targeting customers through our emails, on our websites and through our mobile applications by sending them and highlighting deals for specific locations and personal preferences, which we believe contributed to revenue growth. We also increased the number of merchant relationships and the volume of deals we offer on a daily basis to our customers. The unfavorable impact on revenue from year-over-year changes in foreign exchange rates for the nine months ended September 30, 2013 was \$13.1 million.

#### Third Party Revenue

Third party revenue decreased by \$206.2 million to \$1,243.0 million for the nine months ended September 30, 2013, as compared to \$1,449.2 million for the nine months ended September 30, 2012. The decrease in third party revenue

was primarily

58

---

due to a \$126.1 million decrease in our Local category, which resulted from a \$40.7 million decrease in gross billings and a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 40.4% for the nine months ended September 30, 2013, as compared to 45.0% for the nine months ended September 30, 2012. The decrease in third party revenue was also due to a \$75.1 million decrease in our Goods category, which resulted from a \$17.9 million decrease in gross billings and a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 23.9% for the nine months ended September 30, 2013, as compared to 33.5% in the prior year period. The decrease in third party revenue for the nine months ended September 30, 2013, as compared to the prior year period, was also due to an \$18.5 million one-time increase during the prior year period in revenue from unredeemed Groupons in Germany, as described below.

We recognized a one-time increase of \$18.5 million to third party revenue from unredeemed Groupons during the nine months ended September 30, 2012. This one-time increase in the prior year period represented the cumulative impact of deals in Germany for which, based on a German tax ruling, our obligation to the merchant would have ended prior to the beginning of the quarter ended September 30, 2012. For merchant payment arrangements that are structured under a redemption payment model, we retain all of the gross billings from unredeemed Groupons. We record revenue from unredeemed Groupons and derecognize the related accrued merchant payable when our legal obligation to the merchant expires, which we believe is shortly after deal expiration in most jurisdictions for which we use a pay on redemption model. However, we had historically concluded based on our interpretation of applicable German law that our obligation to merchants in that jurisdiction extended for three years. Due to the German tax ruling, which requires us to remit value-added taxes (VAT) earlier on unredeemed Groupons, we began recognizing revenue from unredeemed Groupons in Germany shortly after deal expiration, consistent with most other jurisdictions in which we pay on redemption.

#### Direct Revenue

Direct revenue increased by \$322.7 million to \$552.2 million for the nine months ended September 30, 2013, as compared to \$229.6 million for the nine months ended September 30, 2012. We are often the merchant of record for transactions in the Goods category, particularly in North America, such that the resulting revenue is reported on a gross basis within direct revenue. Direct revenue deals have continued to grow, both overall and as a percentage of our revenue, through the continued growth of our Goods category, and we expect that trend to continue for the foreseeable future. In addition, we expect that any growth in direct revenue will result in a smaller increase in income from operations than growth in third party revenue because direct revenue includes the entire amount of gross billings, before deducting the cost of the related inventory, while third party revenue is net of the merchant's share of the transaction price. Additionally, our Goods category has lower margins than our Local category, primarily as a result of shipping and fulfillment costs related to direct revenue transactions. We believe that direct revenue transactions in our Goods category will increase in the future in the EMEA and Rest of World segments as we build out our global supply chain infrastructure.

#### Other Revenue

Other revenue decreased by \$7.5 million to \$9.9 million for the nine months ended September 30, 2013, as compared to \$17.4 million for the nine months ended September 30, 2012, primarily due to a decrease in non-merchant advertising. Other revenue also includes point of sale and payment processing revenue, which we launched in the third quarter of 2012, and reservation revenue, which we launched in the third quarter of 2013. Reservation revenue, point of sale revenue and payment processing revenue were not significant for the nine months ended September 30, 2013 and 2012, and we do not expect them to be significant in the near term.

Edgar Filing: Groupon, Inc. - Form 10-Q

Revenue by Segment

Revenue by segment for the nine months ended September 30, 2013 and 2012 was as follows:

	Nine Months Ended September 30,		2012		
	2013	% of total		% of total	
(dollars in thousands)					
North America:					
Third party and other	\$564,484	31.3	% \$596,648	35.2	%
Direct	513,090	28.4	193,701	11.4	
Total segment revenue	1,077,574	59.7	790,349	46.6	
EMEA:					
Third party and other	472,807	26.2	597,572	35.2	
Direct	18,903	1.0	31,626	1.9	
Total segment revenue	491,710	27.2	629,198	37.1	
Rest of World:					
Third party and other	215,675	11.9	272,382	16.1	
Direct	20,249	1.2	4,241	0.2	
Total segment revenue	235,924	13.1	276,623	16.3	
Total revenue	\$1,805,208	100.0	% \$1,696,170	100.0	%

Revenue by category and segment for the nine months ended September 30, 2013 and 2012 was as follows (in thousands):

	North America		EMEA		Rest of World		Consolidated	
	Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012	2013	2012	2013	2012
Local <sup>(1)</sup> :								
Third party	\$503,899	\$510,310	\$311,644	\$399,153	\$139,915	\$172,058	\$955,458	\$1,081,521
Direct revenue	1,733	12,037	—	—	—	—	1,733	12,037
Total revenue	505,632	522,347	311,644	399,153	139,915	172,058	957,191	1,093,558
Goods:								
Third party	11,794	48,392	110,821	137,322	50,262	62,217	172,877	247,931
Direct revenue	511,357	181,664	18,903	27,373	20,249	4,241	550,509	213,278
Total revenue	523,151	230,056	129,724	164,695	70,511	66,458	723,386	461,209
Travel and other:								
Third party and other revenue	48,791	37,946	50,342	61,097	25,498	38,107	124,631	137,150
Direct revenue	—	—	—	4,253	—	—	—	4,253
Total revenue	48,791	37,946	50,342	65,350	25,498	38,107	124,631	141,403
Total revenue	\$1,077,574	\$790,349	\$491,710	\$629,198	\$235,924	\$276,623	\$1,805,208	\$1,696,170

<sup>(1)</sup> Includes revenue from deals with local merchants, from deals with national merchants, and through local events (i.e., GrouponLive deals).

North America

North America segment revenue increased by \$287.2 million to \$1,077.6 million for the nine months ended September 30, 2013, as compared to \$790.3 million for the nine months ended September 30, 2012. The increase in revenue primarily resulted from a \$329.7 million increase in direct revenue from our Goods category. The increase in revenue was also due to an increase in active customers and higher unit sales for the nine months ended September 30, 2013, as compared to the prior year period. Direct revenue, which is recorded on a gross basis, is derived primarily from selling products through our Goods category where we are the merchant of record. The increase in revenue was

partially offset by a \$36.6 million decrease in third party revenue in

60

---

our Goods category, which resulted from a \$96.1 million decrease in gross billings on third party revenue deals in our Goods category and a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 26.0% for the nine months ended September 30, 2013, as compared to 34.2% for the nine months ended September 30, 2012. The margins in our Local category for third party revenue decreased to 38.7% for the nine months ended September 30, 2013, as compared to 43.0% for the nine months ended September 30, 2012, and the margins in our Travel and other category for third party revenue decreased to 24.6% for the nine months ended September 30, 2013, as compared to 28.5% for the nine months ended September 30, 2012. These decreases were largely a result of the expansion of our marketplace in recent periods as we were willing to accept lower margins in order to improve the quality of deals offered to customers. We believe that increases in transaction activity on mobile devices and in the number of deals that we offered contributed to the growth in revenue for our North America segment. In addition, we have continued to refine our approach to targeting customers through our emails, on our websites and through our mobile applications by sending them and highlighting deals for specific locations and personal preferences, which we believe contributed to the revenue growth.

#### EMEA

EMEA segment revenue decreased by \$137.5 million to \$491.7 million for the nine months ended September 30, 2013, as compared to \$629.2 million for the nine months ended September 30, 2012. The overall decrease in EMEA segment revenue was primarily due to an \$87.5 million decrease in our Local category and a \$35.0 million decrease in our Goods category. The \$87.5 million decrease in our Local category resulted from a \$66.5 million decrease in gross billings and a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 44.0% for the nine months ended September 30, 2013, as compared to 51.6% in the prior year period. Although gross billings on third party revenue deals in our Goods category increased by \$90.4 million, revenue on third party deals in our Goods category decreased by \$26.5 million, which resulted from a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 23.7% for the nine months ended September 30, 2013, as compared to 36.4% for the nine months ended September 30, 2012.

These decreases in the percentage of gross billings that we retained during the nine months ended September 30, 2013 reflect the overall results of individual deal-by-deal negotiations between our sales personnel and our merchants and can vary significantly from period-to-period. We were willing to accept lower deal margins, as compared to the prior year period, in order to improve the quality of deals offered to our customers by offering more attractive terms to merchants. The favorable impact on revenue from year-over-year changes in foreign exchange rates for the nine months ended September 30, 2013 was \$6.7 million.

In our EMEA segment, revenue from transactions in our Goods category are primarily presented on a net basis within third party revenue, as we have not typically been the merchant of record for those transactions outside of the United States. However, we began increasing the number of product deals offered in our EMEA segment for which we are the merchant of record in September 2013, and we expect that the proportion of direct revenue deals in the Goods category of our EMEA segment will increase significantly in the fourth quarter of 2013

#### Rest of World

Rest of World segment revenue decreased by \$40.7 million to \$235.9 million for the nine months ended September 30, 2013, as compared to \$276.6 million for the nine months ended September 30, 2012. The decrease was primarily due to a \$32.1 million decrease in revenue from our Local category, which resulted from a \$90.1 million decrease in gross billings. The decrease in revenue for our Rest of World segment was also due to a \$12.6 million decrease in revenue from our Travel and other category, which resulted from a \$35.5 million decrease in gross billings and a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 24.1% for the nine months ended September 30, 2013, as compared to 27.0% for the prior year period. The decrease in revenue for our Rest of World segment was also due to a \$12.0 million decrease in third party revenue from our Goods category, which resulted from a \$12.1 million decrease in gross billings and a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 24.1% for the nine months ended September 30, 2013, as compared to 28.2% for the prior year period. We were willing to accept lower deal margins, as compared to the prior year period, in order to improve the quality of deals offered to our customers by offering more attractive terms to merchants. The decrease in revenue for our Rest of World segment was partially offset by a \$16.0 million increase in direct revenue from our Goods category and an increase in active customers for the nine months ended September 30,

2013, as compared to the prior year period. The unfavorable impact on revenue from year-over-year changes in foreign exchange rates for the nine months ended September 30, 2013 was \$19.6 million.

In our Rest of World segment, revenue from transactions in our Goods category are primarily presented on a net basis within third party revenue, as we have not typically been the merchant of record for those transactions outside of the United States.



## Cost of Revenue

Cost of revenue on third party, direct revenue and other deals for the nine months ended September 30, 2013 and 2012 was as follows:

	Nine Months Ended September 30,	
	2013	2012
	(in thousands)	
Cost of revenue:		
Third party	\$ 175,580	\$ 233,684
Direct	502,359	202,634
Other	3,944	150
Total cost of revenue	\$ 681,883	\$ 436,468

Cost of revenue is comprised of direct and certain indirect costs incurred to generate revenue. For direct revenue transactions, cost of revenue includes the cost of inventory, shipping and fulfillment costs and inventory markdowns. For third party revenue transactions, cost of revenue includes estimated refunds for which the merchant's share is not recoverable. Other costs incurred to generate revenue, which include credit card processing fees, editorial costs, certain technology costs, web hosting and other processing fees, are allocated to cost of third party revenue, direct revenue, and other revenue in proportion to relative gross billings during the period. As a result of the significant growth we have experienced from direct revenue transactions relative to our total gross billings for the nine months ended September 30, 2013, as compared to the prior year period, an increased share of those allocable costs has been allocated to cost of direct revenue in our condensed consolidated statement of operations for the nine months ended September 30, 2013.

Cost of revenue increased by \$245.4 million to \$681.9 million for the nine months ended September 30, 2013, as compared to \$436.5 million for the nine months ended September 30, 2012, which was attributable to the growth in direct revenue from our Goods category. The increase in cost of revenue was primarily driven by the cost of inventory and related shipping and fulfillment costs on direct revenue deals, which were not as significant during the prior year period. We currently outsource most of our inventory fulfillment activities to third party logistics providers. However, we expect to reduce our usage of those third parties in future periods by transitioning a portion of inventory fulfillment work in the United States to internal resources. We entered into a warehouse lease during the three months ended September 30, 2013, and we expect that the warehouse will be operational in the fourth quarter of 2013. We believe the transition to internal fulfillment centers will ultimately reduce our fulfillment costs. However, we may incur increased fulfillment costs in the near term as we build our internal processes and transition the fulfillment work from those third parties.

## Cost of Revenue by Segment

Cost of revenue by segment for the nine months ended September 30, 2013 and 2012 was as follows:

	Nine Months Ended September 30,				
	2013	% of total	2012	% of total	
	dollars in thousands				
North America:					
Third party and other	\$ 75,908	11.1	% \$ 118,210	27.1	%
Direct	463,155	68.0	168,390	38.6	
Total segment cost of revenue	539,063	79.1	286,600	65.7	
EMEA:					
Third party and other	55,635	8.2	55,648	12.7	
Direct	19,142	2.8	28,088	6.5	
Total segment cost of revenue	74,777	11.0	83,736	19.2	
Rest of World:					
Third party and other	47,981	7.0	59,976	13.7	
Direct	20,062	2.9	6,156	1.4	
Total segment cost of revenue	68,043	9.9	66,132	15.1	
Total cost of revenue	\$ 681,883	100.0	% \$ 436,468	100.0	%



Cost of revenue by category and segment for the nine months ended September 30, 2013 and 2012 was as follows (in thousands):

	North America		EMEA		Rest of World		Consolidated	
	Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012	2013	2012	2013	2012
Local <sup>(1)</sup> :								
Third party	\$64,718	\$100,668	\$35,344	\$37,190	\$21,288	\$38,323	\$121,350	\$176,181
Direct	2,523	10,128	—	—	—	—	2,523	10,128
Total cost of revenue	67,241	110,796	35,344	37,190	21,288	38,323	123,873	186,309
Goods:								
Third party	1,477	10,046	14,557	12,772	22,755	14,211	38,789	37,029
Direct	460,632	158,262	19,142	24,364	20,062	6,156	499,836	188,782
Total cost of revenue	462,109	168,308	33,699	37,136	42,817	20,367	538,625	225,811
Travel and other:								
Third party and other	9,713	7,496	5,734	5,686	3,938	7,442	19,385	20,624
Direct	—	—	—	3,724	—	—	—	3,724
Total cost of revenue	9,713	7,496	5,734	9,410	3,938	7,442	19,385	24,348
Total cost of revenue	\$539,063	\$286,600	\$74,777	\$83,736	\$68,043	\$66,132	\$681,883	\$436,468

(1) Includes cost of revenue from deals with local merchants, from deals with national merchants, and through local events (i.e., GrouponLive deals).

#### North America

North America segment cost of revenue increased by \$252.5 million to \$539.1 million for the nine months ended September 30, 2013, as compared to \$286.6 million for the nine months ended September 30, 2012. The increase in cost of revenue was primarily driven by the cost of inventory and shipping and fulfillment costs related to direct revenue deals in our Goods category, due to the growth of that category as compared to the prior year period.

#### EMEA

EMEA segment cost of revenue decreased by \$9.0 million to \$74.8 million for the nine months ended September 30, 2013, as compared to \$83.7 million for the nine months ended September 30, 2012. The decrease in cost of revenue was primarily driven by lower payroll expense for editorial personnel.

#### Rest of World

Rest of World segment cost of revenue increased by \$1.9 million to \$68.0 million for the nine months ended September 30, 2013, as compared to \$66.1 million for the nine months ended September 30, 2012. The increase in cost of revenue was primarily driven by the cost of inventory and shipping and fulfillment costs related to direct revenue deals in our Goods category. This increase was partially offset by a reduction in estimated refunds for which the merchant's share is not recoverable, lower payroll expense for editorial personnel and reduced email distribution costs, primarily due to the migration to an internal email distribution platform.

## Gross Profit

Gross profit for the nine months ended September 30, 2013 and 2012 was as follows:

	Nine Months Ended September 30,	
	2013	2012
	(in thousands)	
Gross profit:		
Third party	\$1,067,438	\$1,215,488
Direct	49,883	26,934
Other	6,004	17,280
Total gross profit	\$1,123,325	\$1,259,702

Gross profit decreased by \$136.4 million to \$1,123.3 million for the nine months ended September 30, 2013, as compared to \$1,259.7 million for the nine months ended September 30, 2012. This decrease in gross profit resulted from the \$245.4 million increase in cost of revenue during the nine months ended September 30, 2013, partially offset by the \$109.0 million increase in revenue. Gross profit as a percentage of revenue decreased to 62.2% for the nine months ended September 30, 2013, as compared to 74.3% for the nine months ended September 30, 2012. The decrease in gross profit as a percentage of revenue during the nine months ended September 30, 2013, as compared to the prior year period, was primarily attributable to the increase in direct revenue. Direct revenue primarily relates to deals in our Goods category that have lower margins than deals in our Local category. Additionally, direct revenue and the related cost of revenue are presented on a gross basis in our condensed consolidated statements of operations, which contributes to lower gross profit as a percentage of revenue.

Gross profit on third party revenue decreased by \$148.1 million to \$1,067.4 million for the nine months ended September 30, 2013, as compared to \$1,215.5 million for the nine months ended September 30, 2012. This decrease in gross profit resulted from the \$206.2 million decrease in third party revenue, partially offset by the \$58.1 million decrease in the cost of third party revenue. Gross profit as a percentage of revenue on third party revenue deals was 85.9% for the nine months ended September 30, 2013, as compared to 83.9% for the nine months ended September 30, 2012. The increase in gross profit as a percentage of revenue on third party revenue deals was attributable, in part, to a lower proportion of the allocable costs within cost of revenue being allocated to the cost of third party revenue for the nine months ended September 30, 2013, as compared to the prior year period. These allocable costs include credit card processing fees, editorial costs, certain technology costs, web hosting and other processing fees. An increased share of those costs was allocated to the cost of direct revenue due to the increase in billings from direct revenue transactions relative to total gross billings.

Gross profit on direct revenue increased by \$22.9 million to \$49.9 million for the nine months ended September 30, 2013, as compared to \$26.9 million for the nine months ended September 30, 2012. This increase in gross profit resulted from the \$322.7 million increase in direct revenue to \$552.2 million for the nine months ended September 30, 2013, as compared to \$229.6 million for the nine months ended September 30, 2012, partially offset by the \$299.7 million increase in cost of revenue on direct revenue deals to \$502.4 million for the nine months ended September 30, 2013, as compared to \$202.6 million for the nine months ended September 30, 2012. Gross profit as a percentage of revenue on direct revenue deals was 9.0% for the nine months ended September 30, 2013, as compared to 11.7% for the nine months ended September 30, 2012. The decrease in gross profit as a percentage of revenue on direct revenue deals was attributable, in part, to a higher proportion of the allocable costs within cost of revenue being allocated to the cost of direct revenue for the nine months ended September 30, 2013, as compared to the prior year period, due to the increase in billings from direct revenue transactions relative to total gross billings.

Gross profit on other revenue decreased by \$11.3 million to \$6.0 million for the nine months ended September 30, 2013, as compared to \$17.3 million for the nine months ended September 30, 2012. The decrease in gross profit was driven by the \$7.5 million decrease in other revenue, which was primarily attributable to the decrease in non-merchant advertising, and a \$3.8 million increase in cost of revenue during the nine months ended September 30, 2013.

Gross Profit by Segment

Gross profit by segment for the nine months ended September 30, 2013 and 2012 was as follows:

	Nine Months Ended September 30,		2012		
	2013	% of total		% of total	
(dollars in thousands)					
North America:					
Third party and other	\$488,576	43.5	% \$478,438	38.0	%
Direct	49,935	4.4	25,311	2.0	
Total gross profit	538,511	47.9	503,749	40.0	
EMEA:					
Third party and other	417,172	37.1	541,924	43.0	
Direct	(239	) —	3,538	0.3	
Total gross profit	416,933	37.1	545,462	43.3	
Rest of World:					
Third party and other	167,694	14.9	212,406	16.9	
Direct	187	0.1	(1,915	) (0.2	)
Total gross profit	167,881	15.0	210,491	16.7	
Total gross profit	\$1,123,325	100.0	% \$1,259,702	100.0	%

Gross profit by category and segment for the nine months ended September 30, 2013 and 2012 was as follows (in thousands):

	North America		EMEA		Rest of World		Consolidated	
	Nine Months Ended		Nine Months Ended		Nine Months Ended		Nine Months Ended	
	2013	2012	2013	2012	2013	2012	2013	2012
Local <sup>(1)</sup> :								
Third party	\$439,181	\$409,642	\$276,300	\$361,963	\$118,627	\$133,735	\$834,108	\$905,340
Direct	(790	) 1,909	—	—	—	—	(790	) 1,909
Total gross profit	438,391	411,551	276,300	361,963	118,627	133,735	833,318	907,249
Goods:								
Third party	10,317	38,346	96,264	124,550	27,507	48,006	134,088	210,902
Direct	50,725	23,402	(239	) 3,009	187	(1,915	) 50,673	24,496
Total gross profit	61,042	61,748	96,025	127,559	27,694	46,091	184,761	235,398
Travel and other:								
Third party and other	39,078	30,450	44,608	55,411	21,560	30,665	105,246	116,526
Direct	—	—	—	529	—	—	—	529
Total gross profit	39,078	30,450	44,608	55,940	21,560	30,665	105,246	117,055
Total gross profit	\$538,511	\$503,749	\$416,933	\$545,462	\$167,881	\$210,491	\$1,123,325	\$1,259,702

(1) Includes gross profit from deals with local merchants, from deals with national merchants, and through local events (i.e., GrouponLive deals).



## North America

North America segment gross profit increased by \$34.8 million to \$538.5 million for the nine months ended September 30, 2013, as compared to \$503.7 million for the nine months ended September 30, 2012. The increase in gross profit was comprised of a \$26.8 million increase in the Local category and an \$8.6 million increase in the Travel and other category, partially offset by a \$0.7 million decrease in the Goods category.

## EMEA

EMEA segment gross profit decreased by \$128.5 million to \$416.9 million for the nine months ended September 30, 2013, as compared to \$545.5 million for the nine months ended September 30, 2012. The decrease in gross profit was comprised of an \$85.7 million decrease in the Local category, a \$31.5 million decrease in the Goods category and an \$11.3 million decrease in the Travel and other category.

## Rest of World

Rest of World segment gross profit decreased by \$42.6 million to \$167.9 million for the nine months ended September 30, 2013, as compared to \$210.5 million for the nine months ended September 30, 2012. The decrease in gross profit was comprised of an \$18.4 million decrease in the Goods category, a \$15.1 million decrease in the Local category and a \$9.1 million decrease in the Travel and other category.

## Marketing

For the nine months ended September 30, 2013 and 2012, marketing expense was \$158.3 million and \$275.9 million, respectively. Marketing expense by segment as a percentage of segment revenue for the nine months ended September 30, 2013 and 2012 was as follows:

	Nine Months Ended September 30,				
	2013	% of Segment Revenue	2012	% of Segment Revenue	
	(dollars in thousands)				
North America	\$79,961	7.4	% \$85,922	10.9	%
EMEA	49,783	10.1	% 129,880	20.6	%
Rest of World	28,575	12.1	% 60,139	21.7	%
Marketing	\$158,319	8.8	% \$275,941	16.3	%

We evaluate our marketing expense as a percentage of revenue because it gives us an indication of how well our marketing spend is driving the volume of transactions. Marketing expense as a percentage of revenue for the nine months ended September 30, 2013 has decreased from the prior year period, which we believe is due to efficiencies we have realized from building a subscriber base and shifting our marketing spend to customer activation.

Additionally, we continue to enhance our technology and methods for optimizing marketing expenditures, which we believe has contributed to more efficient marketing spending in recent periods.

Marketing expense by segment as a percentage of total marketing expense for the nine months ended September 30, 2013 and 2012 was as follows:

	Nine Months Ended September 30,				
	2013	% of total	2012	% of total	
	(dollars in thousands)				
North America	\$79,961	50.5	% \$85,922	31.1	%
EMEA	49,783	31.4	129,880	47.1	
Rest of World	28,575	18.1	60,139	21.8	
Marketing	\$158,319	100.0	% \$275,941	100.0	%

Our marketing expense decreased by \$117.6 million to \$158.3 million for the nine months ended September 30, 2013, as compared to \$275.9 million for the nine months ended September 30, 2012. As our markets have developed throughout 2012 and into 2013, our marketing spend has continued to shift from customer acquisition marketing to activation, which has contributed to lower marketing expense during the nine months ended September 30, 2013 as compared to the prior year period. Additionally, we have enhanced our return on investment analyses for marketing expenditures, which we believe has resulted in more efficient marketing spending in recent periods.

Our subscriber acquisition and activation marketing activities also include elements that are not presented as "Marketing" on our condensed consolidated statements of operations, such as order discounts, free shipping on merchandise sales and accepting lower margins on our deals. Marketing is the primary method by which we acquire customers, and as such, is a critical part of our growth strategy.

#### North America

North America segment marketing expense decreased by \$6.0 million to \$80.0 million for the nine months ended September 30, 2013, as compared to \$85.9 million for the nine months ended September 30, 2012. For the nine months ended September 30, 2013, marketing expense as a percentage of revenue for the North America segment was 7.4%, as compared to 10.9% for the nine months ended September 30, 2012. The decreases were primarily attributable to a decrease in online marketing spend. This reflects the continued shift in focus from customer acquisition marketing to activation, which has contributed to lower marketing expense during the nine months ended September 30, 2013. The decrease in online marketing spend was partially offset by an increase in marketing payroll, including related stock-based compensation expense.

#### EMEA

EMEA segment marketing expense decreased by \$80.1 million to \$49.8 million for the nine months ended September 30, 2013, as compared to \$129.9 million for the nine months ended September 30, 2012. For the nine months ended September 30, 2013, marketing expense as a percentage of revenue for the EMEA segment was 10.1%, as compared to 20.6% for the nine months ended September 30, 2012. The decreases were primarily attributable to a decrease in online marketing spend. This reflects the continued execution against our plan to move from customer acquisition marketing to activation, which has contributed to lower marketing expense during the nine months ended September 30, 2013.

#### Rest of World

Rest of World segment marketing expense decreased by \$31.6 million to \$28.6 million for the nine months ended September 30, 2013, as compared to \$60.1 million for the nine months ended September 30, 2012. For the nine months ended September 30, 2013, marketing expense as a percentage of revenue for the Rest of World segment was 12.1%, as compared to 21.7% for the nine months ended September 30, 2012. The decreases were primarily attributable to a decrease in online marketing spend. This reflects the continued shift from customer acquisition marketing to activation, which has contributed to lower marketing expense during the nine months ended September 30, 2013.

#### Selling, General and Administrative

Selling, general and administrative expense increased by \$33.4 million to \$904.9 million for the nine months ended September 30, 2013, as compared to \$871.5 million for the nine months ended September 30, 2012. The increase in selling, general and administrative expense was primarily due to increases in depreciation and amortization expense, wages and benefits and system maintenance expenses, partially offset by lower general corporate costs. Depreciation and amortization recorded within selling, general and administrative expense increased by \$19.9 million for the nine months ended September 30, 2013, primarily due to increased amortization expense related to a higher balance of internally-developed software, as compared to the prior year period. Wages and benefits (excluding stock-based compensation) within selling, general and administrative expense increased by \$11.9 million for the nine months ended September 30, 2013. There was an \$11.4 million increase in system maintenance expenses for the nine months ended September 30, 2013, as compared to the prior year period, as a result of investments in technology and our corporate infrastructure. General corporate costs decreased \$9.5 million for the nine months ended September 30, 2013, as compared to the prior year period, primarily due to a reduction in telephone expenses, office equipment and office supplies.



Selling, general and administrative expense as a percentage of revenue was 50.1% for the nine months ended September 30, 2013, as compared to 51.4% for the nine months ended September 30, 2012, respectively. Selling, general and administrative expense as a percentage of revenue has remained relatively consistent as compared to the prior year period as the growth in those expenses was commensurate with our revenue growth. We are continuing to refine our sales management and selling processes,

including through automation, as we endeavor to generate increased operating efficiencies.

#### Acquisition Related (Benefit) Expense, Net

For the nine months ended September 30, 2013 and 2012, we incurred net acquisition-related benefits of \$2.3 million and expenses of \$0.7 million, respectively, representing changes in the fair value of contingent consideration liabilities from business acquisitions. See Note 9 "Fair Value Measurements."

#### Income from Operations

Income from operations decreased by \$49.2 million to \$62.4 million for the nine months ended September 30, 2013, as compared to \$111.6 million for the nine months ended September 30, 2012. The decrease in income from operations for the nine months ended September 30, 2013, as compared to the prior year period, was primarily due to the decrease in gross profit of \$136.4 million and the increase in selling, general and administrative expense of \$33.4 million, partially offset by the decrease in marketing expense of \$117.6 million. The favorable impact on income from operations from year-over-year changes in foreign exchange rates for the nine months ended September 30, 2013 was \$0.3 million.

#### North America

Segment operating income in our North America segment, which excludes stock-based compensation and acquisition-related (benefit) expense, net, decreased by \$7.7 million to \$115.0 million for the nine months ended September 30, 2013, as compared to \$122.7 million for the nine months ended September 30, 2012. The decrease in segment operating income was primarily attributable to an increase in segment operating expenses, partially offset by an increase in gross profit.

#### EMEA

Segment operating income in our EMEA segment, which excludes stock-based compensation and acquisition-related (benefit) expense, net, decreased by \$22.7 million to \$74.5 million for the nine months ended September 30, 2013, as compared to \$97.2 million for the nine months ended September 30, 2012. The decrease in segment operating income was primarily attributable to a decrease in gross profit, partially offset by a decrease in segment operating expenses.

#### Rest of World

Segment operating loss in our Rest of World segment, which excludes stock-based compensation and acquisition-related (benefit) expense, net, increased by \$10.3 million to a loss of \$40.2 million for the nine months ended September 30, 2013, as compared to a loss of \$29.9 million for the nine months ended September 30, 2012. The increased segment operating loss was primarily attributable to a decrease in gross profit, partially offset by a decrease in segment operating expenses.

#### Other (Expense) Income, Net

Other (expense) income, net includes interest income on our cash and cash equivalents, interest expense on capital leases and foreign currency transaction gains and losses, primarily resulting from intercompany balances related to our foreign subsidiaries that are denominated in currencies other than their functional currencies. Other (expense) income, net was an expense, net of \$9.8 million for the nine months ended September 30, 2013, as compared to income, net of \$54.4 million for the nine months ended September 30, 2012. During the nine months ended September 30, 2012, other income, net included a gain of \$56.0 million resulting from the E-Commerce transaction, which is described in Note 4 "Investments." The change in other (expense) income, net was also due to increased foreign currency transaction losses for the nine months ended September 30, 2013, as compared to the prior year period.

#### Provision for Income Taxes

For the nine months ended September 30, 2013 and 2012, we recorded income tax expense of \$62.7 million and \$128.3 million, respectively.

The effective tax rate was 119.2% for the nine months ended September 30, 2013, as compared to 81.6% for the nine months ended September 30, 2012. The most significant factors impacting our effective tax rate for the nine months ended September 30, 2013 and 2012 were losses in jurisdictions that we are not able to benefit due to uncertainty as to the realization of those losses, amortization of the tax effects of intercompany sales of intellectual property and nondeductible stock-based compensation expense. The effective tax rate for the nine months ended September 30, 2012 was also negatively impacted by the



tax effects of the gain on the E-Commerce transaction, as described in Note 4 "Investments."

We expect that our consolidated effective tax rate in future periods will continue to differ significantly from the U.S. federal income tax rate as a result of our tax obligations in jurisdictions with profits and valuation allowances in jurisdictions with losses. Our consolidated effective tax rate in future periods will also be adversely impacted by the amortization of the tax effects of intercompany transactions, including intercompany sales of intellectual property that we expect to undertake in the future.

#### Non-GAAP Financial Measures

In addition to financial results reported in accordance with U.S. GAAP, we have provided the following non-GAAP financial measures: operating income excluding stock-based compensation and acquisition-related (benefit) expense, net, free cash flow and foreign exchange rate neutral operating results. These non-GAAP financial measures are used in addition to and in conjunction with results presented in accordance with U.S. GAAP. However, these measures are not intended to be a substitute for those reported in accordance with U.S. GAAP. These measures may be different from non-GAAP financial measures used by other companies, even when similar terms are used to identify such measures.

Operating income excluding stock-based compensation and acquisition-related (benefit) expense, net. Operating income excluding stock-based compensation and acquisition-related benefit, net is a non-GAAP financial measure that comprises the consolidated total of the segment operating income (loss) of our three segments, North America, EMEA and Rest of World. Stock based compensation expense and acquisition related (benefit) expense, net are excluded from segment operating income (loss) that we report under U.S. GAAP for our segments. Stock-based compensation expense is primarily a non-cash item. Acquisition-related (benefit) expense, net represents the change in the fair value of contingent consideration arrangements related to business combinations. We use consolidated operating income excluding stock-based compensation and acquisition-related (benefit) expense, net to allocate resources and evaluate performance internally.

We consider operating income excluding stock-based compensation and acquisition-related (benefit) expense, net to be an important measure for management to evaluate the performance of our business. We believe it is important to view operating income excluding stock-based compensation and acquisition-related (benefit) expense, net as a complement to our entire consolidated statements of operations. When evaluating our performance, you should consider operating income excluding stock-based compensation and acquisition-related (benefit) expense, net as a complement to other financial performance measures, including net (loss) income and our other U.S. GAAP results. The following is a reconciliation of Operating income excluding stock-based compensation and acquisition-related (benefit) expense, net to the most comparable U.S. GAAP financial measure, "Income from operations," for the three and nine months ended September 30, 2013 and 2012.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Income from operations	\$ 13,812	\$ 25,438	\$ 62,402	\$ 111,562
Adjustments:				
Stock-based compensation <sup>(1)</sup>	26,870	22,619	89,223	77,706
Acquisition-related (benefit) expense, net <sup>(2)</sup>	(1,529)	) 2,431	(2,276)	) 744
Total adjustments	25,341	25,050	86,947	78,450
Operating income excluding stock-based compensation and acquisition-related (benefit) expense, net	\$ 39,153	\$ 50,488	\$ 149,349	\$ 190,012

(1) Represents stock-based compensation expense recorded within "Selling, general and administrative," "Cost of revenue," and "Marketing" on the condensed consolidated statements of operations.

(2) Represents changes in the fair value of contingent consideration related to acquisitions made by the Company.

Free cash flow. Free cash flow is a non-GAAP financial measure that comprises net cash provided by operating activities less purchases of property and equipment and capitalized software. We use free cash flow, and ratios based on it, to conduct and evaluate our business because, although it is similar to cash flow from operations, we believe that

it typically represents a more useful measure of cash flows because purchases of fixed assets, software developed for internal-use and website development

costs are necessary components of our ongoing operations. Free cash flow is not intended to represent the total increase or decrease in our cash balance for the applicable period.

Free cash flow has limitations due to the fact that it does not represent the residual cash flow available for discretionary expenditures. For example, free cash flow does not include the cash payments for business acquisitions. In addition, free cash flow reflects the impact of the timing difference between when we are paid by customers and when we pay merchants and suppliers. Therefore, we believe it is important to view free cash flow as a complement to our entire condensed consolidated statements of cash flows.

The following is a reconciliation of free cash flow to the most comparable U.S. GAAP financial measure, "Net cash (used in) provided by operating activities," for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Net cash (used in) provided by operating activities	\$ (11,905	) \$ 42,088	\$ 40,157	\$ 201,117
Purchases of property and equipment and capitalized software	(15,064	) (16,010	) (43,574	) (55,802
Free cash flow	\$ (26,969	) \$ 26,078	\$ (3,417	) \$ 145,315
Net cash used in investing activities	\$ (26,444	) \$ (35,629	) \$ (72,985	) \$ (142,226
Net cash (used in) provided by financing activities	\$ (8,970	) \$ 2,707	\$ (26,253	) \$ 18,590

Foreign exchange rate neutral operating results. Foreign exchange rate neutral operating results show current period operating results as if foreign currency exchange rates had remained the same as those in effect in the comparable prior year period. These measures are intended to facilitate comparisons to our historical performance. For a reconciliation of foreign exchange rate neutral operating results to the most comparable U.S. GAAP financial measure, see "Results of Operations" above.

#### Liquidity and Capital Resources

As of September 30, 2013, we had \$1,139.9 million in cash and cash equivalents, which primarily consisted of cash, money market accounts and overnight securities.

Since our inception, we have funded our working capital requirements and expansion primarily with cash flows from operations and through public and private sales of common and preferred stock, which have yielded net proceeds of approximately \$1,857.1 million. We generated positive cash flow from operations for the nine months ended September 30, 2013 and 2012, and we expect cash flow from operations to remain positive in the foreseeable future. We generally use this cash flow to fund our operations, make additional acquisitions, purchase capital assets, purchase treasury stock and meet our other cash operating needs. Cash flow from operations was \$40.2 million and \$201.1 million for the nine months ended September 30, 2013 and 2012, respectively.

We consider the undistributed earnings of our foreign subsidiaries as of September 30, 2013 to be indefinitely reinvested and, accordingly, no U.S. income taxes have been provided thereon. As of September 30, 2013, the amount of cash and cash equivalents held in foreign jurisdictions was approximately \$261.7 million. We have not, nor do we anticipate the need to, repatriate funds to the United States to satisfy domestic liquidity needs arising in the ordinary course of business.

Although we can provide no assurances, we believe that our available cash and cash equivalents balance and cash generated from operations should be sufficient to meet our working capital requirements and other capital expenditures for at least the next twelve months.

#### Anticipated Uses of Cash

Our priority in 2013 is to continue to aggressively invest in the business by making additional investments in technology and innovations and by continuing to shift our marketing spend from customer acquisition to customer activation in our North America, EMEA and Rest of World segments. In addition, we plan to continue to acquire or make strategic minority investments in complementary businesses that add to our customer base or provide

incremental technology or talent or both.

70

---

In order to support our overall global expansion, we expect to continue to make significant investments in our corporate facilities and technology development in future periods. During the nine months ended September 30, 2013, we acquired six businesses for an aggregate purchase price of \$15.1 million, of which \$6.3 million was paid for in cash (net of cash acquired), and we expect to continue to use cash to make strategic acquisitions.

We currently plan to fund these investments in our North America, EMEA and Rest of World segments with our available cash and cash equivalents balance and cash flows generated from the respective operations. We do not intend to pay dividends in the foreseeable future.

In August 2013, our Board of Directors authorized a share repurchase program. Under the program, we are authorized to repurchase up to \$300 million of our outstanding Class A common stock over the next 24 months. The timing and amount of any share repurchases will be determined based on market conditions, share price and other factors, and the program may be discontinued or suspended at any time. We will fund the repurchases through cash on hand and future cash flow. Repurchases will be made in compliance with SEC rules and other legal requirements and may be made in part under a Rule 10b5-1 plan, which permits stock repurchases when the Company might otherwise be precluded from doing so. During the three and nine months ended September 30, 2013, we purchased 770,900 shares of Class A common stock for an aggregate purchase price of \$9.0 million (including fees and commissions) under the share repurchase program.

#### Cash Flow

Our net cash flows from operating, investing and financing activities for the nine months ended September 30, 2013 and 2012 were as follows:

	Nine Months Ended September 30,	
	2013	2012
	(in thousands)	
Cash provided by (used in):		
Operating activities	\$40,157	\$201,117
Investing activities	(72,985	) (142,226
Financing activities	(26,253	) 18,590
Effect of changes in exchange rates on cash and cash equivalents	(10,351	) 595
Net (decrease) increase in cash and cash equivalents	\$(69,432	) \$78,076

#### Cash Provided By Operating Activities

Cash provided by operating activities primarily consists of our net (loss) income adjusted for certain items, including depreciation and amortization, stock based compensation, deferred income taxes and the effect of changes in working capital and other items.

Our current merchant arrangements are structured as either a redemption payment model or a fixed payment model defined as follows:

**Redemption payment model** - Under our redemption merchant payment model, we collect payments at the time our customers purchase Groupons and make payments to our merchants at a subsequent date. Using this payment model, merchants are not paid until the customer redeems the Groupon that has been purchased. If a customer does not redeem the Groupon under this payment model, we retain all of the gross billings from the unredeemed Groupon. The redemption model generally improves our overall cash flow because we do not pay our merchants until the customer redeems the Groupon. We typically pay our merchants upon redemption for the majority of deals in our EMEA and Rest of World markets.

**Fixed payment model** - Under our fixed merchant payment model, we generally pay our merchants in installments over a period of sixty days for third party revenue deals. However, for third party revenue deals in which the merchant has a continuous presence on our websites and mobile applications by offering vouchers on a rolling basis for an extended period of time, we generally remit payments to the merchant on an ongoing basis throughout the term of the offering. For direct revenue deals in our Goods category, payment terms with our suppliers typically range from net 30 days to net 60 days. Under the fixed payment model, merchants are paid regardless of whether the Groupon is redeemed. We typically pay our merchants under the fixed payment model for the majority of deals in North America.





We experience swings in accrued merchant and supplier payables associated with our normal revenue-generating activities, including both third party and direct revenue sales transactions, that can cause volatility in working capital levels and impact cash balances more or less than our operating income or loss would indicate. In recent periods, we have offered certain merchants more favorable and accelerated payment terms, which has reduced our overall cash flow benefits from the timing differences between when we receive cash from customers and remit payments to our merchants. We expect this trend to continue in the future.

We believe that seasonal fluctuations will continue to impact our cash flows, particularly as a result of the growth of our Goods category. Our operating cash flows were adversely impacted by \$72.3 million from the decrease in accrued merchant and supplier payables during the nine months ended September 30, 2013, which was primarily due to the timing of payments to suppliers of merchandise during the first quarter of 2013 after the seasonally high levels of Goods transactions in late 2012. In contrast, our operating cash flows benefited by a \$53.9 million increase in accrued merchant and supplier payables during the nine months ended September 30, 2012, as we were experiencing more favorable growth rates in our Local category at that time and our Goods category was much smaller in late 2011. The cash flow impact of changes in accrued merchant and supplier payables during the nine months ended September 30, 2013 and 2012 was a primary driver of the \$161.0 million reduction in cash provided by operating activities between those periods.

For the nine months ended September 30, 2013, our net cash provided by operating activities was \$40.2 million, which consisted of a \$139.0 million net increase for certain non-cash items, partially offset by an \$88.7 million net decrease related to changes in working capital and other assets and liabilities and a \$10.1 million net loss. The net adjustments for non-cash items include \$89.2 million of stock-based compensation expense and \$65.3 million of depreciation and amortization expense, partially offset by \$12.1 million of excess tax benefits on stock-based compensation. The net decrease in cash resulting from changes in working capital activities primarily consisted of a \$72.3 million decrease in accrued merchant and supplier payables, a \$27.8 million decrease in accrued expenses and other current liabilities and a \$25.9 million decrease in accounts payable, partially offset by a \$13.1 million decrease in prepaid expenses and other current assets and a \$9.0 million decrease in accounts receivable. The \$72.3 million decrease in accrued merchant and supplier payables was primarily attributable to payments to suppliers of merchandise in early 2013 related to Goods transactions from November and December of 2012.

For the nine months ended September 30, 2012, our net cash provided by operating activities was \$201.1 million, which consisted of a \$116.2 million net increase related to changes in working capital and other assets and liabilities, a \$55.9 million net increase for certain non-cash items and \$29.0 million of net income. The net adjustments for non-cash items include \$77.7 million of stock based compensation expense and \$39.8 million of depreciation and amortization expense, partially offset by \$56.0 million for the gain recognized on the E-Commerce transaction. The net increase in cash resulting from changes in working capital activities primarily consisted of a \$68.0 million increase in accrued expenses and other current liabilities, a \$53.9 million increase in accrued merchant and supplier payables, due to growth in the daily deals business, and a \$13.2 million increase in accounts payable, partially offset by a \$24.9 million increase in prepaid expenses and other current assets. The \$68.0 million increase in accrued expenses and other current liabilities primarily reflected the significant increase in the number of employees, vendors, and customers resulting from the growth of the business during the nine months ended September 30, 2012.

#### Cash Used In Investing Activities

Cash used in investing activities primarily consists of capital expenditures, additional investments in subsidiaries, minority investments and acquisitions of businesses.

For the nine months ended September 30, 2013, our net cash used in investing activities of \$73.0 million primarily consisted of \$43.6 million in capital expenditures, including capitalized internal-use software, \$19.6 million invested in subsidiaries and cost method investments, \$6.3 million in net cash paid for business acquisitions, \$2.0 million related to the settlement of the liability related to the purchase of additional interests in a consolidated subsidiary and \$1.5 million for purchases of intangible assets.

For the nine months ended September 30, 2012, our net cash used in investing activities of \$142.2 million primarily consisted of \$55.8 million in capital expenditures, including capitalized internal-use software, \$44.8 million in net cash paid for business acquisitions and \$41.6 million invested in subsidiaries and investments.

#### Cash (Used in) Provided by Financing Activities

Edgar Filing: Groupon, Inc. - Form 10-Q

For the nine months ended September 30, 2013, our net cash used in financing activities of \$26.3 million was driven primarily by taxes paid related to net share settlements of stock-based compensation awards of \$26.5 million. We also paid \$7.4 million for the purchase of treasury stock under the share repurchase program, as described above. Our net cash used in financing

activities was also due to settlements of purchase price obligations related to acquisitions of \$5.0 million, partnership distributions to noncontrolling interest holders of \$4.3 million and payments of capital lease obligations of \$1.0 million, partially offset by \$12.1 million of excess tax benefits related to stock-based compensation and \$6.6 million of proceeds from stock option exercises and our employee stock purchase plan.

For the nine months ended September 30, 2012, our net cash provided by financing activities of \$18.6 million was driven primarily by excess tax benefits related to stock-based compensation of \$24.6 million and proceeds from stock option exercises of \$8.9 million, partially offset by taxes paid related to net share settlements of stock-based compensation awards of \$7.6 million, cash paid out for contingent consideration liabilities initially recognized in purchase accounting of \$4.3 million and partnership distributions to noncontrolling interest holders of \$3.1 million.

#### Free Cash Flow

Free cash flow, a non-GAAP financial measure, was \$(27.0) million and \$26.1 million for the three months ended September 30, 2013 and 2012, respectively, and \$(3.4) million and \$145.3 million for the nine months ended September 30, 2013 and 2012, respectively. The decrease in free cash flow for the three months ended September 30, 2013, as compared to the prior year period, was primarily due to the \$54.0 million decrease in our operating cash flows. The decrease in free cash flow for the nine months ended September 30, 2013, as compared to the prior year period, was primarily due to the \$161.0 million decrease in our operating cash flows, partially offset by lower capital expenditures. For further information and a reconciliation to the most applicable financial measure under U.S. GAAP, refer to our discussion under "Non-GAAP Financial Measures" above.

#### Contractual Obligations and Commitments

Our contractual obligations and commitments as of September 30, 2013 did not materially change from the amounts set forth in our 2012 Annual Report on Form 10-K.

#### Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of September 30, 2013.

#### Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). Our significant accounting policies are discussed in Note 2 "Summary of Significant Accounting Policies" in the notes to the consolidated financial statements included in our 2012 Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the U.S. Securities and Exchange Commission ("SEC") on February 27, 2013.

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts and classifications of assets and liabilities, revenue and expense, and related disclosure of contingent liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. If actual amounts are ultimately different from previous estimates, the revisions are included in our results of operations for the period in which the actual amounts become known.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the financial statements. Management believes its critical accounting policies that reflect its more significant estimates and assumptions are policies related to revenue recognition, refunds, goodwill and long-lived assets, income taxes and other-than-temporary impairment.

#### Revenue Recognition

We recognize revenue when the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred; the selling price is fixed or determinable; and collectability is reasonably assured.



### Third party revenue recognition

We generate third party revenue, where we act as the third party marketing agent, by offering goods and services provided by third party merchants at a discount through our local commerce marketplace that connects merchants to consumers. Our marketplace includes deals offered through a variety of categories including: Local, Goods and Travel. Customers purchase the discount vouchers ("Groupons") from us and redeem them with our merchants. The revenue recognition criteria are met when the customer purchases a deal, the Groupon has been electronically delivered to the purchaser and a listing of Groupons sold has been made available to the merchant. At that time, our obligations to the merchant, for which we are serving as a marketing agent, are substantially complete. Our remaining obligations, which are limited to remitting payment to the merchant and continuing to make available on our website information about Groupons sold that was previously provided to the merchant, are inconsequential or perfunctory. We record as revenue the net amount we retain from the sale of Groupons after deducting the portion of the purchase price that is payable to the featured merchant, excluding any applicable taxes and net of estimated refunds for which the merchant's share is recoverable. Revenue is recorded on a net basis because we are acting as a marketing agent of the merchant in the transaction.

For merchant payment arrangements that are structured under a redemption model, merchants are not paid until the customer redeems the Groupon that has been purchased. If a customer does not redeem the Groupon under this payment model, we retain all the gross billings. We record revenue from unredeemed Groupons and derecognize the related accrued merchant payable when our legal obligation to the merchant expires, which we believe is shortly after deal expiration in most jurisdictions that have payment arrangements structured under a redemption model. However, prior to the quarter ended September 30, 2012, we had historically concluded based on our interpretation of applicable German law that our obligation to merchants in that jurisdiction extended for three years. Due to a German tax ruling, which required us to remit value-added taxes (VAT) earlier on unredeemed Groupons, we began recognizing revenue from unredeemed Groupons in Germany shortly after deal expiration during the quarter ended September 30, 2012, consistent with most other jurisdictions. As a result, the quarter ended September 30, 2012 included an \$18.5 million one-time increase to third party revenue, which represented the cumulative impact of deals in Germany for which, based on the German tax ruling, the Company's obligation to the merchant would have ended prior to the quarter ended September 30, 2012.

### Direct revenue recognition

We evaluate whether it is appropriate to record the gross amount of our sales and related costs by considering a number of factors, including, among other things, whether we are the primary obligor under the arrangement, have inventory risk, and have latitude in establishing prices.

Direct revenue is derived primarily from selling products through our Goods category where we are the merchant of record. We are the primary obligor in these transactions, are subject to general inventory risk and have latitude in establishing prices. Accordingly, direct revenue is recorded on a gross basis, excluding any applicable taxes and net of estimated refunds. For purposes of evaluating whether product revenue should be recognized on a gross basis, unmitigated general inventory risk is a strong indicator of whether a seller has the risks and rewards of a principal to the sale transaction. U.S. GAAP specifies that general inventory risk exists if a seller either takes title to a product before that product is ordered by a customer (that is, maintains the product in inventory) or will take title to the product if it is returned by the customer (that is, back-end inventory risk) and the customer has a right of return. We have unmitigated general inventory risk on all of our direct revenue. Currently, that general inventory risk is primarily in the form of back-end inventory risk, as the amount of inventory that we maintain on hand has not been significant in relation to the amount of our direct revenue. However, we had \$18.9 million of finished goods inventory on hand as of September 30, 2013, and in future periods we may increase the levels of inventory on hand for our Goods category. For Goods transactions where we are performing a service by acting as a marketing agent of the merchant, revenue is recorded on a net basis and is presented within third party revenue.

Direct revenue, including associated shipping revenue, is recorded when the products are shipped and title passes to customers.

### Discounts

We provide discount offers to encourage purchases of goods and services through our marketplace. On third party revenue transactions, discounts provided to purchasers of Groupons reduce the net amount that we retain after paying

a portion of the purchase price to the merchant. We record discounts as a reduction of revenue.

## Refunds

We estimate future refunds utilizing a statistical model that incorporates the following data inputs and factors: historical refund experience developed from millions of deals featured on our website, the relative risk of refunds based on expiration date, deal value, deal category and other qualitative factors that could impact the level of future refunds, such as introductions of new deals, discontinuations of legacy deals, and expected changes, if any, in our practices in response to refund experience or economic trends that might impact customer demand. By continually refining the refund model to reflect such data inputs, we believe that our model enables us to track and anticipate refund behavior. The portion of customer refunds for which the merchant's share is not recoverable on third party revenue deals is estimated based on the refunds that are expected to be issued after expiration of the related vouchers, the refunds that are expected to be issued due to merchant bankruptcy or poor customer experience, and whether the payment terms of the related merchant contracts are structured using a redemption payment model or a fixed payment model.

We accrue costs associated with refunds within "Accrued expenses" on the condensed consolidated balance sheets. The cost of refunds for third party revenue where the amounts payable to the merchant are recoverable and for all direct revenue is presented on the condensed consolidated statements of operations as a reduction to revenue. The cost of refunds for third party revenue for which the merchant's share is not recoverable is presented as a cost of revenue. We assess the trends that could affect our estimates on an ongoing basis and make adjustments to the refund reserve calculations if it appears that changes in circumstances, including changes to the Company's refund policies, may cause future refunds to differ from our original estimates. If actual results are not consistent with the estimates or assumptions stated above, we may need to change our future estimates, and the effects could be material to the condensed consolidated financial statements.

## Impairment Assessments of Goodwill and Long-Lived Assets

A component of our growth strategy has been to acquire and integrate businesses that complement our existing operations. We account for business combinations using the acquisition method of accounting and allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed based upon their estimated fair values at the purchase date. The difference between the purchase price and the fair value of the net assets acquired is recorded as goodwill.

In determining the fair value of assets acquired and liabilities assumed in business combinations and for determining fair values in impairment tests, we use one of the following recognized valuation methods: the income approach (including discounted cash flows), the market approach and the cost approach. Our significant estimates in those fair value measurements include identifying business factors such as size, growth, profitability, risk and return on investment and assessing comparable revenue and operating income multiples. Further, when measuring fair value based on discounted cash flows, we make assumptions about risk-adjusted discount rates, future price levels, rates of increase in revenue, cost of revenue, and operating expenses, weighted average cost of capital, rates of long-term growth, and income tax rates. Valuations are performed by management or independent valuation specialists under management's supervision, where appropriate. We believe that the estimated fair values assigned to the assets acquired and liabilities assumed and for determining fair value in business combinations and impairment tests are based on reasonable assumptions that marketplace participants would use. However, such assumptions are inherently uncertain and actual results could differ from those estimates.

Goodwill is allocated to our reporting units at the date the goodwill is initially recorded. Once goodwill has been allocated to the reporting units, it no longer retains its identification with a particular acquisition and becomes identified with the reporting unit in its entirety. Accordingly, the fair value of the reporting unit as a whole is available to support the recoverability of its goodwill.

We evaluate goodwill for impairment annually on October 1 or more frequently when an event occurs or circumstances change that indicates the carrying value may not be recoverable. We evaluate the recoverability of goodwill using a two-step impairment test. In the first step, the fair value of the reporting unit is compared to its book value including goodwill. If the fair value of the reporting unit is in excess of its book value, the related goodwill is not impaired and no further analysis is necessary. If the fair value of the reporting unit is less than its book value, there is an indication of potential impairment and a second step is performed. When required, the second step of testing involves calculating the implied fair value of goodwill for the reporting unit. The implied fair value of goodwill is



determined in the same manner as goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit determined in step one over the fair value of its net assets and identifiable intangible assets as if the reporting unit had been acquired. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. For reporting units with a negative book value (i.e., excess of liabilities over assets), we evaluate qualitative factors to determine whether it is necessary to perform the second step of the goodwill impairment test. As of September 30, 2013, our market capitalization of \$7.5 billion substantially

exceeded our consolidated net book value of \$808.8 million.

Goodwill is tested for impairment at the reporting unit level. Prior to the second quarter of 2013, our four reporting units were North America, EMEA, Asia Pacific ("APAC") and Latin America ("LATAM"). As discussed in Note 11 "Segment Information," we changed the composition of our operating segments during the second quarter of 2013 to separate our former International segment between EMEA and Rest of World. As a result of this change in operating segments, our former EMEA reporting unit has been disaggregated into four new reporting units for goodwill impairment testing purposes: Southern EMEA, Western EMEA, Northern EMEA and Eastern/Central EMEA.

Goodwill from the former EMEA reporting unit was reallocated to the four new EMEA reporting units based on their relative fair values.

Due to the establishment of the four new reporting units during the second quarter of 2013, we performed an interim goodwill impairment evaluation for those reporting units as of June 30, 2013. For the Southern EMEA and Northern EMEA reporting units, there was no impairment of goodwill because the fair value of those reporting units exceeded their carrying values. As of the June 30, 2013 testing date, liabilities exceeded assets for the Western EMEA and Eastern/Central EMEA reporting units. For reporting units with a negative book value (i.e., excess of liabilities over assets), qualitative factors are evaluated to determine whether it is necessary to perform the second step of the goodwill impairment test. Based on that evaluation, which included consideration of the significant growth of the businesses and improvement in their operating performance since they were acquired in May 2010, we determined that the likelihood of a goodwill impairment for the two reporting units with negative book values did not reach the more-likely-than-not threshold specified in U.S. GAAP. Accordingly, we concluded that the goodwill relating to the Western EMEA and Eastern/Central EMEA reporting units was not impaired as of June 30, 2013, and step two of the goodwill impairment test was not required to be performed. We also tested the former EMEA reporting unit for goodwill impairment immediately prior to the establishment of the four new reporting units and there was no impairment of goodwill because its fair value exceeded its carrying value.

Long lived assets, such as property, equipment and software, net and intangible assets, net, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. If circumstances require that a long lived asset or asset group be tested for possible impairment, we first compare the undiscounted cash flows expected to be generated by that long-lived asset or asset group to its carrying amount. If the carrying amount of the long lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value.

Future changes in our assumptions or the interrelationship of those assumptions may negatively impact future valuations. In future measurements of fair value, adverse changes in assumptions could result in an impairment of goodwill or long-lived assets that would require a non-cash charge to the condensed consolidated statements of operations and may have a material effect on our financial condition and operating results.

#### Income Taxes

We account for income taxes using the asset and liability method, under which deferred income tax assets and liabilities are recognized based upon anticipated future tax consequences attributable to differences between financial statement carrying values of assets and liabilities and their respective tax bases. We regularly review deferred tax assets to assess whether it is more likely than not that the deferred tax assets will be realized and, if necessary, establish a valuation allowance for portions of such assets to reduce the carrying value.

For purposes of assessing whether it is more likely than not that our deferred tax assets will be realized, we consider the following four sources of taxable income for each tax jurisdiction: (a) future reversals of existing taxable temporary differences, (b) projected future earnings, (c) taxable income in carryback years, to the extent that carrybacks are permitted under the tax laws of the applicable jurisdiction, and (d) tax planning strategies, which represent prudent and feasible actions that a company ordinarily might not take, but would take to prevent an operating loss or tax credit carryforward from expiring unused. To the extent that evidence about one or more of these sources of taxable income is sufficient to support a conclusion that a valuation allowance is not necessary, other sources need not be considered. Otherwise, evidence about each of the sources of taxable income is considered in arriving at a conclusion about the need for and amount of a valuation allowance. We have incurred significant losses in recent years and had accumulated deficits of \$767.6 million and \$753.5 million as of September 30, 2013 and

December 31, 2012, respectively. A cumulative loss in the most recent three-year period is a significant piece of negative evidence that is difficult to overcome when assessing the realizability of deferred tax assets. Consequently, we have only recognized deferred tax assets to the extent that they will be realizable either through future reversals of existing taxable temporary differences or through taxable income in carryback years for the applicable jurisdictions. Due to our cumulative losses, we have recognized valuation allowances against deferred tax assets that are not supported by those objective sources of taxable income. As of September 30, 2013 and December 31, 2012, we have not recognized deferred tax assets without a valuation allowance when the only sources of taxable

income are projected future earnings or tax planning strategies. For certain jurisdictions where applicable tax law imposes limitations that may prevent us from realizing our deferred tax assets through the scheduled reversal of taxable temporary differences, we have recorded valuation allowances in excess of the net deferred tax asset balances. A change in the assumptions used to assess the realizability of our deferred tax assets could cause an increase or decrease to the valuation allowance and, consequently, our effective tax rate, which could materially impact our results of operations.

As of September 30, 2013, the total valuation allowance against our deferred tax assets in the United States was approximately \$21 million. We currently expect that by the end of 2013, the United States may no longer have a cumulative loss in the most recent three-year period. Based on the relevant facts and circumstances at that time, including our projected future earnings and applicable loss carryforward limitations, we may conclude that it is appropriate to release a portion of the valuation allowance for that jurisdiction.

We are subject to taxation in the United States, various state and foreign jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes and recording the related income tax assets and liabilities. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. For example, our effective tax rate could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by changes in foreign currency exchange rates, by changes in the valuation of our deferred tax assets and liabilities, or by changes in the relevant tax, accounting and other laws, regulations, principles and interpretations. Our practice for accounting for uncertainty in income taxes is to recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not criteria, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

We are subject to audit in various jurisdictions, and such jurisdictions may assess additional income tax against us. Although we believe our tax estimates are reasonable, the final determination of any tax audits and any related litigation could be materially different from income tax provision accruals and, therefore, could materially affect our operating results or cash flows in the period(s) in which that determination is made.

#### Other-Than-Temporary Impairment of Investments

An unrealized loss exists when the current fair value of an investment is less than its amortized cost basis. We conduct periodic reviews of all of our investments with unrealized losses to evaluate whether those impairments are other-than-temporary. This evaluation, which is performed at the individual investment level, consists of several qualitative and quantitative factors regarding the severity and duration of the unrealized loss, as well as our intent and ability to hold the investment for a period of time that is sufficient to allow for an anticipated recovery in value. Evidence considered in this evaluation includes the amount of the impairment, the length of time that the investment has been impaired, the factors contributing to the impairment, the financial condition and near-term prospects of the investee, recent operating trends and forecasted performance of the investee, market conditions in the geographic area or industry in which the investee operates, and our strategic plans for holding the investment in relation to the period of time expected for an anticipated recovery in value. Additionally, we consider whether we intend to sell the investment or whether it is more likely than not that we will be required to sell the investment before recovery of its amortized cost basis. Investments with unrealized losses that are determined to be other-than-temporary are written down to fair value with a charge to earnings. Unrealized losses that are determined to be temporary in nature are not recorded for cost method investments and equity method investments, while such losses are recorded, net of tax, in accumulated other comprehensive income for available-for-sale securities.

We previously concluded that our cost method investment in F-tuan was other-than-temporarily impaired as of December 31, 2012, and the investment was written down to its fair value of \$77.5 million at that time. During the three months ended September 30, 2013, we invested an additional \$6.5 million in F-tuan, which increased the carrying amount of our investment as of September 30, 2013 to \$84.0 million. For purposes of measuring the fair value of this investment as of September 30, 2013, we applied a discounted cash flow method, which is an income approach, and the resulting value was corroborated by a market approach. We used a discount rate of 31%, compared to a discount rate of 30% used in the December 31, 2012 fair value measurement, and we used the investee's financial

projections for the remainder of the year ending December 31, 2013. However, we applied downward adjustments to the investee's financial projections for future years in the September 30, 2013 fair value measurement based on our expectations for the investee's future performance and related market conditions. The resulting fair value measurement of the investment in F-tuan was \$82.5 million, as compared to its carrying amount of \$84.0 million, as of September 30, 2013. The unrealized loss as a percentage of the investment's carrying amount decreased from 10.8% as of June 30, 2013 to 1.9% as of September 30, 2013. This improvement was attributable to the August 2013 exchange transaction described

in Note 4 "Investments," as our investment in common shares was exchanged for preferred shares that have a more senior position in F-tuan's capital structure.

The factors that we considered in evaluating whether the unrealized loss as of September 30, 2013 constituted an other-than-temporary impairment included the severity of the impairment (i.e., an unrealized loss equal to 1.9% of the investment's carrying amount), the duration of the impairment of less than nine months and our intent to hold the investment for a sufficient period of time to allow for a recovery in fair value. Based on this assessment, which also considered other qualitative factors, we concluded that the investment was not other-than-temporarily impaired as of September 30, 2013. However, if the operating performance of the investee deteriorates significantly in future periods or if the investee obtains additional funding at a substantially lower valuation, it may be necessary to recognize an other-than-temporary impairment charge in earnings at that time.

#### Recently Issued Accounting Standards

There are no accounting standards that have been issued but not yet adopted that we believe will have a material impact on our financial position or results of operations.

### ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have operations both within the United States and internationally, and we are exposed to market risks in the ordinary course of our business, including the effect of foreign currency fluctuations, interest rate changes and inflation. Information relating to quantitative and qualitative disclosures about these market risks is set forth below.

#### Foreign Currency Exchange Risk

We transact business in various foreign currencies other than the U.S. dollar, principally the Euro, British pound sterling, Japanese yen and Brazilian real, which exposes us to foreign currency risk. For the three months ended September 30, 2013, we derived approximately 24.9% and 14.5% of our revenue from our EMEA and Rest of World segments, respectively. For the nine months ended September 30, 2013, we derived approximately 27.2% and 13.1% of our revenue from our EMEA and Rest of World segments, respectively. Revenue and related expenses generated from our international operations are generally denominated in the local currencies of the corresponding countries. The functional currency of our subsidiaries that either operate or support these markets is generally the same as the corresponding local currency. The results of operations of, and certain of our intercompany balances associated with, our international operations are exposed to foreign exchange rate fluctuations. Upon consolidation, as exchange rates vary, our revenue and other operating results may differ materially from expectations, and we may record significant gains or losses on the re-measurement of intercompany balances.

We assess our foreign currency exchange risk based on hypothetical changes in rates utilizing a sensitivity analysis that measures the potential impact on working capital based on a 10% change (increase and decrease) in currency rates. We use a current market pricing model to assess the changes in the value of the U.S. dollar on foreign currency denominated monetary assets and liabilities. The primary assumption used in these models is a hypothetical 10% weakening or strengthening of the U.S. dollar against all our currency exposures as of September 30, 2013 and December 31, 2012.

As of September 30, 2013, our net working capital deficit (defined as current assets less current liabilities) from subsidiaries that are subject to foreign currency translation risk was \$173.9 million. The potential increase in this working capital deficit from a hypothetical 10% adverse change in quoted foreign currency exchange rates would be \$17.4 million. This compares to a \$197.3 million working capital deficit subject to foreign currency exposure as of December 31, 2012, for which a 10% adverse change would have resulted in a potential increase in this working capital deficit of \$19.7 million. The primary difference between foreign currency exposure from December 31, 2012 to September 30, 2013 is due to fluctuations in foreign currencies against the U.S. Dollar during 2013 and improvements in the working capital deficit throughout the year.

#### Interest Rate Risk

Our cash and cash equivalents primarily consists of cash and money market funds. We currently do not have long-term borrowings except for \$4.6 million of long-term capital lease obligations, which do not expose us to significant interest rate risk. Our exposure to market risk for changes in interest rates is limited because our cash and cash equivalents have a short-term maturity and are used primarily for working capital purposes. In November 2012, we purchased a convertible debt security issued by a nonpublic entity for \$3.0 million, and have classified the security as available-for-sale. The interest rate risk on this security is not significant.

#### Impact of Inflation

We believe that our results of operations are not materially impacted by moderate changes in the inflation rate. Inflation and changing prices did not have a material effect on our business, financial condition or results of operations for the three and nine months ended September 30, 2013 and 2012.

#### ITEM 4. CONTROLS AND PROCEDURES

##### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this Quarterly Report on Form 10-Q.

Based on this evaluation, our management concluded that, as of September 30, 2013, our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is 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 was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

##### Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.



## PART II. OTHER INFORMATION

### ITEM 1: LEGAL PROCEEDINGS

For a description of our material pending legal proceedings, please see Note 6 "Commitments and Contingencies" of the Notes to the accompanying unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

#### ITEM 1A: RISK FACTORS

Our business, prospects, financial condition, operating results and the trading price of our Class A common stock could be materially adversely affected by any of these risks, as well as other risks not currently known to us or that we currently consider immaterial.

##### Risks Related to Our Business

Our revenue and operating results may continue to be volatile.

Our revenue and operating results will continue to vary from quarter to quarter due to the rapidly evolving nature of our business. We believe that our revenue growth and ability to achieve and maintain profitability will depend, among other factors, on our ability to:

- acquire new customers and retain existing customers;
- attract new merchants and retain existing merchants who wish to offer deals through the sale of Groupons;
- effectively address and respond to challenges in international markets;
- expand the number, variety and relevance of products and deals we offer, particularly as we attempt to build a more complete local marketplace;
- increase the awareness of our brand domestically and internationally;
- provide a superior customer service experience for our customers and merchants;
- respond to changes in consumer and merchant access to and use of the Internet and mobile devices;
- effectively utilize Internet search engines to generate traffic to our websites;
- react to challenges from existing and new competitors;
- successfully achieve the anticipated benefits of business combinations or acquisitions; and
- respond to seasonal changes in supply and demand.

Our strategy to become a complete local commerce marketplace may not be successful and may expose us to additional risks.

One of our key objectives is to expand upon our traditional daily deals business by building out a more extensive local commerce marketplace. This strategy has required us to devote significant resources to attracting and retaining merchants who are willing to run deals on a continuous basis with us in order to build a significant inventory for our customers, as well as continuing management focus and attention. We have accepted, and expect to continue to accept, a lower percentage of the gross billings from some of our merchants as we expand our marketplace. In addition, we are continuously refining our process for presenting the most relevant deals to our customers based on their personal preferences. If we are not successful in pursuing these objectives, our business, financial position and results of operations could be harmed.

If we are unable to successfully respond to changes in the market, our business could be harmed.

Our business grew rapidly in prior periods as merchants and consumers have increasingly used our marketplace. However,

this is a new market which we created in late 2008 and which has operated at a substantial scale for only a limited period of time. Given the limited history, we are constantly evolving our strategy and may not always be successful in doing so. For example, we experienced a decline in revenue from our EMEA and Rest of World segments during the three months ended September 30, 2013, as compared to the three months ended September 30, 2012. We expect that the market will evolve in ways which may be difficult to predict. For example, we believe that in some of our markets, including North America, investments in new customer acquisition are less productive and the continued growth of our revenue will require more focus on increasing or maintaining the rate at which our existing customers purchase Groupons and our ability to expand the number and variety of deals that we offer. It is also possible that merchants or customers could broadly determine that they no longer believe in the value of our current services or marketplace. In the event of these or any other changes to the market, our continued success will depend on our ability to successfully adjust our strategy to meet the changing market dynamics. If we are unable to successfully adapt to changes in our markets, our business, financial condition and results of operations could suffer a material negative impact.

Our international operations are subject to increased challenges, and our inability to adapt to the varied commercial and regulatory landscapes of our international markets may adversely affect our business.

Our ability to grow our business in our international markets requires management attention and resources and requires us to localize our services to conform to a wide variety of local cultures, business practices, laws and policies. The different commercial and Internet infrastructure in other countries may make it more difficult for us to replicate our business model. In many countries, we compete with local companies that understand the local market better than we do, and we may not benefit from first-to-market advantages. We are subject to risks of doing business internationally, including the following:

- our ability to maintain merchant and customer satisfaction such that our marketplace will continue to attract high quality merchants;

- our ability to successfully respond to macroeconomic challenges, including by optimizing our deal mix to take into account consumer preferences at a particular point in time;

- strong local competitors, many of whom have been in the market longer than us;

- different regulatory requirements, including regulation of gift cards and coupon terms, Internet services, professional selling, distance selling, bulk emailing, privacy and data protection, banking and money transmitting, that may limit or prevent the offering of our services in some jurisdictions or limit our ability to enforce contractual obligations;

- difficulties in integrating with local payment providers, including banks, credit and debit card networks and electronic funds transfer systems;

- different employee/employer relationships and the existence of workers' councils and labor unions;

- shorter payment cycles, different accounting practices and greater problems in collecting accounts receivable;

- higher Internet service provider costs;

- seasonal reductions in business activity;

- expenses associated with localizing our products, including offering customers the ability to transact business in the local currency; and

- differing intellectual property laws.

We are subject to complex foreign and U.S. laws and regulations that apply to our international operations, including data privacy and protection requirements, the Foreign Corrupt Practices Act, the UK Anti-Bribery Act and similar local laws prohibiting certain payments to government officials, banking and payment processing regulations, and anti-competition regulations, among others. The cost of complying with these various and sometimes conflicting laws and regulations is substantial. We have implemented policies and procedures to ensure compliance with these laws and regulations, however, we cannot assure you that our employees, contractors, or agents will not violate our policies. Changing laws, regulations and enforcement actions in the U.S. and the rest of the world could harm our business.

If, as we continue to expand internationally, we are unable to successfully replicate our business model due to these and other commercial and regulatory constraints in our international markets, our business may be adversely affected.



Our financial results will be adversely affected if we are unable to execute on our marketing strategy. We have historically focused our marketing spend on customer acquisition, and we have recently begun to also focus on activating new customers and retaining existing customers. While our marketing expense declined during the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, we expect to increase our marketing spend in future periods as we attempt to continue to grow our customer base. If our assumptions regarding our marketing efforts and strategies prove incorrect, our ability to generate profits from our investments in new customer acquisitions may be less than we have assumed. In such case, we may need to increase expenses or otherwise alter our strategy and our results of operations could be negatively impacted.

If we fail to retain our existing customers or acquire new customers, our revenue and business will be harmed. We must continue to retain and acquire customers that purchase Groupons in order to increase revenue and achieve consistent profitability. As our customer base continues to evolve, it is possible that the composition of our customers may change in a manner that makes it more difficult to generate revenue to offset the loss of existing customers and the costs associated with acquiring and retaining customers. If customers do not perceive our Groupon offers to be attractive or if we fail to introduce new and more relevant deals, we may not be able to retain or acquire customers at levels necessary to grow our business and profitability. If we are unable to acquire new customers who purchase Groupons in numbers sufficient to grow our business and offset the number of existing active customers that cease to purchase Groupons, the revenue we generate may decrease and our operating results will be adversely affected.

Our future success depends upon our ability to retain and add high quality merchants.

We depend on our ability to attract and retain merchants that are prepared to offer products or services on compelling terms through our marketplace and provide our customers with a great experience. We do not have long-term arrangements to guarantee the availability of deals that offer attractive quality, value and variety to customers or favorable payment terms to us. In addition, if we are unsuccessful in our efforts to introduce services to merchants as part of our local commerce operating system, we will not experience a corresponding growth in our merchant pool sufficient to offset the cost of these initiatives. We must continue to attract and retain merchants in order to increase revenue and profitability. If new merchants do not find our marketing and promotional services effective, or if existing merchants do not believe that utilizing our services provides them with a long-term increase in customers, revenue or profits, they may stop making offers through our marketplace. In addition, we may experience attrition in our merchants in the ordinary course of business resulting from several factors, including losses to competitors and merchant closures or bankruptcies. If we are unable to attract new merchants in numbers sufficient to grow our business, or if too many merchants are unwilling to offer products or services with compelling terms through our marketplace or offer favorable payment terms to us, we may sell fewer Groupons and our operating results will be adversely affected.

If our efforts to market, advertise and promote products and services from our existing merchants are not successful, or if our existing merchants do not believe that utilizing our services provides them with a long-term increase in customers, revenue or profits, we may not be able to retain or attract merchants in sufficient numbers to grow our business or we may be required to incur significantly higher marketing expenses or reduce margins in order to attract new merchants. A significant increase in merchant attrition or decrease in merchant growth would have an adverse effect on our business, financial condition and results of operation.

We may incur losses in the future as we expand our business.

We had an accumulated deficit of \$767.6 million as of September 30, 2013. We anticipate that our profitability will be impacted as we continue to invest in our growth, through increased spending in some areas and through accepting a lower percentage of the proceeds from our deals, as we attempt to add more merchants to our marketplace. These efforts may prove more difficult than we currently anticipate, and we may not succeed in realizing the benefits of these efforts in a short time frame, or at all. Many of our efforts to generate revenue from our business are new and unproven, and any failure to increase our revenue could prevent us from attaining or increasing our profitability. We cannot be certain that we will be able to attain or increase profitability on a quarterly or annual basis. If we are unable to effectively manage these risks and difficulties as we encounter them, our business, financial condition and results of operations may suffer.

We operate in a highly competitive industry with relatively low barriers to entry, and must compete successfully in order to grow our business.

We expect competition in e-commerce generally, and group buying in particular, to continue to increase. A substantial number of group buying sites that attempt to replicate our business model have emerged around the world. In addition to such

competitors, we expect to increasingly compete against other large businesses who offer deals similar to ours as an add-on to their core business. We also expect to compete against other Internet sites that serve niche markets and interests. In some of our categories, such as goods, travel and entertainment, we compete against much larger companies who have more resources and significantly larger scale. In addition, we compete with traditional offline coupon and discount services, as well as newspapers, magazines and other traditional media companies who provide coupons and discounts on products and services.

We believe that our ability to compete successfully depends upon many factors both within and beyond our control, including the following:

- the size and composition of our customer base and the number of merchants we feature;
- the timing and market acceptance of deals we offer, including the developments and enhancements to those deals offered by us or our competitors;
- customer and merchant service and support efforts;
- selling and marketing efforts;
- ease of use, performance, price and reliability of services offered either by us or our competitors;
- our ability to generate large volumes of sales, particularly with respect to goods and travel deals;
- our ability to cost-effectively manage our operations; and
- our reputation and brand strength relative to our competitors.

Many of our current and potential competitors have longer operating histories, significantly greater financial, marketing and other resources and larger customer bases than we do. These factors may allow our competitors to benefit from their existing customer base with lower customer acquisition costs or to respond more quickly than we can to new or emerging technologies and changes in consumer habits. These competitors may engage in more extensive research and development efforts, undertake more far-reaching marketing campaigns and adopt more aggressive pricing policies, which may allow them to build larger customer bases or generate revenue from their customer bases more effectively than we do. Our competitors may offer deals that are similar to the deals we offer or that achieve greater market acceptance than the deals we offer. This could attract customers away from our websites and applications, reduce our market share and adversely impact our gross margin. We also have seen that some competitors will accept lower margins, or negative margins, to attract attention and acquire new customers. If competitors engage in group buying initiatives in which merchants receive a higher percentage of the revenue than we currently offer, we may be forced to pay a higher percentage of the gross proceeds from each Groupon sold than we currently offer, which may reduce our revenue. In addition, we are dependent on some of our existing or potential competitors for banner advertisements and other marketing initiatives to acquire new customers. Our ability to utilize their platforms to acquire new customers may be adversely affected if they choose to compete more directly with us or prevent us from using their services.

If we are unable to maintain favorable terms with our merchants, our revenue may be adversely affected.

The success of our business depends in part on our ability to retain and increase the number of merchants who use our service, particularly as we continue to grow our marketplace. Currently, when a merchant works with us to offer a deal for its products or services, it receives an agreed-upon percentage of the total proceeds from each Groupon sold, and we retain the rest. If merchants decide that utilizing our services no longer provides an effective means of attracting new customers or selling their goods and services, they may demand a higher percentage of the total proceeds from each Groupon sold. In addition, as part of our strategy to grow our merchant base, we have been accepting a lower percentage of the total proceeds from each Groupon sold in some instances. This could adversely affect our revenue and gross profit.

In addition, we expect to face increased competition from other Internet and technology-based businesses. We also have seen that some competitors will accept lower margins, or negative margins, to attract attention and acquire new customers. If competitors engage in group buying initiatives in which merchants receive a higher percentage of the revenue than we currently offer, or if we target merchants who will only agree to run deals if they receive a higher percentage of the proceeds, we may be forced to take a lower percentage of the gross billings.



Our operating cash flow and results of operations could be adversely impacted if we change our merchant payment terms or our revenue does not continue to grow.

Our merchant payment terms and revenue growth have historically provided us with operating cash flow to fund our working capital needs. Our merchant arrangements are generally structured such that we collect cash up front when our customers purchase Groupons and make payments to our merchants at a subsequent date, either on a fixed schedule or upon redemption by customers. We currently pay our merchants upon redemption in many deals in our International markets, but we may continue to move toward offering payments on a fixed schedule in those markets. Additionally, payment arrangements in our Goods category generally result in us paying merchants on a more accelerated basis than payment arrangements in our Local category.

Our accrued merchant and supplier payable balance decreased from \$671.3 million as of December 31, 2012 to \$591.5 million as of September 30, 2013, due primarily to our seasonally strong Goods business in the fourth quarter of 2012, which resulted in increased payments to merchants and suppliers during the first quarter of 2013 and a corresponding decline in our cash flows from operations. Our operating cash flows have been adversely impacted by lower growth in our Local category in recent periods. We have used the operating cash flow provided by our merchant payment terms and revenue growth to fund our working capital needs. If we offer our merchants more favorable or accelerated payment terms or our revenue does not continue to grow in the future, our operating cash flow and results of operations could be adversely impacted and we may have to seek alternative financing to fund our working capital needs.

Our success is dependent upon our ability to provide a superior mobile experience for our customers, and our customers' continued ability to access our offerings through mobile devices.

In North America, over 50% of all transactions were completed on mobile devices during September 2013. During September 2013, over 40% of our transactions worldwide were completed on mobile devices. In order to continue to grow our mobile transactions, it is critical that our applications work well with a range of mobile technologies, systems, networks and standards. Our business may be adversely affected if our customers choose not to access our offerings on their mobile devices or use mobile devices that do not offer access to our mobile applications.

Our business depends on our ability to maintain and scale the network infrastructure necessary to send our emails and operate our websites, mobile applications and transaction processing systems, and any significant disruption in service on our email infrastructure, websites, mobile applications or transaction processing systems could result in a loss of subscribers, customers or merchants.

Subscribers access our deals through our websites and mobile applications, as well as via emails that are often targeted by location, purchase history and personal preferences. Our reputation and ability to acquire, retain and serve our current customers and potential customers are dependent upon the reliable performance of our websites, mobile applications, email delivery and transaction processing systems and the underlying network infrastructure. As our subscriber base and the amount of information shared on our websites and applications continue to grow, we will need an increasing amount of network capacity and computing power. We have spent and expect to continue to spend substantial amounts on data centers and equipment and related network infrastructure to handle the traffic on our websites and applications. The operation of these systems is expensive and complex and could result in operational failures. In the event that our subscriber base or the amount of traffic and transactions on our websites and applications grows more quickly than anticipated, we may be required to incur significant additional costs.

Interruptions in these systems, whether due to system failures, computer viruses, physical or electronic break-ins or otherwise (including spam filters preventing emails from reaching subscribers), could affect the security or availability of our websites and applications, and prevent our subscribers from accessing our services. If we do not maintain or expand our network infrastructure successfully or if we experience operational failures, we could lose current and potential subscribers and merchants, which could harm our operating results and financial condition.

In addition, a substantial portion of our network infrastructure is hosted by third party providers. Any failure of these providers to handle existing or increased traffic and transactions could significantly harm our business. Any financial or other difficulties these providers face may adversely affect our business, and we exercise little control over these providers, which increases our vulnerability to problems with the services they provide.

If our emails are not delivered and accepted by email providers, or are routed by email providers in a less favorable way than other emails, our business may be substantially harmed.



If email providers implement new or more restrictive email delivery policies it may become more difficult to deliver emails to customers. For example, certain email providers have started to categorize emails as "promotional," and these emails are directed to an alternate section of a customer's inbox. If email providers materially limit or halt the delivery of our emails,

or if we fail to deliver emails to customers in a manner compatible with email providers' email handling or authentication technologies, our operating results and financial condition could be substantially harmed. In addition, if we are placed on "spam" lists or lists of entities that have been involved in sending unwanted, unsolicited emails, our ability to contact customers through email could be significantly restricted.

We purchase and sell some products from indirect suppliers, which increases our risk of litigation and other losses. We source merchandise both directly from brand owners and indirectly from retailers and third party distributors, and we often take title to the goods before we offer them for sale to our customers. Further, some brand owners, retailers and third party distributors may be unwilling to offer products for sale on the Internet or through Groupon in particular, which could have an adverse impact on our ability to source and offer popular products. By selling merchandise sourced from parties other than the brand owners, we are subject to an increased risk that the merchandise may be damaged or non-authentic, which could result in potential liability under applicable laws, regulations, agreements and orders, and increase the amount of returned merchandise. In addition, brand owners may take legal action against us, which even if we prevail could result in costly litigation, generate bad publicity for us, and have a material adverse impact on our business, financial condition and results of operations.

We are subject to inventory management and order fulfillment risk as a result of our Goods category.

We purchase much of the merchandise that we offer for sale to our customers, and we expect to increase the percentage of merchandise that we offer directly for sale as compared to merchandise that our customers purchase directly from third parties. The demand for products can change for a variety of reasons, including customer preference, quality, seasonality, and the perceived value from customers of purchasing the product through us. In addition, this is a new business for us, and therefore we have a limited historical basis upon which to predict customer demand for the products. If we are unable to adequately predict customer demand and efficiently manage our inventory, we could either have an excess or a shortage of inventory, either of which would have a material adverse effect on our business.

Purchasing the goods ourselves prior to the sale also means that we will be required to fulfill orders on an efficient and cost-effective basis. Many other online retailers have significantly larger inventory balances and therefore are able to rely on past experience and economies of scale to optimize their order fulfillment. Delays or inefficiencies in our processes could subject us to additional costs, as well as customer dissatisfaction, which would adversely affect our business.

The integration of our international operations with our North American technology platform may result in business interruptions.

We currently use a common technology platform in our North America segment to operate our business and are in the process of migrating our operations in our EMEA and Rest of World segments to the same platform. Such changes to our technology platform and related software carry risks such as cost overruns, project delays and business interruptions and delays. If we experience a material business interruption as a result of this process, it could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our common stock to decline.

We are involved in pending litigation and an adverse resolution of such litigation may adversely affect our business, financial condition, results of operations and cash flows.

We are involved in litigation regarding, among other matters, patent, consumer, securities and employment issues. Litigation can be expensive, time-consuming and disruptive to normal business operations. The results of complex legal proceedings are often uncertain and difficult to predict. An unfavorable outcome with respect to any of these lawsuits could have a material adverse effect on our business, financial condition, results of operations or cash flows. For additional information regarding these and other lawsuits in which we are involved, see Note 6 "Commitments and Contingencies" to our condensed consolidated financial statements.

An increase in our refund rates could reduce our liquidity and profitability.

Customers have the ability to receive a refund of their purchase price upon the occurrence of specified events. As we increase our revenue and expand our product offerings, our refund rates may exceed our historical levels. For example, as a result of a shift in our deal mix and higher price point offers that began in the fourth quarter of 2011, our refund rates became higher than historical levels. A downturn in general economic conditions may also increase our refund rates. An increase in our refund rates could significantly reduce our liquidity and profitability.



Because we do not have control over our merchants and the quality of products or services they deliver, we rely on a statistical model that incorporates the following data inputs and factors to estimate future refunds: historical refund experience developed from millions of deals featured on the Company's website, the relative risk of refunds based on expiration date, deal value, deal category and other qualitative factors that could impact the level of future refunds, such as introductions of new deals, discontinuations of legacy deals and expected changes, if any, in our practices in response to refund experience or economic trends that might impact customer demand. Our actual level of refund claims could prove to be greater than the level of refund claims we estimate. If our refund reserves are not adequate to cover future refund claims, this inadequacy could have a material adverse effect on our liquidity and profitability.

Our standard agreements with our merchants generally limit the time period during which we may seek reimbursement for customer refunds or claims. Our customers may make claims for refunds with respect to which we are unable to seek reimbursement from our merchants. Our inability to seek reimbursement from our merchants for refund claims could have an adverse effect on our liquidity and profitability.

The loss of one or more key members of our management team, or our failure to attract, integrate and retain other highly qualified personnel in the future could harm our business.

In order to be successful, we must attract, retain and motivate executives and other key employees, including those in managerial, technical and sales positions. Hiring and retaining qualified executives, engineers and qualified sales representatives are critical to our success, and competition for experienced and well qualified employees can be intense. In order to attract and retain executives and other key employees in a competitive marketplace, we must provide a competitive compensation package, including cash and share-based compensation. Our primary form of share-based incentive award is restricted stock units. If the anticipated value of such share-based incentive awards does not materialize, if our share-based compensation otherwise ceases to be viewed as a valuable benefit, or if our total compensation package is not viewed as being competitive, our ability to attract, retain, and motivate executives and key employees could be weakened. The failure to successfully hire executives and key employees or the loss of any executives and key employees could have a significant impact on our operations.

An increase in the costs associated with maintaining our international operations could adversely affect our results of operations.

Certain factors may cause our international costs of doing business to exceed our comparable costs in North America. For example, in some countries, expansion of our business may require a close commercial relationship with one or more local banks, a shared ownership interest with a local entity or registration as a bank under local law. Such requirements may reduce our revenue, increase our costs or limit the scope of our activities in particular countries.

Further, because our international revenue is denominated in foreign currencies, we could become subject to increased difficulties in collecting accounts receivable and repatriating money without adverse tax consequences and increased risks relating to foreign currency exchange rate fluctuations. Further, we could be subject to the application of U.S. tax rules to acquired international operations and local taxation of our fees or of transactions on our websites.

We conduct portions of certain functions, including product development, customer support and other operations, in regions outside of North America. Any factors which reduce the anticipated benefits, including cost efficiencies and productivity improvements, associated with providing these functions outside of North America, including increased regulatory costs associated with our international operations, could adversely affect our business.

We may be subject to additional unexpected regulation which could increase our costs or otherwise harm our business.

The application of certain laws and regulations to Groupons, as a new product category, is uncertain. These include laws and regulations such as the CARD Act, and, in certain instances, potentially unclaimed and abandoned property laws. In addition, from time to time, we may be notified of additional laws and regulations which governmental organizations or others may claim should be applicable to our business. If we are required to alter our business practices as a result of any laws and regulations, our revenue could decrease, our costs could increase and our business could otherwise be harmed. In addition, the costs and expenses associated with defending any actions related to such additional laws and regulations and any payments of related penalties, judgments or settlements could adversely impact our profitability. As we expand into new lines of business and new geographies, we will become subject to

additional laws and regulations.

We may have exposure to greater than anticipated tax liabilities.

Our income tax obligations are based on our corporate operating structure, including the manner in which we develop, value, and use our intellectual property and the scope of our international operations. The tax laws applicable to our international

business activities, including the laws of the United States and other jurisdictions, are subject to interpretation. The taxing authorities of the jurisdictions in which we operate may challenge our methodologies for valuing developed technology or intercompany arrangements, which could increase our worldwide effective tax rate and harm our financial position and results of operations. In addition, our future income taxes could be adversely affected by greater earnings in jurisdictions that have higher statutory tax rates, by changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws, regulations, or accounting principles. We are subject to regular review and audit by both U.S. federal and state and foreign tax authorities. Any adverse outcome of such a review or audit could have a negative effect on our financial position and results of operations. In addition, the determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment by management, and there are many transactions where the ultimate tax determination is uncertain. Although we believe that our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

The enactment of legislation implementing changes in the U.S. taxation of international business activities or the adoption of other tax reform policies could materially affect our financial position and results of operations.

The current administration has made public statements indicating that it has made international tax reform a priority, and key members of the U.S. Congress have conducted hearings and proposed a wide variety of potential changes.

Certain changes to U.S. tax laws, including limitations on the ability to defer U.S. taxation on earnings outside of the United States until those earnings are repatriated to the United States, could affect the tax treatment of our foreign earnings, as well as cash and cash equivalent balances we currently maintain outside of the United States. Due to the large and expanding scale of our international business activities, any changes in the U.S. taxation of such activities may increase our worldwide effective tax rate and harm our financial position and results of operations.

The implementation of the CARD Act and similar state and foreign laws may harm our business and results of operations.

It is not clear at this time, but Groupons may be considered gift cards, gift certificates, stored value cards or prepaid cards and therefore governed by, among other laws, the CARD Act, and state laws governing gift cards, stored value cards and coupons. Other foreign jurisdictions have similar laws in place, in particular European jurisdictions where the European E-Money Directive regulates the business of electronic money institutions. Many of these laws contain provisions governing the use of gift cards, gift certificates, stored value cards or prepaid cards, including specific disclosure requirements and prohibitions or limitations on the use of expiration dates and the imposition of certain fees. For example, if Groupons are subject to the CARD Act and are not included in the exemption for promotional programs, it is possible that the purchase value, which is the amount equal to the price paid for the Groupon, or the promotional value, which is the add-on value of the Groupon in excess of the price paid, or both, may not expire before the later of (i) five years after the date on which the Groupon was issued or the date on which the customer last loaded funds on the Groupon if the Groupon has a reloadable feature; (ii) the Groupon's stated expiration date (if any); or (iii) a later date provided by applicable state law. We and several merchants are currently defendants in purported class action litigation that has been filed in federal and state court claiming that Groupons are subject to the CARD Act and various state laws governing gift cards and that the defendants have violated these laws by issuing Groupons with expiration dates and other restrictions. In the event that it is determined that Groupons are subject to the CARD Act or any similar state or foreign law or regulation, and are not within various exemptions that may be available to Groupon under the CARD Act or under some of the various state or foreign jurisdictions, our liabilities with respect to unredeemed Groupons may be materially higher than the amounts shown in our financial statements and we may be subject to additional fines and penalties. In addition, if federal or state laws require that the face value of Groupons have a minimum expiration period beyond the period desired by a merchant for its promotional program, or no expiration period, this may affect the willingness of merchants to issue Groupons in jurisdictions where these laws apply.

If we are required to materially increase the estimated liability recorded in our financial statements with respect to unredeemed Groupons, our results from operations could be materially and adversely affected.

In certain states and foreign jurisdictions, Groupons may be considered a gift card. Some of these states and foreign jurisdictions include gift cards under their unclaimed and abandoned property laws which require companies to remit to the government the value of the unredeemed balance on the gift cards after a specified period of time (generally

between one and five years) and impose certain reporting and record-keeping obligations. We do not remit any amounts relating to unredeemed Groupons based on our assessment of applicable laws. The analysis of the potential application of the unclaimed and abandoned property laws to Groupons is complex, involving an analysis of constitutional and statutory provisions and factual issues, including our relationship with customers and merchants and our role as it relates to the issuance and delivery of a Groupon. In the event that one or more states or foreign jurisdictions successfully challenges our position on the application of its unclaimed and abandoned property laws to Groupons, or if the estimates that we use in projecting the likelihood of Groupons being redeemed prove to be inaccurate, our liabilities with respect to unredeemed Groupons may be materially higher than the amounts shown in our financial statements. If we are required to materially increase the estimated liability recorded in our financial statements with respect to

unredeemed gift cards, our net income could be materially and adversely affected. Moreover, a successful challenge to our position could subject us to penalties or interest on unreported and unremitted sums, and any such penalties or interest would have a further material adverse impact on our net income.

Government regulation of the Internet and e-commerce is evolving, and unfavorable changes or failure by us to comply with these regulations could substantially harm our business and results of operations.

We are subject to general business regulations and laws as well as regulations and laws specifically governing the Internet and e-commerce. Existing and future regulations and laws could impede the growth of the Internet or other online services. These regulations and laws may involve taxation, tariffs, subscriber privacy, anti-spam, data protection, content, copyrights, distribution, electronic contracts and other communications, consumer protection, the provision of online payment services and the characteristics and quality of services. It is not clear how existing laws governing issues such as property ownership, sales and other taxes, libel and personal privacy apply to the Internet as the vast majority of these laws were adopted prior to the advent of the Internet and do not contemplate or address the unique issues raised by the Internet or e-commerce. In addition, it is possible that governments of one or more countries may seek to censor content available on our websites and applications or may even attempt to completely block our emails or access to our websites. Adverse legal or regulatory developments could substantially harm our business. In particular, in the event that we are restricted, in whole or in part, from operating in one or more countries, our ability to retain or increase our customer base may be adversely affected and we may not be able to maintain or grow our revenue as anticipated.

New tax treatment of companies engaged in Internet commerce may adversely affect the commercial use of our services and our financial results.

Due to the global nature of the Internet, it is possible that various states or foreign countries might attempt to regulate our transmissions or levy sales, income or other taxes relating to our activities. Tax authorities at the international, federal, state and local levels are currently reviewing the appropriate treatment of companies engaged in Internet commerce. New or revised international, federal, state or local tax regulations may subject us or our customers to additional sales, income and other taxes. We cannot predict the effect of current attempts to impose sales, income or other taxes on commerce over the Internet. New or revised taxes and, in particular, sales taxes, VAT and similar taxes would likely increase the cost of doing business online and decrease the attractiveness of advertising and selling goods and services over the Internet. New taxes could also create significant increases in internal costs necessary to capture data, and collect and remit taxes. Any of these events could have an adverse effect on our business and results of operations.

Failure to comply with federal, state and international privacy laws and regulations, or the expansion of current or the enactment of new privacy laws or regulations, could adversely affect our business.

A variety of federal, state and international laws and regulations govern the collection, use, retention, sharing and security of consumer data. The existing privacy-related laws and regulations are evolving and subject to potentially differing interpretations. In addition, various federal, state and foreign legislative and regulatory bodies may expand current or enact new laws regarding privacy matters. For example, recently there have been Congressional hearings and increased attention to the capture and use of location-based information relating to users of smartphones and other mobile devices. We have posted privacy policies and practices concerning the collection, use and disclosure of subscriber data on our websites and applications. Several Internet companies have incurred substantial penalties for failing to abide by the representations made in their privacy policies and practices. In addition, several states have adopted legislation that requires businesses to implement and maintain reasonable security procedures and practices to protect sensitive personal information and to provide notice to consumers in the event of a security breach. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any data-related consent orders, Federal Trade Commission requirements or orders or other federal, state or international privacy or consumer protection-related laws, regulations or industry self-regulatory principles could result in claims, proceedings or actions against us by governmental entities or others or other liabilities, which could adversely affect our business. In addition, a failure or perceived failure to comply with industry standards or with our own privacy policies and practices could result in a loss of subscribers or merchants and adversely affect our business. Federal, state and international governmental authorities continue to evaluate the privacy implications inherent in the use of third party web "cookies" for behavioral advertising. The regulation of these cookies and other current online advertising



practices could adversely affect our business.

We may suffer liability as a result of information retrieved from or transmitted over the Internet and claims related to our service offerings.

We may be, and in certain cases have been, sued for defamation, civil rights infringement, negligence, patent, copyright or trademark infringement, invasion of privacy, personal injury, product liability, breach of contract, unfair competition,

discrimination, antitrust or other legal claims relating to information that is published or made available on our websites or service offerings we make available (including provision of an application programming interface platform for third parties to access our website, mobile device services and geolocation applications). This risk is enhanced in certain jurisdictions outside the United States, where our liability for such third party actions may be less clear and we may be less protected. In addition, we could incur significant costs in investigating and defending such claims, even if we ultimately are not found liable. If any of these events occurs, our net income could be materially and adversely affected.

We are subject to risks associated with information disseminated through our websites and applications, including consumer data, content that is produced by our editorial staff and errors or omissions related to our product offerings. Such information, whether accurate or inaccurate, may result in our being sued by our merchants, subscribers or third parties and as a result our revenue and goodwill could be materially and adversely affected.

We may be subject to breaches of our information technology systems, which could harm our relationships with our customers and merchants, subject us to negative publicity and litigation, and cause substantial harm to our business. In operating a global online business, we and our third party service providers maintain significant proprietary information and manage large amounts of personal data and confidential information about our employees, customers and merchants. Because of our high profile and the number of customer records we maintain, we and the third party providers are at an increased risk of attacks on our systems.

Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, our prominent size and scale, our plans to implement our entrance into the mobile payments space, our expanded geographic footprint and international presence, the outsourcing of some of our business operations and threats of cyber-attacks. Although cybersecurity and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access are a high priority for us, this may not successfully protect our systems against all vulnerabilities, including technologies developed to bypass our security measures. In addition, outside parties may attempt to fraudulently induce employees, merchants or customers to disclose sensitive information in order to gain access to our secure systems and networks. For example, in May 2013, a hacker accessed a database of our Taiwan subscribers containing usernames and passwords.

As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

Further, because the techniques used to gain access to, or sabotage, systems often are not recognized until launched against a target, we may be unable to anticipate the correct methods necessary to defend against these types of attacks. Any actual breach, the perceived threat of a breach or a perceived breach, could cause our customers and merchants to cease doing business with us, subject us to lawsuits, regulatory fines or other action or liability, which would harm our business, financial condition and results of operations.

We may not be able to adequately protect our intellectual property rights or may be accused of infringing intellectual property rights of third parties.

We regard our subscriber list, trademarks, service marks, copyrights, patents, trade dress, trade secrets, proprietary technology, merchant lists, subscriber lists, sales methodology and similar intellectual property as critical to our success, and we rely on trademark, copyright and patent law, trade secret protection and confidentiality and/or license agreements with our employees and others to protect our proprietary rights. Effective intellectual property protection may not be available in every country in which our deals are made available. We also may not be able to acquire or maintain appropriate domain names or trademarks in all countries in which we do business. Furthermore, regulations governing domain names may not protect our trademarks and similar proprietary rights. We may be unable to prevent third parties from acquiring and using domain names that are similar to, infringe upon or diminish the value of our trademarks and other proprietary rights. We may be unable to prevent third parties from using and registering our trademarks, or trademarks that are similar to, or diminish the value of, our trademark in some countries.

We may not be able to discover or determine the extent of any unauthorized use of our proprietary rights. Third parties that license our intellectual property rights also may take actions that diminish the value of our proprietary rights or reputation. The protection of our intellectual property may require the expenditure of significant financial and managerial resources. Moreover, the steps we take to protect our intellectual property may not adequately protect our

rights or prevent third parties from infringing or misappropriating our proprietary rights. We are currently subject to multiple lawsuits and disputes related to our intellectual property and service offerings. We may in the future be subject to additional litigation and disputes. The costs of engaging in such litigation and disputes are considerable, and there can be no assurances that favorable outcomes will be obtained.

We are currently subject to third party claims that we infringe their proprietary rights or trademarks and expect to be subject to additional claims in the future. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, injunctions against us or the payment of damages by us. We may need to obtain licenses from third parties who allege that we have infringed their rights, but such licenses may not be available on terms acceptable to us or at all. These risks have been amplified by the increase in third parties whose sole or primary business is to assert such claims.

Our business depends on a strong brand, and if we are not able to maintain and enhance our brand, or if we receive unfavorable media coverage, our ability to expand our base of customers and merchants will be impaired and our business and operating results will be harmed.

We believe that the brand identity that we have developed has significantly contributed to the success of our business. We also believe that maintaining and enhancing the "Groupon" brand is critical to expanding our base of customers and merchants. Maintaining and enhancing our brand may require us to make substantial investments and these investments may not be successful. If we fail to promote and maintain the "Groupon" brand, or if we incur excessive expenses in this effort, our business, operating results and financial condition will be materially and adversely affected. We anticipate that, as our market becomes increasingly competitive, maintaining and enhancing our brand may become increasingly difficult and expensive. Maintaining and enhancing our brand will depend largely on our ability to be a group buying leader and to continue to provide reliable, trustworthy and high quality deals, which we may not do successfully.

We receive a high degree of media coverage around the world. Unfavorable publicity or consumer perception of our websites, applications, practices or service offerings, or the offerings of our merchants, could adversely affect our reputation, resulting in difficulties in recruiting, decreased revenue and a negative impact on the number of merchants we feature and the size of our customer base, the loyalty of our customers and the number and variety of deals we offer each day. As a result, our business, financial condition and results of operations could be materially and adversely affected.

Acquisitions, joint ventures and strategic investments could result in operating difficulties, dilution and other harmful consequences.

We have in the past acquired a number of companies. We expect to continue to evaluate, consider and potentially consummate a wide array of potential strategic transactions, including acquisitions and dispositions of businesses, joint ventures, technologies, services, products and other assets and minority investments. We may not realize the anticipated benefits of any or all of our acquisitions and investments, or we may not realize them in the time frame expected. In addition, the integration of an acquisition could divert management's time and the company's resources. If we pay for an acquisition or a minority investment in cash, it would reduce our cash available for operations or cause us to incur debt, and if we pay with our stock it could be dilutive to our stockholders. Additionally, we do not have the ability to exert control over our joint ventures and minority investments, and therefore we are dependent on others in order to realize their potential benefits.

Our business may be subject to seasonal sales fluctuations which could result in volatility or have an adverse effect on the market price of our common stock.

Our business, like that of our merchants, may be subject to some degree of sales seasonality. As the growth of our business stabilizes, these seasonal fluctuations may become more evident. Seasonality may cause our working capital cash flow requirements to vary from quarter to quarter depending on the variability in the volume and timing of sales. For example, we experienced a \$72.3 million decline in operating cash flows during the nine months ended September 30, 2013 as the result of a decrease in accrued merchant and supplier payables, primarily due to the timing of payments to suppliers of merchandise after the seasonally high levels of Goods transactions in the fourth quarter of 2012. These factors, among other things, make forecasting more difficult and may adversely affect our ability to manage working capital and to predict financial results accurately, which could adversely affect the market price of our common stock.

Failure to deal effectively with fraudulent transactions and customer disputes would increase our loss rate and harm our business.

Groupons are issued in the form of redeemable coupons with unique identifiers. It is possible that consumers or other third parties will seek to create counterfeit Groupons in order to fraudulently purchase discounted goods and services

from our merchants. While we use advanced anti-fraud technologies, it is possible that technically knowledgeable criminals will attempt to circumvent our anti-fraud systems using increasingly sophisticated methods. In addition, our service could be subject to employee fraud or other internal security breaches, and we may be required to reimburse customers and/or merchants for any funds stolen or revenue lost as a result of such breaches. Our merchants could also request reimbursement, or stop using Groupon, if they are affected by buyer fraud or other types of fraud.

We may incur significant losses from fraud and counterfeit Groupons. We may incur losses from claims that the customer did not authorize the purchase, from merchant fraud, from erroneous transmissions, and from customers who have closed bank accounts or have insufficient funds in them to satisfy payments. In addition to the direct costs of such losses, if they are related to credit card transactions and become excessive, they could potentially result in our losing the right to accept credit cards for payment. If we were unable to accept credit cards for payment, we would suffer substantial reductions in revenue, which would cause our business to suffer. While we have taken measures to detect and reduce the risk of fraud, these measures need to be continually improved and may not be effective against new and continually evolving forms of fraud or in connection with new product offerings. If these measures do not succeed, our business will suffer.

We are subject to payments-related risks.

We accept payments using a variety of methods, including credit card, debit card and gift certificates. As we offer new payment options to customers, we may be subject to additional regulations, compliance requirements and fraud. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower profitability. We rely on third parties to provide payment processing services, including the processing of credit cards and debit cards and it could disrupt our business if these companies become unwilling or unable to provide these services to us. We are also subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from customers or facilitate other types of online payments, and our business and operating results could be adversely affected.

We are also subject to or voluntarily comply with a number of other laws and regulations relating to money laundering, international money transfers, privacy and information security and electronic fund transfers. If we were found to be in violation of applicable laws or regulations, we could be subject to civil and criminal penalties or forced to cease our payments services business. In addition, events affecting our third party payment processors, including cyber-attacks, Internet or other infrastructure or communications impairment or other events that could interrupt the normal operation of our payment processors, could have a material adverse effect on our business.

Federal laws and regulations, such as the Bank Secrecy Act and the USA PATRIOT Act and similar foreign laws, could be expanded to include Groupons.

Various federal laws, such as the Bank Secrecy Act and the USA PATRIOT Act and foreign laws and regulations, such as the European Directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing, impose certain anti-money laundering requirements on companies that are financial institutions or that provide financial products and services. For these purposes, financial institutions are broadly defined to include money services businesses such as money transmitters, check cashers and sellers or issuers of stored value cards. Examples of anti-money laundering requirements imposed on financial institutions include subscriber identification and verification programs, record retention policies and procedures and transaction reporting. We do not believe that we are a financial institution subject to these laws and regulations based, in part, upon the characteristics of Groupons and our role with respect to the distribution of Groupons to subscribers. However, the Financial Crimes Enforcement Network, a division of the U.S. Treasury Department tasked with implementing the requirements of the Bank Secrecy Act, recently proposed amendments to the scope and requirements for parties involved in stored value or prepaid access cards, including a proposed expansion of financial institutions to include sellers or issuers of prepaid access cards. In the event that this proposal is adopted as proposed, it is possible that a Groupon could be considered a financial product and that we could be a financial institution. In the event that we become subject to the requirements of the Bank Secrecy Act or any other anti-money laundering law or regulation imposing obligations on us as a money services business, our regulatory compliance costs to meet these obligations would likely increase which could reduce our net income.

State and foreign laws regulating money transmission could be expanded to include Groupons.

Many states and certain foreign jurisdictions impose license and registration obligations on those companies engaged in the business of money transmission, with varying definitions of what constitutes money transmission. We do not currently believe we are a money transmitter given our role and the product terms of Groupons. However, a successful

challenge to our position or expansion of state or foreign laws could subject us to increased compliance costs and delay our ability to offer Groupons in certain jurisdictions pending receipt of any necessary licenses or registrations. We will continue to incur significant costs as a result of being a public company.

We face increased legal, accounting, administrative and other costs and expenses as a public company that we did not

incur as a private company. The Sarbanes-Oxley Act of 2002, including the requirements of Section 404, as well as new rules and regulations subsequently implemented by the Securities and Exchange Commission, or the SEC, the Public Company Accounting Oversight Board and the marketplace rules of the NASDAQ stock market, impose additional reporting and other obligations on public companies. Compliance with these public company requirements has increased our costs and made some activities more time-consuming. In connection with the preparation of our financial statements for the year ended December 31, 2011, our independent registered accounting firm identified a material weakness in the design and operating effectiveness of our internal control over financial reporting, and as a result we incurred additional costs remediating this material weakness. In addition, the existence of this issue could adversely affect us, our reputation or investor perceptions of us. It also may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers. Advocacy efforts by stockholders and third-parties may also prompt even more changes in corporate governance and reporting requirements. The additional reporting and other obligations imposed on us by these rules and regulations has increased our legal and financial compliance costs and the costs of our related legal, accounting and administrative activities significantly. These increased costs require us to divert a significant amount of money that we could otherwise use to expand our business and achieve our strategic objectives.

Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from growing.

We may in the future be required to raise capital through public or private financing or other arrangements. Such financing may not be available on acceptable terms, or at all, and our failure to raise capital when needed could harm our business. Additional equity financing may dilute the interests of our common stockholders, and debt financing, if available, may involve restrictive covenants and could reduce our profitability. If we cannot raise funds on acceptable terms, we may not be able to grow our business or respond to competitive pressures.

#### Risks Related to Ownership of Our Class A Common Stock

The trading price of our Class A common stock is highly volatile

Our Class A common stock began trading on the NASDAQ Global Select Market on November 4, 2011 and since that date has fluctuated from a high of \$31.14 per share to a low of \$2.60 per share. We expect that the trading price of our stock will continue to be volatile due to variations in our operating results and also may change in response to other factors, including factors specific to technology companies, many of which are beyond our control. Among the factors that could affect our stock price are:

- our earnings announcements, including any financial projections that we may choose to provide to the public, any changes in these projections or our failure for any reason to meet these projections or projections made by research analysts;
- the amount of shares of our Class A common stock that are available for sale;
- the relative success of competitive products or services;
- the public's response to press releases or other public announcements by us or others, including our filings with the SEC and announcements relating to litigation;
- speculation about our business in the press or the investment community;
- future sales of our Class A common stock by our significant stockholders, officers and directors;
- announcements about our share repurchase program and sales under the program;
- changes in our capital structure, such as future issuances of debt or equity securities;
- our entry into new markets;
- regulatory developments in the United States or foreign countries;
- strategic actions by us or our competitors, such as acquisitions, joint ventures or restructuring; and
- changes in accounting principles.



We expect the stock price volatility to continue for the foreseeable as a result of these and other factors. The concentration of our capital stock ownership with our founders, executive officers, employees and directors and their affiliates will limit stockholders' ability to influence corporate matters. Our Class B common stock has 150 votes per share and our Class A common stock has one vote per share. As of November 5, 2013, our founders, Eric Lefkofsky, Bradley Keywell and Andrew Mason control 100% of our outstanding Class B common stock and, based on information available to us, approximately 28.8% of our outstanding Class A common stock, representing approximately 53.8% of the voting power of our outstanding capital stock. Messrs. Lefkofsky, Keywell and Mason will therefore have significant influence over management and affairs and over all matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets, for the foreseeable future. This concentrated control will limit stockholders' ability to influence corporate matters and, as a result, we may take actions that our stockholders do not view as beneficial. As a result, the market price of our Class A common stock could be adversely affected.

We do not intend to pay dividends for the foreseeable future.

We intend to retain all of our earnings for the foreseeable future to finance the operation and expansion of our business and do not anticipate paying cash dividends. As a result, stockholders can expect to receive a return on their investment in our Class A common stock only if the market price of the stock increases.

Provisions in our charter documents and under Delaware law could discourage a takeover that stockholders may consider favorable.

Provisions in our certificate of incorporation and bylaws, as amended and restated upon the closing of this offering, may have the effect of delaying or preventing a change of control or changes in our management. These provisions include the following:

Our certificate of incorporation provides for a dual class common stock structure. As a result of this structure, our founders will have significant influence over all matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets. This concentrated control could discourage others from initiating any potential merger, takeover or other change of control transaction that other stockholders may view as beneficial.

Our board of directors has the right to elect directors to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors.

Special meetings of our stockholders may be called only by our Executive Chairman of the Board, our Chief Executive Officer, our board of directors or holders of not less than the majority of our issued and outstanding capital stock. This limits the ability of minority stockholders to take certain actions without an annual meeting of stockholders.

Our stockholders may not act by written consent unless the action to be effected and the taking of such action by written consent is approved in advance by our board of directors. As a result, a holder, or holders, controlling a majority of our capital stock would generally not be able to take certain actions without holding a stockholders' meeting.

Our certificate of incorporation prohibits cumulative voting in the election of directors. This limits the ability of minority stockholders to elect director candidates.

Stockholders must provide timely notice to nominate individuals for election to the board of directors or to propose matters that can be acted upon an annual meeting of stockholders. These provisions may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of our company.

- Our board of directors may issue, without stockholder approval, shares of undesignated preferred stock. The ability to authorize undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us.



## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

## Recent Sales of Unregistered Securities

During the three months ended September 30, 2013, we issued 152,569 shares of Class A common stock to settle certain liability-classified subsidiary stock-based compensation awards.

On September 17, 2013, we acquired all of the outstanding capital stock of SideTour, Inc. ("SideTour"). In connection with the closing of this transaction, we issued an aggregate of 276,217 shares of Class A common stock as consideration to the stockholders of SideTour.

These issuances of shares of Class A common stock were exempt from registration under the Securities Act of 1933 in reliance upon Section 4(2) or Regulation D of the Securities Act of 1933 as transactions by an issuer not involving any public offering. The stockholders who received shares of our Class A common stock made representations to us as to their accredited investor status and as to their investment intent and financial sophistication. Appropriate legends were placed upon any book-entry entitlements issued with respect to such shares of Class A common stock.

## Issuer Purchases of Equity Securities

On August 5, 2013, our Board of Directors authorized a share repurchase program. Under the program, we are authorized to repurchase up to \$300 million of our outstanding Class A common stock over the next 24 months. The timing and amount of any share repurchases will be determined based on market conditions, share price and other factors, and the program may be discontinued or suspended at any time. We will fund the repurchases through cash on hand and future cash flow. Repurchases will be made in compliance with SEC rules and other legal requirements and may be made in part under a Rule 10b5-1 plan, which permits stock repurchases when the Company might otherwise be precluded from doing so. During the three months ended September 30, 2013, we purchased 770,900 shares of Class A common stock for an aggregate purchase price of \$9.0 million (including fees and commissions) under the share repurchase program. A summary of our Class A common stock repurchases during the three months ended September 30, 2013 under the repurchase program is set forth in the following table:

Date	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under Program
September 1-30, 2013	770,900	\$11.67	770,900	\$291,000,000

## ITEM 5. OTHER EVENTS

On June 13, 2013, as previously reported on a Form 8-K filed on June 18, 2013, a proposal to approve an amendment to the Groupon, Inc., 2011 Incentive Plan (the "2011 Plan") passed with the following vote:

	For	Against	Abstentions	Broker Non-Votes
Approval of amendment to the 2011 Plan	804,179,727	39,715,893	80,174	106,317,259

However, because this proposal was the subject of a pending lawsuit, the Company did not certify the results. The lawsuit has been settled in part, and on November 5, 2013, the vote on this proposal was certified. Accordingly, the amendment to the 2011 Plan is effective as of November 5, 2013.

## ITEM 6. EXHIBITS

See the Exhibit Index immediately following the signature page of this Quarterly Report on Form 10-Q.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 7th day of November 2013.

**GROUPON, INC.**

By: /s/ Jason E. Child  
Name: Jason E. Child  
Title: Chief Financial Officer

EXHIBITS

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Interactive data file