

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

Groupon, Inc.  
Form 10-Q  
May 15, 2012  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q  
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2012

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 27-0903295  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

600 West Chicago Avenue, Suite 620 60654  
Chicago, Illinois  
(Address of principal executive offices) (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 x No "

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or 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.

Large accelerated filer " Accelerated filer "

Non-accelerated filer x (Do not check if a smaller reporting company) Smaller reporting company "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

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

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 11, 2012
Class A Common Stock	643,398,438 Shares
Class B Common Stock	2,399,976 shares

---

TABLE OF CONTENTS

PART I. Financial Information	Page
Note About Forward-Looking Statements	<u>3</u>
Item 1. Financial Statements	<u>4</u>
Condensed Consolidated Balance Sheets as of December 31, 2011 and March 31, 2012 (unaudited)	<u>4</u>
Condensed Consolidated Statements of Operations for the three months ended March 31, 2011 and 2012 (unaudited)	<u>5</u>
Condensed Consolidated Statements of Comprehensive Loss for the three months ended March 31, 2011 and 2012 (unaudited)	<u>6</u>
Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2011 and 2012 (unaudited)	<u>7</u>
Condensed Consolidated Statement of Stockholders' Equity for the three months ended March 31, 2012 (unaudited)	<u>8</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>24</u>
Item 3. Quantitative and Qualitative Disclosure about Market Risk	<u>38</u>
Item 4. Controls and Procedures	<u>39</u>
PART II. Other Information	
Item 1. Legal Proceedings	<u>40</u>
Item 1A. Risk Factors	<u>40</u>
Item 6. Exhibits	<u>57</u>
Signatures	<u>58</u>
Exhibits	<u>59</u>

---

---

#### 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 Annual Report on Form 10-K and Part II, Item I.A of this Quarterly Report on Form 10-Q, as well as in our 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.

## ITEM 1. FINANCIAL STATEMENTS

## GROUPON, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	December 31, 2011	March 31, 2012 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$1,122,935	\$1,160,989
Accounts receivable, net	108,747	122,644
Prepaid expenses and other current assets	91,645	101,275
Total current assets	1,323,327	1,384,908
Property and equipment, net of accumulated depreciation of \$14,627 and \$21,167, respectively	51,800	59,713
Goodwill	166,903	185,336
Intangible assets, net	45,667	56,836
Investments in equity interests	50,604	48,477
Deferred income taxes, non-current	46,104	47,656
Other non-current assets	90,071	87,937
Total Assets	\$1,774,476	\$1,870,863
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$40,918	\$40,374
Accrued merchant payable	520,723	576,480
Accrued expenses	212,007	233,778
Due to related parties	246	246
Deferred income taxes, current	76,841	77,868
Other current liabilities	144,427	137,631
Total current liabilities	995,162	1,066,377
Deferred income taxes, non-current	7,428	12,466
Other non-current liabilities	70,766	75,189
Total Liabilities	1,073,356	1,154,032
Commitments and contingencies (see Note 7)		
Redeemable noncontrolling interests	1,653	7,211
Groupon, Inc. Stockholders' Equity		
Class A common stock, par value \$0.0001 per share, 2,000,000,000 shares authorized, 641,745,225 shares issued and outstanding at December 31, 2011; 2,000,000,000 shares authorized, 642,851,431 shares issued and outstanding at March 31, 2012	64	65
Class B common stock, par value \$0.0001 per share, 10,000,000 shares authorized, 2,399,976 shares issued and outstanding at December 31, 2011; 10,000,000 shares authorized, 2,399,976 shares issued and outstanding at March 31, 2012	—	—

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

Common stock, par value \$0.0001 per share, 2,010,000 shares authorized, and no shares issued and outstanding as of December 31, 2011 and March 31, 2012	—	—
Additional paid-in capital	1,388,253	1,401,581
Accumulated deficit	(698,704 )	(703,177 )
Accumulated other comprehensive income	12,928	14,194
Total Groupon, Inc. Stockholders' Equity	702,541	712,663
Noncontrolling interests	(3,074 )	(3,043 )
Total Equity	699,467	709,620
Total Liabilities and Equity	\$1,774,476	\$1,870,863

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 March 31,	
	2011	2012
	(Restated)	
Revenue (gross billings of \$668,174 and \$1,354,800, respectively)	\$295,523	\$559,283
Costs and expenses:		
Cost of revenue	39,765	119,498
Marketing	230,085	116,615
Selling, general and administrative	142,821	283,583
Acquisition-related	—	(52 )
Total operating expenses	412,671	519,644
(Loss) income from operations	(117,148 )	39,639
Interest and other income (expense), net	1,060	(3,539 )
Equity-method investment activity, net of tax	(882 )	(5,128 )
(Loss) income before provision for income taxes	(116,970 )	30,972
Provision (benefit) for income taxes	(3,079 )	34,565
Net loss	(113,891 )	(3,593 )
Less: Net loss (income) attributable to noncontrolling interests	11,223	(880 )
Net loss attributable to Groupon, Inc.	(102,668 )	(4,473 )
Redemption of preferred stock in excess of carrying value	(34,327 )	—
Adjustment of redeemable noncontrolling interests to redemption value	(9,485 )	(7,222 )
Net loss attributable to common stockholders	\$(146,480 )	\$(11,695 )
Net loss per share		
Basic	\$(0.48 )	\$(0.02 )
Diluted	\$(0.48 )	\$(0.02 )
Weighted average number of shares outstanding		
Basic	307,849,412	644,097,375
Diluted	307,849,412	644,097,375

See Notes to unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,		
	2011	2012	
Net loss	\$(113,891	) \$(3,593	)
Other comprehensive income, net of tax:			
Foreign currency translation adjustments	3,033	1,266	
Other comprehensive income	3,033	1,266	
Comprehensive loss	(110,858	) (2,327	)
Comprehensive loss (income) attributable to the noncontrolling interest	11,223	(880	)
Comprehensive loss attributable to Groupon, Inc.	\$(99,635	) \$(3,207	)

See Notes to unaudited Condensed Consolidated Financial Statements



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

	Three months ended March 31,	
	2011	2012
Operating activities		
Net loss	\$ (113,891	) \$ (3,593
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	7,598	11,716
Stock-based compensation	18,864	28,003
Deferred income taxes	(3,384	) (876
Excess tax benefit on stock based compensation	—	(2,881
Losses in equity interests	882	5,128
Acquisition-related	—	52
Change in assets and liabilities, net of acquisitions:		
Restricted cash	—	(1,357
Accounts receivable	(16,049	) (11,878
Prepaid expenses and other current assets	(8,288	) (4,121
Accounts payable	(22,465	) (1,821
Accrued merchant payable	121,173	46,000
Accrued expenses and other current liabilities	36,248	13,420
Due to related parties	1,157	196
Other	(3,905	) 5,726
Net cash provided by operating activities	17,940	83,714
Investing activities		
Purchases of property and equipment	(10,962	) (13,083
Acquisitions of businesses, net of acquired cash	(2,818	) (23,004
Purchases of intangible assets	(214	) (10
Purchases of investments in subsidiaries	(25,000	) (7,347
Purchases of equity investments	(5,300	) (3,000
Net cash used in investing activities	(44,294	) (46,444
Financing activities		
Proceeds from issuance of stock, net of issuance costs	509,692	—
Excess tax benefit on stock based compensation	—	2,881
Tax withholdings related to net share settlements of restricted stock units	—	(6,632
Payments of contingent acquisition liability	—	(4,250
Repayments of loans to related parties	(14,358	) —
Repurchase of common stock	(348,550	) —
Proceeds from exercise of stock options	325	378
Partnership distribution	—	(652
Redemption of preferred stock	(35,003	) —
Net cash provided by (used in) financing activities	112,106	(8,275
Effect of exchange rate changes on cash and cash equivalents	4,103	9,059
Net increase in cash and cash equivalents	89,855	38,054
Cash and cash equivalents, beginning of the period	118,833	1,122,935
Cash and cash equivalents, end of the period	\$ 208,688	\$ 1,160,989

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

Supplemental disclosure of cash flow information

Non-cash investing activity

Contingent consideration given in connection with acquisitions	\$ 15,920	\$ 421
--	-----------	--------

See Notes to unaudited Condensed Consolidated Financial Statements.

7

---

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

	Groupon, Inc. Stockholders' Equity							Total Groupon Inc. Stockholders' Equity	Non- controlling Interests	Total Equity
	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comp. Income					
	Shares	Amount								
Balance at December 31, 2011	644,145,201	\$ 64	\$ 1,388,253	\$(698,704)	\$ 12,928	\$ 702,541	\$(3,074)	\$ 699,467		
Net loss	—	—	—	(4,473)	—	(4,473)	31	(4,442)		
Foreign currency translation	—	—	—	—	1,266	1,266	—	1,266		
Adjustment of redeemable noncontrolling interests to redemption value	—	—	(4,776)	—	—	(4,776)	—	(4,776)		
Restricted stock issued in connection with business combinations	138,814	—	—	—	—	—	—	—		
Tax withholding related to net share settlements of restricted stock units	—	—	(6,895)	—	—	(6,895)	—	(6,895)		
Exercise of stock options	222,252	1	377	—	—	378	—	378		
Vesting of restricted stock units	698,079	—	—	—	—	—	—	—		
Stock-based compensation expense	—	—	24,187	—	—	24,187	—	24,187		
Purchase of additional shares in majority-owned subsidiary	47,061	—	(2,446)	—	—	(2,446)	—	(2,446)		
Tax benefits from stock-based compensation	—	—	2,881	—	—	2,881	—	2,881		
Balance at March 31, 2012	645,251,407	\$ 65	\$ 1,401,581	\$(703,177)	\$ 14,194	\$ 712,663	\$(3,043)	\$ 709,620		

See Notes to unaudited Condensed Consolidated Financial Statements

GROUPON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. FINANCIAL STATEMENT INFORMATION

Company Information

Groupon, Inc. ("the Company") together with the subsidiaries through which it conducts business (the "Company"), is a local commerce marketplace ([www.groupon.com](http://www.groupon.com)) that connects merchant partners to consumers by offering goods and services at a discount. The Company has organized its operations into two principal segments: North America and International. See Note 12 "Segment 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 (the "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, statement of operations, comprehensive loss, cash flows and equity for the periods presented.

Operating results for the periods presented are not necessarily indicative of the results that may be expected for the entire year ended December 31, 2012. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. accounting principles generally accepted in the United States ("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 in Item 8 of Part II, "Financial Statements and Supplementary Data," of the Company's 2011 Annual Report on Form 10-K.

Basis of Presentation

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, revenues 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 it is the primary beneficiary. Outside stockholders' interests in subsidiaries are shown in the condensed consolidated financial statements as "Noncontrolling interests" and "Redemable noncontrolling interests". 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 financial statements in conformity with U.S. GAAP requires estimates and assumptions that affect the reported amounts and classifications of assets and liabilities, revenues 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, customer refunds, contingent liabilities and the depreciable lives of fixed assets. Actual results could differ materially from those estimates.

Significant Accounting Policies

Revenue recognition

The Company recognizes revenue from services rendered or product sales 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.

For services rendered, these criteria are met when the number of customers who purchase the daily deal exceeds the predetermined threshold (where applicable), 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, the Company's obligations to the merchant, for which it is serving as an agent, are substantially complete. The Company's remaining obligations, which are limited to remitting payment to the merchant and continuing to make available on the Company's website the listing of Groupons sold previously

9

---

GROUPON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(unaudited)

provided to the merchant, are inconsequential or perfunctory. The Company records as revenue the net amount it retains from the sale of Groupons after paying an agreed upon percentage of the purchase price to the featured merchant, excluding any applicable taxes. Revenue is recorded on a net basis because the Company is acting as an agent of the merchant in the transaction.

The Company evaluates whether it is appropriate to record the gross amount of its goods sales and related costs or the amount earned. For goods revenue transactions where the Company is selling a product, revenue is recorded gross. The Company is the primary obligor in these transactions, is subject to inventory risk and has latitude in establishing prices. Product sales and shipping revenues, are recorded when the products are shipped and title passes to customers. For goods revenue transactions where the Company is performing a service by acting as the agent of the merchant responsible for fulfillment, revenue is recorded on a net basis.

Cost of revenue

Cost of revenue is composed of direct and indirect costs incurred to generate revenue, including costs related to credit card processing fees, refunds provided to customers which are not recoverable from the merchant, certain technology costs, editorial costs, other processing fees and the purchase price of consumer products where the Company is seller of record as well as outbound shipping charges. Credit card and other processing fees are expensed as incurred. At the time of sale, the Company records a liability for estimated costs to provide refunds which are not recoverable from the merchant based upon historical experience. Technology costs 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. Such technology costs also include website hosting and email distribution costs. Editorial costs consist of a portion of the payroll and stock based compensation expense related to the Company's editorial personnel, as such staff is primarily dedicated to drafting and promoting merchant deals. Purchase price of consumer products are included in the Company's inventory and recognized along with outbound shipping charges as cost of revenues upon sale and delivery of the products to customers.

2. RESTATEMENT

The Company restated the Condensed Consolidated Statements of Operations for the three months ended March 31, 2011, included in the Form S-1 filed with the SEC on June 2, 2011, to correct for an error in its presentation of revenue. Most significantly, the Company restated its reporting of revenues from Groupons to be net of the amounts related to merchant fees. Historically, the Company reported the gross amounts billed to its subscribers as revenue. The Condensed Consolidated Statement of Operations for the three months ended March 31, 2011, was restated to show the net amount the Company retains after paying the merchant fees. The effect of the correction resulted in a reduction of previously reported revenues and corresponding reductions in cost of revenue in those periods. The change in presentation had no effect on pre-tax loss, net loss or any per share amounts for the period.

The Company has also changed the presentation of certain other income statement expenses for the three months ended March 31, 2011 to be consistent with reporting revenue on a net basis. These changes include presenting loyalty programs as a component of marketing rather than as an offset to revenue. The Company believes that this classification is most appropriate as it is acting as an agent on behalf of the merchant in driving traffic to generate revenue. In addition, refunds made to customers which are not recovered by the merchant are presented as a component of cost of revenue, rather than as an offset to revenue, as these amounts are not paid directly to the merchants.

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

A portion of technology costs and editorial costs have been reclassified to cost of revenue from selling, general and administrative for the three months ended March 31, 2011.

Costs associated with the Company's marketing staff, including payroll, benefits and stock compensation, have been reclassified to marketing for the three months ended March 31, 2011 from selling general and administrative.

The following tables summarize the corrections on each of the affected financial statement line items for the three months ended March 31, 2011 (in thousands):

10

---

## GROUPON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(unaudited)

	As previously reported (unaudited)	Restatement adjustment	As restated
Revenue	\$644,728	(349,205	) \$295,523
Cost of revenue	\$374,728	(334,963	) \$39,765
Marketing	\$208,209	21,876	\$230,085
Selling, general and administrative	\$178,939	(36,118	) \$142,821

## 3. ACQUISITIONS

Throughout the three months ended March 31, 2012, the Company acquired certain entities and the results of each of the entities have been included in the condensed consolidated financial statements since the respective acquisitions dates. The primary purpose of these acquisitions was to enhance the Company's technology and marketing services to expand and advance product offerings. The aggregate acquisition-date fair value of the consideration transferred for these acquisitions totaled \$27.9 million, which consisted of the following (in thousands):

Fair Value of Consideration Transferred	Fair Value
Cash	\$24,636
Acquisition-related liabilities	2,879
Contingent consideration	421
Total	\$27,936

The \$2.9 million of acquisition-related liabilities represent the Company's obligation to transfer cash or issue stock to the former owners of the entities acquired. The issuance of these liabilities is not contingent on any future events. Liabilities to issue cash were recorded at the full cash value. Stock liabilities were measured using the Company's stock price as of the date of the acquisition and are revalued each reporting period to reflect the current stock price. The off-set is recorded to acquisition-related expenses on the condensed consolidated statement of operations.

The Company determined the acquisition-date fair value of the contingent liabilities, based on the likelihood of issuing stock related to the contingent earn-out clauses, as part of the consideration transferred. For contingent consideration to be settled in common stock, the Company used public market data to determine the fair value of the shares as of the acquisition date. See Note 10 "Fair Value Measurements" for subsequent measurements of these contingent liabilities.

The following table summarizes the allocation of the combined purchase price as of the acquisition date (in thousands):

Description	Fair Value
Net working capital (including cash of \$1.6 million)	\$1,262
Property and equipment, net	107
Goodwill	15,278
Intangible assets <sup>(1)</sup> :	
Developed technology	14,790
Deferred tax liability	(3,501
	) \$27,936



(1) Acquired intangible assets have estimated useful lives of 2 years.

The fair value of consideration transferred was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values on their corresponding acquisition date, with the remaining unallocated amount recorded as goodwill. The fair value assigned to identifiable intangible assets acquired was determined using a cost approach. The goodwill of \$15.3 million represents the premium the Company paid over the fair value of the net tangible and intangible assets it acquired. The Company paid this premium for a number of reasons, including acquiring an experienced workforce. The

11

---

## GROUPON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(unaudited)

goodwill is not deductible for tax purposes.

The financial effect of these acquisitions, individually and in the aggregate, was not material to the condensed consolidated financial statements. 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.

## Purchase of Additional Interests

In February 2012, the Company acquired additional interests of two majority-owned subsidiaries for an aggregate purchase price of \$9.5 million, including \$8.7 million in cash and \$0.8 million of Class A common stock. The additional investments were accounted for as equity transactions in accordance with guidance on accounting for changes in a parent's ownership interest in a subsidiary in consolidated financial statements. In connection with these purchases, certain subsidiary awards were settled in exchange for cash and shares of stock. The total of \$5.4 million related to the vested liability awards as of the settlement date was equal to the fair value of the consideration transferred. In addition, \$1.7 million will be recognized as compensation expense over a service period of two years payable in \$0.4 million of cash and \$1.3 million of common stock.

## 4. GOODWILL AND OTHER INTANGIBLE ASSETS

The following summarizes the Company's goodwill activity for the three months ended March 31, 2012 (in thousands):

	North America	International	Consolidated
Balance as of December 31, 2011	\$40,731	\$126,172	\$166,903
Goodwill related to acquisitions	15,278	—	15,278
Other adjustments <sup>(1)</sup>	(3	) 3,158	3,155
Balance as of March 31, 2012	\$56,006	\$129,330	\$185,336

(1)Includes changes in foreign exchange rates for goodwill.

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

Asset Category	As of December 31, 2011		Net Carrying Value
	Gross Carrying Value	Accumulated Amortization	
Subscriber relationships	\$41,272	\$12,882	\$28,390
Merchant relationships	6,600	6,600	—
Trade names	5,801	5,801	—
Developed technology	5,583	2,151	3,432
Other intangible assets	15,420	1,575	13,845
	\$74,676	\$29,009	\$45,667

## GROUPON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(unaudited)

Asset Category	As of March 31, 2012		Net Carrying Value
	Gross Carrying Value	Accumulated Amortization	
Subscriber relationships	\$42,277	\$15,280	\$26,997
Merchant relationships	6,764	6,764	—
Trade names	5,967	5,967	—
Developed technology	20,471	3,889	16,582
Other intangible assets	15,579	2,322	13,257
	\$91,058	\$34,222	\$56,836

Amortization expense for these intangible assets was \$5.7 million and \$4.5 million for the quarters ended March 31, 2011 and 2012, respectively. As of March 31, 2012, the Company's estimated future amortization expense of these intangible assets for each of the next five years and thereafter is as follows (in thousands):

Remaining amounts in 2012	\$15,971
2013	19,906
2014	12,236
2015	7,061
2016	1,662
Thereafter	—
	\$56,836

## 5. INVESTMENTS IN EQUITY AND OTHER INTERESTS

The following summarizes the Company's investments in equity interests (in thousands):

	As of December 31, 2011	As of March 31, 2012	Percent Ownership of Common Stock	
Restaurantdiary.com	1,209	\$1,209	50	%
GaoPeng.com	49,395	47,268	49	%
Total	50,604	\$48,477		

## Equity Investment in Restaurantdiary.com Limited

In January 2011, the Company acquired 50.0% of the ordinary shares of Restaurantdiary.com Limited ("Restaurantdiary") in exchange for \$1.3 million. The investment in Restaurantdiary is being accounted for using the equity method, and the total investment is classified as part of "Investments in equity interests" on the condensed consolidated balance sheet as of December 31, 2011 and March 31, 2012. The Company records its share of Restaurantdiary within "Equity-method investment activity, net of tax" in the condensed consolidated statement of operations.

## Equity Investment in E-Commerce King Limited

In January 2011, the Company acquired 40.0% of the ordinary shares of E-Commerce King Limited ("E-Commerce"),



## GROUPON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(unaudited)

a company organized under the laws of the British Virgin Islands, in exchange for \$4.0 million. The Company entered into the joint venture along with Rocket Asia GmbH & Co. KG (“Rocket Asia”), an entity controlled by former CityDeal shareholders Oliver Samwer, Marc Samwer and Alexander Samwer (the “Samwers”). Rocket Asia acquired 10.0% of the ordinary shares in E-Commerce. E-Commerce subsequently established a wholly-owned foreign enterprise that created a domestic operating company headquartered in Beijing, China (“GaoPeng.com”), which operates a group-buying site offering discounts for products and services to individual consumers and businesses via internet websites and social and interactive media. GaoPeng.com began offering daily deals in March 2011 in Beijing and Shanghai and has since expanded to operating in more than 20 cities within China.

On July 31, 2011, the Company entered into an agreement to purchase additional interests in E-Commerce for a purchase price of \$45.2 million from Rocket Asia consisting of 2,908,856 shares of non-voting common stock. The investment increased the Company's ownership from 40.0% to 49.0%.

In 2012, the Company made cash investments for an aggregate amount of \$3.0 million. At the same time, the remaining investors made additional proportionate investments that resulted in no change to the Company's ownership percentage in E-Commerce.

The investment in E-Commerce is being accounted for using the equity method, and the total investment is classified as part of "Investments in equity interests" on the condensed consolidated balance sheets. The Company recorded its share of the loss of E-Commerce in the amount of \$0.8 million and \$4.9 million within “Equity-method investment activity, net of tax” in the condensed consolidated statement of operations for the three months ended March 31, 2011 and 2012, respectively.

#### Consolidated Variable Interest in LLC

On May 9, 2011, the Company entered into a collaborative arrangement to create a jointly-owned sales channel with a strategic partner (Partner) and a limited liability company (LLC) was established. The Company and its Partner each owns 50% of the LLC and income and cash flows of the LLC are allocated based on agreed upon percentages between the Company and the Partner. The liabilities of the LLC are solely the LLC's obligations and not of the Company or Partner.

The Company's obligations associated with its interests in the LLC are primarily building, maintaining, customizing, managing and operating the LLC website, contributing intellectual property, identifying deals and promoting the sale of deal vouchers, coordinating the fulfillment of deal vouchers in certain instances and providing the recordkeeping. Under the LLC agreement, the LLC shall be dissolved upon the occurrence of any of the following events: (1) either party becoming a majority owner; (2) the third anniversary of the date of the LLC agreement; (3) certain elections of the Company or the Partner based on the operational and financial performance of the LLC or other changes to certain terms in the agreement; (4) election of either the Company or Partner in the event of bankruptcy by the other party; (5) sale of the LLC; or (6) a court's dissolution of the LLC.

The Company has determined it is the primary beneficiary of the LLC and consolidates the entity because it has the power to direct activities of the LLC that most significantly impact the LLC's economic performance. In particular, the Company identifies and promotes the deal vouchers, provides all of the back office support, i.e. website, contracts, personnel resources, accounting, etc., presents the LLC's deals via email and the Company's website, provides the editorial resources that create the verbiage included on the website with the LLC's deal offer.

#### 6. SUPPLEMENTAL CONSOLIDATED BALANCE SHEET INFORMATION

The following summarizes the Company's accrued expenses (in thousands):

	As of December 31, 2011	As of March 31, 2012
Refunds reserve	\$67,452	\$81,557
Marketing	\$33,472	\$21,816
Payroll and benefits	36,404	44,221
Subscriber rewards and credits	36,144	44,785
Professional fees	18,656	15,359
Other	19,879	26,040
	\$212,007	\$233,778

The following summarizes the Company's other current liabilities (in thousands):

	As of December 31, 2011	As of March 31, 2012
Income taxes payable	\$70,861	\$62,967
VAT payable	50,554	57,770
Other	23,012	16,894
	\$144,427	\$137,631

The following summarizes the Company's other non-current liabilities (in thousands):

	As of December 31, 2011	As of March 31, 2012
Long-term tax liabilities	\$55,127	\$56,735
Other	15,639	18,454
	\$70,766	\$75,189

## 7. CONTINGENCIES

The Company's commitments as of March 31, 2012 did not materially change from the amounts set forth in the Company's 2011 Annual Report on Form 10-K.

### Legal Matters

From time to time, the Company may become party to various legal proceedings incident to the operation of its business. For example, the Company is currently involved in proceedings by former employees, intellectual property infringement suits (as discussed below) 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. The following is a brief description of the more significant types of 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 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 shareholder derivative lawsuits all arising out of the same alleged events and facts.

Five putative federal class action securities complaints have been 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. All five cases are currently pending before the United States District Court for the Northern District of Illinois: Zhang v. Groupon, Inc., et al was filed on April 3, 2012; Roselli v. Groupon, Inc., et al. was filed on April 3, 2012; Einspahr v. Groupon, Inc., et al. was filed on April 6, 2012; Pedrow v. Groupon, Inc., et al. was filed April 16, 2012; and Cottrell v. Groupon, Inc., et al. was filed April 27, 2012. All five complaints attempt to assert claims pursuant to Sections 11 and 15 of the Securities Act of 1933



GROUPON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(unaudited)

and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. Two of the complaints additionally attempt to assert claims pursuant to Section 12(a)(2) of the Securities Act of 1933. Allegations in the complaints 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 ending December 31, 2011 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 lawsuits seek 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.

In addition, five shareholder derivative lawsuits have been filed against certain of the Company's directors and officers. Four of the derivative cases are currently pending in federal court before the United States District Court for the Northern District of Illinois: *Monturano v. Lefkofsky, et al.* was filed on April 5, 2012; *Wong v. Mason, et al.* was filed on April 12, 2012; *Potter v. Mason, et al.* was filed on April 30, 2012, and *Martin v. Mason, et al.* was filed on May 4, 2012. In the four federal derivative complaints, plaintiffs attempt to assert claims for breach of fiduciary duty and abuse of control. The fifth derivative lawsuit, *Orrego v. Lefkofsky, et al.*, was filed on April 5, 2012 in the Chancery Division of the Circuit Court of Cook County, Illinois. In the state court complaint, plaintiff attempts to assert claims for breach of fiduciary duty and unjust enrichment against all the defendants and alleges that two of the Company's officers engaged in insider trading of the Company's Class A common stock and misappropriated information. All five 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. 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. The Company intends to defend all of the securities and shareholder derivative lawsuits vigorously. 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. 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 assesses the likelihood of any adverse judgments or outcomes with respect to these matters and determines loss contingency assessments on a gross basis after assessing the probability of incurrence of a loss and whether a loss is reasonably estimable. In addition, the Company considers other relevant factors that could impact its



ability to reasonably estimate a loss. A determination of the amount of reserves required, if any, for these contingencies is made after analyzing each matter. The Company's reserves may change in the future due to new developments or changes in strategy in handling these matters.

Although the results of litigation and claims cannot be determined, based on the information currently available the Company currently 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. Regardless of the outcome, 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 lessors and from time to time merchants with respect to certain 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 certain parties. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim. In addition, the Company has entered into indemnification agreements with its officers and directors, and the Company's bylaws contain similar

GROUPON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(unaudited)

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.

#### 8. STOCKHOLDERS' EQUITY

##### Initial Public Offering

In November 2011, the Company issued 40,250,000 shares of Class A common stock and received approximately \$744.2 million, net of underwriter fees and other issuance costs, in proceeds from the closing of an initial public offering of its Class A common stock.

##### Common Stock

The 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 authorized shares of undesignated preferred stock, the rights, preferences and privileges of which may be designated from time to time by the Board.

The total amount of the Company's authorized common stock will consist of 4,020,000,000 shares, all with a par value of \$0.0001 per share, of which 2,000,000,000 shares are designated as Class A common stock, 10,000,000 shares are designated as Class B common stock, 2,010,000,000 shares are designated as common stock. As of March 31, 2012, there were 642,851,431 shares of Class A common stock and 2,399,976 shares of Class B common stock outstanding.

##### Groupon, Inc. Stock Plans

The Groupon, Inc. Stock Plans (the "Plans") are administered by the Board, which determines the number of awards to be issued, the corresponding vesting schedule and the exercise price for options. As of March 31, 2012, 46,627,242 shares were available for future issuance under the Plans.

The Company recognized stock-based compensation expense of \$18.9 million and \$28.0 million during the three months ended March 31, 2011 and 2012, respectively, related to stock awards issued under the Plans, acquisition-related awards, and subsidiary awards. The Company also capitalized \$1.3 million of stock-based compensation during the three months ended March 31, 2012 in connection with internally developed software. No such amounts were capitalized during the three months ended March 31, 2011.

As of March 31, 2012, a total of \$179.1 million of unrecognized compensation costs related to unvested stock awards, unvested acquisition-related awards and unvested subsidiary awards are expected to be recognized over the remaining weighted average period of two years.

##### Stock Award Activity

The table below summarizes the stock option activity during the three months ended March 31, 2012:

## GROUPON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(unaudited)

	Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands) <sup>(a)</sup>
Outstanding at December 31, 2011	17,870,713	\$1.12	8.06	\$348,743
Granted	—	\$—		
Exercised	(222,252 )	\$1.68		
Forfeited	(48,987 )	\$1.14		
Expired	(2,654 )	\$1.97		
Outstanding at March 31, 2012	17,596,820	\$1.11	7.81	\$303,935
Exercisable at March 31, 2012	10,937,862	\$0.98	7.72	\$190,317

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, (a) multiplied by the number of options where the exercise price exceeds the fair value) that would have been received by the option holders had all option holders exercised their options as of December 31, 2011 and March 31, 2012, respectively.

The table below summarizes the restricted stock unit activity during the three months ended March 31, 2012:

	Restricted Stock Units	Weighted- Average Grant Date Fair Value (per share)
Unvested at December 31, 2011	11,944,844	\$12.23
Granted	4,130,479	\$18.63
Vested	(1,079,776 )	\$8.29
Forfeited	(146,693 )	\$17.28
Unvested at March 31, 2012	14,848,854	\$14.25

## 9. LOSS PER SHARE OF CLASS A AND CLASS B COMMON STOCK

The following table sets forth the computation of basic and diluted net loss per share of common stock (in thousands, except share amounts and per share amounts):

	Three Months Ended March 31,	
	2011	2012
Net loss	\$(113,891 )	\$(3,593 )
Redemption of preferred stock in excess of carrying value	(34,327 )	—
Adjustment of redeemable noncontrolling interests to redemption value	(9,485 )	(7,222 )
Less: Net loss (income) attributable to noncontrolling interests	11,223	(880 )
Net loss attributable to common stockholders	\$(146,480 )	\$(11,695 )
Net loss per share:		
Weighted-average shares outstanding for basic and diluted net loss per share <sup>(1)</sup>	307,849,412	644,097,375
Basic and diluted net loss per share	\$(0.48 )	\$(0.02 )

(1) Stock options, restricted stock units, performance stock units and convertible preferred shares are not included in the calculation of diluted net

18

---

## GROUPON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(unaudited)

loss per share for the three months ended March 31, 2011 and 2012 because the Company had a net loss for each year. Accordingly, the inclusion of these equity awards would have had an antidilutive effect on the calculation of diluted loss per share.

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

	Three Months Ended March 31,	
	2011	2012
Antidilutive equity awards		
Stock options	24,610,016	17,596,820
Restricted stock units	5,299,712	14,848,854
Restricted stock	—	86,758
Convertible preferred shares	293,322,364	—
Performance stock units	1,200,000	—
Total	324,432,092	32,532,432

## 10. FAIR VALUE MEASUREMENTS

Fair value is an exit price, representing the amount 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 to 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-Unobservable inputs that are supported by little or no market activities. Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

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

Cash equivalents-Cash equivalents primarily consisted of AAA-rated money market funds with over night liquidity and no stated maturities. The Company classified cash equivalents as Level 1, due to their short-term maturity, and measured the fair value based on quoted prices in active markets for identical assets.

Contingent consideration- As of March 31, 2012, the Company had obligations to transfer \$7.0 million in contingent payment considerations and \$2.2 million in contingent stock issuances to the former owners of certain acquirees as part of the exchange for control of these acquirees, if specified future operational objectives and financial results are met over the next three years. The Company determined the acquisition-date fair value of these contingent liabilities, based on the likelihood of contingent earn-out payments and stock issuances, as part of the consideration transferred. The earn-out payments and value of stock issuances are subsequently remeasured to fair value each reporting date. For contingent consideration to be settled in cash, the Company used two approaches to value the liabilities. The first is an income approach that is primarily determined based on the present value of future cash flows using internal models. The second is an option pricing methodology within a Black-Scholes framework. 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 as of December 31, 2011 and March 31, 2012. The Company classified the financial liabilities to be settled in a variable number of shares of common stock as Level 2 as the fair market value of the shares is an observable input that is directly observable in the marketplace. The Company classified the financial liabilities to be settled in cash as Level 3, due to the lack of relevant observable inputs and market activity. Changes in

## GROUPON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(unaudited)

assumptions described above could have an impact on the payout of contingent consideration with a maximum payout being \$18.1 million.

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 December 31, 2011	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)
Assets:				
Cash equivalents	\$750,004	\$750,004	\$—	\$—
Liabilities:				
Contingent consideration	\$13,218	\$—	\$1,988	\$11,230

Description	As of March 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)
Assets:				
Cash equivalents	\$750,136	\$750,136	\$—	\$—
Liabilities:				
Contingent consideration	\$9,184	\$—	\$2,153	\$7,031

The following table provides a roll-forward of the fair value of the contingent consideration categorized as Level 3 for the three months ended March 31, 2012 (in thousands):

Balance as of December 31, 2011	Fair Value \$11,230
Payments made on contingent liabilities	(4,250 )
Change in fair value	51
Balance as of March 31, 2012	\$7,031

The Company's other financial instruments consist primarily of accounts receivable, accounts payable, accrued merchant payable, and accrued expenses. The carrying value of these assets and liabilities approximate their respective fair values as of December 31, 2011 and March 31, 2012, due to their short term nature. At December 31,

2011 and March 31, 2012, no material fair value adjustments were required for non-financial assets and liabilities.

11. 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, that are taken into account in the respective period.

20

---



## GROUPON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(unaudited)

For the three months ended March 31, 2012, the Company recorded income tax expense of \$34.6 million on pretax book income of \$31.0 million, for an effective tax rate of 111.6%. The Company generated losses in jurisdictions for which the Company recorded a valuation allowance against the related deferred tax asset. Such losses reduce the Company's pretax income without a corresponding reduction in the Company's tax expense and therefore, increase the effective tax rate. Tax expense for the three months ended March 31, 2012 also reflects the amortization of prepaid taxes recognized on profits from the taxable sale of certain intellectual property rights within the Company's international structure in previous periods. The Company recorded an income tax benefit of \$3.1 million for the three months ended March 31, 2011 on pretax book loss of \$117.0 million, for an effective tax rate of 2.6%.

The Company's reserve for unrecognized tax benefits, exclusive of interest and penalties, as of March 31, 2012 remains consistent with the balance as of December 31, 2011. The Company's total unrecognized tax benefits that, if recognized, would affect the effective tax rate were \$3.2 million and \$7.0 million as of December 31, 2011 and March 31, 2012, respectively.

## 12. SEGMENT INFORMATION

The Company has organized its operations into two principal segments: North America, which represents the United States and Canada; and International, which represents the rest of the Company's global operations. Segment operating results reflect earnings before stock-based compensation, acquisition-related, interest and other income (expense), net, equity-method investment activity, net and provision (benefit) for income taxes. Segment information reported below represents the operating segments of the Company for which separate information is available and for which segment results are evaluated regularly by the Company's chief operating decision-maker (i.e., chief executive officer) in assessing performance and allocating resources.

Revenues for each segment are based on the geographic market that sells the Groupons. Revenue and profit or loss information by reportable segment reconciled to consolidated net loss for the three months ended March 31, 2011 and 2012 were as follows (in thousands):

	Three Months Ended March 31,	
	2011	2012
North America		
Revenue <sup>(1)</sup>	\$136,612	\$238,565
Segment operating expenses <sup>(2)</sup>	158,390	198,393
Segment operating (loss) income	(21,778)	) 40,172
International		
Revenue	\$158,911	\$320,718
Segment operating expenses <sup>(2)</sup>	235,417	293,300
Segment operating (loss) income	(76,506)	) 27,418
Consolidated		
Revenue	\$295,523	\$559,283
Segment operating expenses <sup>(2)</sup>	393,807	491,693
Segment operating (loss) income	(98,284)	) 67,590
Stock-based compensation	18,864	28,003
Acquisition-related	—	(52)
Interest and other expense (income), net	(1,060)	) 3,539
Equity-method investment activity, net	882	5,128
(Loss) income before income taxes	(116,970)	) 30,972
Provision (benefit) for income taxes	(3,079)	) 34,565
Net loss	\$ (113,891)	) \$ (3,593)



## GROUPON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(unaudited)

(1) North America contains revenue from the United States of \$125.5 million and \$225.2 million for the three months ended March 31, 2011 and 2012, respectively.

(2) Represents operating expenses, excluding stock-based compensation, acquisition-related expense and interest and other income (expense), net, which are not allocated to segments.

The following summarizes the Company's total assets (in thousands):

	As of December 31, 2011	As of March 31, 2012
North America	\$1,076,099	\$1,121,726
International	698,377	749,137
Consolidated total assets	\$1,774,476	\$1,870,863

(1) North America contains assets from the United States of \$1,061 million at December 31, 2011 and \$1,107 million March 31, 2012.

## 13. RELATED PARTIES

## Marketing Services

During 2011, the Company transacted with InnerWorkings, Inc. ("InnerWorkings"), a company co-founded by the Company's co-founder and Executive Chairman of the Board, for promotional services. Amounts paid in advance to the InnerWorkings for services which had not yet been expensed as of March 31, 2012 totaled \$1.3 million, which was recorded in "Prepaid expenses and other current assets" on the condensed consolidated balance sheet.

## Logistics Services

In connection with the Company's expansion of Groupon Goods offerings, during 2012, the Company entered into a transportation and supply chain management agreement with Echo Global Logistics, Inc. ("Echo"), a company co-founded by the Company's co-founder and Executive Chairman of the Board. In addition, three of the Company's directors, Peter A. Barris, Eric P. Lefkofsky and Bradley A. Keywell, are directors of Echo and have direct and/or indirect ownership interests in Echo. As a result of the agreement, Echo will provide services related to carrier rate negotiation and management, shipping origin and destination coordination, inventory facility set-up and management and supply chain cost analysis.

## 14. SUBSEQUENT EVENTS

## Acquisitions

In April 2012, the Company acquired a company for total purchase price of \$6.1 million cash. The company acquired was a technology start-up company specializing in unique aspects of technology development. The primary reason for the acquisition was to acquire talent related to technology development.

The acquisition will be accounted for using the purchase method of accounting and the operations of the acquired company will be included in the consolidated financial statements from the date of the acquisition. The financial effect of the acquisition was not material to the Company's condensed consolidated financial statements. Pro-forma results of operations have not been presented because the effects of the business combination were not material to the Company's condensed consolidated results of operations as it was a start-up business.

## Investments in Other Interests

In April 2012, the Company acquired 20% of a business to business Internet marketing company for a total purchase price of \$2.0 million cash.

Additional Purchase of Majority-Owned Subsidiary

In May 2012, the Company acquired additional interests of two majority-owned subsidiaries for an aggregate purchase

22

---

GROUPON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(unaudited)

price of \$6.6 million, including \$6.1 million in cash and \$0.5 million of Class A common stock.

23

---

## 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 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

Groupon is a local commerce marketplace that connects merchant partners 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 the yellow pages, direct mail, newspaper, radio, television and online advertisements and promotions. By bringing the brick and mortar world of local commerce onto the Internet, Groupon is creating a new way for local merchant partners to attract customers and sell goods and services. We provide consumers with savings and help them discover what to do, eat, see and buy in the places where they live and work.

Each day we email our subscribers discounted offers for goods and services that are targeted by location and personal preferences. Current and potential customers access our deals directly through our websites and mobile applications. Our revenue is the purchase price paid by the customer for the Groupon less an agreed upon percentage of the purchase price paid to the featured merchant partners excluding any applicable taxes and net of estimated refunds. In the three months ended March 31, 2011, we generated revenue of \$295.5 million, compared to \$559.3 million in the first three months of March 31, 2012. Revenue has increased as a result of expanding the scale of our business both domestically and internationally. Revenue from our international operations was \$158.9 million and \$320.7 million in the three months ended March 31, 2011 and 2012, respectively.

We have organized our operations into two principal segments: North America, which represents the United States and Canada, and International, which represents the rest of our global operations. For the three months ended March 31, 2011, we derived 53.8% of our revenue from our International segment, compared to 57.3% for the three months ended March 31, 2012. We expect the percentage of revenue derived from outside North America to continue to increase in future periods as we continue to expand globally and increase our penetration of the marketing opportunities in countries outside of North America, including those where we are already established.

We incurred a net loss of \$3.6 million for the three months ended March 31, 2012 and have an accumulated deficit of \$703.2 million as of March 31, 2012. Since our inception, we have driven our growth through substantial investments in infrastructure and marketing to increase customer acquisition. In particular, our net loss in previous years was driven primarily by the rapid expansion of our International segment during the year, which involved investing heavily in upfront marketing, sales and infrastructure related to the build out of our operations in early stage countries. We intend to continue to pursue a strategy of significant investment in these regions and elsewhere in the future, consistent with the strategy we previously employed in North America and Europe.

### 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. The key metrics are as follows:

#### Financial Metrics

**Revenue.** Our revenue is the purchase price paid by the customer for the Groupon less an agreed upon percentage of the purchase price paid to the featured merchant partner, excluding any applicable taxes and net of estimated refunds. We believe revenue is an important indicator for our business because it is a reflection of the cash retained by Groupon excluding payment processing fees, and the value of our service to our merchant partners. Revenue as a percentage of gross billings is influenced by the mix of deals we offer.

**Consolidated segment operating (loss) income.** Consolidated segment operating (loss) income is the consolidated operating (loss) income of our two segments, North America and International, adjusted for acquisition-related costs and stock-based compensation expense. Acquisition-related costs are non-cash items related to certain of our



acquisitions. Stock-based compensation expense is a non-cash item. As reported under U.S. GAAP, we do not allocate stock based compensation and acquisition related expense to our segments. We use consolidated segment operating (loss) income to allocate resources and evaluate performance internally. Consolidated segment operating (loss) income is a non GAAP financial measure. 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 "Net cash provided by operating activities" less "Purchases of property and equipment." 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 it typically will present a more appropriate measure of cash flows as purchases of fixed assets, software developed for internal use and website development costs are a necessary component of ongoing operations. Free cash flow is a non-GAAP financial measure. 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.

#### Operating Metrics

Gross billings. This metric represents the gross amounts collected from customers for Groupons sold, excluding any applicable taxes and net of estimated refunds. 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 through our marketplace, net of tax and refunds. Tracking gross billings also allows us to track changes in the percentage of gross billings that we are able to retain after payments to our merchant partners. Gross billings are not equivalent to revenues or any other financial metric presented in our condensed consolidated financial statements.

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 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 presented 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.

Revenue per average active customer. This metric represents the trailing twelve months revenue generated per average active customer. This metric is presented as the total revenue generated in the trailing twelve months, divided by the average number of active customers in such time period. Although we believe total revenue, not trailing twelve months revenue per average active customer, is a better indication of the overall growth of our business, trailing twelve month revenue per average active customer provides an opportunity to evaluate whether our average customer is purchasing deals with a higher or lower commission profile to Groupon.

	Trailing Twelve Months Ended March 31,	
	2011	2012
Operating Metrics:		
Gross billings (in thousands) <sup>(1)</sup>	\$1,369,139	\$4,672,127
TTM Active customers (in thousands) <sup>(2)</sup>	15,376	36,850
TTM Gross billings per average active customer <sup>(3)</sup>	\$168.54	\$178.92
Revenue per average active customer <sup>(4)</sup>	\$72.41	\$71.77

(1) Reflects the gross amounts collected from customers for Groupons sold, excluding any applicable taxes and net of estimated refunds, in the applicable period.

(2) Reflects the total number of unique accounts that have purchased Groupons during the trailing twelve months.

(3)



Reflects the total gross billings generated in the trailing twelve months per average active customer in the applicable period.

- (4) Reflects the total revenue generated in the trailing twelve months per average active customer in the applicable period.

### Factors Affecting Our Performance

**Customer acquisition costs.** 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 of high value and quality, or if we fail to introduce new or more relevant deals, we may not be able to acquire or retain customers. In our limited operating history, we have not incurred significant marketing or other expense on initiatives designed to re-activate customers or increase the level of purchases by our existing customers. If such expenditures or initiatives become necessary to maintain a desired level of activity in our marketplace, our business and profitability could be adversely affected.

**Deal sourcing and quality.** We consider our merchant partner relationships to be a vital part of our business model. We depend on our ability to attract and retain merchants that are prepared to offer products or services on compelling terms. We do not have long-term arrangements to guarantee availability of deals that offer attractive quality, value and variety to consumers or favorable payment terms to us. In light of our objective to promote variety in our daily deals, our general practice to date has been to limit repeat merchants. 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.

**Competitive pressure.** Our growth and geographical expansion have drawn a significant amount of attention to our business model. As a result, a substantial number of companies that attempt to replicate our business model have emerged around the world. While there has been consolidation of competition in recent months globally, we still continue to expect new competitors to emerge. 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 business. 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.

**Investment in growth.** We are a high-growth company and have aggressively invested, and intend to continue to invest, to support this growth. As a result, we have incurred net losses in the majority of quarters since our inception. We anticipate that our operating expenses will increase substantially 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.

**Pace and effectiveness of expansion.** We have grown our business rapidly since inception, adding new customers and markets both domestically and internationally. Our international operations are critical to our revenue growth and our ability to achieve profitability. For the three months ended March 31, 2011 and 2012, 53.8% and 57.3%, respectively, of our revenue was generated from our international operations. Expansion into 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. International acquisitions also expose us to a variety of execution risks. The different commercial and Internet infrastructure in other countries may make it more difficult for us to replicate our traditional business model.

### Basis of Presentation

#### Revenue

The Company recognizes revenue from services rendered or product sales 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.

For services rendered, these criteria are met when the number of customers who purchase the daily deal exceeds the predetermined threshold (where applicable), 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, the Company's obligations to the merchant, for which it is serving as an agent, are substantially complete. The Company's remaining obligations, which

are limited to remitting payment to the merchant and continuing to make available on the Company's website the listing of Groupons sold previously provided to the merchant, are inconsequential or perfunctory. The Company records the net amount it retains from the sale of Groupons after paying an agreed upon percentage of the purchase price to the featured merchant, excluding any applicable taxes. Revenue is recorded on a net basis because the Company is acting as an agent of the merchant in the transaction.

The Company evaluates whether it is appropriate to record the gross amount of its goods sales and related costs or the amount earned. For goods revenue transactions where the Company is selling a product, revenue is recorded gross. The Company is the primary obligor in these transactions, is subject to inventory risk and has latitude in establishing prices. Product sales and shipping revenues are recorded when the products are shipped and title passes to customers. For goods revenue transactions where the Company is performing a service by acting as the agent of the merchant responsible for fulfillment, revenue is recorded on a net basis. Revenue from goods sales was not significant for the three months ended March 31, 2012.

#### Cost of Revenue

Cost of revenue is composed of direct and indirect costs incurred to generate revenue, including costs related to credit card processing fees, refunds provided to customers which are not recoverable from the merchant, certain technology costs, editorial costs, other processing fees and the purchase price of consumer products where the Company is seller of record as well as outbound shipping charges. Credit card and other processing fees are expensed as incurred. At the time of sale, the Company records a liability for estimated costs to provide refunds which are not recoverable from the merchant based upon historical experience. Technology costs 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. Such technology costs also include website hosting and email distribution costs. Editorial costs consist of a portion of the payroll and stock based compensation expense related to the Company's editorial personnel, as such staff is primarily dedicated to drafting and promoting merchant deals. Purchase price of consumer products are included in the Company's inventory and recognized along with outbound shipping charges as cost of revenues upon sale and delivery of the products to customers.

#### Marketing

Marketing expense consists primarily of targeted online marketing costs, such as sponsored search, advertising on social networking sites, email marketing campaigns, loyalty programs, affiliate programs and, to a lesser extent, offline marketing costs such as television, radio and print advertising. Marketing payroll costs, including related stock based compensation expense, are also classified as marketing expense. We record these costs in marketing expense in our condensed consolidated statements of operations when incurred. No costs included in marketing expense are incurred in connection with the fulfillment of our obligations to our merchants. Marketing is a key 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 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 related expenses 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 subscriber service and operations, amortization and depreciation expense, rent, professional fees and litigation costs, travel and entertainment, stock compensation expense, charitable contributions, recruiting, office supplies, maintenance and other general corporate costs.

#### Acquisition Related

In 2011 and 2012, as part of the overall consideration payable in connection with certain acquisitions, we may be obligated to issue additional shares of our Class A common stock and make cash payments if certain financial and performance earn-out targets are achieved. We recorded a liability on our condensed consolidated balance sheet as of the original acquisition date for this consideration and subsequently remeasure the liability each reporting period. As a result of this remeasurement as of March 31, 2012, we recorded a net gain due to the change in fair value measurements, see Note 10 "Fair Value Measurements." These liabilities have not yet been settled and are subject to future remeasurement.

#### Interest and Other Income (Expense)

Interest and other income (expense) primarily consists of foreign currency gains and losses resulting from foreign currency transactions, which are denominated in currencies other than our functional currencies and interest expense on our loans from related parties.

27

---

## Results of Operations

Comparison of the Three Months Ended March 31, 2011 and 2012:

	Three Months Ended March 31,	
	2011	2012
	(in thousands)	
Revenue (gross billings of \$668,174 and \$1,354,800, respectively)	\$295,523	\$559,283
Costs and expenses:		
Cost of revenue	39,765	119,498
Marketing	230,085	116,615
Selling, general and administrative	142,821	283,583
Acquisition-related	—	(52)
Total operating expenses	412,671	519,644
(Loss) income from operations	(117,148)	39,639
Interest and other (expense) income, net	1,060	(3,539)
Equity-method investment activity, net of tax	(882)	(5,128)
(Loss) income before provision for income taxes	(116,970)	30,972
(Benefit) provision for income taxes	(3,079)	34,565
Net loss	(113,891)	(3,593)
Less: Net loss (income) attributable to noncontrolling interests	11,223	(880)
Net loss attributable to Groupon, Inc.	(102,668)	(4,473)
Redemption of preferred stock in excess of carrying value	(34,327)	—
Adjustment of redeemable noncontrolling interests to redemption value	(9,485)	(7,222)
Net loss attributable to common stockholders	\$(146,480)	\$(11,695)

## Operating Expenses

Operating expenses with and without stock-based compensation are follows (in thousands):

	For the Three Months Ended March 31,			2012		
	2011		Net	As reported	Stock-based compensation	Net
	As reported	Stock-based compensation		As reported	Stock-based compensation	
	(in thousands)					
Cost of revenue	\$39,765	\$(212)	) \$39,553	\$119,498	\$(482)	) \$119,016
Marketing	230,085	(493)	) 229,592	116,615	(726)	) 115,889
Selling, general and administrative	142,821	(18,159)	) 124,662	283,583	(26,795)	) 256,788
Acquisition-related	—	—	—	(52)	) —	(52)
Total operating expenses	\$412,671	\$(18,864)	) \$393,807	\$519,644	\$(28,003)	) \$491,641

## Foreign exchange rate neutral operating results

The effect on the Company's condensed consolidated statements of operations from changes in exchange rates versus the U.S. dollar is as follows:

	Three Months Ended March 31, 2012		
	At Avg. Q1 2011 Rates <sup>(1)</sup> (in thousands)	Exchange Rate Effect <sup>(2)</sup>	As Reported
Revenue	\$575,613	\$(16,330)	) \$559,283
Costs and expenses	534,670	(15,026)	) 519,644
Income from operations	\$40,943	\$(1,304)	) \$39,639

(1) Represents the outcome that would have resulted had exchange rates in the reported period been the same as those in effect in the comparable prior year period for operating results.

(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 for operating results.

#### Gross Billings

For the three months ended March 31, 2011 and 2012, our gross billings were \$668.2 million and \$1,354.8 million, respectively, reflecting a growth rate of 102.8%. Gross billings have increased due to an increase in the volume of transactions related to both global expansion and a deeper penetration of addressable markets in the countries in which we are already established. We also have seen strong growth in our daily deals business in addition to our travel, goods and entertainment channels.

#### Revenue

For the three months ended March 31, 2011 and 2012, our revenue was \$295.5 million and \$559.3 million, respectively. Revenue for each of the periods presented by segment was as follows:

	Three Months Ended March 31,			
	2011	% of total	2012	% of total
	(dollars in thousands)			
North America	\$136,612	46.2%	\$238,565	42.7%
International	158,911	53.8%	320,718	57.3%
Revenue	\$295,523	100.0%	\$559,283	100.0%

Revenue increased by \$263.8 million to \$559.3 million for the three months ended March 31, 2012 compared to the three months ended March 31, 2011. In addition to expanding the scale of our business domestically and internationally through acquiring businesses and entering new markets, several other initiatives have driven revenue growth over the recent period. We increased our total marketing spend significantly, focusing on acquiring customers through online channels such as social networking websites and search engines. We also added substantially to our salesforce, allowing us to increase the number of merchant partner relationships, the volume of deals we offer on a daily basis on our websites and the quality of deals we offer to our customers. The unfavorable impact on revenue from year-over-year changes in foreign exchange rates for March 31, 2012 was \$16.3 million.

#### North America

North America segment revenue increased by \$102.0 million to \$238.6 million for the three months ended March 31, 2012 as compared to the three months ended March 31, 2011. The increase in revenue is reflective of strong growth in our daily deals business domestically, which was largely attributable to an increase in active customers. As of the three months ended March 31, 2012, we had operations in 175 North American markets.

#### International

International segment revenue increased by \$161.8 million to \$320.7 million for the three months ended March 31, 2012 as compared to March 31, 2011. We ended the first quarter with operations in 47 international countries, an

increase from 24 international countries as of March 31, 2011. As a result of the entry into these new markets and growth in existing markets, we

29

---



were able to grow our daily deals business significantly from March 31, 2011 through March 31, 2012.

#### Cost of Revenue

For the three months ended March 31, 2011 and 2012, our cost of revenue was \$39.8 million and \$119.5 million, respectively. The increase in cost of revenue was directly related to growth in revenues.

Cost of revenue increased by \$79.7 million to \$119.5 million for the three months ended March 31, 2012 as compared to the three months ended March 31, 2011. The increase in cost of revenue was primarily driven by the purchase price of consumer products which did not exist during the three months ended March 31, 2011 and refunds which are not recoverable from the merchant. In addition, there was an increase in credit card processing fees, editorial salary costs and Internet processing fees. Increases in credit card processing fees, refunds and internet processing fees are driven by higher merchant partner transaction volumes. Cost of revenue also increased due to significant additions to our editorial staff and increased email distribution costs as a result of our larger subscriber base.

#### Marketing

For the three months ended March 31, 2011 and 2012, our marketing expense was \$230.1 million and \$116.6 million, respectively. Marketing expense as a percentage of revenue for each of the periods presented is as follows:

	Three Months Ended March 31,			% of
	2011	% of Segment Revenue	2012	Segment Revenue
	(dollars in thousands)			
North America	\$91,429	66.9%	\$34,721	14.6%
International	138,656	87.3%	81,894	25.5%
Marketing	\$230,085		\$116,615	

Marketing expense as a percentage of revenue for the three months ended March 31, 2011 and 2012 was 77.9%, and 20.9%, respectively. We evaluate our marketing expense as a percentage of revenue because it gives us an indication of how well our marketing spend is driving volume of transactions. We invested heavily in customer acquisition in the three months ended March 31, 2011, specifically in our International segment. In 2010, we began our international expansion. We subsequently made significant marketing investments in our International segment to accelerate growth and establish our presence in new markets. Therefore, marketing as a percentage of revenue for three months ended March 31, 2011 is higher than in comparable periods. Marketing expense as a percentage of revenue for the three months ended March 31, 2012 has decreased due to efficiencies we have realized from the investments we made in previous years. Improved execution, word-of-mouth customer marketing benefits and mix shift from customer acquisition spend to direct marketing spend are all contributors to the improvement.

Marketing expense for each of the periods presented by segment is as follows:

	Three Months Ended March 31,			% of total
	2011	% of total	2012	% of total
	(dollars in thousands)			
North America	\$91,429	39.7%	\$34,721	29.8%
International	138,656	60.3%	81,894	70.2%
Marketing	\$230,085	100.0%	\$116,615	100.0%

Our marketing expense decreased by \$113.5 million to \$116.6 million, for the three months ended March 31, 2012 as compared to the three months ended March 31, 2011. For the three months ended March 31, 2011, subscriber acquisition still comprised the primary portion of our marketing spend. This was particularly true in the international markets as we were still in the early phases of building our customer base in those markets. As those markets have developed over the last twelve months, we have begun to shift our marketing spend from subscriber acquisition

marketing to activation, and as a result, overall marketing expense decreased for the three months ended March 31, 2012.

30

---

#### North America

North America segment marketing expense decreased from \$91.4 million to \$34.7 million for the three months ended March 31, 2012 as compared to the the three months ended March 31, 2011. The significant decrease was primarily attributable to a decrease in online marketing spend. This reflects both the continued execution against our plan to move from subscriber acquisition marketing to activation, and our commitment to improving efficiency in our core operations. For three months ended March 31, 2012, marketing expense as a percentage of revenue for the North America segment was 14.6% as compared to 66.9% for the three months ended March 31, 2011. The decrease in marketing expenses as a percentage revenue is due to efficiencies we have seen from the investments we made in 2011.

#### International

International segment marketing expense decreased from \$138.7 million to \$81.9 million for the three months ended March 31, 2012 as compared to the the three months ended March 31, 2011. The significant decrease was primarily attributable to a decrease in online marketing spend. This reflects both the continued execution against our plan to move from subscriber acquisition marketing to activation, and our commitment to improving efficiency in our core operations. For three months ended March 31, 2012, marketing expense as a percentage of revenue for the International segment was 25.5% as compared to 87.3% for the three months ended March 31, 2011. The decrease in marketing expense as a percentage revenue is due to efficiencies we have seen from the investments we made throughout 2011 and the first quarter of 2012.

#### Selling, General and Administrative

For the three months ended March 31, 2011 and 2012, our selling general and administrative expense was \$142.8 million and \$283.6 million, respectively. The increases in selling, general and administrative expense were principally related to the build out of our global salesforce, investments in technology and investments in our corporate infrastructure necessary to support our current and anticipated growth. For the three months ended March 31, 2012, selling, general and administrative expense as a percentage of revenue was 50.7%, as compared to 48.3% for the three months ended March 31, 2011. Selling, general and administrative expense as a percentage of revenue has increased from the comparative period of the prior year as we built out our sales force through 2011 due to large growth in the period. Compared to the three months ended March 31, 2011, selling, general and administrative expenses have increased as a percentage of revenue, however, the productivity of our sales force continues to improve. We are continuously refining our sales management and selling processes and additionally we are introducing new products and services facilitating deeper customer and merchant partner engagement. Over time, as our operations develop in a greater percentage of our markets, we expect that our selling, general and administrative expense will decrease as a percentage of revenue.

For the three months ended March 31, 2012, our selling, general and administrative expense increased by \$140.8 million to \$283.6 million, an increase of 98.6% from the first quarter of the prior year. The increase in selling, general and administrative expense for the three months ended March 31, 2012 compared to the three months ended March 31, 2011 was due to increases in wages and benefits, consulting and professional fees, depreciation, rent expense and system maintenance expenses. Additionally, selling, general and administrative expenses as a percentage of revenue for our International segment were significantly higher than for our North America segment. This was primarily a result of the build out of our international operations, including our salesforce, to support anticipated future revenue growth.

Wages and benefits (excluding stock based compensation) increased by \$92.5 million to \$160.1 million for the three months ended March 31, 2012 as we continued to add sales force and administrative staff to support our business. Stock based compensation costs also increased to \$26.8 million for the three months ended March 31, 2012 from \$18.2 million for the three months ended March 31, 2011 due to awards issued to retain key employees and awards issued in connection with our acquisitions. Our consulting and professional fees increased in the first quarter of 2012 primarily related to higher legal and technology related costs. Depreciation and rent expense increased \$12.0 million for the period primarily due to our expansion during 2011 and the first quarter of 2012. The increase in system maintenance of \$7.9 million for the period is a result of investments in technology and investments in our corporate

infrastructure.

Acquisition Related

For the three months ended March 31, 2011 and 2012, our acquisition-related costs were less than \$0.1 million.

(Loss) Income from Operations

For the three months ended March 31, 2011 and 2012, our results from operations was a \$117.1 million loss and \$39.6

31

---

million of income, respectively. The change in loss from operations to income from operations for the comparable period is primarily due to efficiencies realized in our marketing expenses. We recognized income from operations for the three months ended March 31, 2012 as the Company was able to continue to generate revenue from subscribers and customers acquired in prior periods from marketing, sales and infrastructure investments. Additionally, we have observed that once a customer is active, his or her purchasing behavior is consistent over time, and therefore reduces our incremental marketing costs to drive repeat purchases. The unfavorable impact on operating income from year-over-year changes in foreign exchange rates for the three months ended March 31, 2012 was \$1.3 million.

#### North America

Segment operating income in our North America segment increased by \$62.0 million from a segment operating loss of \$21.8 million in the three months ended March 31, 2011 to \$40.2 million of income for the three months ended March 31, 2012. The increase in the segment operating income was primarily attributable to our expansion within North America. We invested heavily in marketing, sales and infrastructure in prior periods related to the build out of our operations. These investments have contributed to our income in the current period.

#### International

Segment operating income in our International segment increased by \$103.9 million from a segment operating loss of \$76.5 million in the three months ended March 31, 2011 to \$27.4 million of income for the three months ended March 31, 2012. The International segment operating loss recognized in three months ended March 31, 2011 was driven by our rapid expansion in the segment during that year. In 2011, we made significant marketing investments in our International segment to accelerate growth and establish our presence in new markets. In the three months ended March 31, 2012, we have generated income as result of these investments made in the previous year.

#### Interest and Other Income (Expense), net

Interest and other income (expense), net, consists of foreign currency transaction gains or losses, interest earned on cash and cash equivalents and other non-operational gains and losses.

For the three months ended March 31, 2011 and 2012, our interest and other income (expense), net was \$1.1 million net gain and \$3.5 million net expense, respectively. We incurred foreign currency gain of \$1.1 million for the three months ended March 31, 2011 and \$1.6 million of foreign currency loss for the three months ended March 31, 2012.

#### Provision (Benefit) for Income Taxes

For the three months ended March 31, 2011 and 2012, the Company recorded income taxes of \$3.1 million income tax benefit and a \$34.6 million income tax provision, respectively.

The effective tax rate from continuing operations for the three months ended March 31, 2011 and 2012 was 2.6% and 111.6%, respectively. The effective tax rate for the three months ended March 31, 2012 reflects the impact of foreign losses where we cannot take a benefit and it reflects the amortization of prepaid taxes recognized on profits from the taxable sale of certain intellectual property rights within our international structure in previous periods. The Company recognized a tax benefit for the three months ended March 31, 2011 as the Company was able to record a benefit for losses incurred in certain foreign jurisdictions.

The estimated annual effective tax rate is based upon a number of significant estimates and judgments, including the forecasted annual income (loss) before income taxes of the corporation in each tax jurisdiction in which it operates. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. For example, the Company's effective tax rate could be adversely affected by greater earnings in countries with higher statutory rates, changes in the valuation of the Company's deferred tax assets and liabilities, additional losses in countries where the Company cannot recognize the tax benefit and changes in the relevant tax laws, regulations, or accounting principles.

Since the Company will revise the estimated annual effective tax rate on a quarterly basis, it may create volatility in quarterly tax provisions.

#### Non-GAAP Financial Measures

We use consolidated segment operating (loss) income and free cash flow as key non-GAAP financial measures. Consolidated segment operating (loss) income and free cash flow are used in addition to and in conjunction with results presented in accordance

with U.S. GAAP and should not be relied upon to the exclusion of U.S. GAAP financial measures.

Consolidated segment operating (loss) income. Consolidated segment operating (loss) income is the consolidated operating (loss) income of our two segments, North America and International, adjusted for acquisition-related costs and stock-based compensation expense. Acquisition-related costs are non-cash items related to certain of our acquisitions. Stock-based compensation expense is a non-cash item. As reported under U.S. GAAP, we do not allocate stock based compensation and acquisition related expense to our segments. We use consolidated segment operating (loss) income to allocate resources and evaluate performance internally.

We consider consolidated segment operating (loss) income to be an important measure for management to evaluate the performance of our business as it excludes certain non-cash expenses. We believe it is important to view consolidated segment operating (loss) income as a complement to our entire condensed consolidated statements of operations. When evaluating our performance, you should consider consolidated segment operating (loss) income as a complement to other financial performance measures, including various cash flow metrics, net loss and our other U.S. GAAP results.

The following is a reconciliation of consolidated segment operating (loss) income to the most comparable U.S. GAAP measure, “(Loss) income from operations,” for the three months ended March 31, 2011 and 2012.

	Three Months Ended March 31,	
	2011	2012
	(in thousands)	
(Loss) income from operations	\$(117,148	) \$39,639
Adjustments:		
Stock-based compensation <sup>(1)</sup>	18,864	28,003
Acquisition-related <sup>(2)</sup>	—	(52
Total adjustments	18,864	27,951
Consolidated segment operating (loss) income	\$(98,284	) \$67,590

(1) Represents non-cash stock-based compensation expense recorded within selling, general and administrative expense, cost of revenue and marketing expense.

(2) Primarily represents non-cash charges for remeasurement of the fair value of contingent consideration related to acquisitions made by the Company in 2010 and 2011.

Free cash flow. Free cash flow is "Net cash provided by operating activities" less "Purchases of property and equipment." 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 it typically will present a measure of cash flows more aligned with an analysis of ongoing business operations as purchases of fixed assets, software developed for internal use and website development costs are a necessary component of ongoing operations.

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 merchant partners. 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 GAAP measure, "Net cash provided by operating activities," for the three months ended March 31, 2011 and 2012:

Three Months Ended March 31,

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

	2011		2012
	(in thousands)		
Net cash provided by operating activities	\$17,940		\$83,714
Purchases of property and equipment	(10,962	)	(13,083
Free cash flow	\$6,978		\$70,631

33

---



### Liquidity and Capital Resources

As of March 31, 2012, we had \$1,161.0 million in cash and cash equivalents, which primarily consisted of cash and money market accounts.

Since our inception, we have funded our working capital requirements and expansion primarily through public and private sales of common and preferred stock, yielding net proceeds of approximately \$1,857.1 million. As a result, we have funded our working capital requirements primarily with cash flow from operations to date. We generated positive cash flow from operations for the three months ended March 31, 2011 and 2012 despite experiencing net losses in each of these periods, 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 expenditures and meet our other cash operating needs. Cash flow from operations was \$17.9 million, and \$83.7 million for the three months ended March 31, 2011 and 2012, respectively.

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 the next twelve months.

### Anticipated Uses of Cash

Our priority in 2012 is to continue to aggressively invest in the business by making additional investments in technology and innovations and by focusing our marketing spend directly on revenue generating transactions in both our North America and International segments. In addition, we plan to expand our salesforce and continue to acquire or make strategic investments in complementary businesses that add to our customer base or provide incremental technology or talent or both.

In order to support our overall global expansion, we expect to make significant investments in our corporate facilities and technology development during 2012. Through the date of this filing, we acquired seven businesses for an aggregate purchase price of \$34.1 million, of which \$30.8 million was paid for in cash.

We currently plan to fund the balance of these expenditures in our North America and International segments with our available cash and cash equivalents balance and cash flows generated from the respective operations during this year.

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

### Cash Flow

Our net cash flow from operating, investing and financing activities for the periods below were as follows (in thousands):

	Three Months Ended March 31,	
	2011	2012
	(in thousands)	
Cash provided by (used in):		
Operating activities	\$17,940	\$83,714
Investing activities	(44,294	) (46,444
Financing activities	112,106	(8,275
Effect of changes in exchange rates on cash and cash equivalents	4,103	9,059
Net increase in cash and cash equivalents	\$89,855	\$38,054

### Cash Provided By Operating Activities

Cash provided by operating activities primarily consists of our net loss adjusted for certain non-cash 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 partner arrangements are structured as either a redemption payment model or a fixed payment model defined as follows:



Redemption payment model - Under our redemption merchant partner payment model, we collect payments at the time our customers purchase Groupons and make payments to most of our merchant partners at a subsequent date. We utilize this model in most of our international operations as it conforms with the local market practice. Using this payment model, merchant partners 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 for the Groupon purchase. The redemption model generally improves our overall cash flow because we do not pay our merchant partners until the customer redeems the Groupon.

Fixed payment model - Under our fixed merchant partner payment model, we pay our merchant partners in installments over a period of generally sixty days for all Groupons purchased. Under this payment model, merchant partners are paid regardless of whether the Groupon is redeemed.

As a result of these payment models, we experience swings in merchant payables that can cause volatility in working capital levels and impact cash balances more or less than our operating income or loss would indicate. In the current period presented, we have offered our merchant partners more favorable and accelerated payment terms which has affected our overall cash inflow for merchant payables for the period.

For the three months ended March 31, 2012, our net cash provided by operating activities of \$83.7 million consisted of net loss of \$3.6 million, offset by \$41.1 million in adjustments for non-cash items and \$46.2 million in cash provided by changes in working capital and other activities. Adjustments for non-cash items primarily consisted of \$28.0 million in stock based compensation expense as we continued to offer stock compensation to our employees in 2011 and \$11.7 million of depreciation and amortization expense. The increase in cash resulting from changes in working capital activities primarily consisted of a \$46.0 million increase in our merchant payables, due to continued growth in the daily deals business and a \$13.4 million increase in accrued expenses and other current liabilities. Costs primarily included in accrued expenses and other current liabilities are online marketing costs incurred to acquire and retain customers, operating expenses such as payroll and benefits and costs associated with customer loyalty and reward programs. Increases in accrued expenses and other current liabilities primarily reflect the significant increase in the number of employees, vendors, and customers resulting from our internal growth and global expansion through recent acquisitions. These increases were partially offset by a \$11.9 million increase in accounts receivable, primarily attributable to an increase in revenue for the three months ended March 31, 2012, and an increase of \$4.1 million in prepaid expenses and other assets as a result of business growth. The accounts receivable due from payment processors related to our International segment represents a significant portion of total accounts receivable.

#### Cash Used In Investing Activities

Cash used in investing activities primarily consists of capital expenditures and acquisitions of businesses.

For the three months ended March 31, 2012, our net cash used in investing activities of \$46.4 million primarily consisted of \$10.3 million invested in subsidiaries and equity interests, \$13.1 million in purchases of capital expenditures and internal use software and \$23.0 million in net cash paid in business acquisitions. Intangible assets purchased in the year relate primarily to domain names.

#### Cash Used in Financing Activities

For the three months ended March 31, 2012 our net cash used in financing activities of \$8.3 million was driven primarily by net cash paid for taxes on employees' restricted stock units and cash paid out for contingent consideration liabilities initially recognized in purchase accounting.

#### Contractual Obligations and Commitments

Our commitments as of March 31, 2012 did not materially change from the amounts set forth in our 2011 Annual Report on Form 10-K. We recorded \$56.7 million of unrecognized tax benefits as of March 31, 2012 for which we cannot make a reasonable estimate of the period of cash settlement for the liabilities to which they relate.

#### Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of March 31, 2012.

#### 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 using accounting principles generally accepted in the United States of America. Our significant accounting policies are discussed in Note 2, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the U.S. Securities and Exchange Commission (“SEC”) on March 30, 2012. As disclosed in Note 1 of Item 1 Financial Statements of this Quarterly Report on Form 10-Q, we have identified the following updated accounting principles which we believe are critical.

#### Revenue recognition

The Company recognizes revenue from services rendered or product sales 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.

For services rendered, these criteria are met when the number of customers who purchase the daily deal exceeds the predetermined threshold (where applicable), 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, the Company's obligations to the merchant, for which it is serving as an agent, are substantially complete. The Company's remaining obligations, which are limited to remitting payment to the merchant and continuing to make available on the Company's website the listing of Groupons sold previously provided to the merchant, are inconsequential or perfunctory. The Company records the net amount it retains from the sale of Groupons after paying an agreed upon percentage of the purchase price to the featured merchant, excluding any applicable taxes. Revenue is recorded on a net basis because the Company is acting as an agent of the merchant in the transaction.

The Company evaluates whether it is appropriate to record the gross amount of its goods sales and related costs or the amount earned. For goods revenue transactions where the Company is selling a product, revenue is recorded gross. The Company is the primary obligor in these transactions, is subject to inventory risk and has latitude in establishing prices. Product sales and shipping revenue are recorded when the products are shipped and title passes to customers. For goods revenue transactions where the Company is performing a service by acting as the agent of the merchant responsible for fulfillment, revenue is recorded on a net basis.

#### Cost of revenue

Cost of revenue is composed of direct and indirect costs incurred to generate revenue, including costs related to credit card processing fees, refunds provided to customers which are not recoverable from the merchant, certain technology costs, editorial costs, other processing fees and the purchase price of consumer products where the Company is seller of record as well as outbound shipping charges. Credit card and other processing fees are expensed as incurred. At the time of sale, the Company records a liability for estimated costs to provide refunds which are not recoverable from the merchant based upon historical experience. Technology costs 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. Such technology costs also include website hosting and email distribution costs. Editorial costs consist of a portion of the payroll and stock based compensation expense related to the Company's editorial personnel, as such staff is primarily dedicated to drafting and promoting merchant deals. Purchase price of consumer products are included in the Company's inventory and recognized along with outbound shipping charges as cost of revenues upon sale and delivery of the products to customers.

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and 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 relate to revenue recognition, merchant payments, customer loyalty and reward programs, refunds, stock-based compensation, income taxes and acquisition and recoverability of goodwill and other intangible assets. See Application of Critical Accounting Policies and Estimates in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the

36

---

SEC on March 30, 2012.

37

---

### ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURE 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 March 31, 2012, we derived approximately 57.3% of our revenue from international customers, and we expect the percentage of revenue derived from outside the United States to increase in future periods as we continue to expand globally. Revenue and related expenses generated from our international operations are denominated in the functional currencies of the corresponding country. 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 remeasurement of intercompany balances. We assess our market risk based on changes in foreign currency exchange rates utilizing a sensitivity analysis that measures the potential impact in earnings, fair values and cash flows based on a hypothetical 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 December 31, 2011 and March 31, 2012.

As of March 31, 2012, our working capital deficit (defined as current assets less current liabilities) subject to foreign currency translation risk was \$282.1 million. The potential decrease in net current assets from a hypothetical 10% adverse change in quoted foreign currency exchange rates would be \$28.2 million. This compares to \$328.1 million of working capital deficit subject to foreign currency exposure at December 31, 2011, which would have resulted in a decrease of net current assets of \$32.8 million. The primary difference between foreign currency exposure from December 31, 2011 to March 31, 2012 is due to our expansion into international markets.

#### Interest Rate Risk

Our cash and cash equivalents primarily consisted of highly rated commercial paper and money market funds. We currently have no investments of any type and do not have any long-term borrowings. Our exposure to market risk for changes in interest rates is limited because nearly all of our cash and cash equivalents have a short-term maturity and are used primarily for working capital purposes.

#### 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 in 2011 or the first three months of 2012.



#### ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost benefit relationship of possible controls and procedures. Based on this evaluation, management concluded that our disclosure controls and procedures were not effective at the reasonable assurance level due to a material weakness in our internal control over financial reporting, which is described below.

In connection with the preparation of our financial statements for the year ended December 31, 2011, we concluded there was a material weakness in the design and operating effectiveness of our internal control over financial reporting as defined in SEC Regulation S-X. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The primary factors contributing to the material weakness, which relates to our financial statement close process, were:

We did not maintain financial close process and procedures that were adequately designed, documented and executed to support the accurate and timely reporting of our financial results. As a result, we made a number of manual post-close adjustments necessary in order to prepare the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2011.

We did not maintain effective controls to provide reasonable assurance that accounts were complete and accurate and agreed to detailed support, and that account reconciliations were properly performed, reviewed and approved. While these activities should be performed in the ordinary course of our preparing our financial statements, we instead needed to undertake significant efforts to complete reconciliations and investigate items identified in those reconciliations during the course of our financial statement audit.

We did not have adequate policies and procedures in place to ensure the timely, effective review of estimates, assumptions and related reconciliations and analyses, including those related to customer refund reserves. As noted previously, our original estimate disclosed on February 8 of the reserve for customer refunds proved to be inadequate after we performed additional analysis.

With the oversight of senior management and our audit committee, we have begun taking steps and plan to take additional measures to remediate the underlying causes of the material weakness, primarily through the development and implementation of formal policies, improved processes and documented procedures, as well as the hiring of additional finance personnel.

In addition to these efforts, we are in the process of documenting and testing our internal control over financial reporting in order to report on the effectiveness of our internal controls as of December 31, 2012, as required following our initial public offering in 2011. We have continued to expend significant internal and external resources

in this effort. In particular, we have continued to work with another global accounting firm in preparation for reporting on the effectiveness of our internal controls, and we have expanded the auditing firm's engagement scope to address the underlying cause of the material weakness. However, we can provide no assurance at this time that management will be able to report that our internal control over financial reporting is effective as of December 31, 2012, or that our registered public accounting firm will be able to attest that such internal controls are effective.

Notwithstanding the identified material weakness, management believes the consolidated financial statements included in this Quarterly Report on Form 10-Q fairly represent in all material respects our financial condition, results of operations and cash flows at and for the periods presented in accordance with U.S. GAAP.

#### Changes in Internal Control over Financial Reporting

39

---

Other than as described above, 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 three months ended March 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### ITEM 1: LEGAL PROCEEDINGS

For a description of our material pending legal proceedings, please see Note 7 “Contingencies—Legal Matters” of the Notes to Consolidated Financial Statements included in 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

We may not maintain the revenue growth that we have experienced since inception.

Although our revenue has increased substantially since inception, we may not be able to maintain our historical rate of revenue growth. We believe that our continued revenue growth will depend, among other factors, on our ability to:

- acquire new customers and retain existing customers;
- attract new merchant partners and retain existing merchant partners who wish to offer deals through the sale of Groupons;
- expand the number, variety and relevance of products and deals we offer;
- increase the awareness of our brand domestically and internationally;
- provide a superior customer service experience for our customers and merchant partners;
- respond to changes in consumer and merchant access to and use of the Internet and mobile devices; and
- react to challenges from existing and new competitors.

Our strategy to become a local commerce platform may not be successful.

One of our key objectives is to expand upon our traditional daily deals business by building out a more extensive local commerce platform for consumers and merchants. This strategy will require us to devote significant resources, including the time and efforts of management and our engineering team, to developing, implementing and maintaining products that are new to us, our customers and our merchant partners. In addition, we anticipate that we will continue to acquire businesses and technology in order to implement this strategy. Even if we are successful in developing these products, our success is dependent upon their perceived value by our current customers and merchant partners, as well as other consumers and merchants who do not yet engage in business through our marketplace. If we are not successful in pursuing this objective, our business, financial position and results of operations could be harmed. We cannot assure you that we will be able to manage the growth of our organization effectively.

We have experienced rapid growth in demand for our services since our inception. Our employee headcount and number of customers have increased significantly since our inception, and we expect this growth to continue for the foreseeable future. The growth and expansion of our business and service offerings places significant demands on our management and our operational and financial resources. We are required to manage multiple relations with various merchant partners, customers, technology licensors and other third parties. In the event of further growth of our operations or in the number of our third-party relationships, our information technology systems or our internal controls and procedures may not be adequate to support our operations. To

---

effectively manage our growth, we must continue to implement operational plans and strategies, improve and expand our infrastructure of people and information systems, and train and manage our employee base.

We have experienced rapid growth over a short period in a new market that we have created and we do not know whether this market will continue to develop or whether it can be maintained. If we are unable to successfully respond to changes in the market, our business could be harmed.

Our business has grown rapidly as merchants and consumers have increasingly used our marketplace. However, this is a new market which we only created in late 2008 and which has operated at a substantial scale for only a limited period of time. Given the limited history, it is difficult to predict whether this market will continue to grow or whether it can be maintained. For example, as a result of our limited operating history in a new industry, it is difficult to discern meaningful or established trends with respect to the purchase activity of our subscribers or customers. We expect that the market will evolve in ways which may be difficult to predict. For example, we anticipate that over time we will reach a point in most markets where we have achieved a market penetration such that investments in new customer acquisition are less productive and the continued growth of our revenue will require more focus on increasing the rate at which our existing customers purchase Groupons. It is also possible that merchant partners 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.

We base our decisions regarding investments in customer acquisition primarily on our analysis of the profits generated from customers that we acquired in prior periods. If the estimates and assumptions we use are inaccurate, we may not be able to recover our customer acquisition costs and our growth rate and financial results will be adversely affected.

Our decisions regarding investments in customer acquisition substantially depend upon our analysis of the profits generated from customers we acquired in earlier periods. Our analysis includes several assumptions, including:

Because the costs of offering or distributing deals to existing customers are not significant, our analysis focuses on the online marketing costs incurred during the quarter in which the customers are originally acquired and makes various assumptions with respect to the level of additional marketing or other expenses necessary to maintain customer loyalty and generate purchase activity in subsequent periods. If our assumptions regarding such expenses in subsequent periods are incorrect, our results could be less favorable than we had anticipated.

We conduct surveys of merchant partner and customer satisfaction, and we also engage third parties to conduct these surveys for us. Results of these surveys inherently reflect a distinct group of merchant partners, customers and geographies and may not be representative of our current or future composite group of merchant partners, customers and geographies.

If our assumptions relating to the effectiveness of our marketing spend 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.

We have incurred net losses since inception and we expect our operating expenses to increase significantly in the foreseeable future.

We incurred net losses of \$113.9 million and \$3.6 million for the three months ended March 31, 2011 and 2012, and had an accumulated deficit of \$703.2 million as of March 31, 2012. We anticipate that our operating expenses will increase substantially in the foreseeable future as we continue to invest to increase our customer base, increase the number and variety of deals we offer each day, expand our marketing channels, expand our operations, hire additional employees and develop our technology platform. These efforts may prove more expensive than we currently anticipate, and we may not succeed in increasing our revenue sufficiently to offset these higher expenses. 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.

If we fail to retain our existing customers or acquire new customers, our revenue and business will be harmed.

We spent \$230.1 million on marketing initiatives during the first quarter of 2011 and \$116.6 million for the first quarter of 2012 and expect to continue to spend significant amounts to acquire additional customers. We must continue to retain and acquire customers that purchase Groupons in order to increase revenue and achieve 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 costs associated with acquiring new customers. If customers do not perceive our Groupon offers to be of high value and quality or if we fail to introduce new and more relevant deals, we may not be able to acquire or retain customers. If we are unable to acquire new customers who purchase Groupons in numbers sufficient to grow our business, or if customers cease to purchase Groupons, the revenue we generate may decrease and our operating results will be adversely affected.

We believe that many of our new customers originate from word-of-mouth and other non-paid referrals from existing customers, and therefore we must ensure that our existing customers remain loyal to our service in order to continue receiving those referrals. If our efforts to satisfy our existing customers are not successful, we may not be able to acquire new customers in sufficient numbers to continue to grow our business or we may be required to incur significantly higher marketing expenses in order to acquire new customers. Further, we believe that our success is influenced by the level of communication and sharing among customers. If the level of usage by our customer base declines or does not grow as expected, we may suffer a decline in customer growth or revenue. A significant decrease in the level of usage or customer growth would have an adverse effect on our business, financial condition and results of operations.

Our future success depends upon our ability to retain existing merchant partners and add new merchant partners. We depend on our ability to attract and retain merchant partners that are prepared to offer products or services on compelling terms through our marketplace. 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. We must continue to attract and retain merchant partners in order to increase revenue and achieve profitability. If new merchants do not find our marketing and promotional services effective, or if existing merchant partners do not believe that utilizing our products provides them with a long-term increase in customers, revenues or profits, they may stop making offers through our marketplace. In addition, we may experience attrition in our merchant partners in the ordinary course of business resulting from several factors, including losses to competitors and merchant partner closures or bankruptcies. If we are unable to attract new merchant partners in numbers sufficient to grow our business, or if too many merchant partners 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 merchant partners are not successful, or if our existing merchant partners do not believe that utilizing our services provides them with a long-term increase in customers, revenues or profits, we may not be able to retain or attract merchant partners in sufficient numbers to grow our business or we may be required to incur significantly higher marketing expenses or accept lower margins in order to attract new merchant partners. A significant increase in merchant partner attrition or decrease in merchant partner growth would have an adverse effect on our business, financial condition and results of operation.

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 because there are no significant barriers to entry. 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 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 merchant partners 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 merchandise 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. If we are unable to maintain favorable terms with our merchant partners, our revenue may be adversely affected. The success of our business depends in part on our ability to retain and increase the number of merchant partners who use our service. Currently, when a merchant partner 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 merchant partners 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. This could adversely affect our revenue.

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, we may be forced to take a lower percentage of the gross billings, which would reduce our revenue.

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

Our merchant payment terms and revenue growth have provided us with operating cash flow to fund our working capital needs. Our merchant partner arrangements are generally structured such that we collect cash up front when our customers purchase Groupons and make payments to our merchant partners at a subsequent date. In North America, we typically pay our merchant partners in installments within sixty days after the Groupon is sold. In our International segment, merchant partners are not paid until the customer redeems the Groupon. Our accrued merchant payable, which primarily consists of payment obligations to our merchant partners, has grown, both nominally and as a percentage of gross billings, as our gross billings have increased, particularly the gross billings from our International segment. Our accrued merchant payable balance increased from \$520.7 million as of December 31, 2011 to \$576.5 million as of March 31, 2012. We use the operating cash flow provided by our merchant payment terms and revenue growth to fund our working capital needs. If we offer our merchant partners 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 business relies heavily on email and other messaging services, and any restrictions on the sending of emails or messages or a decrease in subscriber willingness to receive messages could adversely affect our revenue and business. Our business is highly dependent upon email and other messaging services. Deals offered through emails and other messages sent by us, or on our behalf by our affiliates, generate a substantial portion of our revenue. Because of the importance of email and other messaging services to our businesses, if we are unable to successfully deliver emails or

messages to our subscribers or potential subscribers, or if subscribers decline to open our emails or messages, our revenue and profitability would be adversely affected. Actions by third parties to block, impose restrictions on, or charge for the delivery of, emails or other messages could also materially and adversely impact our business. From time to time, Internet service providers block bulk email transmissions or otherwise experience technical difficulties that result in our inability to successfully deliver emails or other messages to third parties. In addition, our use of email and other messaging services to send communications about our website or other matters may result in legal claims against us, which if successful might limit or prohibit our ability to send emails or other messages. Any disruption or restriction on the distribution of emails or other messages or any increase in the associated costs would materially and adversely affect our revenue and profitability.

We have a rapidly evolving business model and our new product and service offerings could fail to attract or retain customers or generate revenue.

We have a rapidly evolving business model and are regularly exploring entry into new market segments and the introduction of new products and features with respect to which we may have limited experience. In addition, our customers may not respond favorably to our new products and services. These products and services may present new and significant technology challenges, and we may be subject to claims if customers of these offerings experience service disruptions or failures or other quality issues. If products or services we introduce, such as changes to our websites and applications, the introduction of social networking and location-based marketing elements to our websites, or entirely new lines of business that we may pursue, fail to engage customers or merchant partners, we may fail to acquire or retain customers or generate sufficient revenue or other value to justify our investment, and our business may be materially and adversely affected. Our ability to retain or increase our customer base and revenue will depend heavily on our ability to innovate and to create successful new products and services. In addition, the relative profitability, if any, of our new activities may be lower than that of our historical activities, and we may not generate sufficient revenue from new activities to recoup our investments in them. If any of this were to occur, it could damage our reputation, limit our growth and negatively affect our operating results.

We purchase and sell some products from indirect suppliers, which increases our risk of litigation and other losses.

We have begun selling Groupons to buy merchandise both directly from brand owners and indirectly from retailers and third party distributors, and we also sometimes take title to the goods before we offer them for sale to our customers. By selling Groupons for merchandise coming 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 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 Groupon Goods business.

As we continue to expand our business model, we may purchase some of the merchandise that we offer for sale to our customers. The demand for products can change for a variety of reasons, including customer preference, 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 inventories 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 loss of certain individuals involved in the operations of our International segment may cause our international expansion to suffer.

Our international expansion has been rapid and our international business has been critical to the growth in our business. For the three months ended March 31, 2011 and 2012, 53.8% and 57.3%, respectively, of our revenue was generated from our International segment. We began our international operations in May 2010 with the acquisition of CityDeal Europe GmbH, or CityDeal, which was founded by Oliver Samwer and Marc Samwer. Historically, Messrs. Samwer have served as consultants and been extensively involved in the development and operations of our International segment. In April 2012, we announced the appointment of Veit Dengler as SVP, International. Mr. Dengler will head our international operations. As part of this transition, it is expected that the consulting arrangements with Messrs. Samwer both will be terminated. We can make no assurances that the loss of Messrs. Samwer's services will not disrupt our international operations or have an adverse effect on our ability to grow our international business.

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.

Further expansion into 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 may not be successful in expanding into particular international markets or in generating revenue from foreign operations. As we continue to expand internationally, we are increasingly subject to risks of doing business internationally, including the following:

- 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 and similar local laws prohibiting certain payments to government officials, banking and payment processing regulations, and anti-competition regulations, among others. The costs of complying with these various and sometimes conflicting laws and regulations could be 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.

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.

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 International segment 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.

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, as we expand our international operations and have additional portions of our international revenue 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 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 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.

Subsequent to our revised earnings announcement on March 30, 2012, several lawsuits were filed against us and our current and former officers and directors alleging violations of the Federal securities laws. 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 7, Contingencies, to our consolidated financial statements.

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

Our Groupon Promise states that we will provide our customers with a refund of the purchase price of a Groupon if they believe that we have let them down. 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 have been 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 merchant partners and the quality of products or services they deliver, we rely on a combination of our historical experience with each merchant partner and online and offline research of customer reviews of merchant partners for the development of our estimate for refund claims. 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 merchant partners 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 merchant partners. Our inability to seek reimbursement from our merchant partners for refund claims could have an adverse effect on our liquidity and profitability.

If our merchant partners do not meet the needs and expectations of our customers, our business could suffer.

Our business depends on our reputation for providing high-quality deals, and our brand and reputation may be harmed by actions taken by merchant partners that are outside our control. Any shortcomings of one or more of our merchant partners, particularly with respect to an issue affecting the quality of the deal offered or the products or services sold, may be attributed by our customers to us, thus damaging our reputation, brand value and potentially affecting our results of operations. In addition, negative publicity and customer sentiment generated as a result of fraudulent or deceptive conduct by our merchant partners could damage our reputation, reduce our ability to attract new customers or retain our current customers, and diminish the value of our brand.

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.

We currently depend on the continued services and performance of the key members of our management team, including Andrew D. Mason, our Chief Executive Officer, and Jason E. Child, our Chief Financial Officer. Mr. Mason is one of our founders and his leadership has played an integral role in our growth. The loss of key personnel, including key members of management as well as our marketing, sales, product development and technology personnel, could disrupt our operations and have an adverse effect on our ability to grow our business. Moreover, many members of our management are new to our team or have been recently promoted to new roles.

Eric P. Lefkofsky is one of our founders and has served as the Executive Chairman of our Board of Directors since our inception. Although Mr. Lefkofsky historically has devoted a significant amount of his time to Groupon, he is under no contractual or other obligation to do so and may not do so in the future. It is expected that the amount of time devoted by Mr. Lefkofsky to the Company will diminish substantially during 2012 and in the future. Mr. Lefkofsky dedicates a considerable portion of his time and financial resources in a variety of other businesses, including Lightbank LLC, a private investment firm that Mr. Lefkofsky co-founded with Bradley A. Keywell. Such investments may be in areas that present conflicts with, or involve businesses related to, our operations. There can be no assurance

that our business will not be adversely affected as Mr. Lefkowsky devotes less time to our business in the future. As we become a more mature company, we may find our recruiting and retention efforts more challenging. We are seeking to hire a significant number of personnel in 2012, including certain key management personnel. If we do not succeed in attracting, hiring and integrating excellent personnel, or retaining and motivating existing personnel, we may be unable to grow effectively.

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 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. For example, we were recently notified by the Massachusetts Alcoholic Beverages Control Commission that Groupon discounts for some Massachusetts restaurants may not be in compliance with Massachusetts liquor laws and regulations. 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. We have identified a material weakness in our internal control over financial reporting which could, if not remediated, result in material misstatements in our financial statements.

In connection with the audit of our financial statements as of and for the year ended December 31, 2011, we concluded there is a material weakness in internal control over financial reporting related to deficiencies in the financial statement close process. Under standards established by the Public Company Accounting Oversight Board, a material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected and corrected on a timely basis. See "Part I, Item 4. Controls and Procedures".

We are working to remediate the material weakness. We have begun taking steps and plan to take additional measures to remediate the underlying causes of the material weakness, primarily through the continued development and implementation of formal policies, improved processes and documented procedures, as well as the continued hiring of additional finance personnel. The actions that we are taking are subject to ongoing senior management review, as well as audit committee oversight. Although we plan to complete this remediation process as quickly as possible, we cannot at this time estimate how long it will take, and our initiatives may not prove to be successful in remediating this material weakness. If our remedial measures are insufficient to address the material weakness, or if additional material weaknesses or significant deficiencies in our internal control over financial reporting are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results. In addition, if we are unable to successfully remediate this material weakness and if we are unable to produce accurate and timely financial statements, our stock price may be adversely affected and we may be unable to maintain compliance with applicable stock exchange listing requirements.

We are not currently required to comply with Section 404 of the Sarbanes-Oxley Act of 2002, and are therefore not currently required to make an assessment of the effectiveness of our internal controls. However, we will need to evaluate our internal controls over financial reporting in connection with Section 404 of the Sarbanes Oxley Act for the year ending December 31, 2012, and our auditors will be required to attest to our internal controls over financial reporting starting with our annual report for the year ending December 31, 2012. This assessment will need to include disclosure of any material weaknesses in our internal control over financial reporting identified by our management, as well as our auditors' attestation report on our internal controls over financial reporting. We are in the early phases of compiling the system and processing documentation needed to comply with such requirements. We may not be able to complete our evaluation, testing and any required remediation in a timely fashion. During the evaluation and testing processes, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal control over financial reporting is effective. If we are unable to assert that our internal control over financial reporting is effective, or if our auditors are unable to express an opinion on the effectiveness of our internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, which could have a material adverse effect on the price of our Class A common stock.

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.

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 merchant partners with whom we have partnered are currently defendants in 16 purported class actions that have 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. We are also the defendant to a purported class action in the Canadian province of Ontario in which similar violations of provincial legislation governing gift cards are alleged. 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 partner for its promotional program, or no expiration period, this may affect the willingness of merchant partners 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 gift cards, our net income could be materially and adversely affected.

If we are required to materially increase the estimated liability recorded in our financial statements with respect to unredeemed Groupons, our net income 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 recordkeeping 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 merchant partners 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 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 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 merchant partners 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 merchant partners, subscribers or third parties and as a result

our revenue and goodwill could be materially and adversely affected.

Our business depends on our ability to maintain and scale the network infrastructure necessary to operate our websites and mobile applications, and any significant disruption in service on our websites or applications could result in a loss of subscribers, customers or merchant partners.

Subscribers access our deals through our websites and mobile applications. Our reputation and ability to acquire, retain and serve our subscribers and customers are dependent upon the reliable performance of our websites and mobile applications 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 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 or physical or electronic break-ins, could affect the security or availability of our websites and applications, and prevent our subscribers from accessing our services. A substantial portion of our network infrastructure is hosted by third-party providers. Any disruption in these services or any failure of these providers to handle existing or increased traffic 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 we do not maintain or expand our network infrastructure successfully or if we experience operational failures, we could lose current and potential subscribers and merchant partners, which could harm our operating results and financial condition.

We may be subject to breaches of our information technology systems, which could harm our relationships with our customers and merchant partners, subject us to negative publicity and litigation, and cause substantial harm to our business.

Our business model requires us to obtain confidential information about our customers and merchant partners, including names, email addresses and credit card and other payment account information. Because of our high profile and the amount of customer information that we store, we may be at an increased risk of attacks on our system, notwithstanding the fact that we have invested heavily in systems to protect such information.

We, like other e-commerce businesses, use encryption and authentication technology to help provide the security and authentication to effectively secure transmission of confidential information, including credit card numbers. While these techniques are effective in maintaining confidentiality, we cannot guarantee that this will prevent all potential breaches of our system, including by means of technologies developed to bypass these securities measures. In addition, outside parties may attempt to fraudulently induce employees, merchant partners or customers to disclose sensitive information in order to gain access to our information or our merchant partners' or customers' information.

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 breach, or the perceived threat of a breach, could cause our customers and merchant partners 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.

Any reduction in the availability of Internet access, including through the use of mobile devices, could adversely affect our business.

The success of our services will depend largely on sufficient network availability for us, our customers and our merchant partners. The Internet has experienced, and is likely to continue to experience, significant growth in the number of users and amount of traffic, including a significant increase in bandwidth demands as a result of the use of smartphones and other mobile devices. The Internet infrastructure may be unable to support such demands. In addition, increasing numbers of users, increasing bandwidth requirements or problems caused by viruses, worms,

malware and similar programs may harm the performance of the Internet. The backbone computers of the Internet have been the targets of such programs. These outages and delays could reduce the level of Internet usage generally as well as the level of usage of our services, which could adversely impact our business.

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 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 proprietary 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 litigations 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 supporting 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 merchant partners 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 merchant partners. 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 merchant partners, could adversely affect our reputation, resulting in difficulties in recruiting, decreased revenue and a negative impact on the number of merchant partners 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 expect to continue to evaluate and consider a wide array of potential strategic transactions, including acquisitions and dispositions of businesses, joint ventures, technologies, services, products and other assets and strategic investments. We may not realize the anticipated benefits of any or all of our acquisitions, 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 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.

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 merchant partners, 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. 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.

We depend on the continued growth of online commerce.

The business of selling goods and services over the Internet, particularly through coupons, is dynamic and relatively new.

Concerns about fraud, privacy and other problems may discourage additional consumers and merchants from adopting the Internet as a medium of commerce. In countries such as the U.S., Germany, the United Kingdom, France and Japan, where our services and online commerce generally have been available for some time and the level of market penetration of our services is high, acquiring new customers for our services may be more difficult and costly than it has been in the past. In order to expand our customer base, we must appeal to and acquire customers who historically have used traditional means of commerce to purchase goods and services and may prefer Internet analogues to our offerings, such as the retailer's own website. If these customers prove to be less active than our earlier customers, or we are unable to gain efficiencies in our operating costs, including our cost of acquiring new customers, our business could be adversely impacted.

Our business is subject to interruptions, delays or failures resulting from earthquakes, other natural catastrophic events or terrorism.

Our services, operations and the data centers from which we provide our services are vulnerable to damage or interruption from earthquakes, fires, floods, power losses, telecommunications failures, terrorist attacks, acts of war, human errors, break-ins and similar events. A significant natural disaster, such as an earthquake, fire or flood, could have a material adverse impact on our business, financial condition and results of operations and our insurance coverage may be insufficient to compensate us for losses that may occur. Acts of terrorism could cause disruptions to the Internet, our business or the economy as a whole. We may not have sufficient protection or recovery plans in certain circumstances, such as natural disasters affecting areas where data centers upon which we rely are located, and our business interruption insurance may be insufficient to compensate us for losses that may occur. Such disruptions could negatively impact our ability to run our websites, which could harm our business.

Our results of operations may be negatively impacted by investments we make as we enter new product and service categories.

We have offered Groupons in over 190 different types of businesses, services and activities that fall into six broad categories. We intend to continue to invest in the development of our existing categories and to expand into new categories. We may make substantial investments in such new categories in anticipation of future revenue. We may also face greater competition in specific categories from Internet sites that are more focused on such categories. If the launch of a new category requires investments greater than we expect, if we are unable to generate sufficient merchant partner offers which are of high quality, value and variety or if the revenue generated from a new category grows more slowly or produces lower revenue than we expect, our results of operations could be adversely impacted.

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 merchant partners. 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 merchant partners for any funds stolen or revenue lost as a result of such breaches. Our merchant partners 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 partner 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.

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. Current uncertainty in global economic conditions could adversely affect our revenue and business.

Our operations and performance depend on worldwide economic conditions, which deteriorated significantly in the United States and other countries in late 2008 and through 2009. The current economic environment continues to be uncertain. These conditions may make it difficult for our merchant partners to accurately forecast and plan future business activities, and could cause our merchant partners to terminate their relationships with us or could cause our customers to slow or reduce their spending. Furthermore, during challenging economic times, our merchant partners may face issues gaining timely access to sufficient credit, which could result in their unwillingness to continue with our service or impair their ability to make timely payments to us. If that were to occur, we may experience decreased revenue, be required to increase our allowance for doubtful accounts and our days receivables outstanding would be negatively impacted. If we are unable to finance our operations on acceptable terms as a result of renewed tightening in the credit markets, we may experience increased costs or we may not be able to effectively manage our business. We cannot predict the timing, strength or duration of any economic slowdown or subsequent economic recovery, worldwide, in the United States or in our industry. These and other economic factors could have a material adverse effect on our financial condition and operating results.

Our management team has a limited history of working together and may not be able to execute our business plan. Our management team has worked together for only a limited period of time and has a limited track record of executing our business plan as a team. We have recently filled a number of positions in our senior management and finance and accounting staff. Accordingly, certain key personnel have only recently assumed the duties and responsibilities they are now performing. In addition, certain of our executives have limited experience managing a

large global business operation. Accordingly, it is difficult to predict whether our management team, individually and collectively, will be effective in operating our business.

Our management team has limited experience managing a public company, and regulatory compliance may divert its attention from the day-to-day management of our business.

The individuals who now constitute our management team have limited experience managing a publicly-traded company and limited experience complying with the increasingly complex laws pertaining to public companies. Our management team may

not successfully or efficiently manage our transition to being a public company that will be subject to significant regulatory oversight and reporting obligations under the federal securities laws. In particular, these new obligations will require substantial attention from our senior management and could divert their attention away from the day-to-day management of our business, which could materially and adversely impact our business operations. We will incur increased 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 exchange on which our Class A common stock is listed, impose additional reporting and other obligations on public companies. We expect that compliance with these public company requirements will increase our costs and make some activities more time-consuming. A number of those requirements will require us to carry out activities we have not done previously. For example, we will adopt new internal controls and disclosure controls and procedures. In addition, we will incur additional expenses associated with our SEC reporting requirements. For example, under Section 404 of the Sarbanes-Oxley Act, for our annual report on Form 10-K for our fiscal year ending December 31, 2012, we will need to document and test our internal control procedures, our management will need to assess and report on our internal control over financial reporting and our independent registered public accounting firm will need to issue an opinion on the effectiveness of those controls. 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 expect to incur 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. We expect that the additional reporting and other obligations imposed on us by these rules and regulations will increase our legal and financial compliance costs and the costs of our related legal, accounting and administrative activities significantly. These increased costs will 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 between that date and March 31, 2012 has fluctuated from a high of \$31.14 per share to a low of \$14.85 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;

54

---



- 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 restructurings; 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 your 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 March 31, 2012, our founders, Eric P. Lefkofsky, Bradley A. Keywell and Andrew D. Mason control 100% of our outstanding Class B common stock and approximately 33.5% of our outstanding Class A common stock, representing approximately 57.4% 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 your 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.

A significant portion of our outstanding shares of Class A common stock is restricted from immediate resale but may be sold into the market in the near future. This could cause the market price of our Class A common stock to drop significantly, even if our business is doing well.

Sales of a substantial number of shares of our Class A common stock in the public market could occur in the future. These sales, or the perception in the market that the holders of a large number of shares of Class A common stock intend to sell shares, could reduce the market price of our Class A common stock. As of March 31, 2012, we had 642,851,431 shares of Class A common stock outstanding. We expect the lock-up agreements and other contractual restrictions pertaining to our initial public offering to expire on June 1, 2012. After the lock-up agreements and contractual restrictions expire, substantially all of our shares of Class A common stock will be eligible for sale in the public market, subject to volume limitations under Rule 144 under the Securities Act of 1933, as amended, or the Securities Act, with respect to shares held by directors, executive officers and other affiliates. In addition, shares of common stock that are either subject to outstanding options or reserved for future issuance under our stock incentive plans will become eligible for sale in the public market to the extent permitted by the provisions of various vesting schedules, the lock-up agreements and other contractual restrictions and Rule 144 and Rule 701 under the Securities Act. If these additional shares of common stock are sold, or if it is perceived that they will be sold, in the public market, the trading price of our Class A common stock could decline. Moreover, as of March 31, 2012, holders of an aggregate of 449,061,290 shares of our Class A common stock had rights, subject to certain conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other stockholders.

In addition, our directors and executive officers may establish programmed selling plans under Rule 10b5-1 of the Exchange Act, for the purpose of effecting sales of our Class A common stock after the lock-up agreements described above expire. Any sales of securities by these stockholders, or the perception that those sales may occur, including the

entry into such programmed selling plans, could have a material adverse effect on the trading price of our Class A common stock.

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, you can expect to receive a return on your 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 6. EXHIBITS

See the Exhibit Index immediately following the signature page of this 10-Q.

57

---

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 14th day of May 2012.

GROUPON, INC.

By: /s/ ANDREW D. MASON

Name: Andrew D. Mason

Title: Chief Executive Officer

EXHIBITS

Exhibit Number	Description
10.33*	Groupon, Inc. 2012 Employee Stock Purchase Plan (incorporated by reference to Annex A of our definitive proxy statement filed with the SEC on April 30, 2012)
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

---

\* Management contract or compensatory plan or arrangement.