



**2013 ANNUAL REPORT**



Dear Stockholders,

As Groupon celebrates its fifth birthday, we find ourselves once again as pioneers.

In November of 2008 we launched Groupon and created the daily deal industry, giving birth to an entirely new form of commerce. Then, in 2010 we expanded internationally; a journey that would take us to 48 countries across the globe in less than two years. And now, we are redefining the intersection between local and mobile commerce.

Mobile commerce is everything you want to buy when you walk out your front door. It's defined by where the customer is when they have a need, which makes it inherently local. Mobile commerce is all about interacting with your surroundings and using geographic data to make purchasing more relevant, more personalized, more immediate.

We believe that to win in mobile commerce you need to first win local. We've already built the world's largest local marketplace and "stocked our shelves" with deals that our customers want to buy when they're out and about: restaurants, spas, live events, hotels, products, and so on. We now need to enhance customer awareness and get people to check Groupon first; making us an integral part of their daily lives.

Over the past five years, we've built the business with a singular focus on delivering value for our customers and merchants. For consumers, that means great value on the things that make their lives simpler, richer and more exciting. For merchants, that means more great customers coming in their door. This drives everything we do, and it has allowed us to build a platform that today reaches over 200 million subscribers worldwide.

We've also helped more than 650,000 merchants grow their businesses. Last year in the United States alone, Groupon sold 1.2 million pizzas, sent over 3.8 million people to the movies and made sure that more than 5 million fingers were beautifully manicured.

Our incredibly deep knowledge of local coupled with a vast mobile presence have us uniquely positioned to be the place people start when they want to do or buy just about anything, anytime, anywhere.

## **THE YEAR BEHIND**

2013 was a record year for Groupon. Gross billings increased from \$5.4 billion to \$5.8 billion. Revenues increased from \$2.3 billion to \$2.6 billion. Adjusted EBITDA increased from \$260 million to \$287 million. We generated \$76 million of operating income, eleven cents of non-GAAP EPS, and \$155 million of free cash flow.<sup>1</sup>

We sold 56 million Groupons in the fourth quarter alone. We ended the year with record demand as a result of delivering against our key initiatives: building an always-on marketplace of great deals and expanding the global reach of our mobile business.

We accomplished this while sticking to the principles we've discussed with investors in the past. We believe that we are in a large and emerging market and it's critical for us to claim as much share as possible as quickly as possible. As a result, we made opportunistic investments in marketing and technology to enhance our leading position, and we made several acquisitions, adding companies whose people, markets and technology will serve us well in the future.

## **WE GREW OUR MARKETPLACE**

Launched at the end of 2012, our marketplace took hold in 2013 -- growing from 37,000 deals in North

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<sup>1</sup> For a reconciliation of adjusted EBITDA, non-GAAP EPS and free cash flow to the most comparable U.S. GAAP measures, please see the section entitled *Non-GAAP Financial Measures* immediately following this letter to stockholders.

America to over 140,000 deals globally during the course of the year. We launched a redesigned website in North America in the fourth quarter, and by December already 8 percent of total traffic was searching, with those users spending over 50 percent more than non-searchers.

We put deals into our marketplace that our customers want, and they respond. While the majority consist of local services, our Goods category has become a nearly \$2 billion business in just two years, and our Getaways category has approached a \$1 billion business in the same time. Both enjoyed a strong 2013, and we added several new categories, Groupon Reserve and Groupon Freebies, to give our customers more reasons to shop with us. All told, active customers increased 9 percent to 45 million in 2013 and unit sales increased 10 percent to 193 million, despite reducing our marketing spend by 36%. Our brand and consumer value proposition have never been stronger.

## **WE EXPANDED MOBILE**

Increasingly, mobile has become the preferred way customers access our marketplace. Nearly 50 percent of our global transactions occurred on mobile devices in December. Further, by year end, nearly 70 million people had downloaded our mobile app; over 33 million people downloaded it last year alone, over 80% of which were purely organic. Few companies can match our mobile reach, and none have been as successful in making mobile an indispensable part of the shopping experience.

## **THE YEAR AHEAD**

We have three primary objectives for 2014. First is to re-accelerate our local growth in North America and abroad. Second is to improve the gross margins and operating efficiency of our Goods business. And third is to reduce our losses in Rest of World and work toward having every region in which we operate generating positive EBITDA by year end.

To achieve this we will remain focused on the big initiatives that we began in 2013: local, mobile, marketplace, and one playbook.

One of the clearest trends we see is the convergence of local and mobile. Local is wherever you are, and the advantage of mobile commerce is that it can use proximity to enhance the buying experience. In 2014, you'll see us begin to infuse local into everything we offer.

As the type and variety of deals on Groupon expands, we will continue to make accessing them easier and more rewarding, and we will make redeeming our deals even simpler and faster for our merchants and customers. Our mobile footprint will continue to grow, we will enrich our search and browse features, and our site will become increasingly accessible to our customers, based on their location, interests, and needs.

This fundamental shift in the way customers engage with us will create an incentive to make Groupon an integral part of your daily life. This is the foundation of our long-term "Pull" strategy, and we're encouraged with our progress to date.

In addition to our focus on building a local marketplace, we have significant growth opportunities in our core email business. We send over 250 million emails every day to our subscribers. We will continue to innovate on our "Push" business throughout 2014 by introducing technology that will make what customers see in their emails more relevant and personalized.

This Push and Pull approach to the market gives us incredible flexibility to serve our customers no matter how they choose to interact with us.

Finally, our "One Playbook" rollout will continue with the integration of our different technology systems onto one primary platform, which will allow us to syndicate our North American innovations to every major market in which we operate globally. Once complete, there will be no need for One Playbook as an initiative, as we will truly be - one company.

## **WRAPPING UP**

As the CEO of a large technology company, you would be lucky to have one business model that over time and at scale could increase the size of your company tenfold. I believe we have two.

First, we are building a local commerce platform that will connect millions of customers and merchants in real time. Second, we are in the midst of a mobile commerce revolution that not only affects local merchants, but every supplier across all of our categories.

As I said at the beginning, in the eyes of our customers, mobile and local are fused together. People use Groupon to book their hotels, order their meals, buy concert tickets, discover amazing things to do with their families, and more. All of these offerings are delivered to them seamlessly through their smartphones, allowing them to access the world around them - the very definition of local - on the fly. The opportunity this creates is simply unprecedented.

With continued innovation and laser focus on execution, we hope to fully realize our potential and become the starting point for local commerce, built on top of the world's largest real-time marketplace of deals.

We appreciate the continued support of our stockholders and hard work and dedication of our employees as we navigate the company through this stage of our journey.

Sincerely,

A handwritten signature in black ink, appearing to read 'E. Lefkofsky', with a stylized flourish at the end.

Eric Lefkofsky



## Non-GAAP Financial Measures

The accompanying letter to stockholders includes the following non-GAAP financial measures: adjusted EBITDA, non-GAAP EPS and free cash flow. These non-GAAP financial measures are used in addition to and in conjunction with results presented in accordance with U.S. GAAP, as presented in the accompanying Annual Report on Form 10-K. However, these measures are not intended to be a substitute for those reported in accordance with U.S. GAAP. These measures may be different from non-GAAP financial measures used by other companies, even when similar terms are used to identify such measures.

*Adjusted EBITDA* – Adjusted EBITDA is a non-GAAP financial measure that comprises net income (loss) excluding income taxes, interest and other non-operating items, depreciation and amortization and acquisition-related expense (benefit), net. The following is a reconciliation of adjusted EBITDA to the most comparable U.S. GAAP financial measure, "Net loss."

	<u>Year Ended December 31, 2013</u>
Net loss	\$ (88,946)
Adjustments:	
Stock-based compensation	121,462
Acquisition-related expense (benefit), net	(11)
Depreciation and amortization	89,449
Non-operating items:	
Loss (income) on equity method investments	44
Other expense (income), net	94,619
Provision for income taxes	70,037
Total adjustments	<u>375,600</u>
Adjusted EBITDA	<u>\$ 286,654</u>

*Non-GAAP EPS* – Non-GAAP EPS represents diluted earnings per share excluding stock-based compensation, acquisition-related expense (benefit), net and the impairment of Life Media Limited (F-tuan), a minority investment in China. The following is a reconciliation of non-GAAP EPS to the most comparable U.S. GAAP financial measure, "Diluted net loss per share."

	<u>Year Ended December 31, 2013</u>
Net loss attributable to common stockholders	\$ (95,393)
Stock-based compensation	121,462
Acquisition-related expense (benefit), net	(11)
Impairment of investment in F-tuan	85,521
Income tax effect of adjustments	<u>(38,504)</u>
Net income attributable to common stockholders, excluding stock-based compensation, acquisition-related expense (benefit), net and impairment of investment in F-tuan	<u>\$ 73,075</u>
Diluted shares	663,910,194
Incremental diluted shares <sup>(1)</sup>	<u>15,501,759</u>
Adjusted diluted shares	<u>679,411,953</u>
Diluted net loss per share	\$ (0.14)
Impact of stock-based compensation, acquisition-related expense (benefit), net and impairment of investment in F-tuan and the related income tax effects	<u>0.25</u>
Diluted earnings per share excluding stock-based compensation, acquisition-related expense (benefit), net and impairment of investment in F-tuan	<u>\$ 0.11</u>

(1) Outstanding equity awards are not reflected in the diluted net loss per share calculation for the year ended December 31, 2013 because the effect would be antidilutive. However, those awards have been reflected in the calculation of diluted earnings per share excluding stock-based compensation, acquisition-related expense (benefit), net and the impairment of a minority investment in China for the year ended December 31, 2013 because they have a dilutive effect on that calculation.

*Free Cash Flow* – Free cash flow is a non-GAAP financial measure that comprises net cash provided by operating activities less purchases of property and equipment and capitalized software. The following is a reconciliation of free cash flow to the most comparable U.S. GAAP financial measure, "Net cash provided by operating activities."

	<u>Year Ended December 31, 2013</u>
Net cash provided by operating activities	\$ 218,432
Purchases of property and equipment and capitalized software	<u>(63,505)</u>
Free cash flow	\$ 154,927
Net cash used in investing activities	\$ (96,315)
Net cash used in financing activities	\$ (81,697)



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2013

OR

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

Commission file number: **1-353335**

**Groupon, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**27-0903295**

(I.R.S. Employer  
Identification No.)

**600 West Chicago Avenue, Suite 400  
Chicago, Illinois**

(Address of principal executive offices)

**60654**

(Zip Code)

**312-334-1579**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock, par value \$0.0001	Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes

No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 (Do not check if a smaller reporting company)

Smaller reporting company

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

Yes

No

As of June 30, 2013, the aggregate market value of shares held by non-affiliates of the registrant was \$3,972,482,199 based on the number of shares of Class A common stock held by non-affiliates as of June 30, 2013 and based on the last reported sale price of the registrant's Class A common stock on June 30, 2013.

As of February 18, 2014, there were 680,837,504 shares of the registrant's Class A Common Stock outstanding and 2,399,976 shares of the registrant's Class B Common Stock outstanding.

## DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Report, to the extent not set forth herein, is incorporated herein by reference from the registrant's definitive proxy statement relating to the Annual Meeting of Stockholders to be held in 2014, which definitive proxy statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Report relates.

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## PART I

### FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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 this Annual Report on Form 10-K, 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.

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

## ITEM 1: BUSINESS

### Overview

Groupon is a global leader in local commerce, making it easy for people around the world to search and discover great businesses and merchandise. Our vision is to become the starting point for mobile commerce, with the world's largest marketplace of unbeatable deals. We want Groupon to be the destination that our customers check first when they are out and about; the place they start when they are looking to buy just about anything, anywhere, anytime. By leveraging our global relationships and scale, we offer consumers deals on things to eat, see, do and buy in 48 countries.

We operate online local marketplaces throughout the world that connect merchants to consumers by offering goods and services at a discount. Our operations are organized into three principal segments: North America, which represents the United States and Canada, EMEA, which is comprised of Europe, the Middle East and Africa, and the remainder of our international operations ("Rest of World"). We offer deals on goods and services in three primary categories: Local Deals ("Local"), Groupon Goods ("Goods") and Groupon Getaways ("Travel"). We act as a third party marketing agent by selling vouchers ("Groupons") that can be redeemed for products or services with a merchant. We also sell merchandise directly to customers in transactions for which we are the merchant of record. Customers access our deal offerings through our mobile platform, our websites and email.

Our results from 2013 include the following:

- Gross billings increased to \$5.8 billion in 2013, as compared to \$5.4 billion in 2012. In 2013, 49.5%, 34.5% and 16.0% of our gross billings was generated in North America, EMEA and Rest of World, respectively, as compared to 44.1%, 35.8% and 20.1% in 2012. Gross billings represent the total dollar value of customer purchases of goods and services, excluding applicable taxes and net of estimated refunds. Gross billings differs from our revenue, which is presented net of the merchant's share of the transaction price for transactions in which we act as a third party marketing agent. Gross billings and revenue are the same for transactions in which we sell merchandise directly to customers as the merchant of record.
- Revenue increased to \$2.6 billion in 2013, as compared to \$2.3 billion in 2012. In 2013, 59.1%, 28.9% and 12.0% of our revenue was generated in North America, EMEA and Rest of World, respectively, as compared to 49.9%, 34.5% and 15.6% in 2012.
- Income from operations decreased to \$75.8 million in 2013 from \$98.7 million in 2012. Lower margins on our deals in 2013 contributed to this decrease, as we have been willing to accept lower margins to improve the quality and increase the number of deals offered to customers and to expand our online marketplaces.
- The number of active customers, which is defined as customers who have made a purchase on our platform within the last twelve months, increased to 44.9 million as of December 31, 2013 from 41.0 million as of December 31, 2012.
- As of December 31, 2013, we have featured more than 650,000 merchants since our inception.

We are a Delaware corporation, incorporated on January 15, 2008 under the name "ThePoint.com, Inc." We started Groupon in October 2008 and officially changed our name to Groupon, Inc. by filing an amended certificate of incorporation on June 16, 2009. Our principal executive offices are located at 600 West Chicago Avenue, Suite 400, Chicago, Illinois 60654, and our telephone number at this address is (312) 334-1579. Our website is [www.groupon.com](http://www.groupon.com). Information contained on our website is not a part of this Annual Report on Form 10-K. We completed our initial public offering in November 2011, and our Class A common stock is listed on the Nasdaq Global Select Market under the symbol "GRPN."

GROUPON, the GROUPON logo and other GROUPON-formative marks are trademarks of Groupon, Inc. in the United States or other countries. This Annual Report on Form 10-K also includes other trademarks of Groupon and trademarks of other persons.

### Our Strategy

Our primary objective is to become an essential part of everyday local commerce for consumers and merchants. Key elements of our strategy include the following:

*Become the starting point for mobile commerce.* We believe that Groupon is well positioned to be a leader in the world of mobile commerce. During 2013, we continued to invest in our mobile technology in order to attempt to capitalize on the growing trend of consumers making purchases through smartphones and tablets. In December 2013, nearly 50% of our global transactions were completed on mobile devices, and nearly 70 million people have now downloaded our mobile applications worldwide. We intend to continue making investments in mobile technology and marketing to help grow our mobile transaction volume and help increase customer awareness of their ability to access our offerings on mobile devices.

*Redefine local commerce.* Groupon seeks to bring the power of the Internet to local commerce, serving as an important source of subscriber acquisition for local merchants. To accomplish this, we are focused on growing our base of active customers by offering a variety of quality deals and focusing on customer satisfaction. We believe that one of the primary causes of customer dissatisfaction is when the promotional value of a voucher expires before the customer has been able to redeem it. Our efforts to reduce expirations include building our online commerce marketplaces, where merchants generally have a continuous presence for an extended period of time, and customers can wait until they are ready to use a voucher before making a purchase, rather than making a purchase decision in response to a limited-time offer when they may not intend to use the voucher in the near term. We are also in the process of developing functionality to improve the redemption process for customers.

*Grow our local commerce marketplaces.* We are in the process of transforming our business from a "push" model that primarily generates demand by emailing offers to customers to more of a demand fulfillment, or "pull," model that enables customers to search for goods and services through online local marketplaces that they can access through our websites and mobile applications. By continuing to develop and expand these marketplaces, we are seeking to provide customers in each of our markets with a single place where they can go to search for and discover great deals on offerings from local merchants, merchandise and travel. We have increased our active deal counts from approximately 1,000 deals available worldwide at the time of our initial public offering in the fourth quarter of 2011 to more than 140,000 deals available worldwide as of the end of the fourth quarter of 2013.

*Enhance the email experience.* While an increasing percentage of transactions on our platform are occurring on mobile devices and our websites, email generates a significant proportion of our transaction volume, and we expect that it will continue to do so in the future. We continue to refine our use of targeting technology that enables us to distribute deals to current and potential customers based on their location and personal preferences. Our targeting technology is also used to inform our search engine marketing and other transactional marketing spending that may attract potential customers who have not yet subscribed to our emails, downloaded our mobile applications or purchased a Groupon. In addition to email, we also use this targeting technology for push notifications on mobile devices.

*Continue to build out our categories.* Although Groupon began by offering only daily deals from local merchants, our platform has evolved over time into three primary categories: Local, Goods and Travel. Within those primary deal categories are a variety of subcategories, such as food and drink, events and activities, beauty and spa, home improvement, electronics and apparel. We intend to continue to build out our categories and subcategories by actively pursuing opportunities that would enable us to expand our deal offerings. See the "Categories" section below for additional information.

*Globalize our platforms and processes.* Because our international expansion was accomplished primarily through acquisitions, we inherited different technology platforms and business processes. We have launched a company-wide program that is aimed at streamlining our technology platforms and processes. We are also continuing to roll out a number of internal tools aimed at increasing our efficiency, including, for example, internal tools used by our salespeople to support their efforts in obtaining quality deal offerings for our marketplaces. In addition, we are increasingly automating our support functions in order to improve the overall efficiency of our business operations.

## **Our Business**

Groupon operates online local commerce marketplaces throughout the world that connect merchants to consumers by offering goods and services at a discount. Traditionally, local merchants have tried to reach consumers and generate sales through a variety of methods, including online advertising, paid telephone directories, direct mail, newspaper, radio, television and other promotions. By bringing the brick and mortar world of local commerce onto the Internet, Groupon is helping local merchants to attract customers and sell goods and services. We provide consumers with savings and help them discover what to do, eat, see, buy and where to travel.

We earn revenue from deals where we act as a third party marketing agent by selling vouchers that can be redeemed for goods or services with a merchant. Our third party revenue from those transactions is the purchase price paid by the customer for the voucher less an agreed upon portion of the purchase price paid to the featured merchants, excluding applicable taxes and net of estimated refunds for which the merchant's share is recoverable. We also earn revenue by selling merchandise directly to

customers in transactions for which we are the merchant of record. Our direct revenue from those transactions is the purchase price paid by the customer, excluding applicable taxes and net of estimated refunds.

Our business model continues to evolve from primarily an email-based "push" model with a limited number of deals offered at any given time to also include more extensive online "pull" marketplaces, particularly in North America, where customers can come to Groupon and search for deals on goods and services. These marketplaces are accessible through our websites and mobile applications, including through localized groupon.com sites in many countries.

On January 2, 2014, we acquired LivingSocial Korea, Inc. ("LS Korea"), a Korean corporation and holding company of Ticket Monster Inc. ("Ticket Monster"), for total consideration of \$100.0 million cash and 13,825,283 shares of Class A common stock with an acquisition date fair value of \$162.9 million. Ticket Monster, which has approximately 1,000 employees, is an e-commerce company based in the Republic of Korea that connects merchants to consumers by offering goods and services at a discount. The operations of Ticket Monster will be reported within our Rest of World segment beginning in 2014. For the nine months ended September 30, 2013, LS Korea, excluding a Malaysian subsidiary that we did not acquire, had gross billings of \$572.7 million, revenue of \$78.5 million and an operating loss of \$38.7 million.

On January 13, 2014, we acquired Ideeli, Inc. ("Ideeli"), a fashion flash site based in the United States. Ideeli is focused on women's fashion apparel, accessories and home décor, and the operations of Ideeli will be reported within our North America segment beginning in 2014.

## Categories

*Local Deals.* Our Local category includes deals with local merchants, deals with national merchants and local events. We offer deals for local merchants across multiple subcategories, including food and drink, events and activities, beauty and spa, health and fitness, home and garden and automotive. In the United States, customers can book reservations at selected restaurants through our website and mobile applications. National merchants also have used our marketplaces as an alternative to traditional marketing and brand advertising. Although our business today is weighted toward deals from local merchants, we are increasingly using national deals to build our brand awareness, acquire new customers and generate additional revenue. In 2013, we featured deals from a number of well-known national merchants across our North American markets, including Starbucks, Gap, Target, Saks and Sam's Club. In addition to national deals, Freebies, our coupon offering that was launched in 2013, gives customers the ability to access coupons from thousands of retailers. GrouponLive is a partnership with LiveNation whereby Groupon serves as a local resource for LiveNation events and clients of its global ticketing business, Ticketmaster.

*Groupon Goods.* Our Goods category offers customers the ability to find deals on merchandise across multiple product lines, including electronics, sporting goods, jewelry, toys, home and apparel. As the Goods category continues to grow, we expect that we will continue to add new brands to our platform in order to expand our offerings.

In our Goods category, we earn direct revenue from transactions in which we sell products directly to customers and serve as the merchant of record, as well as third party revenue from transactions in which we act as a third party marketing agent and sell vouchers that can be redeemed for products with a merchant. Our Goods transactions in North America are primarily direct revenue deals and, beginning in September 2013, a significant portion of our Goods transactions in EMEA were direct revenue deals as well. Goods transactions in EMEA prior to September 2013 and in our Rest of World segment have primarily been third party revenue deals.

In order to attempt to reduce costs and improve the customer experience, we are focused on streamlining our order fulfillment process for Goods. For example, we entered into a lease for a fulfillment center in August 2013 and began processing inventory through that facility on a limited basis during the fourth quarter. While we intend to open additional fulfillment centers in future periods, a majority of our fulfillment operations continue to be outsourced through third party logistics providers at the present time.

*Groupon Getaways.* Through our Getaways category, we feature travel offers, including hotels, airfare and package deals covering both domestic and international travel. For many of our travel deals, the customer must contact the merchant directly to make their travel reservation after purchasing the travel voucher from us. However, for some of our hotel deals, we take room reservations directly through our websites. During 2013, we began featuring market-rate hotel offers within some of our local commerce marketplaces that customers can reserve at regular room rates if they are unable to find a discounted hotel offer that meets their travel needs.

*Other.* We also offer tools that merchants can use to operate their businesses more efficiently, which we refer to as our "merchant operating system." These tools include Payments, our credit card payment processing service, and Breadcrumb, our point-of-sale solution.

## Distribution

We distribute our deals to customers primarily through three channels: our mobile platform, our websites and email. Our mobile platform consists of apps and mobile websites, which we currently offer on iPhones, iPads, Android, Blackberry and Windows devices. Our emails deliver deals to our subscribers based on their location and personal preferences.

*Mobile Applications.* Consumers are increasingly accessing our deals through our mobile applications, as well as through mobile browsers. These applications enable consumers to browse, purchase, manage and redeem deals on their mobile devices. In addition, in our North American markets, consumers have a "Nearby" tab, which shows the deals that are closest to the consumer's location. In December 2013, nearly 50% of our global transactions were completed on mobile devices, and nearly 70 million people have now downloaded our mobile applications worldwide.

*Websites.* In 2013, we redesigned our North American website and enhanced its search capabilities as part of our efforts to improve the overall customer experience. We also introduced a new home page in North America that presents personalized offerings each day, based on the user's preferences and the deals that we have available. In 2014, we plan to roll out these website enhancements to many of our international markets.

*Email.* In North America and most of our international markets, we use targeting technology to distribute deals to current and potential customers based on their locations and personal preferences. A subscriber who clicks on a deal within an email is directed to our website or mobile application to learn more about the deal and make a purchase.

*Other.* We have established an affiliate program that utilizes third parties to promote our deals online. Affiliates earn commissions when customers access our deals through links on their websites and make purchases. We expect to continue to leverage affiliate relationships to extend the distribution of our deals to a broad base of potential customers. We also publish our deals through various social networks, and our notifications are adapted to the particular format of each of these social networking platforms. Our website and mobile application interfaces enable our consumers to push notifications of our deals to their personal social networks.

## Marketing

Marketing is the primary method by which we acquire customers. While our marketing spend has decreased, both in absolute dollars and as a percentage of revenue, during the year ended December 31, 2013, as compared to the prior year, marketing remains an important element of our business operations. Online marketing consists of search engine marketing, display advertisements, referral programs and affiliate marketing. Our offline marketing programs have included traditional television, billboard and radio advertisements, public relations and sponsored events to increase our visibility and build our brand. Our marketing activities also include elements that are not presented as "Marketing" on our consolidated statements of operations, such as order discounts, free shipping on merchandise sales and accepting lower margins on our deals.

## Sales and Operations

Our sales force includes over 4,800 merchant sales representatives and sales support staff, who build merchant relationships and provide local expertise. Our North American merchant sales representatives and support staff are primarily based in our offices in Chicago, and our international merchant sales representatives and support staff work from our international offices. Our quarterly global sales and sales support headcount from March 31, 2012 through December 31, 2013 was as follows:

	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	Mar. 31, 2013	Dec. 31, 2012	Sept. 30, 2012	June 30, 2012	Mar. 31, 2012
North America.....	1,421	1,357	1,209	1,287	1,151	1,230	1,139	1,194
EMEA.....	1,777	1,760	1,807	1,740	1,983	2,178	2,538	2,704
Rest of World.....	1,636	1,684	1,663	1,539	1,543	1,679	1,910	1,837
Total.....	4,834	4,801	4,679	4,566	4,677	5,087	5,587	5,735



The number of sales representatives is higher as a percentage of revenue in our EMEA and Rest of World segments due to the need to have separate sales organizations for most of the different countries in which we operate. Due to local economic conditions, however, the average cost of each sales representative is lower in most countries in our EMEA and Rest of World segments as compared to the costs in our North America segment.

Other key operational functions include city planners, editorial, merchant services, customer service, technology and logistics. City planners work with sales teams to optimize deal structure and pricing and manage the category, discount and geographic mix, as well as the cadence of deals in their respective markets. Our editorial department is responsible for creating the written and visual content on the deals we offer. Merchant services representatives work with merchants to plan for increased customer traffic before a deal is offered and serve as an ongoing point of contact for the merchant over the term of a deal. Our customer service department is responsible for answering questions received via phone, email and on public discussion boards regarding purchases, shipping status, returns and other areas of customer inquiry. Our technology team is focused on the design and development of new features and products, maintenance of our websites and development and maintenance of our internal operations systems. Logistics personnel are responsible for managing the flow of merchandise inventory from suppliers to our customers.

Our websites are hosted at a U.S. data center in Santa Clara, California and international data centers in Asia and Europe. Our data centers host our public-facing websites and applications, as well as our back-end business intelligence systems. We employ industry standard security practices to protect and maintain the systems located at our data centers. We have invested in intrusion and anomaly detection tools to try to recognize intrusions to our websites. We engage independent third-party Internet security firms to regularly test the security of our websites and identify vulnerabilities. In financial transactions between our websites and our customers, we use industry standard (SSL) Secure Socket Layer to provide encryption in transferring data.

## **Competition**

Since our inception, a substantial number of competitors have emerged around the world attempting to replicate our business model, from very small startups to some of the largest companies in the world. Some of our competitors offer deals as an add-on to their core business, and others have adopted a business model similar to ours. As we expand our business into additional categories and subcategories, we compete with online and offline merchants offering similar products and services. We also compete with businesses that focus on our payment processing and point-of-sale merchant offerings. In addition, we compete with traditional offline coupon and discount services, as well as newspapers, magazines and other traditional media companies that provide coupons and discounts on products and services. We believe the principal competitive factors in our market include the following:

- size of active customer base and breadth merchant relationships;
- mobile penetration;
- understanding of local business trends;
- ability to structure deals to generate positive return on investment for merchants; and
- strength and recognition of brand.

Although we believe that we compete favorably on the factors described above, we anticipate that larger, more established companies may directly compete with us over time. Many of our current and potential competitors have longer operating histories, significantly greater financial, technical, 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 acquisition costs or to respond more quickly than we can to new or emerging technologies and changes in customer requirements. 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 a larger subscriber base or to monetize that subscriber base more effectively than we do. Our competitors may develop products or services that are similar to our products and services or that achieve greater market acceptance than our products and services.

## **Seasonality**

We believe that some of our offerings experience seasonal buying patterns mirroring that of the larger consumer and e-commerce markets, where demand declines during customary summer vacation periods and increases during the fourth quarter holiday season. We believe that this seasonality pattern has affected, and we expect will continue to affect, our business and

quarterly sequential revenue growth rates. We recognized 29.9%, 27.3%, and 30.6% of our annual revenue during the fourth quarter of 2013, 2012 and 2011, respectively.

## **Regulation**

We are subject to a number of foreign and domestic laws and regulations that affect companies conducting business on the Internet. As a company in a new and rapidly innovating industry, we are exposed to the risk that many of these laws may evolve or be interpreted by regulators or in the courts in ways that could materially affect our business. These laws and regulations may involve taxation, unclaimed property, intellectual property, product liability, travel, distribution, electronic contracts and other communications, competition, consumer protection, the provision of various online payment and point of sale services, employee, merchant and customer privacy and data security or other areas.

The Credit Card Accountability Responsibility and Disclosure Act of 2009 (the "CARD Act"), as well as the laws of most states, contain provisions governing gift cards, gift certificates, stored value or pre-paid cards or coupons ("gift cards"). Groupon vouchers may be included within the definition of "gift cards" under many laws. In addition, certain foreign jurisdictions have laws that govern disclosure and certain product terms and conditions, including restrictions on expiration dates and fees that may apply to Groupon vouchers as well as warranty requirements. There are also a number of legislative proposals pending before the U.S. Congress, various state legislative bodies and foreign governments that could affect us, and our global operations may be constrained by regulatory regimes and laws in Europe and other jurisdictions outside the United States that may be more restrictive and adversely impact our business.

Various U.S. laws and regulations, such as the Bank Secrecy Act, the Dodd-Frank Act, the USA PATRIOT Act and the CARD Act impose certain anti-money laundering requirements on companies that are financial institutions or that provide financial products and services. These laws and regulations broadly define financial institutions to include money services businesses such as money transmitters, check cashers and sellers or issuers of stored value. Requirements imposed on financial institutions under these laws include customer 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.

## **Intellectual Property**

We protect our intellectual property rights by relying on federal, state and common law rights, as well as contractual restrictions. We control access to our proprietary technology by entering into confidentiality and invention assignment agreements with our employees and contractors, and confidentiality agreements with third parties.

In addition to these contractual arrangements, we also rely on a combination of trade secrets, copyrights, trademarks, service marks, trade dress, domain names and patents to protect our intellectual property. As of December 31, 2013, Groupon and its related entities owned a number of trademarks and servicemarks registered or pending in the United States and internationally. In addition, as of December 31, 2013, we owned a number of issued U.S. patents, had additional pending patent applications, and owned copyright registrations.

Circumstances outside our control could pose a threat to our intellectual property rights. For example, effective intellectual property protection may not be available in the United States or other countries in which we operate. Also, the efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. Also, protecting our intellectual property rights is costly and time-consuming. Any unauthorized disclosure or use of our intellectual property could make it more expensive to do business and harm our operating results.

Companies in the Internet, social media technology and other industries may own large numbers of patents, copyrights and trademarks or other intellectual property rights and may request license agreements, threaten litigation or file suit against us based on allegations of infringement or other violations of intellectual property rights. We are currently subject to, and expect to face in the future, lawsuits and allegations that we have infringed the intellectual property rights of third parties, including our competitors and non-practicing entities. As we face increasing competition and as our business grows, we will likely face more claims of infringement, and may experience an adverse result which could impact our business and/or our operating results.

## **Employees**

As of December 31, 2013, there were 3,362 employees in our North America segment, consisting of 1,421 sales representatives and 1,941 corporate, operational and customer service representatives, 3,695 employees in our EMEA segment, consisting of 1,777 sales representatives and 1,918 corporate, operational and customer service representatives, and 4,226

employees in our Rest of World segment, consisting of 1,636 sales representatives and 2,590 corporate, operational and customer service representatives. On January 2, 2014, we acquired Ticket Monster, with approximately 1,000 employees who will be included within our Rest of World segment beginning in 2014.

## Officers

The following table sets forth information about our executive officers as of December 31, 2013:

Name	Age	Position
Eric Lefkofsky.....	44	Co-Founder, Chief Executive Officer and Director
Jason Child.....	45	Chief Financial Officer
Jeffrey Holden.....	45	Senior Vice President-Product Management
Kal Raman.....	45	Chief Operating Officer
David Schellhase.....	50	General Counsel
Brian Stevens .....	39	Chief Accounting Officer

*Eric Lefkofsky* is a co-founder of the Company, has served as the Company's Executive Chairman since its inception until August 5, 2013, and served in the Office of the Chief Executive from February 28, 2013 until his appointment to Chief Executive Officer on August 5, 2013. Mr. Lefkofsky is a co-founder of Echo Global Logistics, Inc. (NASDAQ: ECHO) and served on its board of directors from February 2005 to December 2012. Mr. Lefkofsky is the co-founder of InnerWorkings, Inc. (NASDAQ: INWK) and served on its board of directors from August 2008 to October 2012. In 2008, Mr. Lefkofsky co-founded Lightbank LLC, a private investment firm specializing in information technology companies, and has served as a manager since that time. In April 2006, Mr. Lefkofsky co-founded MediaBank, LLC (now Media Ocean), an electronic exchange and database that automates the procurement and administration of advertising media, and has served as a director or manager since that time. Mr. Lefkofsky also serves on the board of directors of Children's Memorial Hospital, the board of trustees of the Steppenwolf Theatre, the board of trustees of the Art Institute of Chicago and the board of trustees of the Museum of Science and Industry. Mr. Lefkofsky also serves on the board of directors of World Business Chicago. Mr. Lefkofsky is an Adjunct Professor at the University of Chicago Booth School of Business. Mr. Lefkofsky holds a bachelor's degree from the University of Michigan and a Juris Doctor degree from the University of Michigan Law School.

*Jason Child* has served as our Chief Financial Officer since December 2010. From March 1999 through December 2010, Mr. Child held several positions with Amazon.com, Inc. (NASDAQ: AMZN), including Vice President of Finance, International from April 2007 to December 2010, Vice President of Finance, Asia from July 2006 to July 2007, Director of Finance, Amazon Germany from April 2004 to July 2006, Director of Investor Relations from April 2003 to April 2004, Director of Finance, Worldwide Application Software from November 2001 to April 2003, Director of Finance, Marketing and Business Development from November 2000 to November 2001 and Global Controller from October 1999 to November 2000. Prior to joining Amazon.com, Mr. Child spent more than seven years as a C.P.A. and a consulting manager at Arthur Andersen. Mr. Child received his Bachelor of Arts from the Foster School of Business at the University of Washington.

*Jeffrey Holden* has served as our Senior Vice President-Product Management since April 2011 and has resigned from that position effective March 18, 2014. In 2006, Mr. Holden co-founded Pelago, Inc. and served as its Chief Executive Officer until Groupon acquired Pelago in April 2011. Prior to co-founding Pelago, Mr. Holden held several positions at Amazon.com, Inc. (NASDAQ: AMZN), including Senior Vice President, Worldwide Discovery, from March 2005 to January 2006, Senior Vice President, Consumer Applications, from April 2004 to March 2005, Vice President, Consumer Applications, from April 2002 to April 2004, and Director, Automated Merchandising and Discovery from February 2000 to April 2002. Mr. Holden joined Amazon.com in May 1997 as Director, Supply Chain Optimization Systems. Mr. Holden received his Bachelor of Science and Master of Science degrees in Computer Science from the University of Illinois at Urbana-Champaign.

*Kal Raman* (also known as Kalyanaraman Srinivasan) joined the Company in May 2012 as its Senior Vice President, Americas, in August 2012 was promoted to Senior Vice President, Global Operations, and then subsequently had his title changed to Chief Operating Officer. Mr. Raman previously worked for eBay Inc., first as a consultant from December 2011 to March 2012 and then as Vice President, Global Fulfillment during April 2012. Prior to that, Mr. Raman was the Chief Executive Officer of KUE Digital, a company that was wholly owned by Knowledge Universe Education LLC, from October 2006 to February 2007, and then KUE Digital was subsequently renamed and incorporated as Global Scholar, an enterprise education software company, in February 2007 and Mr. Raman served as the Chief Executive Officer of Global Scholar from its inception until September 2011.

Mr. Raman then served as a consultant to Global Scholar from September 2011 until February 2012. Mr. Raman has also served as Chief Executive Officer of Drugstore.com and as an executive at Amazon.com, Inc. earlier in his career.

*David Schellhase* has served as our General Counsel since June 2011. From March 2010 to May 2011, Mr. Schellhase served as Executive Vice President, Legal of salesforce.com, inc. (NYSE: CRM). From December 2004 to March 2010, Mr. Schellhase served as the Senior Vice President and General Counsel of salesforce.com, and he served as Vice President and General Counsel of salesforce.com from July 2002 to December 2004. From December 2000 to June 2002, Mr. Schellhase was an independent legal consultant and authored a treatise entitled Corporate Law Department Handbook. Previously, he served as General Counsel at Linuxcare, Inc., The Vantive Corporation and Premenos Technology Corp. Mr. Schellhase received a Bachelor of Arts from Columbia University and a Juris Doctor from Cornell University.

*Brian Stevens* has served as our Chief Accounting Officer since September 2012. Mr. Stevens spent 16 years with KPMG LLP, most recently as an audit partner from October 2007 through August 2012. Mr. Stevens spent five years in KPMG's Department of Professional Practice (April 2003 to June 2006 and July 2008 to June 2010) and was a practice fellow at the Financial Accounting Standards Board from July 2006 through June 2008. Mr. Stevens is a member of the American Institute of Certified Public Accountants and serves on its Financial Reporting Executive Committee (FinREC). Mr. Stevens received his Bachelor of Science from the University of Illinois at Urbana-Champaign.

## **Available Information**

The Company electronically files reports with the SEC. The public may read and copy any materials the Company has filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site ([www.sec.gov](http://www.sec.gov)) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. Copies of the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are also available free of charge through the Company's website ([www.groupon.com](http://www.groupon.com)), as soon as reasonably practicable after electronically filing with or otherwise furnishing such information to the SEC, and are available in print to any stockholder who requests it. The Company's Code of Conduct, Corporate Governance Guidelines and committee charters are also posted on the site.

## **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. In assessing the risks described below, you should also refer to the other information contained in this Annual Report on Form 10-K, including Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and the consolidated financial statements and the related notes in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K.*

### **Risks Related to Our Business**

#### ***Our revenue and operating results may continue to be volatile.***

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

- acquire new customers and retain existing customers;
- attract new merchants and retain existing merchants who wish to offer deals through the sale of Groupons;
- effectively address and respond to challenges in international markets;
- expand the number, variety and relevance of products and deals we offer, particularly as we attempt to build a more complete local marketplace;
- increase the awareness of our brand domestically and internationally;

- successfully achieve the anticipated benefits of business combinations or acquisitions, including our acquisitions of Ticket Monster and Ideeli;
- provide a superior customer service experience for our customers and merchants;
- respond to changes in consumer and merchant access to and use of the Internet and mobile devices;
- react to challenges from existing and new competitors; and
- respond to seasonal changes in supply and demand.

In addition, our margins and profitability may depend on our product sales mix, our geographic revenue mix and merchant pricing terms. For example, sales in our Goods category, which typically carry lower margins than sales in our Local category, have grown faster in some recent periods, which has resulted in lower margins and profitability during those periods. Accordingly, our profitability may vary significantly from quarter to quarter.

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

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

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

Our business grew rapidly in prior periods as merchants and consumers have increasingly used our marketplace. However, this is a new market which we created in late 2008 and which has operated at a substantial scale for only a limited period of time. Given the limited history, we are constantly evolving our strategy and may not always be successful in doing so. For example, we experienced a decline in revenue from our EMEA and Rest of World segments during the year ended December 31, 2013, as compared to the year ended December 31, 2012. We expect that the market will evolve in ways which may be difficult to predict. For example, we believe that in some of our markets, including North America, investments in new subscriber acquisition are less productive and the continued growth of our revenue will require more focus on increasing or maintaining the rate at which our existing customers purchase Groupons and our ability to expand the number and variety of deals that we offer. It is also possible that merchants or customers could broadly determine that they no longer believe in the value of our current services or marketplace. In the event of these or any other changes to the market, our continued success will depend on our ability to successfully adjust our strategy to meet the changing market dynamics. If we are unable to successfully adapt to changes in our markets, our business, financial condition and results of operations could suffer a material negative impact.

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

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

- our ability to maintain merchant and customer satisfaction such that our marketplace will continue to attract high quality merchants;
- our ability to successfully respond to macroeconomic challenges, including by optimizing our deal mix to take into account consumer preferences at a particular point in time;
- strong local competitors, many of whom have been in the market longer than us;
- different regulatory requirements, including regulation of gift cards and coupon terms, Internet services, professional

selling, distance selling, bulk emailing, privacy and data protection, banking and money transmitting, that may limit or prevent the offering of our services in some jurisdictions, cause unanticipated compliance expenses or limit our ability to enforce contractual obligations;

- difficulties in integrating with local payment providers, including banks, credit and debit card networks and electronic funds transfer systems;
- different employee/employer relationships and the existence of workers' councils and labor unions;
- shorter payment cycles, different accounting practices and greater problems in collecting accounts receivable;
- higher Internet service provider costs;
- seasonal reductions in business activity;
- expenses associated with localizing our products, including offering customers the ability to transact business in the local currency; and
- differing intellectual property laws.

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

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

***Our financial results will be adversely affected if we are unable to execute on our marketing strategy.***

We historically focused our marketing spend on subscriber acquisition, but have shifted our focus to customer activation and mobile application downloads. While our marketing expense declined during the year ended December 31, 2013, as compared to the year ended December 31, 2012, we expect to increase our marketing spend in future periods as we attempt to continue to grow our active customer base and increase mobile application downloads. If our assumptions regarding our marketing efforts and strategies prove incorrect, our ability to generate profits from our investments may be less than we have assumed. In such case, we may need to increase expenses or otherwise alter our strategy and our results of operations could be negatively impacted.

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

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

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

We depend on our ability to attract and retain merchants that are prepared to offer products or services on compelling terms through our marketplace and provide our customers with a good experience. We do not have long-term arrangements to guarantee the availability of deals that offer attractive quality, value and variety to customers or favorable payment terms to us. In addition, if we are unsuccessful in our efforts to introduce services to merchants as part of our local commerce operating system, we will not experience a corresponding growth in our merchant pool sufficient to offset the cost of these initiatives. We must continue to attract and retain merchants in order to increase revenue and profitability. If new merchants do not find our marketing

and promotional services effective, or if existing merchants do not believe that utilizing our services provides them with a long-term increase in customers, revenue or profits, they may stop making offers through our marketplace. In addition, we may experience attrition in our merchants in the ordinary course of business resulting from several factors, including losses to competitors and merchant closures or bankruptcies. If we are unable to attract new merchants in numbers sufficient to grow our business, or if too many merchants are unwilling to offer products or services with compelling terms through our marketplace or offer favorable payment terms to us, our operating results will be adversely affected.

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

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

In operating a global online business, we and our third party service providers maintain significant proprietary information and manage large amounts of personal data and confidential information about our employees, customers and merchants. Because of our high profile and the number of customer records we maintain, we and the third party providers are at an increased risk of attacks on our systems.

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

As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. Further, because the techniques used to gain access to, or sabotage, systems often are not recognized until launched against a target, we may be unable to anticipate the correct methods necessary to defend against these types of attacks. Any actual breach, the perceived threat of a breach or a perceived breach, could cause our customers and merchants to cease doing business with us, subject us to lawsuits, regulatory fines or other action or liability, which would harm our business, financial condition and results of operations.

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

We had an accumulated deficit of \$848.9 million as of December 31, 2013. We anticipate that our financial results will be impacted as we continue to invest in our growth, through increased spending in some areas and through accepting a lower percentage of the proceeds from our deals, as we attempt to add more merchants to our marketplace. These efforts may prove more difficult than we currently anticipate, and we may not succeed in realizing the benefits of these efforts in a short time frame, or at all. Many of our efforts to generate revenue from our business are new and unproven, and any failure to increase our revenue, as well as any changes in our mix of sales between our higher and lower margin categories, could prevent us from attaining or increasing, or could reduce, our profitability. We cannot be certain that we will be able to attain or increase profitability on a quarterly or annual basis. If we are unable to effectively manage these risks and difficulties as we encounter them, our business, financial condition and results of operations may suffer.

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

We expect competition in e-commerce generally, and group buying in particular, to continue to increase. A substantial number of group buying sites that attempt to replicate our business model have emerged around the world. In addition to such competitors, we expect to increasingly compete against other large businesses who offer deals similar to ours as an add-on to their core business. We also expect to compete against other Internet sites that serve niche markets and interests. In some of our categories, such as goods, travel and entertainment, we compete against much larger companies who have more resources and significantly

larger scale. In addition, we compete with traditional offline coupon and discount services, as well as newspapers, magazines and other traditional media companies who provide coupons and discounts on products and services.

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

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

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

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

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

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



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

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

Our accrued merchant and supplier payable balance increased from \$671.3 million as of December 31, 2012 to \$752.9 million as of December 31, 2013, due primarily to our seasonally strong Goods business in the fourth quarter of 2013. Our operating cash flows have been adversely impacted by lower growth or declines in our Local category in recent periods. We have used the operating cash flow provided by our merchant payment terms and revenue growth to fund our working capital needs. If we offer our merchants more favorable or accelerated payment terms or our revenue does not grow in the future, our operating cash flow and results of operations could be adversely impacted and we may have to seek alternative financing to fund our working capital needs.

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

In December 2013, nearly 50% of our global transactions were completed on mobile devices and nearly 70 million people have now downloaded our mobile applications worldwide. In order to continue to grow our mobile transactions, it is critical that our applications work well with a range of mobile technologies, systems, networks and standards. Our business may be adversely affected if our customers choose not to access our offerings on their mobile devices or use mobile devices that do not offer access to our mobile applications.

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

Customers access our deals through our websites and mobile applications, as well as via emails that are often targeted by location, purchase history and personal preferences. Our reputation and ability to acquire, retain and serve our current customers and potential customers are dependent upon the reliable performance of our websites, mobile applications, email delivery and transaction processing systems and the underlying network infrastructure. As our customer base and the amount of information shared on our websites and applications continue to grow, we will need an increasing amount of network capacity and computing power. We have spent and expect to continue to spend substantial amounts on data centers and equipment and related network infrastructure to handle the traffic on our websites and applications. The operation of these systems is expensive and complex and could result in operational failures. In the event that our subscriber base or the amount of traffic and transactions on our websites and applications grows more quickly than anticipated, we may be required to incur significant additional costs. Interruptions in these systems, whether due to system failures, computer viruses, physical or electronic break-ins or otherwise (including spam filters preventing emails from reaching current and potential customers), could affect the security or availability of our websites and applications, and prevent our customers from accessing our services. If we do not maintain or expand our network infrastructure successfully or if we experience operational failures, we could lose current and potential customers and merchants, which could harm our operating results and financial condition.

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

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

If email providers implement new or more restrictive email delivery policies it may become more difficult to deliver emails to customers. For example, certain email providers, including Google, have started to categorize our emails as "promotional," and these emails are directed to an alternate, and less readily accessible, section of a customer's inbox. If email providers materially limit or halt the delivery of our emails, or if we fail to deliver emails to customers in a manner compatible with email providers'

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

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

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

We purchase much of the merchandise that we offer for sale to our customers, and we expect to increase the percentage of merchandise that we offer directly for sale as compared to merchandise that our customers purchase directly from third parties. The demand for products can change for a variety of reasons, including customer preference, quality, seasonality, and the perceived value from customers of purchasing the product through us. In addition, this is a relatively 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 a timely, efficient and cost-effective basis. Many other online retailers have significantly larger inventory balances and therefore are able to rely on past experience and economies of scale to optimize their order fulfillment. Because we rely primarily on third party logistics providers for order fulfillment and delivery, many parts of our supply chain are outside our control. Delays or inefficiencies in our processes, or those of our third party logistics providers, could subject us to additional costs, as well as customer dissatisfaction, which would adversely affect our business. Additionally, we assume the risks of inventory damage, theft and obsolescence, as well as risks of price erosion for these products. These risks are especially significant because some of the merchandise we sell is characterized by seasonal trends, fashion trends, obsolescence and price erosion and because we sometimes make large purchases of particular types of inventory. Our success will depend on our ability to sell our inventory rapidly, the ability of our buying staff to purchase inventory at attractive prices relative to its resale value and our ability to manage customer returns and other costs. If we are unsuccessful in any of these areas, we may be forced to sell our inventory at a discount or loss.

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

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

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

We are involved in litigation regarding, among other matters, patent, consumer, securities and employment issues. Litigation can be expensive, time-consuming and disruptive to normal business operations. The results of complex legal proceedings are often uncertain and difficult to predict. An unfavorable outcome with respect to any of these lawsuits could have a material adverse effect on our business, financial condition, results of operations or cash flows. For additional information regarding these and other lawsuits in which we are involved, see Note 8 "Commitments and Contingencies" to the consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2013.

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

Customers have the ability to receive a refund of their purchase price upon the occurrence of specified events. As we

increase our revenue and expand our product offerings, our refund rates may exceed our historical levels. For example, as a result of a shift in our deal mix and higher price point offers that began in the fourth quarter of 2011, our refund rates became higher than historical levels. A downturn in general economic conditions may also increase our refund rates. An increase in our refund rates could significantly reduce our liquidity and profitability.

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

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

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

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

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

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

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

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

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

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

***We may have exposure to greater than anticipated tax liabilities.***

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

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

The current administration has made public statements indicating that it has made international tax reform a priority, and key members of the U.S. Congress have conducted hearings and proposed a wide variety of potential changes. Certain changes to U.S. tax laws, including limitations on the ability to defer U.S. taxation on earnings outside of the United States until those earnings are repatriated to the United States, could affect the tax treatment of our foreign earnings, as well as cash and cash equivalent balances we currently maintain outside of the United States. Due to the large and expanding scale of our international business activities, any changes in the U.S. taxation of such activities may increase our worldwide effective tax rate and harm our financial position and results of operations.

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

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

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

In certain states and foreign jurisdictions, Groupons may be considered a gift card. Some of these states and foreign jurisdictions include gift cards under their unclaimed and abandoned property laws which require companies to remit to the government the value of the unredeemed balance on the gift cards after a specified period of time (generally between one and five years) and impose certain reporting and record-keeping obligations. We do not remit any amounts relating to unredeemed Groupons based on our assessment of applicable laws. The analysis of the potential application of the unclaimed and abandoned property laws to Groupons is complex, involving an analysis of constitutional and statutory provisions and factual issues, including our relationship with customers and merchants and our role as it relates to the issuance and delivery of a Groupon. In the event that

one or more states or foreign jurisdictions successfully challenges our position on the application of its unclaimed and abandoned property laws to Groupons, or if the estimates that we use in projecting the likelihood of Groupons being redeemed prove to be inaccurate, our liabilities with respect to unredeemed Groupons may be materially higher than the amounts shown in our financial statements. If we are required to materially increase the estimated liability recorded in our financial statements with respect to unredeemed gift cards, our net income could be materially and adversely affected. Moreover, a successful challenge to our position could subject us to penalties or interest on unreported and unremitted sums, and any such penalties or interest would have a further material adverse impact on our net income.

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

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

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

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

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

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

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

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

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

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

We may not be able to discover or determine the extent of any unauthorized use of our proprietary rights. Third parties that license our intellectual property rights also may take actions that diminish the value of our proprietary rights or reputation. The protection of our intellectual property may require the expenditure of significant financial and managerial resources. Moreover, the steps we take to protect our intellectual property may not adequately protect our rights or prevent third parties from infringing or misappropriating our proprietary rights. We are currently subject to multiple lawsuits and disputes related to our intellectual property and service offerings. We may in the future be subject to additional litigation and disputes. The costs of engaging in such litigation and disputes are considerable, and there can be no assurances that favorable outcomes will be obtained.

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

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

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

We receive a high degree of media coverage around the world. Unfavorable publicity or consumer perception of our websites, applications, practices or service offerings, or the offerings of our merchants, could adversely affect our reputation,

resulting in difficulties in recruiting, decreased revenue and a negative impact on the number of merchants we feature and the size of our customer base, the loyalty of our customers and the number and variety of deals we offer each day. As a result, our business, financial condition and results of operations could be materially and adversely affected.

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

We have in the past acquired a number of companies, including Ticket Monster, which we acquired on January 2, 2014 for total consideration of \$100.0 million cash and 13,825,283 shares of Class A common stock with an acquisition date fair value of \$162.9 million, and Ideeli, which we acquired on January 13, 2014 for total cash consideration of \$43.0 million. We expect to continue to evaluate, consider and potentially consummate a wide array of potential strategic transactions, including acquisitions and dispositions of businesses, joint ventures, technologies, services, products and other assets and minority investments. However, we may be unable to successfully complete potential acquisitions. Acquisitions involve significant risks and uncertainties, including uncertainties as to the future financial performance of the acquired business, difficulties integrating acquired personnel into our business, the potential loss of key employees, customers or suppliers, difficulties in integrating different computer and accounting systems and exposure to unknown or unforeseen liabilities of acquired companies. We may not realize the anticipated benefits of any or all of our acquisitions and investments, or we may not realize them in the time frame expected. In addition, the integration of an acquisition could divert management's time and the company's resources. If we pay for an acquisition or a minority investment in cash, it would reduce our cash available for operations or cause us to incur debt, and if we pay with our stock it could be dilutive to our stockholders. Additionally, we do not have the ability to exert control over our joint ventures and minority investments, and therefore we are dependent on others in order to realize their potential benefits.

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

Our business has been and may continue to be subject to sales seasonality. This seasonality may cause our working capital cash flow requirements to vary from quarter to quarter depending on the variability in the volume and timing of sales. For example, we experienced an \$88.5 million increase in operating cash flow during the year ended December 31, 2013 as the result of an increase in accrued merchant and supplier payables, primarily due to the timing of payments to suppliers of merchandise and the seasonally high levels of Goods transactions in the fourth quarter of 2013. 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 Class A common stock.

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

Groupons are issued in the form of redeemable coupons with unique identifiers. It is possible that consumers or other third parties will seek to create counterfeit Groupons in order to fraudulently purchase discounted goods and services from our merchants. While we use advanced anti-fraud technologies, it is possible that criminals will attempt to circumvent our anti-fraud systems using increasingly sophisticated methods. In addition, our service could be subject to employee fraud or other internal security breaches, and we may be required to reimburse customers and/or merchants for any funds stolen or revenue lost as a result of such breaches. Our merchants could also request reimbursement, or stop using Groupon, if they are affected by buyer fraud or other types of fraud.

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

***We are subject to payments-related risks.***

We accept payments using a variety of methods, including credit card, debit card and gift certificates. As we offer new payment options to customers, we may be subject to additional regulations, compliance requirements and fraud. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower profitability. We rely on third parties to provide payment processing services, including the processing of credit cards and debit cards and it could disrupt our business if these companies become unwilling or unable to provide these services

to us. We are also subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from customers or facilitate other types of online payments, and our business and operating results could be adversely affected.

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

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

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

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

Many states and certain foreign jurisdictions impose license and registration obligations on those companies engaged in the business of money transmission, with varying definitions of what constitutes money transmission. We do not currently believe we are a money transmitter given our role and the product terms of Groupons. However, a successful challenge to our position or expansion of state or foreign laws could subject us to increased compliance costs and delay our ability to offer Groupons in certain jurisdictions pending receipt of any necessary licenses or registrations.

***We will continue to incur significant costs as a result of being a public company.***

We face increased legal, accounting, administrative and other costs and expenses as a public company that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, including the requirements of Section 404, as well as new rules and regulations subsequently implemented by the Securities and Exchange Commission, or the SEC, the Public Company Accounting Oversight Board and the marketplace rules of the NASDAQ stock market, impose additional reporting and other obligations on public companies. Compliance with these public company requirements has increased our costs and made some activities more time-consuming. In connection with the preparation of our financial statements for the year ended December 31, 2011, our independent registered public accounting firm identified a material weakness in the design and operating effectiveness of our internal control over financial reporting, and as a result we incurred additional costs remediating this material weakness. In addition, the existence of this issue could adversely affect us, our reputation or investor perceptions of us. It also may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers. Advocacy efforts by stockholders and third-parties may also prompt changes in corporate governance and reporting requirements. The additional reporting and other obligations imposed on us by these rules and regulations has increased our legal and financial compliance costs and the costs of our related legal, accounting and administrative activities significantly. These increased costs require us to divert a significant amount of money that we could otherwise use to expand our business and achieve our strategic objectives.



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

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

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

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

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

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

We expect the stock price volatility to continue for the foreseeable future as a result of these and other factors.

#### ***Purchases of shares of our Class A common stock pursuant to our stock repurchase program may affect the value of our Class A common stock.***

Pursuant to our publicly announced share repurchase program, we are authorized to repurchase up to \$300 million of our outstanding Class A common stock through August 2015. The timing and amount of any share repurchases will be determined based on market conditions, share price and other factors. This activity could increase (or reduce the size of any decrease in) the market price of our Class A common stock at that time.

***The concentration of our capital stock ownership with our founders, executive officers, employees and directors and their affiliates will limit stockholders' ability to influence corporate matters.***

Our Class B common stock has 150 votes per share and our Class A common stock has one vote per share. As of February 18, 2014, our founders, Eric Lefkofsky, Bradley Keywell and Andrew Mason control 100% of our outstanding Class B common stock and, based on information available to us, approximately 24.3% of our outstanding Class A common stock, representing approximately 50.3% of the voting power of our outstanding capital stock. Messrs. Lefkofsky, Keywell and Mason will therefore have significant influence over management and affairs and over all matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets, for the foreseeable future. This concentrated control will limit stockholders' ability to influence corporate matters and, as a result, we may take actions that our stockholders do not view as beneficial. As a result, the market price of our Class A common stock could be adversely affected.

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

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

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

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

- Our certificate of incorporation provides for a dual class common stock structure. As a result of this structure, our founders will have significant influence over all matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets. This concentrated control could discourage others from initiating any potential merger, takeover or other change of control transaction that other stockholders may view as beneficial.
- Our board of directors has the right to elect directors to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors.
- Special meetings of our stockholders may be called only by our Executive Chairman of the Board, our Chief Executive Officer, our board of directors or holders of not less than the majority of our issued and outstanding capital stock. This limits the ability of minority stockholders to take certain actions without an annual meeting of stockholders.
- Our stockholders may not act by written consent unless the action to be effected and the taking of such action by written consent is approved in advance by our board of directors. As a result, a holder, or holders, controlling a majority of our capital stock would generally not be able to take certain actions without holding a stockholders' meeting.
- Our certificate of incorporation prohibits cumulative voting in the election of directors. This limits the ability of minority stockholders to elect director candidates.
- Stockholders must provide timely notice to nominate individuals for election to the board of directors or to propose matters that can be acted upon an annual meeting of stockholders. These provisions may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of our company.
- Our board of directors may issue, without stockholder approval, shares of undesignated preferred stock. The ability to authorize undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us.

**ITEM 1B: UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2: PROPERTIES**

As of December 31, 2013, the Company had leases for approximately 1.5 million square feet of space. Our corporate headquarters and principal executive offices in North America are located in Chicago, Illinois, and our principal international executive offices are located in Schaffhausen, Switzerland. Other properties are located throughout the world and largely represent local operating facilities. We believe that our properties are in good condition and meet the needs of our business, and that suitable additional or alternative space will be available as needed to accommodate our business operations and future growth.

<u>Description of Use</u>	<u>Segment</u>	<u>Square Feet</u>	<u>Various lease expirations through</u>
Corporate offices.....	North America	405,000	April 2019
Corporate offices.....	EMEA	440,000	September 2023
Corporate offices.....	Rest of World	335,000	June 2018
Fulfillment and data centers.....	North America	190,000	August 2018
Fulfillment and data centers.....	EMEA	16,000	February 2017
Fulfillment and data centers.....	Rest of World	70,000	June 2016

**ITEM 3: LEGAL PROCEEDINGS**

For a description of our material pending legal proceedings, please see Note 8 "*Commitments and Contingencies*" to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

**ITEM 4: MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

### ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Class A common stock has been listed on the NASDAQ Global Select Market under the symbol "GRPN" since November 4, 2011. Prior to that time, there was no public market for our Class A common stock. The following table sets forth the high and low intraday sales price for our Class A common stock as reported by the NASDAQ Global Select Market for each of the years listed.

<u>2011</u>	<u>High</u>	<u>Low</u>
Fourth Quarter (from November 4, 2011).....	\$ 31.14	\$ 14.85
<u>2012</u>	<u>High</u>	<u>Low</u>
First Quarter .....	\$ 25.84	\$ 16.25
Second Quarter .....	\$ 16.57	\$ 8.80
Third Quarter .....	\$ 10.50	\$ 4.00
Fourth Quarter .....	\$ 5.50	\$ 2.60
<u>2013</u>	<u>High</u>	<u>Low</u>
First Quarter .....	\$ 6.36	\$ 4.24
Second Quarter .....	\$ 8.69	\$ 5.37
Third Quarter .....	\$ 12.76	\$ 8.26
Fourth Quarter .....	\$ 12.31	\$ 8.40
<u>2014</u>	<u>High</u>	<u>Low</u>
First Quarter (through February 18, 2014).....	\$ 12.42	\$ 9.90

#### Holders

As of February 18, 2014, there were 152 holders of record of our Class A common stock and 3 holders of record of our Class B common stock. Each share of our Class A common stock is entitled to one vote per share. Each share of our Class B common stock is entitled to 150 votes per share and is convertible at any time into one share of Class A common stock.

#### Dividend Policy

We currently do not anticipate paying dividends on our Class A common stock or Class B common stock in the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our board of directors, subject to applicable laws and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors may deem relevant.

#### Equity Compensation Plan Information

Information about the securities authorized for issuance under our compensation plans is incorporated by reference from the Company's Proxy Statement for the 2014 Annual Meeting of Stockholders.

#### Recent Sales of Unregistered Securities

During the three months ended December 31, 2013, we issued 127,601 shares of Class A common stock to settle liability-classified stock-based compensation awards.

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

### Issuer Purchases of Equity Securities

In August 2013, our Board of Directors authorized a share repurchase program. Under the program, we are authorized to repurchase up to \$300 million of our outstanding Class A common stock through August 2015. The timing and amount of any share repurchases will be determined based on market conditions, share price and other factors, and the program may be discontinued or suspended at any time. We will fund the repurchases through cash on hand and future cash flow. Repurchases will be made in compliance with SEC rules and other legal requirements and may be made in part under a Rule 10b5-1 plan, which permits stock repurchases when the Company might otherwise be precluded from doing so.

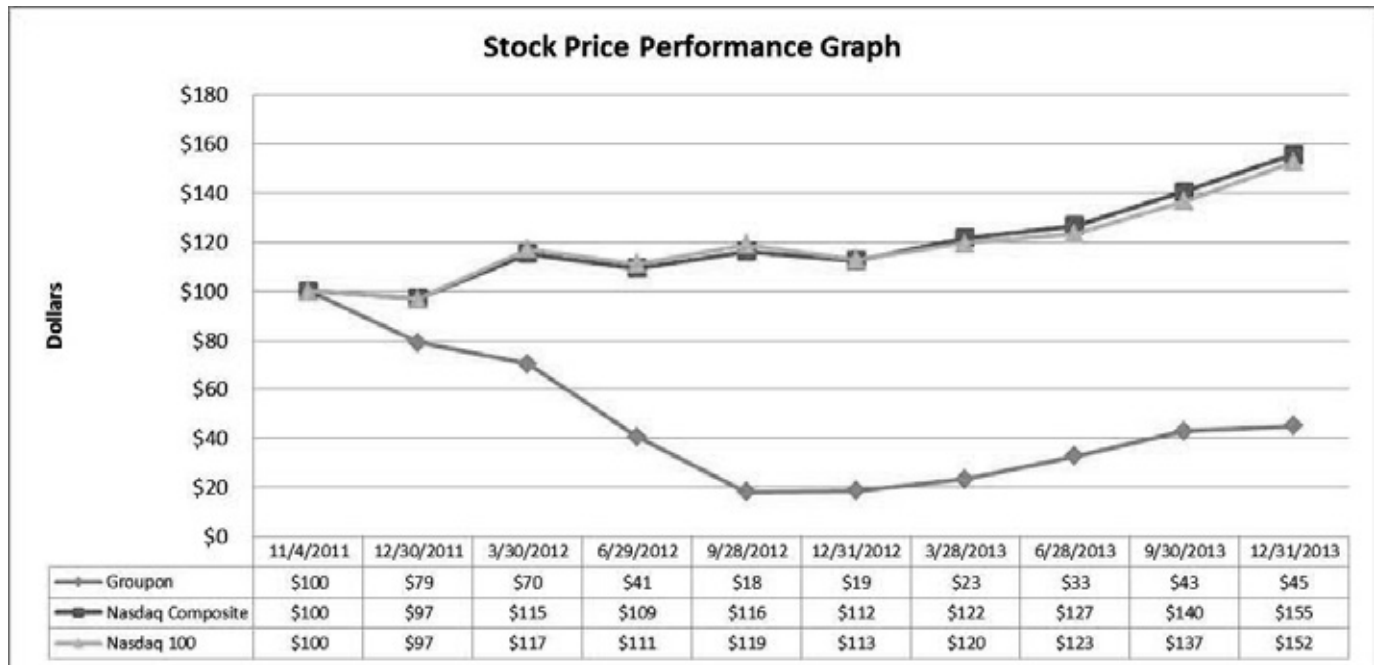
During the three months ended December 31, 2013, we purchased 3,661,900 shares of Class A common stock for an aggregate purchase price of \$37.6 million (including fees and commissions) under the share repurchase program. A summary of our Class A common stock repurchases during the three months ended December 31, 2013 under the repurchase program is set forth in the following table:

<b>Date</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Program</b>	<b>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under Program</b>
October 1-31, 2013 .....	1,293,700	\$ 10.47	1,293,700	\$ 277,000,000
November 1-30, 2013 .....	1,204,200	\$ 9.84	1,204,200	\$ 265,000,000
December 1-31, 2013.....	1,164,000	\$ 10.46	1,164,000	\$ 253,000,000
Total .....	3,661,900	\$ 10.26	3,661,900	\$ 253,000,000

## Stock Performance Graph

*This performance graph shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or incorporated by reference into any filing of Groupon, Inc. under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.*

The graph set forth below compares the cumulative total return on the common stock with the cumulative total return of the Nasdaq Composite Index and the Nasdaq 100 Index, resulting from an initial investment of \$100 in each and assuming the reinvestment of any dividends, based on closing prices. Measurement points are Groupon's initial public offering date of November 4, 2011 and the last trading day of each quarterly period throughout 2012 and 2013.



Source: Yahoo! Finance

## ITEM 6: SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and the accompanying notes thereto in Item 8 of this Annual Report on Form 10-K, and the information contained in Item 7 of this Annual Report on Form 10-K "Management's Discussion and Analysis of Financial Condition and Results of Operations." Historical results are not necessarily indicative of future results.

	Year Ended December 31,				
	2013	2012	2011	2010	2009
(in thousands, except share and per share amounts)					
<b>Consolidated Statements of Operations Data:</b>					
Revenue:					
Third party and other .....	\$ 1,654,654	\$ 1,879,729	\$ 1,589,604	\$ 312,941	\$ 14,540
Direct.....	919,001	454,743	20,826	—	—
Total revenue.....	2,573,655	2,334,472	1,610,430	312,941	14,540
Cost of revenue:					
Third party and other .....	232,062	297,739	243,789	42,896	4,716
Direct.....	840,060	421,201	15,090	—	—
Total cost of revenue.....	1,072,122	718,940	258,879	42,896	4,716
Gross profit .....	1,501,533	1,615,532	1,351,551	270,045	9,824
Operating expenses:					
Marketing.....	214,824	336,854	768,472	290,569	5,053
Selling, general and administrative.....	1,210,966	1,179,080	821,002	196,637	5,848
Acquisition-related (benefit) expense, net.....	(11)	897	(4,537)	203,183	—
Total operating expenses.....	1,425,779	1,516,831	1,584,937	690,389	10,901
<b>Income (loss) from operations.....</b>	<b>75,754</b>	<b>98,701</b>	<b>(233,386)</b>	<b>(420,344)</b>	<b>(1,077)</b>
Loss on equity method investments.....	(44)	(9,925)	(26,652)	—	—
Other (expense) income, net .....	(94,619)	6,166	5,973	284	(16)
<b>(Loss) income before provision for income taxes.....</b>	<b>(18,909)</b>	<b>94,942</b>	<b>(254,065)</b>	<b>(420,060)</b>	<b>(1,093)</b>
Provision (benefit) for income taxes.....	70,037	145,973	43,697	(6,674)	248
<b>Net loss .....</b>	<b>(88,946)</b>	<b>(51,031)</b>	<b>(297,762)</b>	<b>(413,386)</b>	<b>(1,341)</b>
Net (income) loss attributable to noncontrolling interests.....	(6,447)	(3,742)	18,335	23,746	—
<b>Net loss attributable to Groupon, Inc. ....</b>	<b>(95,393)</b>	<b>(54,773)</b>	<b>(279,427)</b>	<b>(389,640)</b>	<b>(1,341)</b>
Dividends on preferred stock.....	—	—	—	(1,362)	(5,575)
Redemption of preferred stock in excess of carrying value.....	—	—	(34,327)	(52,893)	—
Adjustment of redeemable noncontrolling interests to redemption value.....	—	(12,604)	(59,740)	(12,425)	—
<b>Net loss attributable to common stockholders .....</b>	<b>\$ (95,393)</b>	<b>\$ (67,377)</b>	<b>\$ (373,494)</b>	<b>\$ (456,320)</b>	<b>\$ (6,916)</b>
<b>Net loss per share</b>					
Basic.....	\$ (0.14)	\$ (0.10)	\$ (1.03)	\$ (1.33)	\$ (0.02)
Diluted.....	\$ (0.14)	\$ (0.10)	\$ (1.03)	\$ (1.33)	\$ (0.02)
<b>Weighted average number of shares outstanding</b>					
Basic.....	663,910,194	650,214,119	362,261,324	342,698,772	337,208,284
Diluted.....	663,910,194	650,214,119	362,261,324	342,698,772	337,208,284

## As of December 31,

	2013	2012	2011	2010	2009
	(in thousands)				
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents.....	\$ 1,240,472	\$ 1,209,289	\$ 1,122,935	\$ 118,833	\$ 12,313
Working capital (deficit).....	\$ 374,720	\$ 319,345	\$ 328,165	\$ (196,564)	\$ 3,988
Total assets.....	\$ 2,042,010	\$ 2,031,474	\$ 1,774,476	\$ 381,570	\$ 14,962
Total long-term liabilities.....	\$ 142,550	\$ 120,932	\$ 78,194	\$ 1,621	\$ —
Redeemable preferred stock.....	\$ —	\$ —	\$ —	\$ —	\$ 34,712
Cash dividends per common share.....	\$ —	\$ —	\$ —	\$ —	\$ 0.063
Total Groupon, Inc. Stockholders' Equity (Deficit).....	\$ 713,651	\$ 744,040	\$ 702,541	\$ 8,077	\$ (29,969)



## **ITEM 7: 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 consolidated financial statements and related notes included under Item 8 of this Annual Report on Form 10-K. 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 Annual Report.*

### **Overview**

Groupon operates online local commerce marketplaces throughout the world that connect merchants to consumers by offering goods and services at a discount. Traditionally, local merchants have tried to reach consumers and generate sales through a variety of methods, including online advertising, the yellow pages, direct mail, newspaper, radio, television, and promotions. By bringing the brick and mortar world of local commerce onto the Internet, Groupon is helping local merchants to attract customers and sell goods and services. We provide consumers with savings and help them discover what to do, eat, see, buy and where to travel.

Current and potential customers are able to access our deal offerings directly through our websites and mobile applications. We also send emails to our subscribers each day with deal offerings that are targeted by location and personal preferences. We offer deals in three primary categories: Local Deals ("Local"), Groupon Goods ("Goods") and Groupon Getaways ("Travel"). In our Goods category, through which we offer deals on merchandise, we often act as the merchant of record, particularly for deals in North America and for deals in EMEA beginning in September 2013. Our revenue from deals where we act as the third party marketing agent is the purchase price paid by the customer for a Groupon voucher ("Groupon") less an agreed upon portion of the purchase price paid to the featured merchants, excluding applicable taxes and net of estimated refunds for which the merchant's share is recoverable. Our direct revenue from deals where we act as the merchant of record is the purchase price paid by the customer excluding applicable taxes and net of estimated refunds. We generated revenue of \$2,573.7 million during the year ended December 31, 2013, as compared to \$2,334.5 million during the year ended December 31, 2012.

Our operations are organized into three principal segments: North America, EMEA, which is comprised of Europe, Middle East and Africa, and the remainder of the Company's international operations ("Rest of World"). During the second quarter of 2013, the Company changed the composition of its operating segments to separate its former International segment between EMEA and Rest of World. See Note 15 "*Segment Information*" for further information. For the year ended December 31, 2013, we derived 59.1% of our revenue from our North America segment, 28.9% of our revenue from our EMEA segment and 12.0% of our revenue from our Rest of World segment.

We have an accumulated deficit of \$848.9 million as of December 31, 2013. Since our inception, we have driven our growth through substantial investments in infrastructure and marketing to increase subscriber acquisition. In particular, our significant net losses in previous years were driven in part by the rapid expansion of our EMEA and Rest of World segments, which involved investing heavily in upfront marketing, sales and infrastructure related to the build out of our operations in early stage countries.

On January 2, 2014, we acquired LivingSocial Korea, Inc., including its subsidiary Ticket Monster Inc. ("Ticket Monster"), for total consideration of \$100.0 million cash and 13,825,283 shares of Class A common stock with an acquisition date fair value of \$162.9 million. Ticket Monster is an e-commerce company based in the Republic of Korea that connects merchants to consumers by offering goods and services at a discount. The operations of Ticket Monster will be reported within our Rest of World segment beginning in 2014. On January 13, 2014, we acquired Ideeli, Inc. ("Ideeli"), a fashion flash site based in the United States. Ideeli is focused on women's fashion apparel, accessories and home décor, and the operations of Ideeli will be reported within our North America segment beginning in 2014. We expect that these acquisitions will increase both our revenue and net loss in 2014. We expect to incur incremental costs related to the consolidation of our existing Korean operations with Ticket Monster in the first quarter 2014. Additionally, we plan to increase marketing expenditures in the near term for Ticket Monster and Ideeli in connection with our efforts to drive growth in those operations.

### **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 marketplaces. Certain of the financial metrics are reported in accordance with U.S. generally accepted accounting principles

("U.S. GAAP") and certain of these metrics are considered non-GAAP financial measures. As our business evolves, we may make changes to our key financial and operating metrics used to measure our business in future periods. For further information and a reconciliation to the most applicable financial measure under U.S. GAAP, refer to our discussion under Non-GAAP Financial Measures in the "Results of Operations" section.

### **Financial Metrics**

- *Gross billings.* This metric represents the total dollar value of customer purchases of goods and services, excluding applicable taxes and net of estimated refunds. For third party revenue deals, gross billings differs from third party revenue reported in our consolidated statements of operations, which is presented net of the merchant's share of the transaction price. For direct revenue deals, gross billings are equivalent to direct revenue reported in our consolidated statements of operations. We consider this metric to be an important indicator of our growth and business performance as it is a proxy for the dollar volume of transactions generated through our marketplaces. Tracking gross billings on third party revenue deals also allows us to track changes in the percentage of gross billings that we are able to retain after payments to our merchants.
- *Revenue.* Third party revenue is derived from deals where we act as the marketing agent and is the purchase price paid by the customer less an agreed upon portion of the purchase price paid to the featured merchant, excluding applicable taxes and net of estimated refunds for which the merchant's share is recoverable. Direct revenue, when the Company is selling the product as the merchant of record, is the purchase price paid by the customer, excluding applicable taxes and net of estimated refunds.
- *Gross profit.* Gross profit reflects the net margin earned after deducting our cost of revenue from our revenue. Due to the lack of comparability between third party revenue, which is presented net of the merchant's share of the transaction price, and direct revenue, which is reported on a gross basis, we believe that gross profit is an important measure for evaluating our performance.
- *Operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net.* Operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net is a non-GAAP financial measure that comprises the consolidated total of the segment operating income (loss) of our three segments, North America, EMEA and Rest of World. **Stock-based** compensation expense and **acquisition-related** expense (benefit), net are excluded from segment operating income (loss) that we report under U.S. GAAP for our segments. Stock-based compensation expense is primarily a non-cash item. Acquisition-related expense (benefit), net is comprised of the change in the fair value of contingent consideration arrangements and, beginning in 2013, also includes external transaction costs related to business combinations, primarily consisting of legal and advisory fees. We have used consolidated operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net to allocate resources and evaluate performance internally. However, in recent periods, our management and Board of Directors have increasingly focused on Adjusted EBITDA, described below, as the primary non-GAAP measure for evaluating our consolidated operating results. Accordingly, we do not expect to continue to report Operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net on a consolidated basis in future periods. For further information and a reconciliation to the most applicable financial measure under U.S. GAAP, refer to our discussion under Non-GAAP Financial Measures in the "Results of Operations" section.
- *Adjusted EBITDA.* Adjusted EBITDA is a non-GAAP financial measure that comprises net income (loss) excluding income taxes, interest and other non-operating items, depreciation and amortization, stock-based compensation and acquisition-related expense (benefit), net. Adjusted EBITDA is similar to Operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net, except Adjusted EBITDA also excludes depreciation and amortization. We exclude depreciation and amortization because it is non-cash in nature, and we believe that non-GAAP financial measures excluding these items provide meaningful supplemental information about our operating performance and liquidity. Our definition of Adjusted EBITDA may differ from similar measures used by other companies, even when similar terms are used to identify such measures. We believe that Adjusted EBITDA is a meaningful measure for evaluating our operating performance. For further information and a reconciliation to the most applicable financial measure under U.S. GAAP, refer to our discussion under Non-GAAP Financial Measures in the "Results of Operations" section.
- *Free cash flow.* Free cash flow is a non-GAAP financial measure that comprises net cash provided by operating activities less purchases of property and equipment and capitalized software. We use free cash flow, and ratios based on it, to conduct and evaluate our business because, although it is similar to cash flow from operations, we believe

that it typically represents a more useful measure of cash flows because purchases of fixed assets, software developed for internal-use and website development costs are necessary components of our ongoing operations. Free cash flow is not intended to represent the total increase or decrease in Groupon's cash balance for the applicable period. For further information and a reconciliation to the most applicable financial measure under U.S. GAAP, refer to our discussion under Non-GAAP Financial Measures in the "Results of Operations" section.

The following table presents the above Financial Metrics for the years ended December 31, 2013, 2012, and 2011:

	Year Ended December 31,		
	2013	2012	2011
Gross billings.....	\$ 5,757,330	\$ 5,380,184	\$ 3,985,501
Revenue .....	2,573,655	2,334,472	1,610,430
Gross profit.....	1,501,533	1,615,532	1,351,551
Operating income (loss) excluding stock-based compensation and acquisition-related (benefit) expense, net.....	197,205	203,715	(144,333)
Adjusted EBITDA.....	286,654	259,516	(112,278)
Free cash flow .....	154,927	170,998	246,636

### Operating Metrics

- *Active customers.* We define active customers as unique user accounts that have purchased a voucher or product from us during the trailing twelve months. We consider this metric to be an important indicator of our business performance as it helps us to understand how the number of customers actively purchasing our deals is trending.
- *Gross billings per average active customer.* This metric represents the trailing twelve months gross billings generated per average active customer. This metric is calculated as the total gross billings generated in the trailing twelve months, divided by the average number of active customers in such time period. Although we believe total gross billings, not trailing twelve months gross billings per average active customer, is a better indication of the overall growth of our marketplaces over time, trailing twelve months gross billings per average active customer provides an opportunity to evaluate whether our growth is primarily driven by growth in total customers or in spend per customer in any given period.
- *Units.* This metric represents the number of vouchers and products purchased from us by our customers, before refunds and cancellations. We consider unit growth to be an important indicator of the total volume of business conducted through our marketplaces.

Our Active customers and Gross billings per average active customer for the trailing twelve months ("TTM") ended December 31, 2013, 2012 and 2011 were as follows:

	Trailing twelve months ended December 31,		
	2013	2012	2011
TTM Active customers (in thousands).....	44,877	41,049	33,742
TTM Gross billings per average active customer.....	\$ 134.01	\$ 143.88	\$ 186.75

Our Units for the years ended December 31, 2013, 2012 and 2011 were as follows:

	Year Ended December 31,		
	2013	2012	2011
Units (in thousands) .....	193,426	176,079	141,859

### Factors Affecting Our Performance

*Deal sourcing and quality.* We consider our merchant relationships to be a vital part of our business model and have made significant investments in order to expand the variety of tools that we can provide to our merchants. We depend on our

ability to attract and retain merchants that are prepared to offer products or services on compelling terms, particularly as we attempt to expand our product and service offerings in order to create more complete online marketplaces for local commerce. In North America and many of our foreign markets, we offer deals in which the merchant has a continuous presence on our websites and mobile applications by offering vouchers on an ongoing basis for an extended period of time. Currently, a substantial majority of our merchants in North America elect to offer deals in this manner, and we expect that trend to continue. These marketplaces, which we refer to as "pull," enable customers to search for specific types of deals (e.g., steakhouse, pizza, massage, nail salon, golf lessons, yoga) on our websites and mobile applications. However, merchants have the ability to withdraw their extended deal offerings and we generally do not have noncancelable long-term arrangements to guarantee availability of deals. In order to attract merchants that may not have run deals on our platform or would have run deals on a competing platform, we are periodically willing to accept lower deal margins across all three of our segments. This has contributed to lower deal margins during the year ended December 31, 2013, as compared to the prior year periods. If new merchants do not find our marketing and promotional services effective, or if our existing merchants do not believe that utilizing our services provides them with a long-term increase in customers, revenue or profit, they may stop making offers through our marketplaces or they may only continue offering deals if we accept lower margins.

*International operations.* Our international operations are critical to our revenue growth and our ability to achieve and maintain profitability. For the years ended December 31, 2013, 2012 and 2011, 28.9%, 34.5% and 44.7% of our revenue was generated from our EMEA segment, respectively, and 12.0%, 15.6% and 15.9% of our revenue was generated from our Rest of World segment, respectively. With the acquisition of Ticket Monster on January 2, 2014, we expect the percentage of revenue generated by our Rest of World segment to increase in future periods. Operating a global business requires management attention and resources and requires us to localize our services to conform to a wide variety of local cultures, business practices, laws and regulations. The different commercial and regulatory environments in other countries may make it more difficult for us to successfully operate our business. In addition, many of the automation tools that we have implemented in our North America segment are close to being fully implemented in most EMEA countries but have not yet been substantially rolled out to the countries in our Rest of World segment. Revenue declined in our EMEA and Rest of World segments for the year ended December 31, 2013, as compared to the prior year, which contributed to the reductions in the percentage of our total revenue generated by those segments. Additionally, the increase in direct revenue transactions from our Groupon Goods business in North America contributed to the increase in North America revenue as a percentage of our total revenue during the year ended December 31, 2013, as compared to the prior year periods, as direct revenue is presented on a gross basis in our consolidated statements of operations.

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

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

*Competitive pressure.* A substantial number of companies that attempt to replicate our business model have emerged around the world. In addition to such competitors, we expect to increasingly compete against other large Internet and **technology-based** businesses that have launched initiatives which are directly competitive to our core business as well as our other categories and our suite of merchant products, such as payment processing and point of sale. We also expect to compete against other Internet sites that are focused on specific communities or interests and offer coupons or discount arrangements related to such communities or interests. The margins on deals in our Local category, measured as the percentage of billings that we retain after deducting the merchant's share, declined sequentially during the quarter ended December 31, 2013, as compared to the quarter ended September 30, 2013, as well as during the year ended December 31, 2013, as compared to the year ended December 31,

2012. Increased competition in the future may cause us to continue to lower our margins on Local deals.

## **Components of Results of Operations**

### ***Third Party and Other Revenue***

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

### ***Direct Revenue***

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

### ***Cost of Revenue***

Cost of revenue is comprised of direct and certain indirect costs incurred to generate revenue. For direct revenue transactions, cost of revenue includes the cost of inventory, shipping and fulfillment costs and inventory markdowns. Fulfillment costs are comprised of third party logistics provider costs, as well as rent, depreciation, personnel costs and other costs of operating our own fulfillment center, which began operations in the fourth quarter of 2013. For third party revenue transactions, cost of revenue includes estimated refunds for which the merchant's share is not recoverable. Other costs incurred to generate revenue, which include credit card processing fees, editorial costs, certain technology costs, web hosting, and other processing fees, are allocated to cost of third party revenue, direct revenue and other revenue in proportion to gross billings during the period.

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

### ***Marketing***

Marketing expense consists primarily of targeted online marketing costs, such as sponsored search, advertising on social networking sites, email marketing campaigns, affiliate programs and, to a lesser extent, offline marketing costs such as television, radio and print advertising. Additionally, marketing payroll and **stock-based** compensation expense are classified as marketing expense. We record these costs within "Marketing" on the consolidated statements of operations when incurred. From time to time, we offer deals with well-known national merchants for subscriber acquisition and customer activation purposes, for which the amount we owe the merchant for each voucher sold exceeds the transaction price paid by the customer. Our gross billings from those transactions generate no third party revenue and our net cost (i.e., the excess of the amount owed to the merchant over the amount paid by the customer) is classified as marketing expense. Our marketing activities also include elements that are not presented as "Marketing" on our consolidated statements of operations, such as order discounts, free shipping on merchandise sales and accepting lower margins on our deals. Marketing is the primary method by which we acquire customers and, as such, is a critical part of our growth strategy.

### ***Selling, General and Administrative***

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

### ***Acquisition-Related***

Acquisition-related (benefit) expense, net includes the change in the fair value of contingent consideration arrangements related to business combinations. See Note 13 "*Fair Value Measurements*." For the year ended December 31, 2013, acquisition-related (benefit) expense, net also includes external transaction costs related to business combinations, primarily consisting of legal and advisory fees. Such costs were not material for the years ended December 31, 2012 and 2011.

### ***Other (Expense) Income, Net***

Other (expense) income, net includes interest income on our cash and cash equivalents, interest expense on capital leases and foreign currency transaction gains and losses, primarily resulting from intercompany balances related to our foreign subsidiaries that are denominated in currencies other than their functional currencies. During the year ended December 31, 2013, other expense, net included an \$85.5 million impairment of our investments in Life Media Limited ("F-tuan"). During the year ended December 31, 2012, other income, net included a \$56.0 million gain resulting from the E-Commerce transaction and a \$50.6 million impairment of our investments in F-tuan. The impairments of our investments in F-tuan and the gain on the E-Commerce transaction are described in Note 6 "*Investments*."

## Results of Operations

### Comparison of the Years Ended December 31, 2013 and 2012:

	Year Ended December 31,	
	2013	2012
	(in thousands)	
Revenue:		
Third party and other .....	\$ 1,654,654	\$ 1,879,729
Direct.....	919,001	454,743
Total revenue.....	2,573,655	2,334,472
Cost of revenue:		
Third party and other .....	232,062	297,739
Direct.....	840,060	421,201
Total cost of revenue.....	1,072,122	718,940
Gross profit .....	1,501,533	1,615,532
Operating expenses:		
Marketing.....	214,824	336,854
Selling, general and administrative.....	1,210,966	1,179,080
Acquisition-related (benefit) expense, net .....	(11)	897
Total operating expenses.....	1,425,779	1,516,831
<b>Income from operations</b> .....	75,754	98,701
Loss on equity method investments.....	(44)	(9,925)
Other (expense) income, net .....	(94,619)	6,166
<b>(Loss) income before provision for income taxes</b> .....	(18,909)	94,942
Provision for income taxes.....	70,037	145,973
<b>Net loss</b> .....	(88,946)	(51,031)
Net income attributable to noncontrolling interests.....	(6,447)	(3,742)
<b>Net loss attributable to Groupon, Inc.</b> .....	(95,393)	(54,773)
Adjustment of redeemable noncontrolling interests to redemption value ....	—	(12,604)
<b>Net loss attributable to common stockholders</b> .....	\$ (95,393)	\$ (67,377)



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

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

	Year Ended December 31,			
	2013		2012	
	Statement of Operations line item	Stock-based compensation included in line item	Statement of Operations line item	Stock-based compensation included in line item
	(in thousands)			
Total cost of revenue.....	\$ 1,072,122	\$ 1,982	\$ 718,940	\$ 2,928
Operating expenses:				
Marketing.....	\$ 214,824	\$ 9,677	\$ 336,854	\$ 3,570
Selling, general and administrative.....	1,210,966	109,803	1,179,080	97,619
Acquisition-related (benefit) expense, net.....	(11)	—	897	—
Total operating expenses.....	<u>\$ 1,425,779</u>	<u>\$ 119,480</u>	<u>\$ 1,516,831</u>	<u>\$ 101,189</u>

**Foreign exchange rate neutral operating results**

The effect on our gross billings, revenue, cost of revenue and operating expenses, and income from operations for the year ended December 31, 2013 from changes in exchange rates versus the U.S. dollar was as follows:

	Year Ended December 31, 2013		
	At Avg. 2012 Rates <sup>(1)</sup>	Exchange Rate Effect <sup>(2)</sup>	As Reported
		(in thousands)	
Gross billings.....	\$ 5,797,599	\$ (40,269)	\$ 5,757,330
Revenue.....	\$ 2,585,376	\$ (11,721)	\$ 2,573,655
Cost of revenue and operating expenses.....	2,513,664	(15,763)	2,497,901
Income from operations.....	<u>\$ 71,712</u>	<u>\$ 4,042</u>	<u>\$ 75,754</u>

- (1) Represents the financial statement balances that would have resulted had exchange rates in the reporting period been the same as those in effect in the comparable prior year period.
- (2) Represents the increase or decrease in reported amounts resulting from changes in exchange rates from those in effect in the comparable prior year period.

**Gross Billings**

Gross billings represents the total dollar value of customer purchases of goods and services, excluding applicable taxes and net of estimated refunds. Gross billings for the years ended December 31, 2013 and 2012 were as follows:

	Year Ended December 31,	
	2013	2012
		(in thousands)
Gross billings:		
Third party.....	\$ 4,824,659	\$ 4,905,022
Direct.....	919,001	454,743
Other.....	13,670	20,419
Total gross billings.....	<u>\$ 5,757,330</u>	<u>\$ 5,380,184</u>

For third party revenue deals, gross billings differs from third party revenue reported in our consolidated statements of

operations, which is presented net of the merchant's share of the transaction price. For direct revenue deals and other revenue, gross billings are equivalent to direct revenue and other revenue reported in our consolidated statements of operations. Gross billings increased by \$377.1 million to \$5,757.3 million for the year ended December 31, 2013, as compared to \$5,380.2 million for the year ended December 31, 2012. The increase was comprised of a \$464.3 million increase in gross billings from direct revenue transactions, partially offset by an \$80.4 million decrease in gross billings from third party revenue transactions and a \$6.7 million decrease in gross billings from other revenue transactions. The net increase in gross billings was driven by an increase in active customers and the volume of transactions. The unfavorable impact on gross billings from year-over-year changes in foreign exchange rates for the year ended December 31, 2013 was \$40.3 million.

We offer goods and services through three primary categories: Local Deals ("Local"), Groupon Goods ("Goods") and Groupon Getaways ("Travel") within our North America, EMEA and Rest of World segments. We also earn advertising revenue, payment processing revenue, point of sale revenue, reservation revenue and commission revenue. Our other gross billings, revenue, cost of revenue and gross profit are presented within "Travel and other" in the tables below. The increase in our gross billings was comprised of a \$373.2 million increase in our Goods category and a \$24.4 million increase in our Travel and other category, partially offset by a \$20.5 million decrease in our Local category, which was primarily driven by declines in our Rest of World segment.

### Gross Billings by Segment

Gross billings by segment for the years ended December 31, 2013 and 2012 were as follows:

	Year Ended December 31,			
	2013	% of total	2012	% of total
(dollars in thousands)				
Gross billings:				
North America.....	\$ 2,847,244	49.5%	\$ 2,373,153	44.1%
EMEA.....	1,983,599	34.5	1,928,508	35.8
Rest of World.....	926,487	16.0	1,078,523	20.1
Total gross billings.....	<u>\$ 5,757,330</u>	<u>100.0%</u>	<u>\$ 5,380,184</u>	<u>100.0%</u>

Gross billings by category and segment for the years ended December 31, 2013 and 2012 were as follows (in thousands):

	North America		EMEA		Rest of World		Consolidated	
	Year Ended December 31,		Year Ended December 31,		Year Ended December 31,		Year Ended December 31,	
	2013	2012	2013	2012	2013	2012	2013	2012
Local <sup>(1)</sup> :								
Third party .....	\$ 1,738,371	\$ 1,616,020	\$ 984,311	\$ 1,014,127	\$ 469,236	\$ 572,007	\$ 3,191,918	\$ 3,202,154
Direct.....	1,772	12,037	—	—	—	—	1,772	12,037
Total gross billings.....	<u>1,740,143</u>	<u>1,628,057</u>	<u>984,311</u>	<u>1,014,127</u>	<u>469,236</u>	<u>572,007</u>	<u>3,193,690</u>	<u>3,214,191</u>
Goods:								
Third party .....	68,818	172,859	590,635	572,950	291,270	310,458	950,723	1,056,267
Direct.....	774,023	391,238	115,881	36,393	27,325	10,822	917,229	438,453
Total gross billings.....	<u>842,841</u>	<u>564,097</u>	<u>706,516</u>	<u>609,343</u>	<u>318,595</u>	<u>321,280</u>	<u>1,867,952</u>	<u>1,494,720</u>
Travel and other:								
Third party and other .....	264,260	180,999	292,772	300,785	138,656	185,236	695,688	667,020
Direct.....	—	—	—	4,253	—	—	—	4,253
Total gross billings.....	<u>264,260</u>	<u>180,999</u>	<u>292,772</u>	<u>305,038</u>	<u>138,656</u>	<u>185,236</u>	<u>695,688</u>	<u>671,273</u>
Total gross billings.....	<u>\$ 2,847,244</u>	<u>\$ 2,373,153</u>	<u>\$ 1,983,599</u>	<u>\$ 1,928,508</u>	<u>\$ 926,487</u>	<u>\$ 1,078,523</u>	<u>\$ 5,757,330</u>	<u>\$ 5,380,184</u>

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

## *North America*

North America segment gross billings increased by \$474.1 million to \$2,847.2 million for the year ended December 31, 2013, as compared to \$2,373.2 million for the year ended December 31, 2012. The increase in gross billings was comprised of a \$278.7 million increase in our Goods category, a \$112.1 million increase in our Local category and an \$83.3 million increase in our Travel and other category. The increase in gross billings in the North America segment resulted from higher unit sales and an increase in active customers for the year ended December 31, 2013, as compared to the prior year. We believe that increases in transaction activity by active customers who make purchases on mobile devices and in the number of deals that we offered contributed to the growth in billings for our North America segment. In addition, we have continued to refine our approach to targeting customers through our emails, on our websites and through our mobile applications by sending and highlighting deals for specific locations and personal preferences, which we believe contributed to the billings growth.

Although North America segment gross billings increased by 20.0% during the year ended December 31, 2013, as compared to the prior year, we believe that there were a number of factors that may have negatively impacted gross billings. For example, we believe that the continued growth of our online marketplaces of deals, where merchants have a continuous presence on our websites for an extended period of time, is impacting the timing of customer purchases in our Local category. Historically, our customers often purchased a Groupon voucher when they received our email with a limited-time offer, even though they may not have intended to use the voucher in the near term. However, the growth of marketplaces of deals enables customers to wait until they are ready to use the related vouchers before making purchases, which we believe is adversely impacting gross billings in the short term. Additionally, a more significant portion of our marketing in recent periods has been directed toward increasing downloads of our mobile applications, and we have reduced our spending on email subscriber acquisition. On average, it takes longer for customers to make an initial purchase after downloading our mobile application than it does after subscribing to our emails and we believe that this shift in our marketing toward mobile application downloads has adversely impacted our gross billings in the current period.

## *EMEA*

EMEA segment gross billings increased by \$55.1 million to \$1,983.6 million for the year ended December 31, 2013, as compared to \$1,928.5 million for the year ended December 31, 2012. The increase in gross billings was comprised of a \$97.2 million increase in our Goods category, resulting from higher unit sales in this category for the year ended December 31, 2013, as compared to the prior year. The increase in gross billings was partially offset by a \$29.8 million decrease in our Local category and a \$12.3 million decrease in our Travel and other category, resulting from lower unit sales in these categories for the year ended December 31, 2013, as compared to the prior year. Our gross billings were also negatively impacted by lower gross billings per average active customer in our EMEA segment for the year ended December 31, 2013, as compared to the prior year. The favorable impact on gross billings from year-over-year changes in foreign exchange rates for the year ended December 31, 2013 was \$37.6 million.

## *Rest of World*

Rest of World segment gross billings decreased by \$152.0 million to \$926.5 million for the year ended December 31, 2013, as compared to \$1,078.5 million for the year ended December 31, 2012. The decrease in gross billings was comprised of a \$102.8 million decrease in our Local category, a \$46.6 million decrease in our Travel and other category and a \$2.7 million decrease in our Goods category. The decrease in gross billings in the Rest of World segment resulted from unfavorable foreign exchange rate fluctuations, lower gross billings per average active customer and lower unit sales for the year ended December 31, 2013, as compared to the prior year, as well as overall weakness in some of our markets. The unfavorable impact on gross billings from year-over-year changes in foreign exchange rates for the year ended December 31, 2013 was \$76.7 million. Lower unit sales were attributable, in part, to actions we have taken to reduce the number of local and travel deals offered in many of the smaller cities within our Rest of World segment in order to reduce our marketing and selling costs by focusing on markets that provide better scaling opportunities.

On January 2, 2014, we acquired LivingSocial Korea, Inc., including its subsidiary Ticket Monster. We expect that gross billings for our Rest of World segment will increase significantly in future periods as a result of this acquisition.

## Revenue

We generate revenue from third party revenue deals, direct revenue deals and other transactions. Revenue for the years ended December 31, 2013 and 2012 was as follows:

	Year Ended December 31,	
	2013	2012
	(in thousands)	
Revenue:		
Third party.....	\$ 1,640,984	\$ 1,859,310
Direct.....	919,001	454,743
Other.....	13,670	20,419
Total revenue.....	<u>\$ 2,573,655</u>	<u>\$ 2,334,472</u>

Revenue increased by \$239.2 million to \$2,573.7 million for the year ended December 31, 2013, as compared to \$2,334.5 million for the year ended December 31, 2012. The primary driver of this increase was the \$464.3 million increase in direct revenue from transactions, primarily in our Goods category, where we are the merchant of record and for which revenue is reported on a gross basis. This increase in direct revenue was partially offset by a \$218.3 million decrease in third party revenue and a \$6.7 million decrease in other revenue. The net increase in revenue was attributable to an increase in active customers and units purchased for the year ended December 31, 2013, as compared to the prior year. In addition, we have continued to refine our approach to targeting customers through our emails, on our websites and through our mobile applications by sending and highlighting deals for specific locations and personal preferences, which we believe contributed to revenue growth. We also increased the number of merchant relationships and the volume of deals we offer to our customers. The unfavorable impact on revenue from year-over-year changes in foreign exchange rates for the year ended December 31, 2013 was \$11.7 million.

### Third Party Revenue

Third party revenue decreased by \$218.3 million to \$1,641.0 million for the year ended December 31, 2013, as compared to \$1,859.3 million for the year ended December 31, 2012. The decrease in third party revenue was primarily due to a \$114.6 million decrease in our Goods category, which resulted from a \$105.5 million decrease in gross billings and a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 23.1% for the year ended December 31, 2013, as compared to 31.7% in the prior year. Third party revenue in our Goods category also decreased as a result of the increasing proportion of direct revenue transactions in that category. The decrease in third party revenue was also due to a \$98.6 million decrease in our Local category, which resulted from a \$10.2 million decrease in gross billings and a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 39.8% for the year ended December 31, 2013, as compared to 42.7% for the year ended December 31, 2012. The decreases in the percentage of gross billings that we retained after deducting the merchant's share were attributable, in part, to an \$18.5 million one-time increase during the prior year period in revenue from unredeemed Groupons in Germany, as described below.

We recognized a one-time increase of \$18.5 million to third party revenue from unredeemed Groupons during the year ended December 31, 2012. This one-time increase in the prior year period represented the cumulative impact of deals in Germany for which, based on a German tax ruling, our obligation to the merchant would have ended prior to the third quarter of 2012. For merchant payment arrangements that are structured under a redemption payment model, we retain all of the gross billings from unredeemed Groupons. We record revenue from unredeemed Groupons and derecognize the related accrued merchant payable when our legal obligation to the merchant expires, which we believe is shortly after deal expiration in most jurisdictions which use a pay on redemption model. However, we had historically concluded based on our interpretation of applicable German law that our obligation to merchants in that jurisdiction extended for three years. Due to the German tax ruling, which requires us to remit value-added taxes (VAT) earlier on unredeemed Groupons, we began recognizing revenue from unredeemed Groupons in Germany shortly after deal expiration, which is consistent with most other jurisdictions in which we pay on redemption.

### Direct Revenue

Direct revenue increased by \$464.3 million to \$919.0 million for the year ended December 31, 2013, as compared to \$454.7 million for the year ended December 31, 2012. We are often the merchant of record for transactions in the Goods category, particularly in North America and also in EMEA beginning in September 2013, such that the resulting revenue is reported on a gross basis within direct revenue. Direct revenue deals have continued to grow, both overall and as a percentage of our revenue, through the continued growth of our Goods category, and we expect that trend to continue for the foreseeable future. In addition,

we expect that any growth in direct revenue will result in a smaller increase in income from operations than growth in third party revenue because direct revenue includes the entire amount of gross billings, before deducting the cost of the related inventory, while third party revenue is net of the merchant's share of the transaction price. Additionally, our Goods category has lower margins than our Local category, primarily as a result of shipping and fulfillment costs related to direct revenue transactions.

We believe that direct revenue deals in our Goods category will increase in the future in the EMEA and Rest of World segments as we continue to build out our global supply chain infrastructure. Additionally, we acquired Ideeli for \$43.0 million cash on January 13, 2014. Ideeli is a fashion flash site that sells apparel to consumers in direct revenue transactions, and its operations will be reported within our North America segment beginning in 2014.

#### *Other Revenue*

Other revenue decreased by \$6.7 million to \$13.7 million for the year ended December 31, 2013, as compared to \$20.4 million for the year ended December 31, 2012, primarily due to a decrease in advertising revenue. Other revenue also includes point of sale and payment processing revenue, which we launched in the third quarter of 2012, reservation revenue, which we launched in the third quarter of 2013, and commission revenue, which we launched in the fourth quarter of 2013. Reservation revenue, point of sale revenue, payment processing revenue and commission revenue were not significant for the years ended December 31, 2013 and 2012, and we do not expect them to be material in the near term.

#### *Revenue by Segment*

Revenue by segment for the years ended December 31, 2013 and 2012 was as follows:

	Year Ended December 31,			
	2013	% of total	2012	% of total
(dollars in thousands)				
North America:				
Third party and other .....	\$ 745,563	29.0%	\$ 762,424	32.7%
Direct.....	775,795	30.1	403,276	17.2
Total segment revenue .....	1,521,358	59.1	1,165,700	49.9
EMEA:				
Third party and other .....	627,034	24.4	764,830	32.8
Direct.....	115,881	4.5	40,646	1.7
Total segment revenue .....	742,915	28.9	805,476	34.5
Rest of World:				
Third party and other .....	282,057	11.0	352,475	15.1
Direct.....	27,325	1.0	10,821	0.5
Total segment revenue .....	309,382	12.0	363,296	15.6
Total revenue.....	<u>\$ 2,573,655</u>	<u>100.0%</u>	<u>\$ 2,334,472</u>	<u>100.0%</u>

Revenue by category and segment for the years ended December 31, 2013 and 2012 was as follows (in thousands):

	North America		EMEA		Rest of World		Consolidated	
	Year Ended December 31,		Year Ended December 31,		Year Ended December 31,		Year Ended December 31,	
	2013	2012	2013	2012	2013	2012	2013	2012
<b>Local <sup>(1)</sup>:</b>								
Third party .....	\$ 663,074	\$ 652,764	\$ 426,903	\$ 497,821	\$ 180,229	\$ 218,224	\$ 1,270,206	\$ 1,368,809
Direct revenue .....	1,772	12,037	—	—	—	—	1,772	12,037
Total revenue .....	664,846	664,801	426,903	497,821	180,229	218,224	1,271,978	1,380,846
<b>Goods:</b>								
Third party .....	17,409	60,269	133,117	186,495	69,344	87,746	219,870	334,510
Direct revenue .....	774,023	391,239	115,881	36,393	27,325	10,821	917,229	438,453
Total revenue .....	791,432	451,508	248,998	222,888	96,669	98,567	1,137,099	772,963
<b>Travel and other:</b>								
Third party and other revenue ....	65,080	49,391	67,014	80,514	32,484	46,505	164,578	176,410
Direct revenue .....	—	—	—	4,253	—	—	—	4,253
Total revenue .....	65,080	49,391	67,014	84,767	32,484	46,505	164,578	180,663
Total revenue .....	<u>\$ 1,521,358</u>	<u>\$ 1,165,700</u>	<u>\$ 742,915</u>	<u>\$ 805,476</u>	<u>\$ 309,382</u>	<u>\$ 363,296</u>	<u>\$ 2,573,655</u>	<u>\$ 2,334,472</u>

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

### North America

North America segment revenue increased by \$355.7 million to \$1,521.4 million for the year ended December 31, 2013, as compared to \$1,165.7 million for the year ended December 31, 2012. The increase in revenue primarily resulted from a \$382.8 million increase in direct revenue from our Goods category. Direct revenue, which is recorded on a gross basis, is derived primarily from selling products through our Goods category where we are the merchant of record. The increase in direct revenue in our Goods category was partially offset by a \$42.9 million decrease in third party revenue in our Goods category, which resulted from a \$104.0 million decrease in gross billings and a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 25.3% for the year ended December 31, 2013, as compared to 34.9% for the year ended December 31, 2012. Revenue in our Travel and other category increased by \$15.7 million, which resulted from an \$83.3 million increase in gross billings, partially offset by a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 24.6% for the year ended December 31, 2013, as compared to 27.3% for the year ended December 31, 2012. Additionally, the percentage of gross billings that we retained after deducting the merchant's share in our Local category for third party revenue decreased to 38.1% for the year ended December 31, 2013, as compared to 40.4% for the year ended December 31, 2012. These decreases in the percentage of gross billings that we retained after deducting the merchant's share reflect the overall results of individual deal-by-deal negotiations with our merchants and can vary significantly from period-to-period. We were willing to accept lower deal margins in order to improve the quality and increase the number of deals offered to customers by offering more attractive terms to merchants. The increase in revenue was also due to an increase in active customers and higher unit sales for the year ended December 31, 2013, as compared to the prior year.

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

### EMEA

EMEA segment revenue decreased by \$62.6 million to \$742.9 million for the year ended December 31, 2013, as compared to \$805.5 million for the year ended December 31, 2012. The overall decrease in EMEA segment revenue was primarily due to a \$70.9 million decrease in our Local category and a \$17.8 million decrease in our Travel and other category, partially offset by a \$26.1 million increase in our Goods category. Revenue from transactions in our Goods category in our EMEA segment have

primarily been presented on a net basis within third party revenue, as we were not typically the merchant of record for those transactions outside of the United States. However, we began increasing the number of product deals offered in our EMEA segment for which we are the merchant of record beginning in September 2013, which resulted in a \$79.5 million increase in direct revenue from our Goods category for the year ended December 31, 2013, as compared to the prior year. As a result, the proportion of direct revenue deals in the Goods category of our EMEA segment increased in the fourth quarter of 2013, and we expect that the proportion of direct revenue deals in the Goods category of our EMEA segment will continue to increase in future periods.

The \$70.9 million decrease in revenue in our Local category resulted from a \$29.8 million decrease in gross billings and a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 43.4% for the year ended December 31, 2013, as compared to 49.1% in the prior year. Although gross billings on third party revenue transactions in our Goods category increased by \$17.7 million, revenue on third party deals in our Goods category decreased by \$53.4 million, which resulted from a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 22.5% for the year ended December 31, 2013, as compared to 32.5% for the year ended December 31, 2012. Revenue on third party deals in our Travel and other category decreased \$13.5 million, which resulted from an \$8.0 million decrease in gross billings and a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 22.9% for the year ended December 31, 2013, as compared to 26.8% in the prior year. These decreases in the percentage of gross billings that we retained during the year ended December 31, 2013 reflect the overall results of individual deal-by-deal negotiations with our merchants and can vary significantly from period-to-period. We were willing to accept lower deal margins, as compared to the prior year, in order to improve the quality and increase the number of deals offered to our customers by offering more attractive terms to merchants. The decrease in revenue was also due to a decrease in active customers, lower gross billings per average active customer and lower unit sales for the year ended December 31, 2013, as compared to the prior year. The decrease in revenue for our EMEA segment was partially offset by a \$79.5 million increase in direct revenue from our Goods category, as compared to the prior year. The favorable impact on revenue from year-over-year changes in foreign exchange rates for the year ended December 31, 2013 was \$16.1 million.

#### *Rest of World*

Rest of World segment revenue decreased by \$53.9 million to \$309.4 million for the year ended December 31, 2013, as compared to \$363.3 million for the year ended December 31, 2012. The decrease was primarily due to a \$38.0 million decrease in revenue from our Local category, which resulted from a \$102.8 million decrease in gross billings. The decrease in revenue for our Rest of World segment was also due to an \$18.4 million decrease in third party revenue from our Goods category, which resulted from a \$19.2 million decrease in gross billings and a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 23.8% for the year ended December 31, 2013, as compared to 28.3% in the prior year. The decrease in revenue for our Rest of World segment was also due to a \$14.0 million decrease in revenue from our Travel and other category, which resulted from a \$46.6 million decrease in gross billings and a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 23.4% for the year ended December 31, 2013, as compared to 25.1% in the prior year. We were willing to accept lower deal margins, as compared to the prior year, in order to improve the quality and increase the number of deals offered to our customers by offering more attractive terms to merchants. The decrease in revenue was also due to lower gross billings per average active customer and lower unit sales for the year ended December 31, 2013, as compared to the prior year. The decrease in revenue for our Rest of World segment was partially offset by a \$16.5 million increase in direct revenue from our Goods category for the year ended December 31, 2013, as compared to the prior year. The unfavorable impact on revenue from year-over-year changes in foreign exchange rates for the year ended December 31, 2013 was \$27.5 million.

In our Rest of World segment, revenue from transactions in our Goods category are primarily presented on a net basis within third party revenue, as we have not typically been the merchant of record for those transactions outside of the United States. We expect that revenue for our Rest of World segment will increase in future periods as a result of our acquisition of Ticket Monster.

## Cost of Revenue

Cost of revenue on third party, direct revenue and other deals for the years ended December 31, 2013 and 2012 was as follows:

	Year Ended December 31,	
	2013	2012
	(in thousands)	
Cost of revenue:		
Third party .....	\$ 224,840	\$ 297,574
Direct.....	840,060	421,201
Other .....	7,222	165
Total cost of revenue.....	\$ 1,072,122	\$ 718,940

Cost of revenue is comprised of direct and certain indirect costs incurred to generate revenue. For direct revenue deals, cost of revenue includes the cost of inventory, shipping and fulfillment costs and inventory markdowns. Fulfillment costs are comprised of third party logistics provider costs, as well as rent, depreciation, personnel costs and other costs of operating our own fulfillment center, which began operations in the fourth quarter of 2013. For third party revenue transactions, cost of revenue includes estimated refunds for which the merchant's share is not recoverable. Other costs incurred to generate revenue, which include credit card processing fees, editorial costs, certain technology costs, web hosting and other processing fees, are allocated to cost of third party revenue, direct revenue, and other revenue in proportion to gross billings during the period. As a result of the significant growth we have experienced from direct revenue transactions relative to our total gross billings for the year ended December 31, 2013, as compared to the prior year, an increased share of those allocable costs has been allocated to cost of direct revenue in our consolidated statement of operations for the year ended December 31, 2013.

Cost of revenue increased by \$353.2 million to \$1,072.1 million for the year ended December 31, 2013, as compared to \$718.9 million for the year ended December 31, 2012, which was attributable to the growth in direct revenue from our Goods category. The increase in cost of revenue was primarily driven by the cost of inventory and related shipping and fulfillment costs on direct revenue deals, which were not as significant during the prior year. We currently outsource most of our inventory fulfillment activities to third party logistics providers. However, we expect to reduce our usage of those third parties in future periods by transitioning a portion of inventory fulfillment work in the United States to internal resources. We launched our own fulfillment center in the fourth quarter of 2013. We believe the transition to internal fulfillment centers will ultimately reduce our fulfillment costs. However, we may incur increased fulfillment costs in the near term as we build our internal processes and transition the fulfillment work from those third parties.

## Cost of Revenue by Segment

Cost of revenue by segment for the years ended December 31, 2013 and 2012 was as follows:

	Year Ended December 31,			
	2013	% of total	2012	% of total
	dollars in thousands			
North America:				
Third party and other .....	\$ 98,697	9.2%	\$ 145,212	20.2%
Direct.....	709,824	66.2	365,179	50.8
Total segment cost of revenue.....	808,521	75.4	510,391	71.0
EMEA:				
Third party and other .....	70,102	6.5	73,654	10.2
Direct.....	102,687	9.6	42,638	6.0
Total segment cost of revenue.....	172,789	16.1	116,292	16.2
Rest of World:				
Third party and other .....	63,263	5.9	78,873	11.0
Direct.....	27,549	2.6	13,384	1.8
Total segment cost of revenue.....	90,812	8.5	92,257	12.8
Total cost of revenue.....	\$ 1,072,122	100.0%	\$ 718,940	100.0%



Cost of revenue by category and segment for the years ended December 31, 2013 and 2012 was as follows (in thousands):

	North America		EMEA		Rest of World		Consolidated	
	Year Ended December 31,		Year Ended December 31,		Year Ended December 31,		Year Ended December 31,	
	2013	2012	2013	2012	2013	2012	2013	2012
Local <sup>(1)</sup> :								
Third party .....	\$ 82,636	\$ 123,871	\$ 45,718	\$ 47,812	\$ 28,446	\$ 48,124	\$ 156,800	\$ 219,807
Direct.....	2,554	10,128	—	—	—	—	2,554	10,128
Total cost of revenue.....	85,190	133,999	45,718	47,812	28,446	48,124	159,354	229,935
Goods:								
Third party .....	2,090	11,981	16,760	18,066	29,645	21,475	48,495	51,522
Direct.....	707,270	355,051	102,687	38,914	27,549	13,384	837,506	407,349
Total cost of revenue.....	709,360	367,032	119,447	56,980	57,194	34,859	886,001	458,871
Travel and other:								
Third party and other .....	13,971	9,360	7,624	7,776	5,172	9,274	26,767	26,410
Direct.....	—	—	—	3,724	—	—	—	3,724
Total cost of revenue.....	13,971	9,360	7,624	11,500	5,172	9,274	26,767	30,134
Total cost of revenue.....	<u>\$ 808,521</u>	<u>\$ 510,391</u>	<u>\$ 172,789</u>	<u>\$ 116,292</u>	<u>\$ 90,812</u>	<u>\$ 92,257</u>	<u>\$ 1,072,122</u>	<u>\$ 718,940</u>

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

#### *North America*

North America segment cost of revenue increased by \$298.1 million to \$808.5 million for the year ended December 31, 2013, as compared to \$510.4 million for the year ended December 31, 2012. The increase in cost of revenue was primarily driven by the cost of inventory and shipping and fulfillment costs related to direct revenue deals in our Goods category, due to the growth of that category as compared to the prior year.

#### *EMEA*

EMEA segment cost of revenue increased by \$56.5 million to \$172.8 million for the year ended December 31, 2013, as compared to \$116.3 million for the year ended December 31, 2012. The increase in cost of revenue was primarily driven by the cost of inventory and shipping and fulfillment costs related to direct revenue deals in our Goods category, as we began increasing the number of product deals offered in our EMEA segment for which we are the merchant of record beginning in September 2013.

#### *Rest of World*

Rest of World segment cost of revenue decreased by \$1.4 million to \$90.8 million for the year ended December 31, 2013, as compared to \$92.3 million for the year ended December 31, 2012. The decrease in cost of revenue was primarily driven by reduced email distribution costs, primarily due to the migration to an internal email distribution platform, lower payroll expense for editorial personnel and a reduction in estimated refunds for which the merchant's share is not recoverable, partially offset by increases in the cost of inventory and shipping and fulfillment costs related to direct revenue deals in our Goods category. We expect that cost of revenue for our Rest of World segment will increase in future periods as a result of our acquisition of Ticket Monster.

## Gross Profit

Gross profit for the years ended December 31, 2013 and 2012 was as follows:

	Year Ended December 31,	
	2013	2012
	(in thousands)	
Gross profit:		
Third party .....	\$ 1,416,144	\$ 1,561,736
Direct .....	78,941	33,542
Other .....	6,448	20,254
Total gross profit .....	<u>\$ 1,501,533</u>	<u>\$ 1,615,532</u>

Gross profit decreased by \$114.0 million to \$1,501.5 million for the year ended December 31, 2013, as compared to \$1,615.5 million for the year ended December 31, 2012. This decrease in gross profit resulted from the \$353.2 million increase in cost of revenue during the year ended December 31, 2013, partially offset by the \$239.2 million increase in revenue. Gross profit as a percentage of revenue decreased to 58.3% for the year ended December 31, 2013, as compared to 69.2% for the year ended December 31, 2012. The decrease in gross profit as a percentage of revenue during the year ended December 31, 2013, as compared to the prior year, was primarily attributable to the increase in direct revenue. Direct revenue primarily relates to deals in our Goods category, which typically have lower margins than deals in our Local category. Additionally, direct revenue and the related cost of revenue are presented on a gross basis in our consolidated statements of operations, which contributes to lower gross profit as a percentage of revenue.

Gross profit on third party revenue decreased by \$145.6 million to \$1,416.1 million for the year ended December 31, 2013, as compared to \$1,561.7 million for the year ended December 31, 2012. This decrease in gross profit resulted from the \$218.3 million decrease in third party revenue, partially offset by the \$72.7 million decrease in the cost of third party revenue. Gross profit as a percentage of revenue on third party revenue deals increased to 86.3% for the year ended December 31, 2013, as compared to 84.0% for the year ended December 31, 2012. The increase in gross profit as a percentage of revenue on third party revenue deals was attributable, in part, to a lower proportion of the allocable costs within cost of revenue being allocated to the cost of third party revenue for the year ended December 31, 2013, as compared to the prior year. These allocable costs include credit card processing fees, editorial costs, certain technology costs, web hosting and other processing fees. An increased share of those costs was allocated to the cost of direct revenue due to the increase in billings from direct revenue transactions relative to total gross billings.

Gross profit on direct revenue increased by \$45.4 million to \$78.9 million for the year ended December 31, 2013, as compared to \$33.5 million for the year ended December 31, 2012. This increase in gross profit resulted from the \$464.3 million increase in direct revenue to \$919.0 million for the year ended December 31, 2013, as compared to \$454.7 million for the year ended December 31, 2012, partially offset by the \$418.9 million increase in cost of revenue on direct revenue deals to \$840.1 million for the year ended December 31, 2013, as compared to \$421.2 million for the year ended December 31, 2012. Gross profit as a percentage of revenue on direct revenue deals increased to 8.6% for the year ended December 31, 2013, as compared to 7.4% for the year ended December 31, 2012. The increase in gross profit as a percentage of revenue on direct revenue deals was attributable, in part, to lower cost of inventory sold as a percentage of direct revenue, partially offset by increased shipping and fulfillment costs as a percentage of direct revenue.

Gross profit on other revenue decreased by \$13.8 million to \$6.4 million for the year ended December 31, 2013, as compared to \$20.3 million for the year ended December 31, 2012. The decrease in gross profit was driven by the \$6.7 million decrease in other revenue, which was primarily attributable to the decrease in advertising revenue, and a \$7.1 million increase in cost of revenue, partially attributable to credit card interchange fees related to the Company's payment processing offering, during the year ended December 31, 2013.

## Gross Profit by Segment

Gross profit by segment for the years ended December 31, 2013 and 2012 was as follows:

	Year Ended December 31,			
	2013	% of total	2012	% of total
(dollars in thousands)				
North America:				
Third party and other .....	\$ 646,866	43.1%	\$ 617,212	38.2%
Direct.....	65,971	4.4	38,097	2.4
Total gross profit.....	712,837	47.5	655,309	40.6
EMEA:				
Third party and other .....	556,932	37.1	691,176	42.8
Direct.....	13,194	0.9	(1,992)	(0.1)
Total gross profit.....	570,126	38.0	689,184	42.7
Rest of World:				
Third party and other .....	218,794	14.6	273,602	16.9
Direct.....	(224)	(0.1)	(2,563)	(0.2)
Total gross profit.....	218,570	14.5	271,039	16.7
Total gross profit.....	\$ 1,501,533	100.0%	\$ 1,615,532	100.0%

Gross profit by category and segment for the years ended December 31, 2013 and 2012 was as follows (in thousands):

	North America		EMEA		Rest of World		Consolidated	
	Year Ended December 31,		Year Ended December 31,		Year Ended December 31,		Year Ended December 31,	
	2013	2012	2013	2012	2013	2012	2013	2012
Local <sup>(1)</sup> :								
Third party.....	\$ 580,438	\$ 528,893	\$ 381,185	\$ 450,009	\$ 151,783	\$ 170,100	\$ 1,113,406	\$ 1,149,002
Direct.....	(782)	1,909	—	—	—	—	(782)	1,909
Total gross profit.....	579,656	530,802	381,185	450,009	151,783	170,100	1,112,624	1,150,911
Goods:								
Third party.....	15,319	48,288	116,357	168,429	39,699	66,271	171,375	282,988
Direct.....	66,753	36,188	13,194	(2,521)	(224)	(2,563)	79,723	31,104
Total gross profit.....	82,072	84,476	129,551	165,908	39,475	63,708	251,098	314,092
Travel and other:								
Third party and other..	51,109	40,031	59,390	72,738	27,312	37,231	137,811	150,000
Direct.....	—	—	—	529	—	—	—	529
Total gross profit.....	51,109	40,031	59,390	73,267	27,312	37,231	137,811	150,529
Total gross profit.....	\$ 712,837	\$ 655,309	\$ 570,126	\$ 689,184	\$ 218,570	\$ 271,039	\$ 1,501,533	\$ 1,615,532

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

### North America

North America segment gross profit increased by \$57.5 million to \$712.8 million for the year ended December 31, 2013, as compared to \$655.3 million for the year ended December 31, 2012. The increase in gross profit was comprised of a \$48.9 million increase in the Local category and an \$11.1 million increase in the Travel and other category.

## EMEA

EMEA segment gross profit decreased by \$119.1 million to \$570.1 million for the year ended December 31, 2013, as compared to \$689.2 million for the year ended December 31, 2012. The decrease in gross profit was comprised of a \$68.8 million decrease in the Local category, a \$36.4 million decrease in the Goods category and a \$13.9 million decrease in the Travel and other category.

## Rest of World

Rest of World segment gross profit decreased by \$52.5 million to \$218.6 million for the year ended December 31, 2013, as compared to \$271.0 million for the year ended December 31, 2012. The decrease in gross profit was comprised of a \$24.2 million decrease in the Goods category, an \$18.3 million decrease in the Local category and a \$9.9 million decrease in the Travel and other category. We expect that gross profit for our Rest of World segment will increase in future periods as a result of our acquisition of Ticket Monster.

## Marketing

For the years ended December 31, 2013 and 2012, marketing expense was \$214.8 million and \$336.9 million, respectively. Marketing expense by segment as a percentage of segment revenue for the years ended December 31, 2013 and 2012 was as follows:

	Year Ended December 31,			
	2013	% of Segment Revenue	2012	% of Segment Revenue
(dollars in thousands)				
North America.....	\$ 113,612	7.5%	\$ 105,914	9.1%
EMEA.....	65,130	8.8%	156,476	19.4%
Rest of World.....	36,082	11.7%	74,464	20.5%
Marketing .....	<u>\$ 214,824</u>	<u>8.3%</u>	<u>\$ 336,854</u>	<u>14.4%</u>

We evaluate our marketing expense as a percentage of revenue because it gives us an indication of how well our marketing spend is driving the volume of transactions. Marketing expense as a percentage of revenue for the year ended December 31, 2013 has decreased from the prior year, which we believe is due to efficiencies we have realized from building a subscriber base and shifting the focus of our marketing spend to customer activation and mobile application downloads. Additionally, we continue to enhance our technology and methods for optimizing marketing expenditures, which we believe has contributed to more efficient marketing spending in recent periods.

Marketing expense by segment as a percentage of total marketing expense for the years ended December 31, 2013 and 2012 was as follows:

	Year Ended December 31,			
	2013	% of total	2012	% of total
(dollars in thousands)				
North America.....	\$ 113,612	52.9%	\$ 105,914	31.4%
EMEA .....	65,130	30.3	156,476	46.5
Rest of World.....	36,082	16.8	74,464	22.1
Marketing .....	<u>\$ 214,824</u>	<u>100.0%</u>	<u>\$ 336,854</u>	<u>100.0%</u>

Our marketing expense decreased by \$122.0 million to \$214.8 million for the year ended December 31, 2013, as compared to \$336.9 million for the year ended December 31, 2012. As our markets have continued to develop throughout 2013, the focus of our marketing spend has shifted from subscriber acquisition marketing to customer activation and mobile application downloads, which has contributed to lower marketing expense during the year ended December 31, 2013, as compared to the prior year. Additionally, we have enhanced our return on investment analyses for marketing expenditures, which we believe has resulted in more efficient marketing spending in recent periods.

Our subscriber acquisition and customer activation marketing activities also include elements that are not presented as

"Marketing" on our consolidated statements of operations, such as order discounts, free shipping on merchandise sales and accepting lower margins on our deals. Marketing is the primary method by which we acquire customers, and as such, is an important part of our business.

#### *North America*

North America segment marketing expense increased by \$7.7 million to \$113.6 million for the year ended December 31, 2013, as compared to \$105.9 million for the year ended December 31, 2012. For the year ended December 31, 2013, marketing expense as a percentage of revenue for the North America segment was 7.5%, as compared to 9.1% for the year ended December 31, 2012. The increase in marketing expense for the year ended December 31, 2013 as compared to the prior year was primarily attributable to an increase in mobile marketing spend in connection with our initiatives to increase customer demand for deals offered through our platform.

#### *EMEA*

EMEA segment marketing expense decreased by \$91.3 million to \$65.1 million for the year ended December 31, 2013, as compared to \$156.5 million for the year ended December 31, 2012. For the year ended December 31, 2013, marketing expense as a percentage of revenue for the EMEA segment was 8.8%, as compared to 19.4% for the year ended December 31, 2012. The decreases were primarily attributable to a decrease in online marketing spend. This reflects the continued shift in marketing spend from subscriber acquisition to customer activation and mobile application downloads and our enhanced return on investment analyses for marketing expenditures, which have contributed to lower marketing expense during the year ended December 31, 2013.

#### *Rest of World*

Rest of World segment marketing expense decreased by \$38.4 million to \$36.1 million for the year ended December 31, 2013, as compared to \$74.5 million for the year ended December 31, 2012. For the year ended December 31, 2013, marketing expense as a percentage of revenue for the Rest of World segment was 11.7%, as compared to 20.5% for the year ended December 31, 2012. The decreases were primarily attributable to a decrease in online marketing spend. This reflects the continued shift from subscriber acquisition marketing to customer activation and our enhanced return on investment analyses for marketing expenditures, which have contributed to lower marketing expense during the year ended December 31, 2013. We expect that marketing expense for our Rest of World segment will increase in future periods as a result of our acquisition of Ticket Monster.

#### ***Selling, General and Administrative***

Selling, general and administrative expense increased by \$31.9 million to \$1,211.0 million for the year ended December 31, 2013, as compared to \$1,179.1 million for the year ended December 31, 2012. The increase in selling, general and administrative expense was primarily due to increases in depreciation and amortization, wages and benefits, stock-based compensation and system maintenance expenses, partially offset by lower general corporate costs and consulting and professional fees. Depreciation and amortization recorded within selling, general and administrative expense increased by \$25.8 million for the year ended December 31, 2013, primarily due to increased amortization expense related to higher internally-developed software and computer hardware balances, as compared to the prior year. There was a \$14.9 million increase in system maintenance expenses for the year ended December 31, 2013, as compared to the prior year, as a result of investments in technology and our corporate infrastructure. Wages and benefits (excluding stock-based compensation) within selling, general and administrative expense increased by \$12.3 million for the year ended December 31, 2013. Stock-based compensation costs recorded within selling, general and administrative expense increased by \$12.2 million for the year ended December 31, 2013, as compared to the prior year. Those increases were partially offset by general corporate costs, which decreased \$16.5 million for the year ended December 31, 2013, as compared to the prior year, primarily due to a reduction in telecommunication expenses, office equipment and office supplies. Consulting and professional fees also decreased by \$13.2 million for the year ended December 31, 2013, as compared to the prior year.

Selling, general and administrative expense as a percentage of revenue was 47.1% for the year ended December 31, 2013, as compared to 50.5% for the year ended December 31, 2012, respectively. Although revenue increased by \$239.2 million, or 10.2%, for the year ended December 31, 2013, as compared to the prior year, selling, general and administrative expense increased by \$31.9 million, or 2.7%. We are continuing to refine our sales management and administrative processes, including through automation, in connection with our efforts to generate increased operating efficiencies.

We expect that selling, general and administrative expense will increase in future periods as a result of expenses, including amortization of acquired intangible assets, related to our acquisitions of Ticket Monster and Ideeli in January 2014.

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

For the years ended December 31, 2013 and 2012, we incurred a net acquisition-related benefit of less than \$0.1 million and expense of \$0.9 million, respectively. Acquisition-related (benefit) expense, net is comprised of the change in fair value of contingent consideration arrangements and, beginning in 2013, also includes external transaction costs related to business combinations, primarily consisting of legal and advisory fees. For the year ended December 31, 2013, the net acquisition-related benefit included \$3.2 million related to changes in the fair value of contingent consideration, partially offset by \$3.2 million of external transaction costs related to business combinations. The external transaction costs incurred in 2013 were primarily related to the acquisition of Ticket Monster, which closed on January 2, 2014. Such transaction costs were not material for the year ended December 31, 2012. See Note 13 "*Fair Value Measurements*" for information about fair value measurements of contingent consideration arrangements.

### ***Income from Operations***

Income from operations decreased by \$22.9 million to \$75.8 million for the year ended December 31, 2013, as compared to \$98.7 million for the year ended December 31, 2012. The decrease in income from operations for the year ended December 31, 2013, as compared to the prior year, was primarily due to the decrease in gross profit of \$114.0 million and the increase in selling, general and administrative expense of \$31.9 million, partially offset by the decrease in marketing expense of \$122.0 million. The favorable impact on income from operations from year-over-year changes in foreign exchange rates for the year ended December 31, 2013 was \$4.0 million.

#### *North America*

Segment operating income in our North America segment, which excludes stock-based compensation and acquisition-related expense (benefit), net, increased by \$0.9 million to \$140.6 million for the year ended December 31, 2013, as compared to \$139.7 million for the year ended December 31, 2012. The increase in segment operating income was primarily attributable to an increase in gross profit, partially offset by an increase in segment operating expenses.

#### *EMEA*

Segment operating income in our EMEA segment, which excludes stock-based compensation and acquisition-related expense (benefit), net, increased by \$5.5 million to \$111.5 million for the year ended December 31, 2013, as compared to \$106.0 million for the year ended December 31, 2012. The increase in segment operating income was primarily attributable to a decrease in segment operating expenses, partially offset by a decrease in gross profit.

#### *Rest of World*

Segment operating loss in our Rest of World segment, which excludes stock-based compensation and acquisition-related expense (benefit), net, increased by \$12.9 million to a loss of \$54.9 million for the year ended December 31, 2013, as compared to a loss of \$42.0 million for the year ended December 31, 2012. The increased segment operating loss was primarily attributable to a decrease in gross profit, partially offset by a decrease in segment operating expenses.

### ***Other (Expense) Income, Net***

Other (expense) income, net was an expense, net of \$94.6 million for the year ended December 31, 2013, as compared to income, net of \$6.2 million for the year ended December 31, 2012. During the year ended December 31, 2013, other expense, net included an \$85.5 million impairment of our investments in F-tuan. During the year ended December 31, 2012, other income, net included a \$56.0 million gain resulting from the E-Commerce transaction partially offset by a \$50.6 million impairment of our investments in F-tuan. The impairments of our investments in F-tuan and the gain on the E-Commerce transaction are described in Note 6 "*Investments*." The change in other (expense) income, net was also due to an increase in foreign currency transaction losses for the year ended December 31, 2013, as compared to the prior year.

### ***Provision for Income Taxes***

For the years ended December 31, 2013 and 2012, we recorded income tax expense of \$70.0 million and \$146.0 million, respectively.

The effective tax rate was (370.4)% for the year ended December 31, 2013, as compared to 153.7% for the year ended December 31, 2012. The most significant factors impacting our effective tax rate for the years ended December 31, 2013 and

2012 were losses in jurisdictions that we are not able to benefit due to uncertainty as to the realization of those losses, amortization of the tax effects of intercompany sales of intellectual property and nondeductible stock-based compensation expense. The effective tax rate for the year ended December 31, 2013 was also impacted by the release of a portion of the valuation allowance in the U.S. against our federal and state deferred tax assets, which resulted in a \$9.6 million reduction to income tax expense.

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

## Results of Operations

### Comparison of the Years Ended December 31, 2012 and 2011:

	Year Ended December 31,	
	2012	2011
	(in thousands)	
Revenue:		
Third party and other .....	\$ 1,879,729	\$ 1,589,604
Direct.....	454,743	20,826
Total revenue.....	2,334,472	1,610,430
Cost of revenue:		
Third party and other .....	297,739	243,789
Direct.....	421,201	15,090
Total cost of revenue.....	718,940	258,879
Gross profit .....	1,615,532	1,351,551
Operating expenses:		
Marketing.....	336,854	768,472
Selling, general and administrative.....	1,179,080	821,002
Acquisition-related expense (benefit), net .....	897	(4,537)
Total operating expenses.....	1,516,831	1,584,937
<b>Income (loss) from operations</b> .....	98,701	(233,386)
Loss on equity method investments.....	(9,925)	(26,652)
Other income, net.....	6,166	5,973
<b>Income (loss) before provision for income taxes</b> .....	94,942	(254,065)
Provision for income taxes.....	145,973	43,697
<b>Net loss</b> .....	(51,031)	(297,762)
Net (income) loss attributable to noncontrolling interests .....	(3,742)	18,335
<b>Net loss attributable to Groupon, Inc.</b> .....	(54,773)	(279,427)
Redemption of preferred stock in excess of carrying value.....	—	(34,327)
Adjustment of redeemable noncontrolling interests to redemption value ....	(12,604)	(59,740)
<b>Net loss attributable to common stockholders</b> .....	\$ (67,377)	\$ (373,494)



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

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

	Year Ended December 31,			
	2012		2011	
	Statement of Operations line item	Stock-based compensation included in line item	Statement of Operations line item	Stock-based compensation included in line item
	(in thousands)			
Total cost of revenue.....	\$ 718,940	\$ 2,928	\$ 258,879	\$ 1,130
Operating expenses:				
Marketing.....	\$ 336,854	\$ 3,570	\$ 768,472	\$ 2,531
Selling, general and administrative.....	1,179,080	97,619	821,002	89,929
Acquisition-related expense (benefit), net.....	897	—	(4,537)	—
Total operating expenses.....	\$ 1,516,831	\$ 101,189	\$ 1,584,937	\$ 92,460

**Foreign exchange rate neutral operating results**

The effect on our gross billings, revenue, cost of revenue and operating expenses, and income from operations for the year ended December 31, 2012 from changes in exchange rates versus the U.S. dollar was as follows:

	Year Ended December 31, 2012		
	At Avg. 2011 Rates <sup>(1)</sup>	Exchange Rate Effect <sup>(2)</sup>	As Reported
		(in thousands)	
Gross billings.....	\$ 5,563,703	\$ (183,519)	\$ 5,380,184
Revenue.....	\$ 2,408,588	\$ (74,116)	\$ 2,334,472
Cost of revenue and operating expenses.....	2,302,486	(66,715)	2,235,771
Income from operations.....	\$ 106,102	\$ (7,401)	\$ 98,701

- (1) Represents the financial statement balances that would have resulted had exchange rates in the reporting period been the same as those in effect in the comparable prior year period.
- (2) Represents the increase or decrease in reported amounts resulting from changes in exchange rates from those in effect in the comparable prior year period.

**Gross Billings**

Gross billings represents the total dollar value of customer purchases of goods and services, excluding applicable taxes and net of estimated refunds. Gross billings for the years ended December 31, 2012 and 2011 were as follows:

	Year Ended December 31,	
	2012	2011
		(in thousands)
Gross billings:		
Third party.....	\$ 4,905,022	\$ 3,958,942
Direct.....	454,743	20,826
Other.....	20,419	5,733
Total gross billings.....	\$ 5,380,184	\$ 3,985,501

For third party revenue deals, gross billings differs from third party revenue reported in our consolidated statements of operations, which is presented net of the merchant's share of the transaction price. For direct revenue deals and other revenue, gross billings are equivalent to direct revenue and other revenue reported in our consolidated statements of operations. Gross billings increased by \$1,394.7 million to \$5,380.2 million for the year ended December 31, 2012, as compared to \$3,985.5 million for the year ended December 31, 2011. The increase was comprised of a \$946.1 million increase in gross billings from third party revenue transactions, a \$433.9 million increase in gross billings from direct revenue transactions and a \$14.7 million increase in gross billings from other revenue transactions. The increase in gross billings was also driven by an increase in active customers and the volume of transactions, as we continued to grow our business. The unfavorable impact on gross billings from year-over-year changes in foreign exchange rates for the year ended December 31, 2012 was \$183.5 million.

We offers goods and services through three primary categories: Local, Goods and Travel. We also earned advertising revenue, payment processing revenue and point of sale revenue. Our Goods and Travel categories were launched in the second half of 2011. It is not practicable to determine our gross billings, revenue, cost of revenue and gross profit by category for the year ended December 31, 2011.

### ***Gross Billings by Segment***

Gross billings by segment for the years ended December 31, 2012 and 2011 were as follows:

	<b>Year Ended December 31,</b>			
	<b>2012</b>	<b>% of total</b>	<b>2011</b>	<b>% of total</b>
<b>(dollars in thousands)</b>				
Gross billings:				
North America.....	\$ 2,373,153	44.1 %	\$ 1,561,927	39.2%
EMEA.....	1,928,508	35.8	1,647,848	41.3
Rest of World.....	1,078,523	20.1	775,726	19.5
Total gross billings.....	<u>\$ 5,380,184</u>	<u>100.0 %</u>	<u>\$ 3,985,501</u>	<u>100.0%</u>

#### *North America*

North America segment gross billings increased by \$811.2 million to \$2,373.2 million for the year ended December 31, 2012, as compared to \$1,561.9 million for the year ended December 31, 2011. The increase in gross billings was largely attributable to an increase in active customers and the volume of transactions.

#### *EMEA*

EMEA segment gross billings increased by \$280.7 million to \$1,928.5 million for the year ended December 31, 2012, as compared to \$1,647.8 million for the year ended December 31, 2011. The increase in gross billings was largely attributable to an increase in active customers and the volume of transactions. The unfavorable impact on gross billings from year-over-year changes in foreign exchange rates for the year ended December 31, 2012 was \$127.6 million.

#### *Rest of World*

Rest of World segment gross billings increased by \$302.8 million to \$1,078.5 million for the year ended December 31, 2012, as compared to \$775.7 million for the year ended December 31, 2011. The increase in gross billings was largely attributable to an increase in active customers and the volume of transactions. The unfavorable impact on gross billings from year-over-year changes in foreign exchange rates for the year ended December 31, 2012 was \$53.1 million.

## Revenue

We generate revenue from third party revenue deals, direct revenue deals and other transactions. Revenue for the years ended December 31, 2012 and 2011 was as follows:

	Year Ended December 31,	
	2012	2011
	(in thousands)	
Revenue:		
Third party.....	\$ 1,859,310	\$ 1,583,871
Direct.....	454,743	20,826
Other.....	20,419	5,733
Total revenue.....	<u>\$ 2,334,472</u>	<u>\$ 1,610,430</u>

Revenue increased by \$724.0 million to \$2,334.5 million for the year ended December 31, 2012, as compared to \$1,610.4 million for the year ended December 31, 2011. The increase in revenue was primarily driven by the \$433.9 million increase in direct revenue from transactions, primarily in our Goods category, where we are the merchant of record and for which revenue is reported on a gross basis. The net increase in revenue was also attributable to an increase in active customers and the volume of transactions during the year ended December 31, 2012, as compared to the prior year. In addition, several other initiatives contributed to revenue growth for the year ended December 31, 2012, as compared to the prior year. Through our daily emails, we increasingly targeted customers by sending them deals for specific locations and personal preferences, which we believe contributed to revenue growth. We also increased the number of merchant partner relationships and the volume of deals we offered to our customers. The unfavorable impact on revenue from year-over-year changes in foreign exchange rates for the year ended December 31, 2012 was \$74.1 million.

### Third Party Revenue

Third party revenue increased by \$275.4 million to \$1,859.3 million for the year ended December 31, 2012, as compared to \$1,583.9 million for the year ended December 31, 2011. Several initiatives contributed to third party revenue growth for the year ended December 31, 2012 as compared to the prior year. We added to our sales force in early 2012, allowing us to increase the number of merchant partner relationships and the volume of deals we offered to our customers on our websites and mobile applications. The launch of our Goods category in the second half of 2011 also contributed to the growth in third party revenue for the year ended December 31, 2012, because Goods transactions where we are acting as a third party marketing agent of the merchant are reported on a net basis within third party revenue.

### Direct Revenue

Direct revenue increased by \$433.9 million to \$454.7 million for the year ended December 31, 2012, as compared to \$20.8 million for the year ended December 31, 2011, due to the launch of Goods in the second half of 2011. We were often the merchant of record for transactions throughout 2012 and 2011 in the Goods category, particularly in North America, such that the resulting revenue was reported on a gross basis within direct revenue. Direct revenue deals continued to grow, both overall and as a percentage of our revenue, through the continued growth of our Goods category for the year ended December 31, 2012, as compared to the prior year.

### Other Revenue

Other revenue increased by \$14.7 million to \$20.4 million for the year ended December 31, 2012, as compared to \$5.7 million for the year ended December 31, 2011. Other revenue was primarily comprised of advertising revenue, which increased with the growth of our business. Other revenue also included point of sale and payment processing revenue, which we launched in the third quarter of 2012. Point of sale and payment processing revenue were not significant for the year ended December 31, 2012.

## Revenue by Segment

Revenue by segment for the years ended December 31, 2012 and 2011 was as follows:

	Year Ended December 31,			
	2012	% of total	2011	% of total
(dollars in thousands)				
North America:				
Third party and other .....	\$ 762,424	32.7%	\$ 634,980	39.4%
Direct.....	403,276	17.2	—	—
Total segment revenue .....	1,165,700	49.9	634,980	39.4
EMEA:				
Third party and other .....	764,830	32.8	699,393	43.4
Direct.....	40,646	1.7	20,826	1.3
Total segment revenue .....	805,476	34.5	720,219	44.7
Rest of World:				
Third party and other .....	352,475	15.1	255,231	15.9
Direct.....	10,821	0.5	—	—
Total segment revenue .....	363,296	15.6	255,231	15.9
Total revenue.....	\$ 2,334,472	100.0%	\$ 1,610,430	100.0%

### North America

North America segment revenue increased by \$530.7 million to \$1,165.7 million for the year ended December 31, 2012, as compared to \$635.0 million for the year ended December 31, 2011. The increase in revenue was largely attributable to an increase in active customers and the volume of transactions and strong growth in our direct revenue. Direct revenue, which is recorded on a gross basis, is derived primarily from selling products through our Goods category where we are the merchant of record.

### EMEA

EMEA segment revenue increased by \$85.3 million to \$805.5 million for the year ended December 31, 2012, as compared to \$720.2 million for the year ended December 31, 2011 and was largely attributable to an increase in active customers and the volume of transactions. While we grew our EMEA segment revenue for the year ended December 31, 2012 as compared to the prior year, revenue declined 26.6% for the quarter ended December 31, 2012, as compared to the corresponding period of the prior year. This decline was largely attributable to reductions in the percentage of gross billings that we retained after deducting the merchant's share from sales in our Local category. The unfavorable impact on revenue from year-over-year changes in foreign exchange rates for the year ended December 31, 2012 was \$54.6 million.

### Rest of World

Rest of World segment revenue increased by \$108.1 million to \$363.3 million for the year ended December 31, 2012, as compared to \$255.2 million for the year ended December 31, 2011. The increase in revenue was largely attributable to an increase in active customers and the volume of transactions. The unfavorable impact on revenue from year-over-year changes in foreign exchange rates for the year ended December 31, 2012 was \$18.4 million.

## Cost of Revenue

Cost of revenue on third party, direct revenue and other deals for the years ended December 31, 2012 and 2011 was as follows:

	Year Ended December 31,	
	2012	2011
	(in thousands)	
Cost of revenue:		
Third party .....	\$ 297,574	\$ 243,709
Direct.....	421,201	15,090
Other .....	165	80
Total cost of revenue.....	<u>\$ 718,940</u>	<u>\$ 258,879</u>

Cost of revenue is comprised of direct and certain indirect costs incurred to generate revenue. For direct revenue transactions, cost of revenue includes the cost of inventory, shipping and fulfillment costs and inventory markdowns. For third party revenue transactions, cost of revenue includes estimated refunds for which the merchant's share is not recoverable. Other costs incurred to generate revenue, which include credit card processing fees, editorial costs, certain technology costs, web hosting and other processing fees, are allocated to cost of third party revenue, direct revenue, and other revenue in proportion to gross billings during the period. As a result of the significant growth we experienced from direct revenue transactions relative to our total gross billings for the year ended December 31, 2012, an increased share of those allocable costs was allocated to cost of direct revenue in our consolidated statement of operations for the year ended December 31, 2012.

Cost of revenue increased by \$460.1 million to \$718.9 million for the year ended December 31, 2012, as compared to \$258.9 million for the year ended December 31, 2011, which was attributable to the growth in direct revenue, primarily from our Goods category. The increase in cost of revenue was primarily driven by the cost of inventory and the related shipping and fulfillment costs on direct revenue deals, which were not as significant during the prior year, as the Goods business launched in the second half of 2011. The increase in cost of revenue for the year ended December 31, 2012, as compared to the prior year, was also due to an increase in estimated refunds for which the merchant's share is not recoverable related to our third party revenue deals, increased processing fees directly related to higher overall transaction volumes and increased email distribution costs as a result of our larger subscriber base.

## Cost of Revenue by Segment

Cost of revenue by segment for the years ended December 31, 2012 and 2011 was as follows:

	Year Ended December 31,			
	2012	% of total	2011	% of total
	dollars in thousands			
North America:				
Third party and other .....	\$ 145,212	20.2%	\$ 139,954	54.1%
Direct.....	365,179	50.8	—	—
Total segment cost of revenue.....	<u>510,391</u>	<u>71.0</u>	<u>139,954</u>	<u>54.1</u>
EMEA:				
Third party and other .....	73,654	10.2	58,367	22.5
Direct.....	42,638	6.0	15,090	5.8
Total segment cost of revenue.....	<u>116,292</u>	<u>16.2</u>	<u>73,457</u>	<u>28.3</u>
Rest of World:				
Third party and other .....	78,873	11.0	45,468	17.6
Direct.....	13,384	1.8	—	—
Total segment cost of revenue.....	<u>92,257</u>	<u>12.8</u>	<u>45,468</u>	<u>17.6</u>
Total cost of revenue.....	<u>\$ 718,940</u>	<u>100.0%</u>	<u>\$ 258,879</u>	<u>100.0%</u>

## North America

North America segment cost of revenue increased by \$370.4 million to \$510.4 million for the year ended December 31, 2012, as compared to \$140.0 million for the year ended December 31, 2011. The increase in cost of revenue was primarily driven by the cost of inventory and shipping and fulfillment costs related to direct revenue deals.

## EMEA

EMEA segment cost of revenue increased by \$42.8 million to \$116.3 million for the year ended December 31, 2012, as compared to \$73.5 million for the year ended December 31, 2011. The increase in cost of revenue was primarily driven by the continued growth of our third party and direct revenue deals during the year ended December 31, 2012, as compared to the prior year.

## Rest of World

Rest of World segment cost of revenue increased by \$46.8 million to \$92.3 million for the year ended December 31, 2012, as compared to \$45.5 million for the year ended December 31, 2011. The increase in cost of revenue was primarily driven by the continued growth of our third party and direct revenue deals during the year ended December 31, 2012, as compared to the prior year.

## Gross Profit

Gross profit for the years ended December 31, 2012 and 2011 was as follows:

	Year Ended December 31,	
	2012	2011
	(in thousands)	
Gross profit:		
Third party.....	\$ 1,561,736	\$ 1,340,162
Direct.....	33,542	5,736
Other.....	20,254	5,653
Total gross profit.....	<u>\$ 1,615,532</u>	<u>\$ 1,351,551</u>

Gross profit increased by \$264.0 million to \$1,615.5 million for the year ended December 31, 2012, as compared to \$1,351.6 million for the year ended December 31, 2011. This increase in gross profit resulted from the \$724.0 million increase in revenue, partially offset by the \$460.1 million increase in cost of revenue for the year ended December 31, 2012, as compared to the prior year. Gross profit as a percentage of revenue decreased to 69.2% for the year ended December 31, 2012, as compared to 83.9% for the year ended December 31, 2011. The decrease in gross profit as a percentage of revenue for the year ended December 31, 2012, as compared to the prior year, was primarily attributable to the increase in direct revenue. Direct revenue primarily relates to deals in our Goods category, which typically have lower margins than deals in our Local category. Additionally, direct revenue and the related cost of revenue are presented on a gross basis in our consolidated statements of operations, which contributes to lower gross profit as a percentage of revenue.

Gross profit on third party revenue deals and other revenue increased by \$236.2 million to \$1,582.0 million for the year ended December 31, 2012, as compared to \$1,345.8 million for the year ended December 31, 2011. This increase in gross profit resulted from the \$960.8 million increase in gross billings on third party revenue transactions and other revenue to \$4,925.4 million for the year ended December 31, 2012, as compared to \$3,964.7 million for the year ended December 31, 2011, partially offset by a reduction in the percentage of billings that we retained from third party revenue transactions for the year ended December 31, 2012. Gross profit as a percentage of revenue on third party revenue deals and other revenue was 84.2% for the year ended December 31, 2012, as compared to 84.7% for the year ended December 31, 2011.

Gross profit on direct revenue deals increased by \$27.8 million to \$33.5 million for the year ended December 31, 2012, as compared to \$5.7 million for the year ended December 31, 2011. This increase in gross profit resulted from the \$433.9 million increase in direct revenue to \$454.7 million for the year ended December 31, 2012, as compared to \$20.8 million for the year ended December 31, 2011, partially offset by the \$406.1 million increase in cost of revenue on direct revenue deals to \$421.2 million for the year ended December 31, 2012, as compared to \$15.1 million for the year ended December 31, 2011. Gross profit as a percentage of revenue on direct revenue deals was 7.4% for the year ended December 31, 2012, as compared to 27.5% for

the year ended December 31, 2011. The Goods category, which comprises the majority of our direct revenue for the year ended December 31, 2012, was not launched until the second half of 2011. Therefore, the comparison of gross profit as a percentage of revenue on direct revenue deals for the year ended December 31, 2012, as compared to the prior year, is not meaningful due to the limited volume of direct revenue deals in 2011.

### ***Gross Profit by Segment***

Gross profit by segment for the years ended December 31, 2012 and 2011 was as follows:

	<b>Year Ended December 31,</b>			
	<b>2012</b>	<b>% of total</b>	<b>2011</b>	<b>% of total</b>
<b>(dollars in thousands)</b>				
<b>North America:</b>				
Third party and other .....	\$ 617,212	38.2%	\$ 495,026	36.6%
Direct.....	38,097	2.4	—	—
Total gross profit.....	655,309	40.6	495,026	36.6
<b>EMEA:</b>				
Third party and other .....	691,176	42.8	641,026	47.4
Direct.....	(1,992)	(0.1)	5,736	0.5
Total gross profit.....	689,184	42.7	646,762	47.9
<b>Rest of World:</b>				
Third party and other .....	273,602	16.9	209,763	15.5
Direct.....	(2,563)	(0.2)	—	—
Total gross profit.....	271,039	16.7	209,763	15.5
Total gross profit.....	<u>\$ 1,615,532</u>	<u>100.0%</u>	<u>\$ 1,351,551</u>	<u>100.0%</u>

#### *North America*

North America segment gross profit increased by \$160.3 million to \$655.3 million for the year ended December 31, 2012, as compared to \$495.0 million for the year ended December 31, 2011. The increase in gross profit was comprised of a \$122.2 million increase in third party and other gross profit and a \$38.1 million increase in direct gross profit.

#### *EMEA*

EMEA segment gross profit increased by \$42.4 million to \$689.2 million for the year ended December 31, 2012, as compared to \$646.8 million for the year ended December 31, 2011. The increase in gross profit was comprised of a \$50.2 million increase in third party and other gross profit, partially offset by a \$7.8 million decrease in direct gross profit.

#### *Rest of World*

Rest of World segment gross profit increased by \$61.3 million to \$271.1 million as of December 31, 2012, as compared to \$209.8 million as of December 31, 2011. The increase in gross profit was comprised of a \$63.8 million increase in third party and other gross profit, partially offset by a \$2.5 million decrease in direct gross profit.

## Marketing

For the years ended December 31, 2012 and 2011, marketing expense was \$336.9 million and \$768.5 million, respectively. Marketing expense by segment as a percentage of segment revenue for the years ended December 31, 2012 and 2011 was as follows:

	Year Ended December 31,			
	2012	% of Segment Revenue	2011	% of Segment Revenue
(dollars in thousands)				
North America.....	\$ 105,914	9.1%	\$ 254,746	40.1%
EMEA.....	156,476	19.4%	297,522	41.3%
Rest of World.....	74,464	20.5%	216,204	84.7%
Marketing .....	<u>\$ 336,854</u>	<u>14.4%</u>	<u>\$ 768,472</u>	<u>47.7%</u>

We evaluate our marketing expense as a percentage of revenue because it gives us an indication of how well our marketing spend is driving the volume of transactions. Marketing expense as a percentage of revenue for the year ended December 31, 2012 has decreased from the prior year, which we believe is due to efficiencies we have realized from building a subscriber base and shifting our marketing spend to customer activation. In 2010, we began our international expansion and subsequently made significant marketing investments related to subscriber acquisition in our international markets to accelerate growth and establish our presence in new markets. We continued to invest heavily in subscriber acquisition throughout 2011. Additionally, the increase in revenue, including direct revenue that is reported on a gross basis, contributed to the decline in marketing expense as a percentage of revenue for the year ended December 31, 2012, as compared to the prior year.

Marketing expense by segment as a percentage of total marketing expense for the years ended December 31, 2012 and 2011 was as follows:

	Year Ended December 31,			
	2012	% of total	2011	% of total
(dollars in thousands)				
North America.....	\$ 105,914	31.4%	\$ 254,746	33.1%
EMEA .....	156,476	46.5	297,522	38.7
Rest of World.....	74,464	22.1	216,204	28.2
Marketing.....	<u>\$ 336,854</u>	<u>100.0%</u>	<u>\$ 768,472</u>	<u>100.0%</u>

Our marketing expense decreased by \$431.6 million to \$336.9 million for the year ended December 31, 2012, as compared to \$768.5 million for the year ended December 31, 2011. For the year ended December 31, 2011, subscriber acquisition still comprised the primary portion of our marketing spend, particularly in our international markets as we were still in the early phases of building our customer base in those markets. As our markets developed throughout the year ended December 31, 2012, we began shifting our marketing spend from subscriber acquisition marketing to customer activation, which contributed to lower marketing expense the year ended December 31, 2012, as compared to the prior year.

### North America

North America segment marketing expense decreased by \$148.8 million to \$105.9 million for the year ended December 31, 2012, as compared to \$254.7 million for the year ended December 31, 2011. For the year ended December 31, 2012, marketing expense as a percentage of revenue for the North America segment was 9.1%, as compared to 40.1% for the year ended December 31, 2011. The decreases were primarily attributable to a decrease in online marketing spend. This reflected the continued shift in focus from subscriber acquisition marketing to customer activation, which contributed to lower marketing expense for the year ended December 31, 2012, as compared to the prior year.



## *EMEA*

EMEA segment marketing expense decreased by \$141.0 million to \$156.5 million for the year ended December 31, 2012, as compared to \$297.5 million for the year ended December 31, 2011. For the year ended December 31, 2012, marketing expense as a percentage of revenue for the EMEA segment was 19.4%, as compared to 41.3% for the year ended December 31, 2011. The decreases were primarily attributable to a decrease in online marketing spend. This reflected the continued shift in focus from subscriber acquisition marketing to customer activation, which contributed to lower marketing expense for the year ended December 31, 2012, as compared to the prior year.

## *Rest of World*

Rest of World segment marketing expense decreased by \$141.7 million to \$74.5 million for the year ended December 31, 2012, as compared to \$216.2 million for the year ended December 31, 2011. For the year ended December 31, 2012, marketing expense as a percentage of revenue for the Rest of World segment was 20.5%, as compared to 87.4% for the year ended December 31, 2011. The decreases were primarily attributable to a decrease in online marketing spend. This reflected the continued shift in focus from subscriber acquisition marketing to customer activation, which contributed to lower marketing expense for the year ended December 31, 2012, as compared to the prior year.

## ***Selling, General and Administrative***

Selling, general and administrative expense increased by \$358.1 million to \$1,179.1 million for the year ended December 31, 2012, as compared to \$821.0 million for the year ended December 31, 2011. The increase in selling, general and administrative expense was primarily due to increases in wages and benefits, consulting and professional fees, depreciation and amortization, rent expense and system maintenance expenses. Additionally, selling, general and administrative expense as a percentage of revenue for our EMEA segment of 54.9% and our Rest of World Segment of 72.2% were significantly higher than for our North America segment of 40.7%. This was primarily a result of the build out of our international operations, including both sales force and administrative personnel.

Wages and benefits (excluding stock-based compensation) within selling, general and administrative expense increased by \$220.2 million to \$653.6 million for the year ended December 31, 2012, as compared to the prior year, as we added sales force, technology and administrative personnel to support our business. Stock-based compensation costs within selling, general and administrative expense also increased to \$97.6 million for the year ended December 31, 2012, as compared to \$89.9 million for the year ended December 31, 2011, due to the addition of certain key personnel to the Company. Our consulting and professional fees increased by \$22.9 million for the year ended December 31, 2012, as compared to the prior year, primarily related to higher legal and accounting-related costs. Depreciation and amortization recorded within selling, general and administrative expense increased by \$19.7 million and rent expense increased by \$17.5 million for the year ended December 31, 2012, as compared to the prior year, primarily due to our expansion during 2011 and 2012. There was a \$34.6 million increase in system maintenance expenses for the year ended December 31, 2012, as compared to the prior year, as a result of investments in technology and our corporate infrastructure.

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

For the years ended December 31, 2012 and 2011, we incurred net acquisition-related expenses of \$0.9 million and benefits of \$4.5 million, respectively, representing changes in the fair value of contingent consideration liabilities from business acquisitions. See Note 13 "*Fair Value Measurements*."

## ***Income (Loss) from Operations***

Income from operations increased by \$332.1 million to income from operations of \$98.7 million for the year ended December 31, 2012, as compared to a loss from operations of \$233.4 million for the year ended December 31, 2011. The increase to income from operations for the year ended December 31, 2012 from the loss from operations for the year ended December 31, 2011 was primarily due to the decrease in marketing expense of \$431.6 million and the increase in gross profit of \$264.0 million, partially offset by the increase in selling, general and administrative expense of \$358.1 million. The unfavorable impact on income from operations from year-over-year changes in foreign exchange rates for the year ended December 31, 2012 was \$7.4 million.

### *North America*

Segment operating income in our North America segment, which excludes stock-based compensation and acquisition-related expense (benefit), net, increased by \$134.9 million to \$139.7 million for the year ended December 31, 2012, as compared to \$4.8 million for the year ended December 31, 2011. The increase in segment operating income was primarily attributable to an increase in gross profit, partially offset by an increase in segment operating expenses.

### *EMEA*

Segment operating income in our EMEA segment, which excludes stock-based compensation and acquisition-related expense (benefit), net, increased by \$40.8 million to \$106.0 million for the year ended December 31, 2012, as compared to \$65.2 million for the year ended December 31, 2011. The increase in segment operating income was primarily attributable to an increase in gross profit.

### *Rest of World*

Segment operating loss in our Rest of World segment, which excludes stock-based compensation and acquisition-related expense (benefit), net, decreased by \$172.4 million to a loss of \$42.0 million for the year ended December 31, 2012, as compared to a loss of \$214.4 million for the year ended December 31, 2011. The decrease in segment operating loss was primarily attributable to a decrease in segment operating expenses and an increase in gross profit.

### ***Other Income, Net***

Other income, net includes foreign currency transaction gains and losses, primarily resulting from intercompany balances related to our foreign subsidiaries that are denominated in currencies other than their functional currencies, interest income on our cash and cash equivalents and other non-operating gains and losses.

Other income, net was \$6.2 million for the year ended December 31, 2012, as compared to \$6.0 million for the year ended December 31, 2011. During the year ended December 31, 2012, other income, net included a \$56.0 million gain resulting from the E-Commerce transaction partially offset by a \$50.6 million impairment of our investments in F-tuan. The impairments of our investments in F-tuan and the gain on the E-Commerce transaction are described in Note 6 "*Investments*." During the year ended December 31, 2011, other income, net included \$4.9 million related to the return of 400,000 shares of non-voting common stock from a former executive officer in connection with a separation agreement.

### ***Provision for Income Taxes***

For the years ended December 31, 2012 and 2011, we recorded income tax expense of \$146.0 million and \$43.7 million, respectively.

The effective tax rate was 153.7% for the year ended December 31, 2012, as compared to (17.2)% for the year ended December 31, 2011. The most significant factors impacting our effective tax rate for the year ended December 31, 2012 were the impact of unrecognized tax benefits related to income tax uncertainties in certain foreign jurisdictions, losses in jurisdictions that we are not able to benefit due to uncertainty as to the realization of those losses, amortization of the tax effects of intercompany sales of intellectual property and nondeductible stock-based compensation expense. The most significant factors impacting our effective tax rate for the year ended December 31, 2011 were losses in jurisdictions that we are not able to benefit due to uncertainty as to the realization of those losses and nondeductible stock-based compensation expense.

## Non-GAAP Financial Measures

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

*Operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net.* Operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net is a non-GAAP financial measure that comprises the consolidated total of the segment operating income (loss) of our three segments, North America, EMEA and Rest of World. Stock-based compensation expense and acquisition-related expense (benefit), net are excluded from segment operating income (loss) that we report under U.S. GAAP for our segments. Stock-based compensation expense is primarily a non-cash item. Acquisition-related expense (benefit), net is comprised of the change in the fair value of contingent consideration arrangements and, beginning in 2013, also includes external transaction costs related to business combinations, primarily consisting of legal and advisory fees. We have used consolidated operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net to allocate resources and evaluate performance internally.

We have considered operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net to be an important measure for management to evaluate the performance of our business. However, in recent periods our management and Board of Directors have increasingly focused on Adjusted EBITDA, described below, as the primary non-GAAP measure for evaluating our consolidated operating results. Accordingly, we do not expect to continue to report Operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net on a consolidated basis in future periods.

We believe it is important to view operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net as a complement to our entire consolidated statements of operations. When evaluating our performance, you should consider operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net as a complement to other financial performance measures, including net income (loss) and our other U.S. GAAP results.

The following is a reconciliation of Operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net to the most comparable U.S. GAAP financial measure, "Income (loss) from operations," for the years ended December 31, 2013, 2012 and 2011.

	Year Ended December 31,		
	2013	2012	2011
Income (loss) from operations.....	\$ 75,754	\$ 98,701	\$ (233,386)
Adjustments:			
Stock-based compensation <sup>(1)</sup> .....	121,462	104,117	93,590
Acquisition-related (benefit) expense, net <sup>(2)</sup> .....	(11)	897	(4,537)
Total adjustments.....	121,451	105,014	89,053
Operating income (loss) excluding stock-based compensation and acquisition-related (benefit) expense, net.....	<u>\$ 197,205</u>	<u>\$ 203,715</u>	<u>\$ (144,333)</u>

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

(2) Represents changes in the fair value of contingent consideration related to business combinations and, beginning in 2013, also includes external transaction costs related to business combinations, primarily consisting of legal and advisory fees. Those external transaction costs were not material for the years ended December 31, 2012 and 2011.

*Adjusted EBITDA.* Adjusted EBITDA is a non-GAAP financial measure that comprises net income (loss) excluding income taxes, interest and other non-operating items, depreciation and amortization, stock-based compensation and acquisition-related expense (benefit), net. Adjusted EBITDA is similar to Operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net, except Adjusted EBITDA also excludes depreciation and amortization. We exclude depreciation and amortization because it is non-cash in nature, and we believe that non-GAAP financial measures excluding these

items provide meaningful supplemental information about our operating performance and liquidity. Our definition of Adjusted EBITDA may differ from similar measures used by other companies, even when similar terms are used to identify such measures. Adjusted EBITDA is a key measure used by our management and Board of Directors to evaluate operating performance, generate future operating plans and make strategic decisions for the allocation of capital. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and Board of Directors.

The following is a reconciliation of Adjusted EBITDA to the most comparable U.S. GAAP financial measure, "Net income (loss)" for the years ended December 31, 2013, 2012 and 2011.

	Year Ended December 31,		
	2013	2012	2011
Net loss .....	\$ (88,946)	\$ (51,031)	\$ (297,762)
Adjustments:			
Stock-based compensation <sup>(1)</sup> .....	121,462	104,117	93,590
Acquisition-related (benefit) expense, net <sup>(2)</sup> .....	(11)	897	(4,537)
Depreciation and amortization .....	89,449	55,801	32,055
Non-operating items:			
Loss on equity method investments .....	44	9,925	26,652
Other expense (income), net .....	94,619	(6,166)	(5,973)
Provision for income taxes .....	70,037	145,973	43,697
Total adjustments .....	375,600	310,547	185,484
Adjusted EBITDA .....	<u>\$ 286,654</u>	<u>\$ 259,516</u>	<u>\$ (112,278)</u>

- (1) Represents stock-based compensation expense recorded within "Selling, general and administrative," "Cost of revenue," and "Marketing" on the consolidated statements of operations.
- (2) Represents changes in the fair value of contingent consideration related to business combinations and, beginning in 2013, also includes external transaction costs related to business combinations, primarily consisting of legal and advisory fees. Those external transaction costs were not material for the years ended December 31, 2012 and 2011.

*Free cash flow.* Free cash flow is a non-GAAP financial measure that comprises net cash provided by operating activities less purchases of property and equipment and capitalized software. We use free cash flow, and ratios based on it, to conduct and evaluate our business because, although it is similar to cash flow from operations, we believe that it typically represents a more useful measure of cash flows because purchases of fixed assets, software developed for internal-use and website development costs are necessary components of our ongoing operations. Free cash flow is not intended to represent the total increase or decrease in our cash balance for the applicable period.

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

The following is a reconciliation of free cash flow to the most comparable U.S. GAAP financial measure, "Net cash provided by operating activities," for the years ended December 31, 2013, 2012 and 2011:

	Year Ended December 31,		
	2013	2012	2011
Net cash provided by operating activities .....	\$ 218,432	\$ 266,834	\$ 290,447
Purchases of property and equipment and capitalized software ....	(63,505)	(95,836)	(43,811)
Free cash flow .....	<u>\$ 154,927</u>	<u>\$ 170,998</u>	<u>\$ 246,636</u>
Net cash used in investing activities .....	\$ (96,315)	\$ (194,979)	\$ (147,433)
Net cash (used in) provided by financing activities .....	\$ (81,697)	\$ 12,095	\$ 867,205

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

### Liquidity and Capital Resources

As of December 31, 2013, we had \$1,240.5 million in cash and cash equivalents, which primarily consisted of cash, money market accounts and overnight securities.

Since our inception, we have funded our working capital requirements and expansion primarily with cash flows from operations and through public and private sales of common and preferred stock, which have yielded net proceeds of approximately \$1,857.1 million. We generated positive cash flow from operations for the years ended December 31, 2013, 2012 and 2011, and we expect cash flow from operations to remain positive in annual periods for the foreseeable future. We generally use this cash flow to fund our operations, make additional acquisitions, purchase capital assets, purchase treasury stock and meet our other cash operating needs. Cash flow from operations was \$218.4 million, \$266.8 million and \$290.4 million for the years ended December 31, 2013, 2012 and 2011, respectively.

We consider the undistributed earnings of our foreign subsidiaries as of December 31, 2013 to be indefinitely reinvested and, accordingly, no U.S. income taxes have been provided thereon. As of December 31, 2013, the amount of cash and cash equivalents held in foreign jurisdictions was approximately \$432.7 million. We have not, nor do we anticipate the need to, repatriate funds to the United States to satisfy domestic liquidity needs arising in the ordinary course of business.

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

### Uses of Cash

On January 2, 2014, we acquired LivingSocial Korea, Inc., including its subsidiary Ticket Monster, for total consideration of \$100.0 million cash and 13,825,283 shares of Class A common stock with an acquisition date fair value of \$162.9 million. On January 13, 2014, we acquired Ideeli for \$43.0 million in cash. We intend to continue to acquire additional businesses and make strategic minority investments in complementary businesses throughout 2014 to grow our subscriber base, expand our merchant relationships, enhance our technology capabilities and acquire experienced workforces. During the year ended December 31, 2013, we acquired seven businesses for an aggregate acquisition price of \$16.1 million, of which \$7.3 million was paid for in cash (net of cash acquired), and we expect to continue to use cash to make strategic acquisitions.

In order to support our current and future global expansion, we expect to continue to make significant investments in our technology platforms and business processes, as well as internal tools aimed at improving the efficiency of our operations. We will also continue to invest in sales and marketing as we seek to grow both the number of active deals available through our online local marketplaces and the volume of transactions through those marketplaces.

We currently plan to fund these investments in business acquisitions, strategic minority investments, technology, and sales and marketing with our available cash and cash equivalents and cash flow generated from our operations. We may also seek to raise additional financing in the capital markets, if available on terms that we believe are favorable, to increase the amount of liquid funds that we can access for future acquisitions or other strategic investment opportunities.

In August 2013, our Board of Directors authorized a share repurchase program. Under the program, we are authorized to repurchase up to \$300 million of our outstanding Class A common stock through August 2015. The timing and amount of any share repurchases will be determined based on market conditions, share price and other factors, and the program may be discontinued or suspended at any time. We will fund the repurchases through cash on hand and future cash flow. Repurchases will be made in compliance with SEC rules and other legal requirements and may be made in part under a Rule 10b5-1 plan, which permits stock repurchases when the Company might otherwise be precluded from doing so. During the year ended December 31, 2013, we purchased 4,432,800 shares of Class A common stock for an aggregate purchase price of \$46.6 million (including fees and commissions) under the share repurchase program.

### ***Cash Flow***

Our net cash flows from operating, investing and financing activities for the years ended December 31, 2013, 2012 and 2011 were as follows:

	Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Cash provided by (used in):			
Operating activities .....	\$ 218,432	\$ 266,834	\$ 290,447
Investing activities .....	(96,315)	(194,979)	(147,433)
Financing activities .....	(81,697)	12,095	867,205
Effect of changes in exchange rates on cash and cash equivalents..	(9,237)	2,404	(6,117)
Net increase in cash and cash equivalents .....	<u>\$ 31,183</u>	<u>\$ 86,354</u>	<u>\$ 1,004,102</u>

### ***Cash Provided By Operating Activities***

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

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

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

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

We experience swings in accrued merchant and supplier payables associated with our normal revenue-generating activities, including both third party and direct revenue sales transactions, that can cause volatility in working capital levels and impact cash balances more or less than our operating income or loss would indicate. In recent periods, the shift in our business from limited-

time daily deal offerings to a demand fulfillment model that enables customers to search for goods and services that are offered by merchants for an extended period of time through our websites and mobile applications has reduced our overall cash flow benefits from the timing differences between when we receive cash from customers and remit payments to our merchants. We pay merchants who offer deals for an extended period of time on an ongoing basis, generally bi-weekly, throughout the term of the offering. We expect this trend to continue in the future.

We believe that seasonal fluctuations will continue to impact our cash flows, particularly as a result of the growth of our Goods category. Our operating cash flow of \$178.3 million in the fourth quarter of 2013 represented 81.6% of our operating cash flow for the full year and was primarily attributable to the seasonal increase in direct revenue in our Goods category during the holiday season. Our operating cash flow benefited by an \$88.5 million increase in accrued merchant and supplier payables during the year ended December 31, 2013, which was primarily due to the timing of payments to suppliers of merchandise and the seasonally high levels of Goods transactions in the fourth quarter of 2013. Our operating cash flow benefited by a \$149.9 million increase in accrued merchant and supplier payables during the year ended December 31, 2012, as we were experiencing more favorable growth rates in our Local category at that time and our Goods category was much smaller in late 2011. The cash flow impact of changes in accrued merchant and supplier payables during the years ended December 31, 2013 and 2012 was a primary driver of the \$48.4 million decrease in cash provided by operating activities between those periods. We expect that our operating cash flow will decrease significantly and may be negative in the first quarter of 2014 as we pay suppliers for merchandise inventory that we sold during the 2013 holiday season.

For the year ended December 31, 2013, our net cash provided by operating activities was \$218.4 million, which consisted of a \$255.2 million net increase for certain non-cash items and a \$52.2 million net increase related to changes in working capital and other assets and liabilities, partially offset by an \$88.9 million net loss. The net adjustments for certain non-cash items include \$121.5 million of stock-based compensation expense, \$89.4 million of depreciation and amortization expense and an \$85.9 million impairment of our investments in F-tuan, partially offset by \$20.5 million of excess tax benefits on stock-based compensation. The net increase in cash resulting from changes in working capital activities primarily consisted of an \$88.5 million increase in accrued merchant and supplier payables and an \$11.0 million decrease in account receivable, partially offset by a \$62.9 million increase in prepaid expenses and other current assets, a \$31.3 million decrease in accounts payable and a \$4.1 million decrease in accrued expenses and other current liabilities. The significant increase in merchant and supplier payables was primarily attributable to amounts owed to suppliers of merchandise inventory due to the seasonal increase in direct revenue in our Goods category during the holiday season.

For the year ended December 31, 2012, our net cash provided by operating activities was \$266.8 million, which consisted of a \$187.3 million net increase related to changes in working capital and other assets and liabilities and a \$130.6 million net increase for certain non-cash items, partially offset by a \$51.0 million net loss. The net increase in cash resulting from changes in working capital activities primarily consisted of a \$149.9 million increase in merchant and supplier payables and a \$47.7 million increase in accrued expenses and other current liabilities, due to the continued growth in the business. Liabilities included in accrued expenses and other current liabilities are primarily the reserve for customer refunds, accrued payroll and benefits, costs associated with subscriber credits and VAT and sales taxes payable. The net increase 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. The net increase in cash resulting from changes in working capital activities also included an \$18.7 million increase in accounts payable due to general business growth, partially offset by a \$70.9 million increase in prepaid expenses and other current assets as a result of business growth and increases in inventory relating to our Goods category. The net adjustments for certain non-cash items include \$104.1 million of stock-based compensation expense, \$55.8 million of depreciation and amortization expense and \$50.6 million for the impairment of the F-tuan cost method investment, partially offset by \$56.0 million for the gain recognized on the E-Commerce transaction.

For the year ended December 31, 2011, our net cash provided by operating activities of \$290.4 million, which consisted of a \$423.3 million net increase related to changes in working capital and other assets and liabilities and a \$164.9 million net increase for certain non-cash items, partially offset by a \$297.8 million net loss. The net increase in cash resulting from changes in working capital activities primarily consisted of a \$380.1 million increase in our merchant and supplier payables, due to continued growth in the daily deals business and a \$189.1 million increase in accrued expenses and other current liabilities. Liabilities included in accrued expenses and other current liabilities are primarily online marketing costs incurred to acquire and retain customers, the reserve for customer refunds, accrued payroll and benefits, subscriber credits and VAT and sales taxes payable. 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 \$70.4 million increase in accounts receivable, primarily attributable to an increase in revenue for the year ended December 31, 2011, and a \$36.3 million increase in prepaid expenses and other current assets, as a result of business growth. The net adjustments for certain non-cash items include \$93.6 million of **stock-based** compensation expense, \$32.2 million of deferred income tax expense and \$32.1 million of depreciation and amortization expense.

### ***Cash Used In Investing Activities***

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

For the year ended December 31, 2013, our net cash used in investing activities of \$96.3 million primarily consisted of \$63.5 million in capital expenditures, including capitalized internally-developed software, \$22.0 million in purchases of investments, \$7.3 million in net cash paid for business acquisitions, \$2.0 million related to the settlement of the liability related to the purchase of an additional interest in a consolidated subsidiary and \$1.5 million for purchases of intangible assets.

For the year ended December 31, 2012, our net cash used in investing activities of \$195.0 million primarily consisted of \$95.8 million in capital expenditures, including capitalized internally-developed software, \$51.7 million invested in subsidiaries and minority investments and \$46.9 million in net cash paid for business acquisitions.

For the year ended December 31, 2011, our net cash used in investing activities of \$147.4 million primarily consisted of \$74.7 million invested in subsidiaries and equity method investments, \$43.8 million in capital expenditures, including capitalized internal-use software, \$14.5 million for purchases of intangible assets and \$14.4 million in net cash paid for business acquisitions. Intangible assets purchased in 2011 relate primarily to domain names.

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

For the year ended December 31, 2013, our net cash used in financing activities of \$81.7 million was driven primarily by taxes paid related to net share settlements of stock-based compensation awards of \$47.6 million. We also paid \$44.8 million for purchases of treasury stock under our share repurchase program, as described above. Our net cash used in financing activities was also due to partnership distributions to noncontrolling interest holders of \$6.1 million, settlements of purchase price obligations related to acquisitions of \$5.0 million and payments of capital lease obligations of \$1.6 million, partially offset by \$20.5 million of excess tax benefits related to stock-based compensation and \$7.3 million of proceeds from stock option exercises and our employee stock purchase plan.

For the year ended December 31, 2012, our net cash provided by financing activities of \$12.1 million was driven primarily by \$27.0 million of excess tax benefits related to stock-based compensation, partially offset by tax withholdings related to net share settlements of stock-based compensation awards of \$13.0 million.

For the year ended December 31, 2011, our net cash provided by financing activities of \$867.2 million was driven primarily by \$1,266.4 million of net cash proceeds from the issuance of common and preferred stock, partially offset by \$353.8 million for the purchase of treasury stock, \$35.0 million for the redemption of our preferred stock and \$14.4 million for the repayment of related party loans incurred in connection with the CityDeal acquisition.

### ***Free Cash Flow***

Free cash flow, a non-GAAP financial measure, was \$154.9 million, \$171.0 million, and \$246.6 million for the years ended December 31, 2013, 2012 and 2011, respectively. The decrease in free cash flow for the year ended December 31, 2013, as compared to the prior year, was primarily due to the \$48.4 million decrease in our operating cash flow, partially offset by lower capital expenditures. The decrease in free cash flow for the year ended December 31, 2012, as compared to the prior year was primarily due to higher capital expenditures and the \$23.6 million decrease in our operating cash flow. For further information and a reconciliation to the most applicable financial measure under U.S. GAAP, refer to our discussion under "*Non-GAAP Financial Measures*" above.



## Contractual Obligations and Commitments

The following table summarizes our future contractual obligations and commitments as of December 31, 2013. The table below excludes \$109.3 million of non-current liabilities for unrecognized tax benefits, including interest and penalties, as of December 31, 2013. We cannot make a reasonable estimate of the period of cash settlement for the tax positions classified as non-current liabilities.

	Payments due by period						
	Total	2014	2015	2016	2017	2018	Thereafter
	(in thousands)						
Capital lease obligations <sup>(1)</sup> .....	\$ 9,572	\$ 3,803	\$ 3,688	\$ 2,081	\$ —	\$ —	\$ —
Operating lease obligations <sup>(2)</sup> ..	147,287	39,450	33,628	25,543	18,221	15,159	15,286
Purchase obligations <sup>(3)</sup> .....	16,905	11,718	4,356	541	145	145	—
Total.....	\$ 173,764	\$ 54,971	\$ 41,672	\$ 28,165	\$ 18,366	\$ 15,304	\$ 15,286

- (1) Capital lease obligations include both principal and interest components of future minimum capital lease payments.
- (2) Operating lease obligations are primarily for office facilities and are non-cancelable. Certain leases contain periodic rent escalation adjustments and renewal and expansion options. Operating lease obligations expire at various dates with the latest maturity in 2023.
- (3) Purchase obligations primarily represent non-cancelable contractual obligations related to information technology products and services.

## Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of December 31, 2013.

## Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). Our significant accounting policies are discussed in Note 2 "*Summary of Significant Accounting Policies*" in the notes to the consolidated financial statements.

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

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

### *Revenue Recognition*

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

#### *Third party revenue recognition*

We generate third party revenue, where we act as the third party marketing agent, by offering goods and services provided by third party merchants at a discount through our online local commerce marketplaces that connect merchants to consumers. Our marketplaces include deals offered in three primary categories: Local, Goods and Travel. Customers purchase the discount vouchers ("Groupons") from us and redeem them with our merchants.

The revenue recognition criteria are met when the customer purchases a deal, the Groupon has been electronically delivered to the purchaser and a listing of Groupons sold has been made available to the merchant. At that time, our obligations to the merchant, for which we are serving as a marketing agent, are substantially complete. Our remaining obligations, which are limited to remitting payment to the merchant and continuing to make available on our website information about Groupons sold that was previously provided to the merchant, are inconsequential or perfunctory. For a portion of the hotel deals offered through our online local marketplaces, we facilitate the booking of rooms by taking reservations through our websites and managing any subsequent changes to those reservations. We defer the revenue on those deals until the customer's stay occurs.

We record as revenue the net amount we retain from the sale of Groupons after deducting the portion of the purchase price that is payable to the featured merchant, excluding applicable taxes and net of estimated refunds for which the merchant's share is recoverable. Revenue is recorded on a net basis because we are acting as a marketing agent of the merchant in the transaction.

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

### *Direct revenue recognition*

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

Direct revenue is derived primarily from selling consumer products through our Goods category where we are the merchant of record. We are the primary obligor in these transactions, are subject to general inventory risk and have latitude in establishing prices. Accordingly, direct revenue is recorded on a gross basis, excluding applicable taxes and net of estimated refunds. For purposes of evaluating whether product revenue should be recognized on a gross basis, unmitigated general inventory risk is a strong indicator of whether a seller has the risks and rewards of a principal to the sale transaction. U.S. GAAP specifies that general inventory risk exists if a seller either takes title to a product before that product is ordered by a customer (that is, maintains the product in inventory) or will take title to the product if it is returned by the customer (that is, back-end inventory risk) and the customer has a right of return. We have unmitigated general inventory risk on all of our direct revenue. Currently, that general inventory risk is primarily in the form of back-end inventory risk, as the amount of inventory that we maintain on hand has not been significant in relation to the amount of our direct revenue. However, we had \$57.1 million of finished goods inventory on hand as of December 31, 2013, and in future periods we may increase the levels of inventory on hand for our Goods category. For Goods transactions where we are performing a service by acting as a marketing agent of the merchant, revenue is recorded on a net basis and is presented within third party revenue.

Direct revenue, including associated shipping revenue, is recorded when title passes to the customer. In connection with our rollout of increased direct revenue deals outside the United States, a global change was made to customer terms and conditions in the fourth quarter of 2013 to specify that title to products transfers upon delivery. As a result of this change, we began recognizing direct revenue upon delivery, rather than shipment.

### *Discounts*

We provide discount offers to encourage purchases of goods and services through our marketplaces. We record discounts as a reduction of revenue.

### *Refunds*

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

In early 2012, actual refund activity for deals featured late in 2011 was demonstrating a consistent trend that was deviating from the modeled refund behavior, due in part to a shift in fourth quarter deal mix and higher price point offers. Accordingly, we updated our refund model to better capture variations in trends in our business. By continually refining the refund model to reflect such data inputs as discussed above, we believe our model enables us to track and anticipate refund behavior.

We accrue costs associated with refunds within "Accrued expenses" on the consolidated balance sheets. The cost of refunds for third party revenue where the amounts payable to the merchant are recoverable and for all direct revenue is presented on the consolidated statements of operations as a reduction to revenue. The cost of refunds for third party revenue for which the merchant's share is not recoverable is presented as a cost of revenue.

We assess the trends that could affect our estimates on an ongoing basis and make adjustments to the refund reserve calculations if it appears that changes in circumstances, including changes to the Company's refund policies, may cause future refunds to differ from our original estimates. If actual results are not consistent with the estimates or assumptions stated above, we may need to change our future estimates, and the effects could be material to the consolidated financial statements.

## *Impairment Assessments of Goodwill and Long-Lived Assets*

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

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

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

We evaluate goodwill for impairment annually on October 1 or more frequently when an event occurs or circumstances change that indicates the carrying value may not be recoverable. We have the option to assess goodwill for impairment by first performing a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we determine that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then the two-step goodwill impairment test is not required to be performed. If we determine that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we perform the two-step goodwill impairment test. In the first step, the fair value of the reporting unit is compared to its book value including goodwill. If the fair value of the reporting unit is in excess of its book value, the related goodwill is not impaired and no further analysis is necessary. If the fair value of the reporting unit is less than its book value, there is an indication of potential impairment and a second step is performed. When required, the second step of testing involves calculating the implied fair value of goodwill for the reporting unit. The implied fair value of goodwill is determined in the same manner as goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit determined in step one over the fair value of its net assets and identifiable intangible assets as if the reporting unit had been acquired. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. For reporting units with a negative book value (i.e., excess of liabilities over assets), we evaluate qualitative factors to determine whether it is necessary to perform the second step of the goodwill impairment test. As of December 31, 2013, our market capitalization of \$7.9 billion substantially exceeded our consolidated net book value of \$711.7 million.

Goodwill is tested for impairment at the reporting unit level. As discussed in Note 15 "*Segment Information*," we changed the composition of our operating segments during the second quarter of 2013 to separate our former International segment between EMEA and Rest of World. As a result of this change in operating segments, our former EMEA reporting unit has been disaggregated into four new reporting units for goodwill impairment testing purposes: Southern EMEA, Western EMEA, Northern EMEA and Eastern/Central EMEA. Goodwill from the former EMEA reporting unit was reallocated to the four new EMEA reporting units based on their relative fair values.

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

impairment test was not required to be performed. We also tested the former EMEA reporting unit for goodwill impairment immediately prior to the establishment of the four new reporting units and there was no impairment of goodwill because its fair value exceeded its carrying value.

In connection with our October 1, 2013 annual goodwill impairment evaluation, we elected to perform a qualitative assessment for the following reporting units to determine whether to perform the two-step quantitative impairment tests: North America, Southern EMEA, Western EMEA, Northern EMEA and Eastern/Central EMEA. Based on that evaluation, no impairment of goodwill was identified for any of those five reporting units because the likelihood of a goodwill impairment did not reach the more-likely-than-not threshold specified in U.S. GAAP. In performing that evaluation, some of the factors we considered included the recent operating performance of each of the five reporting units, the fair values of the four EMEA reporting units and related analyses performed three months earlier in connection with the interim goodwill impairment tests described above and the significant increases in our market capitalization since the most recent quantitative goodwill impairment tests (June 30, 2013 for the four EMEA reporting units and October 1, 2012 for the North America reporting unit).

We performed quantitative goodwill impairment tests as of October 1, 2013 for our APAC and LATAM reporting units. Liabilities exceeded assets for those reporting units at the impairment test date. Due to the recent declines in the operating performance of our Rest of World segment, which is comprised of the LATAM and APAC reporting units, we determined that the second step of the goodwill impairment test should be performed. The results of those tests indicated no impairment of goodwill as of October 1, 2013 for either the APAC or LATAM reporting units.

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

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

### ***Income Taxes***

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

For purposes of assessing whether it is more likely than not that our deferred tax assets will be realized, we consider the following four sources of taxable income for each tax jurisdiction: (a) future reversals of existing taxable temporary differences, (b) projected future earnings, (c) taxable income in carryback years, to the extent that carrybacks are permitted under the tax laws of the applicable jurisdiction, and (d) tax planning strategies, which represent prudent and feasible actions that a company ordinarily might not take, but would take to prevent an operating loss or tax credit carryforward from expiring unused. To the extent that evidence about one or more of these sources of taxable income is sufficient to support a conclusion that a valuation allowance is not necessary, other sources need not be considered. Otherwise, evidence about each of the sources of taxable income is considered in arriving at a conclusion about the need for and amount of a valuation allowance. We have incurred significant losses in recent years and had accumulated deficits of \$848.9 million and \$753.5 million as of December 31, 2013 and 2012, respectively. A cumulative loss in the most recent three-year period is a significant piece of negative evidence that is difficult to overcome when assessing the realizability of deferred tax assets. Outside of the United States, we have only recognized deferred tax assets to the extent that they will be realizable either through future reversals of existing taxable temporary differences or through taxable income in carryback years for the applicable jurisdictions. Due to our cumulative losses outside of the United States, we have recognized valuation allowances against deferred tax assets that are not supported by those objective sources of taxable income. As of December 31, 2013, we have not recognized deferred tax assets without a valuation allowance outside of the United States when the only sources of taxable income are projected future earnings or tax planning strategies. For certain jurisdictions where applicable tax law imposes limitations that may prevent us from realizing our deferred tax assets through the scheduled reversal of taxable temporary differences, we have recorded valuation allowances in excess of the net deferred tax asset balances.

During the fourth quarter of 2013, earnings in the United States moved to a cumulative income position for the most recent three-year period. Based on the income in that jurisdiction in recent periods and projected future income, we released a portion of the valuation allowance against our federal and state deferred tax assets, resulting in a \$9.6 million reduction to income tax expense. We continue to maintain a valuation allowance in the United States as of December 31, 2013 against a portion of our acquired federal net operating losses that are subject to limitations under the tax law and state net operating loss carryforwards and tax credits that are not expected to be realized.

As of December 31, 2013 and 2012, we recorded a valuation allowance of \$173.6 million and \$159.2 million, respectively, against our domestic and foreign net deferred tax assets, as we believe it is more likely than not that these benefits will not be realized. A change in the assumptions used to assess the realizability of our deferred tax assets could cause an increase or decrease to the valuation allowance and, consequently, our effective tax rate, which could materially impact our results of operations.

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

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

#### ***Other-than-Temporary Impairment of Investments***

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

For the year ended December 31, 2013, we recorded an \$85.5 million other-than-temporary impairment of our investments in F-tuan. F-tuan has operated at a loss since its inception and has used proceeds from equity offerings to fund investments in marketing and other initiatives to grow its business. We participated in an equity funding round in 2013 and the aggregate cash proceeds raised by F-tuan in that round, which were funded in two installments in September and October 2013 and included proceeds received from another investor, were intended to fund its operations for approximately six months, at which time additional financing would be required. In December 2013, we were notified by F-tuan's largest shareholder, which had served as a source of funding and operational support, that they had made a strategic decision to cease providing support to F-tuan. At its December 12, 2013 meeting, our Board of Directors discussed our strategy with respect to the Chinese market in light of this information. After that meeting, management pursued opportunities to divest its minority investment in F-tuan either for cash or in exchange for a minority equity investment in a larger competitor, but no agreement was ultimately reached. At its February 11, 2014 meeting, our Board of Directors determined that we should not provide funding to F-tuan in future periods. At the present time, F-tuan requires additional financing to continue its operations. Given the uncertainty as to whether it will be able to obtain such financing and our decision not to provide significant funding ourselves, we believe that there is substantial doubt as to F-tuan's ability to

operate as a going concern for the foreseeable future.

Our evaluation of other-than-temporary impairments involves consideration of qualitative and quantitative factors regarding the severity and duration of the unrealized loss, as well as our intent and ability to hold the investment for a period of time that is sufficient to allow for an anticipated recovery in value. As a result of F-tuan's immediate liquidity needs, the decision by existing shareholders to cease providing support, our inability to find a buyer for our minority investment, our decision not to be a source of significant funding and the expectation that any subsequent third party investment, if one occurs, would substantially dilute the existing shareholders, we concluded that our investment in F-tuan is other-than-temporarily impaired and our best estimate of fair value at the present time is zero. Accordingly, we have recognized an \$85.5 million impairment charge in earnings for the year ended December 31, 2013.

For the year ended December 31, 2012, we recorded a \$50.6 million other-than-temporary impairment of our investments in F-tuan. We obtained these investments in June 2012 as part of a transaction in which we received a 19% interest in F-tuan, in the form of common and Series E preferred shares, in exchange for our 49.8% interest in E-Commerce and an additional \$25.0 million of cash consideration. We recognized a \$56.0 million non-operating gain as a result of this transaction, which represented the excess of the acquisition-date fair value of the 19% interest in F-tuan that we acquired over the carrying value of our investment in E-Commerce and the \$25.0 million of cash consideration. The \$128.1 million acquisition-date fair value of our investments in F-tuan, a nonpublic entity, was determined using the discounted cash flow method, which is an income approach, and the resulting value was corroborated using the market approach. The inputs used to estimate fair value under the discounted cash flow method included financial projections and the discount rate. Because these fair value inputs are unobservable, fair value measurements of our investments in F-tuan are classified within Level 3 of the fair value hierarchy.

In connection with the acquisition-date fair value measurement of F-tuan, we obtained financial projections from the investee. We evaluated those financial projections based on our knowledge of the business and related market conditions. As a result of our evaluations, downward adjustments were applied to reduce the anticipated growth that was reflected in the original projections. We applied a 25% discount rate to the adjusted cash flow projections, which included an entity-specific risk premium to account for the riskiness and uncertainty inherent in the business. Additionally, we corroborated the acquisition-date fair value measurement of F-tuan by estimating the fair value of our 49.8% interest in E-Commerce at the time of the transaction and comparing the estimated fair value of the consideration we transferred, including the additional \$25.0 million of cash consideration, to the estimated fair value of the investments in F-tuan that we obtained.

In January 2013, we obtained updated financial projections from the investee, as well as their operating results for the year ended December 31, 2012. The investee's operating loss for the year-ended December 31, 2012 was lower than the loss that was forecasted in June 2012 at the time of our investment, primarily due to lower-than-forecasted operating expenses. However, actual 2012 revenues were lower than the adjusted financial projections used at the time of our investments and the updated financial projections provided by the investee at year-end indicated significant declines in forecasted revenues in future years as compared to the adjusted financial projections used at the time of our investments due to reduced gross billings and deal margin forecasts. As of December 31, 2012, we continued to apply a discounted cash flow approach, corroborated by a market approach, to estimate the fair value of our investments in F-tuan. For the December 31, 2012 fair value measurement, we used the updated financial projections and a discount rate of 30%. The increase to the discount rate as compared to the acquisition-date fair value measurement was primarily attributable to an increase in the entity-specific risk premium to reflect our current assessment of the riskiness of these investments. The resulting fair value measurement of our investments in F-tuan was \$77.5 million as of December 31, 2012, a \$50.6 million reduction from the \$128.1 million acquisition-date fair value measurement in June 2012.

Although our investments in F-tuan had not been in an unrealized loss position for an extended period of time as of December 31, 2012 and there were no plans to dispose of the investments at that time, we concluded that the impairment was other-than-temporary due to the significant declines in forecasted revenue growth and the severity of the unrealized loss.

The \$85.5 million and \$50.6 million other-than-temporary impairments of our investments in F-tuan are reported within "Other (expense) income, net" on the consolidated statements of operations for the years ended December 31, 2013 and 2012, respectively.

We also recorded an additional \$1.2 million other-than-temporary impairment of an equity method investment in a nonpublic entity, which is reported within "Loss on equity method investments" on the consolidated statement of operations for the year ended December 31, 2012.

## **Recently Issued Accounting Standards**

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



## **ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

### ***Foreign Currency Exchange Risk***

We transact business in various foreign currencies other than the U.S. dollar, principally the Euro, British pound sterling, Japanese yen and Brazilian real, which exposes us to foreign currency risk. For the year ended December 31, 2013, we derived approximately 28.9% and 12.0% of our revenue from our EMEA and Rest of World segments, respectively. Revenue and related expenses generated from our international operations are generally denominated in the local currencies of the corresponding countries. The functional currency of our subsidiaries that either operate or support these markets is generally the same as the corresponding local currency. The results of operations of, and certain of our intercompany balances associated with, our international operations are exposed to foreign exchange rate fluctuations. Upon consolidation, as exchange rates vary, our revenue and other operating results may differ materially from expectations, and we may record significant gains or losses on the re-measurement of intercompany balances.

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

As of December 31, 2013, our net working capital deficit (defined as current assets less current liabilities) from subsidiaries that are subject to foreign currency translation risk was \$168.2 million. The potential increase in this working capital deficit from a hypothetical 10% adverse change in quoted foreign currency exchange rates would be \$16.8 million. This compares to a \$197.3 million working capital deficit subject to foreign currency exposure as of December 31, 2012, for which a 10% adverse change would have resulted in a potential increase in this working capital deficit of \$19.7 million. The primary difference between foreign currency exposure from December 31, 2012 to December 31, 2013 is due to fluctuations in foreign currencies against the U.S. Dollar during the year ended December 31, 2013 and improvements in the working capital deficit throughout the year.

### ***Interest Rate Risk***

Our cash and cash equivalents primarily consists of cash and money market funds. We currently do not have long-term borrowings except for \$5.7 million of long-term capital lease obligations, which do not expose us to significant interest rate risk. Our exposure to market risk for changes in interest rates is limited because our cash and cash equivalents have a short-term maturity and are used primarily for working capital purposes. The Company has investments in convertible debt securities and convertible redeemable preferred shares issued by nonpublic entities and has classified these investments as available-for-sale. We believe that the interest rate risk on these investments is not significant.

### ***Impact of Inflation***

We believe that our results of operations are not materially impacted by moderate changes in the inflation rate. Inflation and changing prices did not have a material effect on our business, financial condition or results of operations for the years ended December 31, 2013, 2012 or 2011.

**ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of Groupon, Inc.

We have audited the accompanying consolidated balance sheets of Groupon, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule listed in Item 15(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Groupon, Inc. at December 31, 2013 and 2012, and the consolidated results of its operations, and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Groupon, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 20, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Chicago, Illinois  
February 20, 2014

**GROUPON, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share and per share amounts)

	December 31,	
	2013	2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents .....	\$ 1,240,472	\$ 1,209,289
Accounts receivable, net.....	83,673	96,713
Deferred income taxes.....	27,938	31,211
Prepaid expenses and other current assets.....	210,415	150,573
<b>Total current assets</b> .....	<b>1,562,498</b>	<b>1,487,786</b>
Property, equipment and software, net.....	134,423	121,072
Goodwill.....	220,827	206,684
Intangible assets, net.....	28,443	42,597
Investments.....	20,652	84,209
Deferred income taxes, non-current.....	35,941	29,916
Other non-current assets.....	39,226	59,210
<b>Total Assets</b> .....	<b>\$ 2,042,010</b>	<b>\$ 2,031,474</b>
<b>Liabilities and Equity</b>		
Current liabilities:		
Accounts payable .....	\$ 27,573	\$ 59,865
Accrued merchant and supplier payables.....	752,943	671,305
Accrued expenses.....	226,986	246,924
Deferred income taxes.....	47,558	53,700
Other current liabilities.....	132,718	136,647
<b>Total current liabilities</b> .....	<b>1,187,778</b>	<b>1,168,441</b>
Deferred income taxes, non-current.....	10,853	20,860
Other non-current liabilities.....	131,697	100,072
<b>Total Liabilities</b> .....	<b>1,330,328</b>	<b>1,289,373</b>
Commitments and contingencies (see Note 8)		
<b>Stockholders' Equity</b>		
Class A common stock, par value \$0.0001 per share, 2,000,000,000 shares authorized, 670,149,976 shares issued and 665,717,176 shares outstanding at December 31, 2013 and 654,523,706 shares issued and outstanding at December 31, 2012.....	67	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, 2013 and 2012.....	—	—
Common stock, par value \$0.0001 per share, 2,010,000,000 shares authorized, no shares issued and outstanding at December 31, 2013 and 2012.....	—	—
Additional paid-in capital.....	1,584,211	1,485,006
Treasury stock, at cost, 4,432,800 shares at December 31, 2013 and no shares at December 31, 2012.....	(46,587)	—
Accumulated deficit.....	(848,870)	(753,477)
Accumulated other comprehensive income.....	24,830	12,446
<b>Total Groupon, Inc. Stockholders' Equity</b> .....	<b>713,651</b>	<b>744,040</b>
Noncontrolling interests.....	(1,969)	(1,939)
<b>Total Equity</b> .....	<b>711,682</b>	<b>742,101</b>
<b>Total Liabilities and Equity</b> .....	<b>\$ 2,042,010</b>	<b>\$ 2,031,474</b>

See Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2013	2012	2011
<b>Revenue:</b>			
Third party and other .....	\$ 1,654,654	\$ 1,879,729	\$ 1,589,604
Direct.....	919,001	454,743	20,826
<b>Total revenue</b> .....	<b>2,573,655</b>	<b>2,334,472</b>	<b>1,610,430</b>
<b>Cost of revenue:</b>			
Third party and other .....	232,062	297,739	243,789
Direct.....	840,060	421,201	15,090
<b>Total cost of revenue</b> .....	<b>1,072,122</b>	<b>718,940</b>	<b>258,879</b>
Gross profit .....	1,501,533	1,615,532	1,351,551
<b>Operating expenses:</b>			
Marketing.....	214,824	336,854	768,472
Selling, general and administrative.....	1,210,966	1,179,080	821,002
Acquisition-related (benefit) expense, net.....	(11)	897	(4,537)
<b>Total operating expenses</b> .....	<b>1,425,779</b>	<b>1,516,831</b>	<b>1,584,937</b>
<b>Income (loss) from operations</b> .....	<b>75,754</b>	<b>98,701</b>	<b>(233,386)</b>
Loss on equity method investments.....	(44)	(9,925)	(26,652)
Other (expense) income, net .....	(94,619)	6,166	5,973
<b>(Loss) income before provision for income taxes</b> .....	<b>(18,909)</b>	<b>94,942</b>	<b>(254,065)</b>
Provision for income taxes.....	70,037	145,973	43,697
<b>Net loss</b> .....	<b>(88,946)</b>	<b>(51,031)</b>	<b>(297,762)</b>
Net (income) loss attributable to noncontrolling interests.....	(6,447)	(3,742)	18,335
<b>Net loss attributable to Groupon, Inc.</b> .....	<b>(95,393)</b>	<b>(54,773)</b>	<b>(279,427)</b>
Redemption of preferred stock in excess of carrying value.....	—	—	(34,327)
Adjustment of redeemable noncontrolling interests to redemption value.....	—	(12,604)	(59,740)
<b>Net loss attributable to common stockholders</b> .....	<b>\$ (95,393)</b>	<b>\$ (67,377)</b>	<b>\$ (373,494)</b>
<b>Net loss per share</b>			
Basic.....	\$(0.14)	\$(0.10)	\$(1.03)
Diluted.....	\$(0.14)	\$(0.10)	\$(1.03)
<b>Weighted average number of shares outstanding</b>			
Basic.....	663,910,194	650,214,119	362,261,324
Diluted.....	663,910,194	650,214,119	362,261,324

See Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2013	2012	2011
Net loss.....	\$ (88,946)	\$ (51,031)	\$ (297,762)
Other comprehensive income, net of tax:			
Foreign currency translation adjustments .....	12,933	425	3,053
Unrealized (loss) gain on available-for-sale debt securities .....	(175)	53	—
Other comprehensive income .....	12,758	478	3,053
<b>Comprehensive loss</b> .....	<b>(76,188)</b>	<b>(50,553)</b>	<b>(294,709)</b>
Comprehensive (income) loss attributable to noncontrolling interests.....	(6,821)	(4,702)	18,335
<b>Comprehensive loss attributable to Groupon, Inc.</b> .....	<b>\$ (83,009)</b>	<b>\$ (55,255)</b>	<b>\$ (276,374)</b>

See Notes to Consolidated Financial Statements.

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

Groupon, Inc. Stockholders' Equity

	Series B, D, E, F, and G Preferred Stock		Class A and Class B Common Stock		Additional Paid-In Capital	Treasury Stock		Stockholder Receivable	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Groupon Inc. Stockholders' Equity	Non-controlling Interests	Total Equity
	Shares	Amount	Shares	Amount		Shares	Amount						
<b>Balance at December 31, 2010</b> .....	29,033,624	\$ 3	434,720,968	\$ 4	\$ 921,122	(93,328,656)	\$ (503,173)	\$ (286)	\$ (419,468)	\$ 9,875	\$ 8,077	\$ (1,530)	\$ 6,547
Net loss .....	—	—	—	—	—	—	—	—	(279,427)	—	(279,427)	2,974 <sup>(1)</sup>	(276,453)
Foreign currency translation .....	—	—	—	—	—	—	—	—	—	3,053	3,053	—	3,053
Adjustment of redeemable noncontrolling interests to redemption value .....	—	—	—	—	(59,740)	—	—	—	—	—	(59,740)	—	(59,740)
Stock issued in connection with acquisitions of businesses and equity method investments .....	—	—	4,025,762	—	56,290	—	—	—	—	—	56,290	—	56,290
Proceeds from issuance of stock, net of issuance costs .....	15,827,796	2	42,431,660	4	1,253,901	—	—	144	—	—	1,254,051	—	1,254,051
Exercise of stock options, net of tax benefits .....	—	—	4,990,665	—	2,729	—	—	142	—	—	2,871	—	2,871
Vesting of restricted stock units .....	—	—	1,070,432	—	—	—	—	—	—	—	—	—	—
Tax withholding related to net share settlements of stock-based compensation awards .....	—	—	—	—	(4,200)	—	—	—	—	—	(4,200)	—	(4,200)
Vesting of performance stock units .....	—	—	960,000	—	—	—	—	—	—	—	—	—	—
Stock-based compensation on equity-classified awards .....	—	—	—	—	88,979	—	—	—	—	—	88,979	—	88,979
Redemption of preferred stock .....	(370,401)	—	—	—	(35,003)	—	—	—	—	—	(35,003)	—	(35,003)
Purchases of treasury stock .....	—	—	—	—	—	(45,090,184)	(353,768)	—	—	—	(353,768)	—	(353,768)
Purchases of additional interests in consolidated subsidiaries .....	—	—	1,454,838	—	13,981	—	—	—	—	—	13,981	1,007	14,988
Return of common stock .....	—	—	(400,000)	—	(4,916)	—	—	—	—	—	(4,916)	—	(4,916)
Excess tax benefits, net of shortfalls, on stock-based compensation awards .....	—	—	—	—	12,051	—	—	—	—	—	12,051	—	12,051
Recapitalization of outstanding shares to Class A and Class B common stock .....	(44,491,019)	(5)	154,890,876	56	(808,666)	138,418,840	808,666	—	—	—	51	—	51
Reclassification of dividends paid on redemption of common stock .....	—	—	—	—	(48,275)	—	48,275	—	—	—	—	—	—
Forfeiture of dividends .....	—	—	—	—	—	—	—	—	191	—	191	—	191
Partnership distributions to noncontrolling interest holders .....	—	—	—	—	—	—	—	—	—	—	—	(5,525)	(5,525)
<b>Balance at December 31, 2011</b> .....	—	\$ —	644,145,201	\$ 64	\$ 1,388,253	—	\$ —	\$ —	\$ (698,704)	\$ 12,928	\$ 702,541	\$ (3,074)	\$ 699,467
Net loss .....	—	—	—	—	—	—	—	—	(54,773)	—	(54,773)	3,748 <sup>(1)</sup>	(51,025)
Foreign currency translation .....	—	—	—	—	—	—	—	—	—	(535)	(535)	960	425
Unrealized gain on available-for-sale debt securities, net of tax .....	—	—	—	—	—	—	—	—	—	53	53	—	53

Adjustment of redeemable noncontrolling interests to redemption value.....	—	—	—	(12,604)	—	—	—	(12,604)	—	(12,604)	—	(12,604)		
Restricted stock issued to employees in connection with acquisitions.....	—	—	152,446	—	—	—	—	—	—	—	—	—		
Purchases of additional interests in consolidated subsidiaries.....	—	—	51,000	(2,584)	—	—	—	(2,584)	739	(2,584)	739	(1,845)		
Shares issued to settle liability-classified awards and contingent consideration.....	—	—	660,539	2,503	—	—	—	2,503	—	2,503	—	2,503		
Exercise of stock options.....	—	—	9,025,164	9,312	—	—	—	9,313	—	9,313	—	9,313		
Vesting of restricted stock units....	—	—	4,452,979	—	—	—	—	—	—	—	—	—		
Tax withholdings related to net share settlements of stock-based compensation awards.....	—	—	(1,563,647)	(14,918)	—	—	—	(14,918)	—	(14,918)	—	(14,918)		
Stock-based compensation on equity-classified awards.....	—	—	—	93,781	—	—	—	93,781	—	93,781	—	93,781		
Excess tax benefits, net of shortfalls, on stock-based compensation awards.....	—	—	—	21,263	—	—	—	21,263	—	21,263	—	21,263		
Partnership distributions to noncontrolling interest holders.....	—	—	—	—	—	—	—	—	(4,312)	—	(4,312)	(4,312)		
<b>Balance at December 31, 2012.....</b>	<b>\$</b>	<b>656,923,682</b>	<b>\$</b>	<b>65</b>	<b>\$</b>	<b>1,485,006</b>	<b>\$</b>	<b>12,446</b>	<b>\$</b>	<b>744,040</b>	<b>\$</b>	<b>(1,939)</b>	<b>\$</b>	<b>742,101</b>
Net loss.....	—	—	—	—	—	—	—	(95,393)	6,447	(95,393)	6,447	(88,946)		
Foreign currency translation.....	—	—	—	—	—	—	—	12,559	374	12,559	374	12,933		
Unrealized loss on available-for-sale debt securities, net of tax.....	—	—	—	—	—	—	—	(175)	—	(175)	—	(175)		
Stock issued in connection with acquisitions.....	—	—	276,217	3,051	—	—	—	3,051	—	3,051	—	3,051		
Shares issued to settle liability-classified awards.....	—	—	758,474	4,649	—	—	—	4,649	—	4,649	—	4,649		
Exercise of stock options.....	—	—	4,003,544	4,062	—	—	—	4,062	—	4,062	—	4,062		
Vesting of restricted stock units....	—	—	15,565,805	2	—	—	—	—	—	—	—	—		
Shares issued under employee stock purchase plan.....	—	—	774,288	3,241	—	—	—	3,241	—	3,241	—	3,241		
Tax withholdings related to net share settlements of stock-based compensation awards.....	—	—	(5,752,058)	(47,684)	—	—	—	(47,684)	—	(47,684)	—	(47,684)		
Stock-based compensation on equity-classified awards.....	—	—	—	122,222	—	—	—	122,222	—	122,222	—	122,222		
Excess tax benefits, net of shortfalls, on stock-based compensation awards.....	—	—	—	9,666	—	—	—	9,666	—	9,666	—	9,666		
Purchases of treasury stock.....	—	—	—	(4,432,800)	—	—	—	(4,432,800)	—	(4,432,800)	—	(4,432,800)		
Partnership distributions to noncontrolling interest holders.....	—	—	—	—	—	—	—	—	(6,851)	—	(6,851)	(6,851)		
<b>Balance at December 31, 2013.....</b>	<b>\$</b>	<b>672,549,952</b>	<b>\$</b>	<b>67</b>	<b>\$</b>	<b>1,584,211</b>	<b>\$</b>	<b>24,830</b>	<b>\$</b>	<b>713,651</b>	<b>\$</b>	<b>(1,969)</b>	<b>\$</b>	<b>711,682</b>

(1) Excludes less than \$0.1 million and \$21.3 million attributable to redeemable noncontrolling interests for the years ended December 31, 2012 and 2011, respectively, which were reported outside of permanent equity on the consolidated balance sheets.

See Notes to Consolidated Financial Statements.



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

	Year Ended December 31,		
	2013	2012	2011
<b>Operating activities</b>			
Net loss .....	\$ (88,946)	\$ (51,031)	\$ (297,762)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization .....	89,449	55,801	32,055
Stock-based compensation .....	121,462	104,117	93,590
Deferred income taxes .....	(18,055)	(7,651)	32,203
Excess tax benefits on stock-based compensation .....	(20,454)	(27,023)	(10,178)
Loss on equity method investments .....	44	9,925	26,652
(Gain) loss, net from changes in fair value of contingent consideration .....	(3,171)	897	(4,537)
Gain on return of common stock .....	—	—	(4,916)
Gain on E-Commerce transaction .....	—	(56,032)	—
Impairment of investments .....	85,925	50,553	—
Change in assets and liabilities, net of acquisitions:			
Restricted cash .....	2,183	(4,372)	(12,519)
Accounts receivable .....	10,989	10,534	(70,376)
Prepaid expenses and other current assets .....	(62,906)	(70,859)	(36,292)
Accounts payable .....	(31,288)	18,711	(20,997)
Accrued merchant and supplier payables .....	88,468	149,918	380,108
Accrued expenses and other current liabilities .....	4,053	47,742	189,127
Other, net .....	40,679	35,604	(5,711)
<b>Net cash provided by operating activities</b> .....	<b>218,432</b>	<b>266,834</b>	<b>290,447</b>
<b>Investing activities</b>			
Purchases of property and equipment and capitalized software .....	(63,505)	(95,836)	(43,811)
Acquisitions of businesses, net of acquired cash .....	(7,349)	(46,890)	(14,400)
Purchases of investments .....	(21,982)	(37,523)	(32,042)
Settlement of liability related to purchase of additional interest in consolidated subsidiary .....	(1,959)	—	—
Purchases of additional interests in consolidated subsidiaries .....	—	(14,130)	(42,663)
Purchases of intangible assets .....	(1,520)	(600)	(14,517)
<b>Net cash used in investing activities</b> .....	<b>(96,315)</b>	<b>(194,979)</b>	<b>(147,433)</b>
<b>Financing activities</b>			
Proceeds from issuance of stock, net of issuance costs .....	—	—	1,266,392
Conversion of preferred stock .....	—	—	51
Redemption of preferred stock .....	—	—	(35,003)
Payments for purchases of treasury stock .....	(44,840)	—	(353,768)
Excess tax benefits on stock-based compensation .....	20,454	27,023	10,178
Taxes paid related to net share settlements of stock-based compensation awards .....	(47,575)	(12,996)	(3,770)
Payments of contingent consideration from acquisitions .....	(4,289)	(4,700)	—
Settlements of purchase price obligations related to acquisitions .....	(5,000)	(2,233)	—
Proceeds from stock option exercises and employee stock purchase plan .....	7,303	9,313	3,008
Partnership distributions to noncontrolling interest holders .....	(6,130)	(4,312)	(5,525)
Repayments of loans with related parties .....	—	—	(14,358)
Payments of capital lease obligations .....	(1,620)	—	—
<b>Net cash (used in) provided by financing activities</b> .....	<b>(81,697)</b>	<b>12,095</b>	<b>867,205</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b> .....	<b>(9,237)</b>	<b>2,404</b>	<b>(6,117)</b>
<b>Net increase in cash and cash equivalents</b> .....	<b>31,183</b>	<b>86,354</b>	<b>1,004,102</b>
Cash and cash equivalents, beginning of period .....	1,209,289	1,122,935	118,833
Cash and cash equivalents, end of period .....	<u>\$ 1,240,472</u>	<u>\$ 1,209,289</u>	<u>\$ 1,122,935</u>

**Supplemental disclosure of cash flow information**

Income tax payments	\$	60,767	\$	126,987	\$	1,635
<b>Non-cash investing and financing activities</b>						
Issuance of common stock in connection with acquisitions.....	\$	3,051	\$	—	\$	11,067
Contingent consideration liabilities incurred in connection with acquisitions.....	\$	3,567	\$	3,400	\$	17,755
Equipment acquired under capital lease obligations.....	\$	10,001	\$	1,122	\$	—
Shares issued to settle liability-classified awards.....	\$	4,649	\$	2,267	\$	—
Accounts payable and accrued expenses related to purchases of property and equipment and capitalized software.....	\$	1,564	\$	1,891	\$	1,972
Contribution of investment in E-Commerce transaction.....	\$	—	\$	47,042	\$	—
Stock issued in exchange for additional interests in consolidated subsidiaries.....	\$	—	\$	527	\$	10,400
Issuance of non-voting common stock in connection with investments in equity interests.....	\$	—	\$	—	\$	45,218
Liability for purchases of treasury stock.....	\$	1,747	\$	—	\$	—
Other current liability related to purchase of additional interest in consolidated subsidiary.....	\$	—	\$	1,959	\$	—
Shares issued to settle contingent consideration.....	\$	—	\$	236	\$	—

See Notes to Consolidated Financial Statements.

**GROUPON, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION**

***Company Information***

Groupon, Inc. and subsidiaries (the "Company"), which commenced operations in October 2008, operates online local commerce marketplaces throughout the world that connect merchants to consumers by offering goods and services at a discount. The Company also offers deals on products for which it acts as the merchant of record. Customers can access the Company's deal offerings directly through its websites and mobile applications. The Company also sends emails to its subscribers each day with deal offerings that are targeted by location and personal preferences.

The Company's operations are organized into three principal segments: North America, EMEA, which is comprised of Europe, Middle East and Africa, and the remainder of the Company's international operations ("Rest of World"). During the second quarter of 2013, the Company changed the composition of its operating segments to separate its former International segment between EMEA and Rest of World. See Note 15 "*Segment Information*" for further information.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Principles of Consolidation***

The 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 consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and include the assets, liabilities, revenue and expenses of all **wholly-owned** subsidiaries and **majority-owned** subsidiaries over which the Company exercises control and variable interest entities for which the Company has determined that it is the primary beneficiary. Outside stockholders' interests in subsidiaries are shown on the consolidated financial statements as "Noncontrolling interests." Equity investments in entities in which the Company does not have a controlling financial interest are accounted for under either the equity method, the cost method or as available-for-sale securities, as appropriate.

***Reclassifications***

Certain reclassifications have been made to the consolidated financial statements of prior years and the accompanying notes to conform to the current year presentation.

***Use of Estimates***

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

***Cash and Cash Equivalents***

The Company considers all **highly-liquid** investments with an original maturity of three months or less from the date of purchase to be cash equivalents. The Company's cash equivalents primarily include holdings in money market funds and overnight securities.

***Accounts Receivable, Net***

Accounts receivable primarily represents the net cash due from the Company's credit card and other payment processors

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

for cleared transactions. The carrying amount of the Company's receivables is reduced by an allowance for doubtful accounts that reflects management's best estimate of amounts that will not be collected. The allowance is based on historical loss experience and any specific risks identified in collection matters. Accounts receivable are charged off against the allowance for doubtful accounts when it is determined that the receivable is uncollectible. The Company's allowance for doubtful accounts as of December 31, 2013 and 2012 was \$0.7 million and \$0.2 million, respectively. Bad debt expense for the years ended December 31, 2013, 2012 and 2011 was \$0.7 million, \$0.6 million and \$0.2 million, respectively.

***Inventories***

Inventories, consisting of merchandise purchased for resale, are accounted for using the first-in-first-out ("FIFO") method of accounting and are valued at the lower of cost or market value. The Company writes down its inventory for estimated obsolescence and to the lower of cost or market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required. Once established, the original cost of the inventory less the related inventory allowance represents a new cost basis.

***Restricted Cash***

The Company had \$14.6 million and \$0.4 million of restricted cash recorded within "Prepaid expenses and other current assets" and "Other non-currents assets," respectively, as of December 31, 2013. The Company had \$16.5 million and \$0.7 million of restricted cash recorded within "Prepaid expenses and other current assets" and "Other non-currents assets," respectively, as of December 31, 2012. Restricted cash primarily represents amounts that the Company is unable to access for operational purposes pursuant to its contractual arrangements with certain financial institutions and entities who process merchant payments on the Company's behalf.

***Internal-Use Software***

The Company incurs costs related to internal-use software and website development, including purchased software and internally-developed software. Costs incurred in the planning and evaluation stage of internally-developed software and website development are expensed as incurred. Costs incurred and accumulated during the application development stage are capitalized and included within "Property, equipment and software, net" on the consolidated balance sheets. Capitalized internally-developed software and website development costs are amortized over their expected economic life of two years using the straight-line method.

***Goodwill***

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

The Company evaluates goodwill for impairment annually on October 1 or more frequently when an event occurs or circumstances change that indicates the carrying value may not be recoverable. The Company has the option to assess goodwill for impairment by first performing a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Company determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then further goodwill impairment testing is not required to be performed. If the Company determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company is required to perform a two-step goodwill impairment test. In the first step, the fair value of the reporting unit is compared to its book value including goodwill. If the fair value of the reporting unit is in excess of its book value, the related goodwill is not impaired and no further analysis is necessary. If the fair value of the reporting unit is less than its book value, there is an indication of potential impairment and a second step is performed. When required, the second step of testing involves calculating the implied fair value of goodwill for the reporting unit. The implied fair value of goodwill is determined in the same manner as goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit determined in step one over the fair value of its net assets and identifiable intangible assets as if the reporting unit had been acquired. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. For reporting units with a negative book value (i.e., excess of liabilities over assets), qualitative factors are evaluated to determine whether it is necessary to perform the second step of the goodwill impairment test.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

***Impairment of Long-Lived Assets***

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

***Investments***

Investments in nonmarketable equity shares with no redemption provisions that are not common stock or in-substance common stock or for which the Company does not have the ability to exercise significant influence are accounted for using the cost method of accounting and classified within "Investments" on the consolidated balance sheets. Under the cost method of accounting, investments are carried at cost and are adjusted only for other-than-temporary declines in fair value, certain distributions and additional investments.

Investments in common stock or in-substance common stock for which the Company has the ability to exercise significant influence are accounted for under the equity method and classified within "Investments" on the consolidated balance sheets. The Company's proportionate share of income or loss on equity method investments is presented within "Loss on equity method investments" on the consolidated statements of operations.

***Available-for-Sale Securities***

The Company has investments in convertible debt securities and convertible redeemable preferred shares issued by nonpublic entities and has categorized these investments as available-for-sale securities, which are classified within "Investments" on the consolidated balance sheets. Available-for-sale securities are recorded at fair value each reporting period. Unrealized gains and losses, net of the related tax effects, are excluded from earnings and recorded as a separate component within "Accumulated other comprehensive income" on the consolidated balance sheets until realized. Interest income is reported within "Other (expense) income, net" on the consolidated statements of operations.

***Other-than-Temporary Impairment of Investments***

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

***Income Taxes***

The provision for income taxes is determined using the asset and liability method. Under this method, deferred tax assets and liabilities are calculated based upon the temporary differences between the financial statement and income tax bases of assets and liabilities using the enacted tax rates that are applicable in a given year. The deferred tax assets are recorded net of a valuation allowance when, based on the weight of available evidence, the Company believes it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. The Company considers many factors when assessing the likelihood of future realization of its deferred tax assets, including recent cumulative earnings experience, expectations of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

future taxable income and capital gains by taxing jurisdiction, the **carry-forward** periods available for tax reporting purposes, the ability to carryback losses and other relevant factors. The Company allocates its valuation allowance to current and non-current deferred tax assets on a pro-rata basis. A change in the estimate of future taxable income may require an increase or decrease to the valuation allowance.

The Company utilizes a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. The Company considers many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments and which may not accurately forecast actual outcomes. The Company includes interest and penalties related to uncertain tax positions within "Provision (benefit) for income taxes" on the consolidated statements of operations.

***Lease and Asset Retirement Obligations***

The Company categorizes leases at their inception as either operating or capital leases and may receive renewal or expansion options, rent holidays, and leasehold improvement and other incentives on certain lease agreements. The Company recognizes lease costs on a straight-line basis, taking into account adjustments for free or escalating rental payments and deferred payment terms. Additionally, lease incentives are accounted for as a reduction of lease costs over the term of the agreement. Leasehold improvements are capitalized at cost and amortized over the shorter of their useful life or the non-cancellable term of the lease. The Company records rent expense associated with operating lease obligations primarily within "Selling, general and administrative" on the consolidated statements of operations.

The Company establishes assets and liabilities for the present value of estimated future costs to retire long-lived assets at the termination or expiration of a lease. Such assets are amortized over the lease term, and the recorded liabilities are accreted to the future value of the estimated retirement costs. The related amortization and accretion expenses are presented within "Selling, general and administrative" on the consolidated statements of operations.

***Revenue Recognition***

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

***Third party revenue recognition***

The Company generates third party revenue, where it acts as a third party marketing agent, by offering goods and services provided by third party merchants at a discount through its online local commerce marketplaces that connect merchants to consumers. The Company's marketplaces include deals offered through a variety of categories including: Local, Goods and Travel. Customers purchase the discount vouchers ("Groupons") from the Company and redeem them with the Company's merchants.

The revenue recognition criteria are met when the customer purchases a deal, the Groupon has been electronically delivered to the purchaser and a listing of Groupons sold has been made available to the merchant. At that time, the Company's obligations to the merchant, for which it is serving as a marketing 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 information about Groupons sold that was previously provided to the merchant, are inconsequential or perfunctory. For a portion of the hotel deals offered through the Company's online local marketplaces, the Company facilitates the booking of rooms by taking reservations through its websites and managing any subsequent changes to those reservations. The Company defers the revenue on those deals until the customer's stay occurs.

The Company records as revenue the net amount it retains from the sale of Groupons after deducting the portion of the purchase price that is payable to the featured merchant, excluding applicable taxes and net of estimated refunds for which the merchant's share is recoverable. Revenue is recorded on a net basis because the Company is acting as a marketing agent of the merchant in the transaction.

For merchant payment arrangements that are structured under a redemption model, merchants are not paid until the customer redeems the Groupon that has been purchased. If a customer does not redeem the Groupon under this payment model,

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the Company retains all the gross billings. The Company records revenue from unredeemed Groupons and derecognizes the related accrued merchant payable when its legal obligation to the merchant expires, which the Company believes is shortly after deal expiration in most jurisdictions that have payment arrangements structured under a redemption model.

*Direct revenue recognition*

The Company evaluates whether it is appropriate to record the gross amount of its sales and related costs by considering a number of factors, including, among other things, whether the Company is the primary obligor under the arrangement, has inventory risk and has latitude in establishing prices.

Direct revenue is derived primarily from selling consumer products through the Company's Goods category where the Company is the merchant of record. The Company is the primary obligor in these transactions, is subject to general inventory risk and has latitude in establishing prices. Accordingly, direct revenue is recorded on a gross basis, excluding applicable taxes and net of estimated refunds.

Direct revenue, including associated shipping revenue, is recorded when title passes to the customer. In connection with the Company's rollout of increased direct revenue deals outside the United States, a global change was made to customer terms and conditions in the fourth quarter of 2013 to specify that title to products transfers upon delivery. As a result of this change, the Company began recognizing direct revenue upon delivery, rather than shipment.

*Other revenue recognition*

Advertising revenue is recognized when the advertiser's logo or website link has been included on the Company's website or in specified email distributions for the requisite period of time as set forth in the agreement with the advertiser. Revenue from point of sale solutions is recognized on a subscription basis over the term of the arrangement with the merchant. Revenue is earned on a per transaction basis for payment processing, restaurant reservations and for customers accessing coupons through the Company's website and making purchases with retailers. The Company recognizes revenue from those activities when the underlying transactions are completed.

*Discounts*

The Company provides discount offers to encourage purchases of goods and services through its marketplaces. The Company records discounts as a reduction of revenue.

*Cost of revenue*

Cost of revenue is comprised of direct and certain indirect costs incurred to generate revenue. For direct revenue transactions, cost of revenue includes the cost of inventory, shipping and fulfillment costs and inventory markdowns. Fulfillment costs are comprised of third party logistics provider costs, as well as rent, depreciation, personnel costs and other costs of operating the Company's own fulfillment center, which began operations in the fourth quarter of 2013. For third party revenue transactions, cost of revenue includes estimated refunds for which the merchant's share is not recoverable. Other costs incurred to generate revenue, which include credit card processing fees, editorial costs, certain technology costs, web hosting and other processing fees, are allocated to cost of third party revenue, direct revenue and other revenue in proportion to gross billings during the period.

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

*Refunds*

The Company estimates future refunds utilizing a statistical model that incorporates the following data inputs and factors: historical refund experience developed from millions of deals featured on the Company's website, the relative risk of refunds based on expiration date, deal value, deal category and other qualitative factors that could impact the level of future refunds, such as

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

introductions of new deals, discontinuations of legacy deals and expected changes, if any, in Company practices in response to refund experience or economic trends that might impact customer demand. The portion of customer refunds for which the merchant's share is not recoverable on third party revenue deals is estimated based on the refunds that are expected to be issued after expiration of the related vouchers, the refunds that are expected to be issued due to the merchant bankruptcy or poor customer experience, and whether the payment terms of the related merchant contracts are structured using a redemption payment model or a fixed payment model.

In early 2012, actual refund activity for deals featured late in 2011 was demonstrating a consistent trend that was deviating from the modeled refund behavior, due in part to a shift in fourth quarter deal mix and higher price point offers. Accordingly, the Company updated its refund model to better capture variations in trends in its business. By continually refining the refund model to reflect such data inputs as discussed above, the Company believes its model enables it to track and anticipate refund behavior.

The Company accrues costs associated with refunds within "Accrued expenses" on the consolidated balance sheets. The cost of refunds for third party revenue where the amounts payable to the merchant are recoverable and for all direct revenue is presented on the consolidated statements of operations as a reduction to revenue. The cost of refunds for third party revenue for which the merchant's share is not recoverable is presented as a cost of revenue.

The Company assesses the trends that could affect its estimates on an ongoing basis and makes adjustments to the refund reserve calculations if it appears that changes in circumstances, including changes to the Company's refund policies, may cause future refunds to differ from its original estimates. If actual results are not consistent with the estimates or assumptions stated above, the Company may need to change its future estimates, and the effects could be material to the consolidated financial statements.

***Subscriber Credits***

The Company issues credits to its subscribers that can be applied against future purchases through its online marketplaces for certain qualifying acts, such as referring new subscribers, and also to satisfy refund requests. The Company has recorded its subscriber credit obligations within "Accrued expenses" on the consolidated balance sheets (See Note 7 "*Supplemental Consolidated Balance Sheet and Statement of Operations Information*"). Subscriber credit obligations incurred for new subscriber referrals or other qualifying acts are expensed as incurred and are classified within "Marketing" on the consolidated statements of operations. Subscriber credits issued to satisfy refund requests are applied as a reduction to the refunds reserve.

***Stock-Based Compensation***

The Company measures **stock-based** compensation cost at fair value, net of estimated forfeitures. Expense is generally recognized on a straight-line basis over the service period during which awards are expected to vest, except for awards with performance conditions, which are recognized using the accelerated method. The Company includes stock-based compensation expense within "Cost of revenue," "Marketing" and "Selling, general and administrative," consistent with the respective employees' cash compensation, on the consolidated statements of operations. Prior to the Company's initial public offering in November 2011, the fair value of restricted stock units and restricted stock was estimated based on valuations of the Company's (or subsidiaries') stock on the grant date or reporting date if required to be remeasured under applicable accounting guidance. The fair value of stock options was determined on the date of grant using the **Black-Scholes-Merton** valuation model. See Note 10 "*Stock-Based Compensation*."

***Foreign Currency***

Balance sheet accounts of the Company's operations outside of the U.S. are translated from foreign currencies into U.S. dollars at the exchange rates as of the consolidated balance sheet dates. Revenue and expenses are translated at average exchange rates during the period. Foreign currency translation adjustments and gains and losses on intercompany foreign currency transactions that are of a long-term investment nature are included within "Accumulated other comprehensive income" on the consolidated balance sheets. Gains and losses resulting from foreign currency transactions which are denominated in currencies other than the entity's functional currency, including intercompany foreign currency transactions that are not of a long-term investment nature, are included within "Other (expense) income, net" on the consolidated statements of operations. For the years ended December 31, 2013, 2012 and 2011, the Company had \$10.3 million of foreign currency transaction losses, \$1.4 million of foreign currency transaction gains and \$1.8 million of foreign currency transaction gains, respectively.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. BUSINESS COMBINATIONS AND ACQUISITIONS OF NONCONTROLLING INTERESTS

The Company acquired a number of businesses during the years ended December 31, 2013, 2012 and 2011. These business combinations were accounted for using the acquisition method, and the results of each of those acquired businesses have been included in the consolidated financial statements beginning on the respective acquisition dates. The fair value of consideration transferred in business combinations is allocated to the tangible and intangible assets acquired and liabilities assumed at the acquisition date, with the remaining unallocated amount recorded as goodwill. The allocations of the acquisition price for recent acquisitions have been prepared on a preliminary basis, and changes to those allocations may occur as additional information becomes available. Acquired goodwill represents the premium the Company paid over the fair value of the net tangible and intangible assets acquired. The Company paid this premium for a number of reasons, including acquiring an experienced workforce and enhancing technology capabilities. The goodwill is generally not deductible for tax purposes.

Liabilities for contingent consideration (i.e., earn-outs) are measured at fair value each reporting period, with the acquisition-date fair value included as part of the consideration transferred and subsequent changes in fair value recorded within "Acquisition-related (benefit) expense, net" on the consolidated statements of operations. See Note 13 "Fair Value Measurements" for information about fair value measurements of contingent consideration liabilities.

For the year ended December 31, 2013, \$3.2 million of external transaction costs related to business combinations, primarily consisting of legal and advisory fees, are classified within "Acquisition-related benefit, net" on the consolidated statement of operations. Such costs were not material for the years ended December 31, 2012 and 2011.

The noncontrolling interests associated with certain of the Company's business combinations in prior years were redeemable at the option of the holder. The "Net loss attributable to common stockholders" presented on the consolidated statements of operations for the years ended December 31, 2012 and 2011 reflects deductions for adjustments of redeemable noncontrolling interests to their redemption values. No redeemable noncontrolling interests were outstanding as of December 31, 2013 and 2012.

**2013 Acquisition Activity**

The primary purpose of the Company's seven acquisitions during the year ended December 31, 2013 was to enhance the Company's technology capabilities, acquire experienced workforces and expand and advance product offerings. The aggregate acquisition-date fair value of the consideration transferred for these acquisitions totaled \$16.1 million, which consisted of the following (in thousands):

Fair Value of Consideration Transferred	Fair Value
Cash.....	\$ 9,459
Issuance of Class A common stock.....	3,051
Contingent consideration .....	3,567
Total.....	<u>\$ 16,077</u>

**GROUPON, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes the allocation of the aggregate acquisition price of acquisitions for the year ended December 31, 2013 (in thousands):

Net working capital (including acquired cash of \$2.1 million).....	\$	1,728
Property and equipment.....		99
Goodwill.....		9,504
Intangible assets: <sup>(1)</sup>		
Subscriber relationships.....		1,928
Merchant relationships.....		757
Developed technology.....		2,742
Other intangible assets.....		50
Net deferred tax liabilities.....		(731)
Total acquisition price.....	<u>\$</u>	<u>16,077</u>

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

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

**2012 Acquisition Activity**

The primary purpose of the Company's acquisitions during the year ended December 31, 2012 was to enhance the Company's technology and marketing capabilities and to expand and advance product offerings. The aggregate acquisition-date fair value of the consideration transferred for these acquisitions totaled \$54.9 million, which consisted of the following (in thousands):

<u>Fair Value of Consideration Transferred</u>	<u>Fair Value</u>
Cash.....	\$ 49,013
Purchase price obligations.....	2,485
Contingent consideration.....	3,400
Total.....	<u>\$ 54,898</u>

**GROUPON, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes the allocation of the aggregate acquisition price of acquisitions for the year ended December 31, 2012 (in thousands):

Net working capital (including acquired cash of \$2.1 million) .....	\$ 1,750
Property and equipment .....	165
Goodwill .....	39,170
Intangible assets <sup>(1)</sup> :	
Subscriber relationships .....	170
Merchant relationships .....	1,500
Developed technology .....	14,350
Deferred tax liabilities .....	(2,207)
<b>Total acquisition price .....</b>	<b>\$ 54,898</b>

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

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

**2011 Acquisition Activity**

The primary purpose of the Company's acquisitions during the year ended December 31, 2011 was to utilize the acquired entities' collective buying power businesses to further grow the Company's subscriber base and provide strategic entries into new and expanding markets in India, Malaysia, South Africa, Indonesia and the Middle East. In addition, the Company acquired certain businesses that specialize in developing mobile technology and marketing services to expand and advance the Company's product offerings. The aggregate acquisition-date fair value of the consideration transferred and noncontrolling interests for these acquisitions totaled \$47.7 million, which consisted of the following (in thousands):

<b>Fair Value of Consideration Transferred and Noncontrolling Interests</b>	<b>Fair Value</b>
Cash .....	\$ 18,313
Issuance of shares of common stock .....	11,067
Contingent consideration .....	17,755
Noncontrolling interests.....	593
<b>Total .....</b>	<b>\$ 47,728</b>

The value of the noncontrolling interests represents the fair value of the ownership of the remaining shareholders after Groupon's purchase assuming a discount on that remaining ownership due to the limited control of minority shareholders. The fair value of the remaining shareholders' ownership interests prior to the discount was derived assuming Groupon's acquisition price represents the fair value of the ownership acquired.

**GROUPON, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes the allocation of the aggregate acquisition price of acquisitions for the year ended December 31, 2011 (in thousands):

Net working capital (including acquired cash of \$3.9 million) .....	\$	3,734
Property and equipment .....		132
Goodwill .....		36,539
Intangible assets <sup>(1)</sup> :		
Subscriber relationships .....		5,990
Developed technology .....		3,547
Trade names .....		370
Deferred tax liabilities .....		(2,584)
Total acquisition price.....	<u>\$</u>	<u>47,728</u>

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

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

**Purchases of Additional Interests in Consolidated Subsidiaries**

During the years ended December 31, 2012 and 2011, the Company acquired additional shares in various majority-owned subsidiaries, including both shares owned by investors not employed by the Company, as well as subsidiary stock-based compensation awards that were granted in conjunction with the original acquisitions. The acquired subsidiary stock-based compensation awards were classified as liabilities mainly due to the existence of rights that allow the holders to sell their shares back to the Company.

During the year ended December 31, 2012, the Company acquired additional interests in majority-owned subsidiaries for an aggregate acquisition price of \$16.7 million, including \$16.1 million of cash consideration and \$0.6 million of Class A common stock. Cash consideration of \$14.1 million was paid in 2012 and the remaining \$2.0 million was paid in 2013. Additionally, in connection with these transactions, certain liability-classified subsidiary stock-based compensation awards were settled in exchange for \$15.2 million of cash, \$2.3 million of Class A common stock and \$10.5 million of deferred compensation that is being recognized as compensation expense over a service period of between one and two years. Cash settlements of \$14.0 million were paid in 2012, and the remaining \$1.2 million was paid in 2013.

During the year ended December 31, 2011, the Company acquired additional interests in majority-owned subsidiaries for an aggregate acquisition price of \$45.7 million, including \$32.5 million of cash consideration and \$13.2 million of Class A common stock. Additionally, in connection with these transactions, certain liability-classified subsidiary stock-based compensation awards were settled in exchange for \$9.3 million of cash, \$9.6 million of Class A common stock, and \$8.0 million of deferred compensation that is being recognized as compensation expense over a service period of two years.

**GROUPON, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**4. PROPERTY, EQUIPMENT AND SOFTWARE, NET**

The following summarizes the Company's property, equipment and software, net (in thousands):

	December 31,	
	2013	2012
Warehouse equipment.....	\$ 3,997	\$ —
Furniture and fixtures.....	13,526	12,853
Leasehold improvements .....	35,830	28,778
Office and telephone equipment .....	5,062	6,804
Purchased software .....	22,499	14,480
Computer hardware and other <sup>(1)</sup> .....	84,673	67,862
Internally-developed software .....	79,113	36,531
Total property, equipment and software, gross.....	244,700	167,308
Less: accumulated depreciation and amortization.....	(110,277)	(46,236)
Property, equipment and software, net.....	<u>\$ 134,423</u>	<u>\$ 121,072</u>

(1) Includes computer hardware acquired under capital leases of \$11.8 million and \$1.1 million as of December 31, 2013 and 2012, respectively.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets (generally three years for computer hardware and software and office and telephone equipment, five to ten years for furniture and fixtures and warehouse equipment, and the shorter of the term of the lease or the asset's useful life for leasehold improvements) and is primarily classified within "Selling, general and administrative" on the consolidated statements of operations. Depreciation and amortization expense on property, equipment and software, including internally-developed software, was \$67.8 million, \$35.9 million and \$12.8 million for the years ended December 31, 2013, 2012 and 2011, respectively. The Company recognized amortization expense of \$2.1 million on assets under capital leases for the year ended December 31, 2013. Amortization expense recognized for assets under capital leases was not material for the year ended December 31, 2012. See Note 8, "Commitments and Contingencies" for further detail regarding capital leases.

As of December 31, 2013 and 2012, the carrying amount of internally-developed software, net of accumulated amortization, was \$47.9 million and \$30.1 million, respectively. Amortization expense for capitalized internally-developed software totaled \$25.2 million, \$3.4 million and \$0.2 million for the years ended December 31, 2013, 2012 and 2011, respectively. For the year ended December 31, 2013, \$7.9 million and \$17.3 million of amortization expense for capitalized internally-developed software is included within "Cost of revenue" and "Selling, general and administrative," respectively, on the consolidated statement of operations. For the years ended December 31, 2012 and 2011, amortization expense for capitalized internally-developed software is primarily included within "Selling, general and administrative."

**5. GOODWILL AND OTHER INTANGIBLE ASSETS**

The Company evaluates goodwill for impairment annually on October 1 or more frequently when an event occurs or circumstances change that indicates the carrying value may not be recoverable. No goodwill impairments were recognized for the years ended December 31, 2013, 2012 and 2011.

Goodwill is tested for impairment at the reporting unit level. Prior to the second quarter of 2013, the Company's four reporting units were North America, EMEA, Asia Pacific ("APAC") and Latin America ("LATAM"). As discussed in Note 15 "Segment Information," the Company changed the composition of its operating segments during the second quarter of 2013 to separate its former International segment between EMEA and Rest of World. As a result of this change in operating segments, the Company's former EMEA reporting unit has been disaggregated into four new reporting units for goodwill impairment testing purposes: Southern EMEA, Western EMEA, Northern EMEA and Eastern/Central EMEA. Goodwill from the former EMEA reporting unit was reallocated to the four new EMEA reporting units based on their relative fair values.

**GROUPON, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

In connection with its October 1, 2013 annual goodwill impairment evaluation, the Company elected to perform a qualitative assessment for the following reporting units to determine whether to perform the two-step quantitative impairment tests: North America, Southern EMEA, Western EMEA, Northern EMEA and Eastern/Central EMEA. Based on that evaluation, no impairment of goodwill was identified for any of those five reporting units because the likelihood of a goodwill impairment did not reach the more-likely-than-not threshold specified in U.S. GAAP. In performing that evaluation, some of the factors considered by the Company included the recent operating performance of each of the five reporting units, the fair values of the four EMEA reporting units and related analyses performed three months earlier in connection with the interim goodwill impairment tests described above and the significant increases in the Company's market capitalization since the most recent quantitative goodwill impairment tests (June 30, 2013 for the four EMEA reporting units and October 1, 2012 for the North America reporting unit).

The Company performed quantitative goodwill impairment tests as of October 1, 2013 for its APAC and LATAM reporting units. Liabilities exceeded assets for those reporting units at the impairment test date. Due to the recent declines in the operating performance of the Company's Rest of World segment, which is comprised of the LATAM and APAC reporting units, the Company determined that the second step of the goodwill impairment test should be performed. The results of those tests indicated no impairment of goodwill as of October 1, 2013 for either the APAC or LATAM reporting units.

The following table summarizes the Company's goodwill activity by segment for the years ended December 31, 2013 and 2012 (in thousands):

	<u>North America</u>	<u>International</u>	<u>EMEA</u>	<u>Rest of World</u>	<u>Consolidated</u>
Balance as of December 31, 2011 .....	\$ 40,731	\$ 126,172	\$ —	\$ —	\$ 166,903
Goodwill related to acquisitions .....	39,170	—	—	—	39,170
Other adjustments <sup>(1)</sup> .....	(625)	1,236	—	—	611
Balance as of December 31, 2012 .....	\$ 79,276	\$ 127,408	\$ —	\$ —	\$ 206,684
Reallocation to new segments .....	—	(124,770)	105,347	19,423	—
Goodwill related to acquisitions .....	4,893	—	4,611	—	9,504
Other adjustments <sup>(1)</sup> .....	1,288	(2,638)	5,711	278	4,639
Balance as of December 31, 2013 .....	<u>\$ 85,457</u>	<u>\$ —</u>	<u>\$ 115,669</u>	<u>\$ 19,701</u>	<u>\$ 220,827</u>

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

GROUPON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

<u>Asset Category</u>	December 31, 2013		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Subscriber relationships .....	\$ 45,541	\$ 30,866	\$ 14,675
Merchant relationships .....	9,186	7,991	1,195
Trade names .....	6,739	6,739	—
Developed technology .....	23,038	19,547	3,491
Other intangible assets .....	16,776	7,694	9,082
Total .....	<u>\$ 101,280</u>	<u>\$ 72,837</u>	<u>\$ 28,443</u>

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

Amortization of intangible assets is computed using the straight-line method over their estimated useful lives, which range from 1 to 5 years. Amortization expense related to intangible assets was \$21.6 million, \$19.9 million and \$19.3 million for the years ended December 31, 2013, 2012 and 2011, respectively. As of December 31, 2013, the Company's estimated future amortization expense related to intangible assets is as follows (in thousands):

Years Ended December 31,	
2014 .....	\$ 16,504
2015 .....	8,469
2016 .....	2,364
2017 .....	730
2018 .....	376
Thereafter .....	—
	<u>\$ 28,443</u>

**GROUPON, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**6. INVESTMENTS**

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

	<b>December 31, 2013</b>	<b>Percent Ownership of Voting Stock</b>	<b>December 31, 2012</b>	<b>Percent Ownership of Voting Stock</b>
<b>Cost method investments:</b>				
Life Media Limited (F-tuan) common shares .....	\$ —		\$ 34,982	16%
Other cost method investments .....	15,788	6% to 19%	1,867	6% to 19%
Total cost method investments .....	15,788		36,849	
Equity method investments.....	1,690	21% to 50%	1,734	21% to 50%
Total cost and equity method investments.....	17,478		38,583	
<b>Available-for-sale securities:</b>				
Life Media Limited (F-tuan) preferred shares <sup>(1)</sup> ..	—	19%	42,539	3%
Convertible debt securities.....	3,174		3,087	
Total available-for-sale securities.....	3,174		45,626	
<b>Total investments .....</b>	<b>\$ 20,652</b>		<b>\$ 84,209</b>	

(1) F-tuan preferred shares outstanding as of December 31, 2012 have been reclassified to the available-for-sale category in this table. See further discussion below regarding the classification of the F-tuan preferred shares.

***Investments in E-Commerce and Life Media (F-tuan)***

In January 2011, the Company acquired 40% of the ordinary shares of E-Commerce King Limited ("E-Commerce"), 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"). Rocket Asia acquired 10% 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.

On July 31, 2011, the Company entered into an agreement to purchase additional interests in E-Commerce from Rocket Asia for an acquisition price of \$45.2 million, consisting of 2,908,856 shares of non-voting common stock. The investment increased the Company's ownership from 40% to 49%.

Throughout 2011 and 2012, the Company made cash investments in E-commerce for an aggregate amount of \$32.9 million. As of May 31, 2012, the Company's ownership in E-Commerce was 49.8%.

In June 2012, Life Media Limited ("F-tuan"), an exempted company incorporated under the laws of the Cayman Islands with operations in China, acquired the Company's 49.8% interest in E-Commerce. In exchange for its interest in E-Commerce and an additional \$25.0 million of cash consideration, the Company received a 19.1% interest in F-tuan in the form of common and Series E preferred shares. The Company recognized a non-operating gain of \$56.0 million as a result of the transaction, which is included within "Other income, net" on the consolidated statement of operations for the year ended December 31, 2012. The gain represented the excess of the fair value of the Company's 19.1% investments in F-tuan over the carrying value of its E-Commerce investment as of the date of the transaction and the \$25.0 million of cash consideration.

In August 2013, the Company entered into an exchange transaction with F-tuan whereby it received newly issued shares of Series F preferred stock in exchange for all shares of F-tuan common stock previously held by the Company and \$8.0 million of cash consideration, which was paid in two installments of \$6.5 million and \$1.5 million in August and October 2013, respectively. The transaction was recorded at cost. The Company's investments in F-tuan following this transaction are in the form of Series E and Series F preferred shares. Those preferred shares rank pari passu with certain other classes of F-tuan's outstanding preferred stock and have an aggregate liquidation preference of \$85.5 million. The Company's voting interest in F-tuan remained 19.1% after the transaction.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company's investments in the Series E and Series F preferred shares of F-tuan are classified as available-for-sale securities because the investee's Memorandum of Association provides for redemption of the preferred shares at the Company's option beginning in October 2017. The Series E preferred shares outstanding as of December 31, 2012 have been reclassified to the available-for-sale category in the table above. As of December 31, 2013, the amortized cost, gross unrealized gain (loss) and fair value of the F-tuan preferred shares were \$0.0 million. As of December 31, 2012, the amortized cost, gross unrealized gain (loss) and fair value of the F-tuan preferred shares were \$42.5 million, \$0.0 million and \$42.5 million, respectively.

The Company's investment in the common shares of F-tuan, which were held prior to the August 2013 exchange transaction, was accounted for using the cost method of accounting because the Company did not have the ability to exercise significant influence over the operating and financial policies of the investee.

***Other Investments***

In February 2013, the Company acquired a 10.3% ownership interest in a non-U.S.-based payment processor for \$13.6 million. This investment is accounted for using the cost method of accounting because the Company does not have the ability to exercise significant influence over the operating and financial policies of the investee.

In November 2012, the Company purchased convertible debt securities issued by a nonpublic entity for \$3.0 million and has classified the securities as available-for-sale. The Company purchased \$0.4 million of additional convertible debt securities from that entity in December 2013. As of December 31, 2013, the amortized cost, gross unrealized loss and fair value of these securities were \$3.4 million, \$0.2 million and \$3.2 million, respectively. As of December 31, 2012, the amortized cost, gross unrealized gain and fair value of these securities were \$3.0 million, \$0.1 million and \$3.1 million, respectively. The initial \$3.0 million of convertible debt securities mature in November 2015, and the additional \$0.4 million of convertible debt securities mature in June 2015.

***Other-Than-Temporary Impairment***

For the year ended December 31, 2013, the Company recorded an \$85.5 million other-than-temporary impairment of its investments in F-tuan. F-tuan has operated at a loss since its inception and has used proceeds from equity offerings to fund investments in marketing and other initiatives to grow its business. As discussed above, the Company participated in an equity funding round in 2013 and the aggregate cash proceeds raised by F-tuan in that round, which were funded in two installments in September and October 2013 and included proceeds received from another investor, were intended to fund its operations for approximately six months, at which time additional financing would be required. In December 2013, the Company was notified by F-tuan's largest shareholder, which had served as a source of funding and operational support, that they had made a strategic decision to cease providing support to F-tuan. At its December 12, 2013 meeting, the Company's Board of Directors discussed the Company's strategy with respect to the Chinese market in light of this information. After that meeting, management pursued opportunities to divest its minority investment in F-tuan either for cash or in exchange for a minority equity investment in a larger competitor, but no agreement was ultimately reached. At its February 11, 2014 meeting, the Board of Directors determined that the Company should not provide funding to F-tuan in future periods. At the present time, F-tuan requires additional financing to continue its operations. Given the uncertainty as to whether it will be able to obtain such financing and the Company's decision not to provide significant funding itself, the Company believes that there is substantial doubt as to F-tuan's ability to operate as a going concern for the foreseeable future.

The Company's evaluation of other-than-temporary impairments involves consideration of qualitative and quantitative factors regarding the severity and duration of the unrealized loss, as well as the Company's intent and ability to hold the investment for a period of time that is sufficient to allow for an anticipated recovery in value. As a result of F-tuan's immediate liquidity needs, the decision by existing shareholders to cease providing support, the Company's inability to find a buyer for its minority investment, the Company's decision not to be a source of significant funding itself and the expectation that any subsequent third party investment, if one occurs, would substantially dilute the existing shareholders, the Company concluded that its investment in F-tuan is other-than-temporarily impaired and its best estimate of fair value at the present time is zero. Accordingly, the Company has recognized an \$85.5 million impairment charge in earnings for the year ended December 31, 2013.

For the year ended December 31, 2012, the Company recorded a \$50.6 million other-than-temporary impairment of its investments in F-tuan. As described above, the Company obtained these investments in June 2012 as part of a transaction in which

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

it received a 19% interest in F-tuan, in the form of common and Series E preferred shares, in exchange for its 49.8% interest in E-Commerce and an additional \$25.0 million of cash consideration. The \$128.1 million acquisition-date fair value of the investments in F-tuan, a nonpublic entity, was determined using the discounted cash flow method, which is an income approach, and the resulting value was corroborated using the market approach. The inputs used to estimate fair value under the discounted cash flow method included financial projections and the discount rate. Because these fair value inputs are unobservable, fair value measurements of the investments in F-tuan are classified within Level 3 of the fair value hierarchy.

In connection with the acquisition-date fair value measurements of the investments in F-tuan, the Company obtained financial projections from the investee. The Company evaluated those financial projections based on its knowledge of the business and related market conditions. As a result of that evaluation, downward adjustments were applied to reduce the anticipated growth that was reflected in the original projections. A 25% discount rate was applied to the adjusted cash flow projections, which included an entity-specific risk premium to account for the riskiness and uncertainty inherent in the business. Additionally, the Company corroborated the acquisition-date fair value measurement of F-tuan by estimating the fair value of its 49.8% interest in E-Commerce at the time of the transaction and comparing the estimated fair value of the consideration transferred, including the additional \$25.0 million of cash consideration, to the estimated fair value of the investments in F-tuan that was received.

In January 2013, the Company obtained updated financial projections from F-tuan, as well as their operating results for the year ended December 31, 2012. The investee's operating loss for the year-ended December 31, 2012 was lower than the loss that was forecasted in June 2012 at the time of the Company's investment, primarily due to lower-than-forecasted operating expenses. However, the investee's 2012 revenues were lower than the adjusted financial projections used at the time of the Company's investment and the updated financial projections provided by the investee at year-end indicated significant declines in forecasted revenues in future years, as compared to the adjusted financial projections used at the time of the Company's investment, due to reduced gross billings and deal margin forecasts. As of December 31, 2012, the Company continued to apply a discounted cash flow approach, corroborated by a market approach, to estimate the fair value of the investments in F-tuan. For the December 31, 2012 fair value measurements, the Company used the updated financial projections and a discount rate of 30%. The increase to the discount rate as compared to the acquisition-date fair value measurement was primarily attributable to an increase in the entity-specific risk premium to reflect the Company's current assessment of the riskiness of this investment. The resulting fair value measurements of the investments in F-tuan totaled \$77.5 million as of December 31, 2012, a \$50.6 million reduction from the \$128.1 million acquisition-date fair value measurement in June 2012.

The Company's evaluation of other-than-temporary impairments involves consideration of qualitative and quantitative factors regarding the severity and duration of the unrealized loss, as well as the Company's intent and ability to hold the investment for a period of time that is sufficient to allow for an anticipated recovery in value. Although the Company's investments in F-tuan had not been in an unrealized loss position for an extended period of time as of December 31, 2012 and there were no plans to dispose of the investments at that time, the Company concluded that the impairment was other-than-temporary due to the significant declines in forecasted revenue growth and the severity of the unrealized loss.

The \$85.5 million and \$50.6 million other-than-temporary impairments of its investments in F-tuan are reported within "Other (expense) income, net" on the consolidated statements of operations for the years ended December 31, 2013 and 2012, respectively.

The Company also recorded an additional \$1.2 million other-than-temporary impairment of an equity method investment in a nonpublic entity, which is reported within "Loss on equity method investments" on the consolidated statement of operations for the year ended December 31, 2012.

**GROUPON, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**7. SUPPLEMENTAL CONSOLIDATED BALANCE SHEETS AND STATEMENTS OF OPERATIONS INFORMATION**

The following table summarizes the Company's other (expense) income, net for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Interest income.....	\$ 1,721	\$ 2,522	\$ 1,176
Interest expense.....	(291)	—	—
Gain on E-Commerce transaction.....	—	56,032	—
Impairment of investments .....	(85,925)	(50,553)	—
Gain on return of common stock .....	—	—	4,916
Foreign exchange and other .....	(10,124)	(1,835)	(119)
Other (expense) income, net .....	<u>\$ (94,619)</u>	<u>\$ 6,166</u>	<u>\$ 5,973</u>

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

	December 31,	
	2013	2012
Current portion of unamortized tax effects on intercompany transactions....	\$ 28,502	\$ 37,589
Finished goods inventories .....	57,097	39,733
Prepaid expenses.....	29,404	20,964
Restricted cash .....	14,579	16,507
VAT and income taxes receivable.....	52,960	16,439
Prepaid marketing <sup>(1)</sup> .....	17,301	—
Prepayments of inventory purchases and other <sup>(1)</sup> .....	10,572	19,341
Total prepaid expenses and other current assets .....	<u>\$ 210,415</u>	<u>\$ 150,573</u>

- (1) The Company previously remitted prepayments to an online travel company in connection with a two-year agreement to offer discounted airline ticket deals. These prepayments were recorded within "Prepayments of inventory purchases and other" as of December 31, 2012. In 2013, the parties entered into amendments to the agreement whereby the Company's prepayments were applied as consideration for certificates that can be used to obtain discounts on the purchase of air travel through the counterparty's website. The Company periodically issues these certificates to customers in connection with its marketing activities. The Company is entitled to obtain a cash refund for any unissued certificates, up to a maximum of \$9.7 million, in November 2015 or earlier upon the occurrence of an initial public offering or a change in control of the counterparty. The cost of the certificates is recorded as "Prepaid marketing" as of December 31, 2013, and marketing expense is recognized as the certificates are issued to customers.

**GROUPON, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

	December 31,	
	2013	2012
Marketing .....	\$ 12,001	\$ 11,237
Refunds reserve .....	38,597	69,209
Payroll and benefits .....	64,966	61,557
Subscriber credits .....	44,728	58,977
Professional fees .....	24,670	16,938
Other .....	42,024	29,006
<b>Total accrued expenses .....</b>	<b>\$ 226,986</b>	<b>\$ 246,924</b>

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

	December 31,	
	2013	2012
Income taxes payable .....	\$ 21,994	\$ 33,887
VAT and sales tax payable .....	48,039	55,728
Deferred revenue .....	47,259	25,780
Other .....	15,426	21,252
<b>Total other current liabilities .....</b>	<b>\$ 132,718</b>	<b>\$ 136,647</b>

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

	December 31,	
	2013	2012
Long-term tax liabilities .....	\$ 109,286	\$ 77,553
Deferred rent .....	9,148	9,162
Other .....	13,263	13,357
<b>Total other non-current liabilities .....</b>	<b>\$ 131,697</b>	<b>\$ 100,072</b>

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

	December 31,	
	2013	2012
Foreign currency translation adjustments .....	\$ 24,952	\$ 12,393
Unrealized (loss) gain on available-for-sale debt securities, net of tax ....	(122)	53
<b>Accumulated other comprehensive income .....</b>	<b>\$ 24,830</b>	<b>\$ 12,446</b>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. COMMITMENTS AND CONTINGENCIES

*Leases*

The Company has entered into various non-cancelable lease agreements, primarily operating leases covering its offices throughout the world, with remaining lease periods expiring between 2014 and 2023. Rent expense under operating leases was \$42.3 million, \$43.1 million and \$25.6 million for the years ended December 31, 2013, 2012 and 2011, respectively.

The Company has lease arrangements for its headquarters located in Chicago, Illinois ("600 West Leases"), which account for approximately one-fifth of its estimated future payments under operating leases as of December 31, 2013. The 600 West Leases are accounted for as operating leases with rent expense being recognized on a straight-line basis over the term of the lease, taking into account rent escalations and lease incentives. Rent escalations are annual and do not exceed 9% per year with a majority of the increases being approximately 2% per year. The initial durations of the 600 West Leases range from five to seven years, with renewal and expansion options ranging from one to five years. The amortization period of leasehold improvements related to the 600 West Leases is five years.

The Company is responsible for paying its proportionate share of the actual operating expenses and real estate taxes under certain of these lease agreements. These operating expenses are not included in the table below.

Certain of the Company's computer equipment has been acquired under capital lease agreements, and estimated future payments under these capital lease agreements is included in the table below. As of December 31, 2013, the estimated future payments under operating leases and capital leases for each of the next five years and thereafter is as follows (in thousands):

	Capital leases	Operating leases
2014 .....	\$ 3,803	\$ 39,450
2015 .....	3,688	33,628
2016 .....	2,081	25,543
2017 .....	—	18,221
2018 .....	—	15,159
Thereafter .....	—	15,286
Total minimum lease payments.....	9,572	<u>\$ 147,287</u>
Less amount representing interest.....	(271)	
Present value of net minimum capital lease payments.....	9,301	
Less current portion of capital lease obligations.....	(3,636)	
Total long-term capital lease obligations.....	<u>\$ 5,665</u>	

*Purchase Obligations*

The Company has entered into non-cancelable arrangements with third-parties, primarily related to information technology products and services. As of December 31, 2013, future payments under these contractual obligations were as follows (in thousands):

2014.....	\$ 11,718
2015.....	4,356
2016.....	541
2017.....	145
2018.....	145
Thereafter .....	—
	<u>\$ 16,905</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Legal Matters*

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

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

The Company is currently a defendant in a proceeding pursuant to which, on October 29, 2012, a consolidated amended class action complaint was filed against the Company, certain of its directors and officers, and the underwriters that participated in the initial public offering of the Company's Class A common stock. Originally filed in April 2012, the case is currently pending before the United States District Court for the Northern District of Illinois: *In re Groupon, Inc. Securities Litigation*. The complaint asserts claims pursuant to Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. Allegations in the consolidated amended complaint include that the Company and its officers and directors made untrue statements or omissions of material fact by issuing inaccurate financial statements for the fiscal quarter and the fiscal year ending December 31, 2011 and by failing to disclose information about the Company's financial controls in the registration statement and prospectus for the Company's initial public offering of Class A common stock and in the Company's subsequently-issued financial statements. The putative class action lawsuit seeks an unspecified amount of monetary damages, reimbursement for fees and costs incurred in connection with the actions, including attorneys' fees, and various other forms of monetary and non-monetary relief. The defendants filed a motion to dismiss the consolidated amended complaint on January 18, 2013, which the Court denied on September 19, 2013. Defendants' answered the consolidated amended class action complaint on December 6, 2013. Plaintiff filed an amended motion for class certification on December 4, 2013. The defendants have until March 6, 2014 to file their response briefs in opposition to the amended motion for class certification, and lead plaintiff has until April 21, 2014 to file a reply brief.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

court appointed a lead plaintiff and approved its selection of lead counsel and local counsel for the purported class. Following entry of the court's order denying defendants' motions to dismiss in *In re Groupon Securities Litigation*, the parties in both the state and federal derivative actions filed motions requesting that the Court extend the litigation stay currently in place pending further developments in *In re Groupon, Inc. Securities Litigation*. The state court granted the motion to stay on December 6, 2013, and the federal court granted the motion to stay on January 22, 2014.

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

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

Subsequent to the entry of the order approving settlement, certain of the objectors filed a notice of appeal, contesting the settlement and appealing the matter to the Ninth Circuit of the U.S. Court of Appeals, where the case remains pending. The Company believes that the settlement is valid and intends to oppose the appeal. Plaintiffs also maintain that the settlement is valid and will be opposing the appeal. The settlement, however, is not effective during the pendency of the appeal. The Company does not know when the appeal will be resolved. Depending on the outcome of the appeal, it is possible that the settlement will be rejected, or that there will be further proceedings in the appellate court or district court, or that the settlement will be enforced at that time without further objections or proceedings.

In addition, third parties have from time to time claimed, and others may claim in the future, that the Company has infringed their intellectual property rights. The Company is subject to intellectual property disputes, and expects that it will increasingly be subject to intellectual property infringement claims as its services expand in scope and complexity. The Company has in the past been forced to litigate such claims, and several of these claims are currently pending. The Company may also become more vulnerable to third party claims as laws such as the Digital Millennium Copyright Act are interpreted by the courts, and as the Company becomes subject to laws in jurisdictions where the underlying laws with respect to the potential liability of online intermediaries are either unclear or less favorable. The Company believes that additional lawsuits alleging that it has violated patent, copyright or trademark laws will be filed against it. Intellectual property claims, whether meritorious or not, are time consuming and costly to resolve, could require expensive changes in the Company's methods of doing business, or could require it to enter into costly royalty or licensing agreements.

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

The Company establishes an accrued liability for loss contingencies related to legal and regulatory matters when the loss is both probable and estimable. In such cases, there may be an exposure to loss in excess of the amounts accrued. There is inherent uncertainty related to the matters described above for a number of reasons, including the early stage and lack of specific damage claims in many of them. However, based on the information currently available, the Company believes that the amount of reasonably possible losses in excess of the amounts accrued would not have a material adverse effect on its business, consolidated financial position, results of operations or cash flows. The Company's accrued liabilities for loss contingencies related to legal and regulatory matters may change in the future due to new developments or changes in strategy in handling these matters. Regardless of the outcome, litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources and other factors.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

***Indemnifications***

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

It is not possible to determine the maximum potential amount under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Historically, any 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.

**9. 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.

**Convertible Preferred Stock**

The Company's Board of Directors ("the Board") has the authority, without approval by the stockholders, to issue up to a total of 50,000,000 shares of preferred stock in one or more series. The Board may establish the number of shares to be included in each such series and may fix the designations, preferences, powers and other rights of the shares of a series of preferred stock. The Board could authorize the issuance of preferred stock with voting or conversion rights that could dilute the voting power or rights of the holders of the Class A common stock or Class B common stock.

In January 2011, the Company issued 15,827,796 shares of Series G Preferred Stock for \$496.0 million in gross proceeds (\$492.5 million, net of issuance costs), and used \$371.5 million of the proceeds to redeem shares of its outstanding common stock and preferred stock held by certain shareholders and the remainder for working capital and general corporate purposes. Included in this stock issuance was 126,622 shares of Series G Preferred Stock (\$4.0 million) the Company transferred to its underwriter in exchange for financial advisory services provided.

On October 31, 2011, each outstanding share of Series D Convertible Preferred Stock, Series E Convertible Preferred Stock and Series F Convertible Preferred Stock was converted into twelve shares of Class A common stock, and each outstanding share of Series G Preferred Stock was converted into four shares of Class A common stock. This resulted in the issuance of 290,909,740 shares of Class A common stock. In addition, each outstanding share of Series B Convertible Preferred Stock was converted into twelve shares of Class B common stock. This resulted in the issuance of 2,399,976 shares of Class B common stock.

As of December 31, 2013 and 2012, there were no shares of preferred stock outstanding.

**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 October 31, 2016, at which time all outstanding shares of Class A common stock and Class B common stock will automatically convert into shares of common stock. In addition, the Board has authorized shares of undesignated preferred stock, the rights, preferences and privileges of which may be designated from time to time by the Board.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Holders of Class A common stock and Class B common stock have identical rights, except that holders of Class A common stock are entitled to one vote per share and holders of Class B common stock are entitled to 150 votes per share. Holders of shares of Class A common stock and Class B common stock will vote together as a single class on all matters (including the election of directors) submitted to a vote of stockholders, except that there will be separate votes of holders of shares of the Class A common stock and Class B common stock in the following circumstances:

- if the Company proposes to amend its amended and restated certificate of incorporation to alter or change the powers, preferences or special rights of the shares of a class of its stock so as to affect them adversely or to increase or decrease the par value of the shares of a class of the Company's stock;
- if the Company proposes to treat the shares of a class of its stock differently with respect to any dividend or distribution of cash, property or shares of the Company's stock paid or distributed by the Company;
- if the Company proposes to treat the shares of a class of its stock differently with respect to any subdivision or combination of the shares of a class of the Company's stock; or
- if the Company proposes to treat the shares of a class of its stock differently in connection with a change in control, liquidation, dissolution, distribution of assets or winding down of the Company with respect to any consideration into which the shares are converted or any consideration paid or otherwise distributed to its stockholders.

The Company may not increase or decrease the authorized number of shares of Class A common stock or Class B common stock without the affirmative vote of the holders of a majority of the combined voting power of the outstanding shares of Class A common stock and Class B common stock, voting together as a single class. In addition, the Company may not issue any shares of Class B common stock, other than in connection with stock dividends, stock splits and similar transactions, unless that issuance is approved by the affirmative vote of the holders of a majority of the outstanding shares of Class B common stock. There is no cumulative voting for the election of directors.

Except as otherwise expressly provided in the Company's amended and restated certificate of incorporation or as required by applicable law, shares of Class A common stock and Class B common stock will have the same rights and privileges and rank equally, share ratably and be identical in all respects as to all matters, including, without limitation, those described below.

Subject to preferences that may apply to any shares of preferred stock outstanding at the time, the holders of Class A common stock and Class B common stock shall be entitled to share equally, ratably and identically, on a per share basis, with respect to any dividends that the Board may determine to issue from time to time, unless different treatment of the shares of such class is approved by the affirmative vote of the holders of the majority of the outstanding shares of Class A common stock and Class B common stock, each voting separately as a class. In the event a dividend is paid in the form of shares of common stock or rights to acquire shares of common stock, the holders of Class A common stock will receive shares of Class A common stock, or rights to acquire shares of Class A common stock, as the case may be, and the holders of Class B common stock will receive shares of Class B common stock, or rights to acquire shares of Class B common stock, as the case may be.

Upon liquidation, dissolution or winding-up of the Company, the holders of Class A common stock and Class B common stock will be entitled to share equally, ratably and identically in all assets remaining after the payment of any liabilities and the liquidation preferences on any outstanding preferred stock, unless different treatment of the shares of such class is approved by the affirmative vote of the holders of the majority of the outstanding shares of Class A common stock and Class B common stock, each voting separately as a class.

Upon (i) the closing of the sale, transfer or other disposition of all or substantially all of our assets, (ii) the consummation of a merger, consolidation, business combination or other similar transaction which results in our voting securities outstanding immediately prior to the transaction (or the voting securities issued with respect to our voting securities outstanding immediately prior to the transaction) representing less than a majority of the combined voting power and outstanding capital stock of the voting securities of the Company or the surviving or acquiring entity, (iii) the recapitalization, liquidation, dissolution or other similar transaction which results in the voting securities outstanding immediately prior to the transaction representing less than a majority of the combined voting power and outstanding capital stock of the Company or the surviving entity or parent entity or (iv) an issuance by the Company, in one transaction or a series of related transactions, of voting securities representing more than 2% of the total voting power of the Company (assuming the Class A common stock and Class B common stock each have one vote per share) to any person or group of affiliated persons who prior to such issuance held less than a majority of the total voting power

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of the Company (assuming the Class A common stock and Class B common stock each have one vote per share) and who subsequent to the issuance would hold a majority of the total voting power, the holders of Class A common stock and Class B common stock will be treated equally and identically with respect to shares of Class A common stock or Class B common stock owned by them, unless different treatment of the shares of each class is approved by the affirmative vote of the holders of a majority of the outstanding shares of Class A common stock and Class B common stock, each voting separately as a class.

If the Company subdivides or combines in any manner outstanding shares of Class A common stock or Class B common stock, the outstanding shares of the other class will be subdivided or combined in the same manner, unless different treatment of the shares of each class is approved by the affirmative vote of the holders of a majority of the outstanding shares of Class A common stock and Class B common stock, each voting separately as a class.

**Share Repurchase Programs**

In 2011, the Company repurchased 45,090,184 shares of common stock for \$353.8 million and 370,401 shares of preferred stock for \$35.0 million. There was no material stock repurchase activity for the year ended December 31, 2012.

In August 2013, the Board authorized the Company to purchase up to \$300 million of its outstanding Class A common stock through August 2015. The timing and amount of any share repurchases is determined based on market conditions, share price and other factors, and the program may be discontinued or suspended at any time. During the year ended December 31, 2013, the Company purchased 4,432,800 shares of Class A common stock for an aggregate purchase price of \$46.6 million (including fees and commissions) under the share repurchase program.

**Return of Common Shares**

On September 22, 2011, the Company's former chief operating officer resigned. As a result of the separation agreement, 400,000 shares of non-voting common stock were returned resulting in other income of approximately \$4.9 million, which represents the reversal of the originally recognized stock-based compensation expense and is included within "Other income, net" on the consolidated statement of operations for the year ended December 31, 2011.

**10. STOCK-BASED COMPENSATION**

**Groupon, Inc. Stock Plans**

In January 2008, the Company adopted the ThePoint.com 2008 Stock Option Plan, as amended (the "2008 Plan"), under which options for up to 64,618,500 shares of common stock were authorized to be issued to employees, consultants and directors of ThePoint.com, which is now the Company. In April 2010, the Company established the Groupon, Inc. 2010 Stock Plan, as amended in April 2011 (the "2010 Plan"), under which options and restricted stock units ("RSUs") for up to 20,000,000 shares of non-voting common stock were authorized for future issuance to employees, consultants and directors of the Company. In August 2011, the Company established the Groupon, Inc. 2011 Stock Plan (the "2011 Plan"), under which options, RSUs and performance stock units for up to 50,000,000 shares of non-voting common stock were authorized for future issuance to employees, consultants and directors of the Company.

The Groupon, Inc. Stock Plans (the "Plans") are administered by the Compensation Committee of the Board, which determines the number of awards to be issued, the corresponding vesting schedule and the exercise price for options. On November 5, 2013, an additional 15,000,000 shares were authorized for future issuance under the Plans. As of December 31, 2013, 16,691,691 shares were available for future issuance under the Plans. Prior to January 2008, the Company issued stock options and RSUs that are governed by employment agreements, some of which are still outstanding.

The Company recognized stock-based compensation expense of \$121.5 million, \$104.1 million and \$93.6 million for the years ended December 31, 2013, 2012 and 2011, respectively, related to stock awards issued under the Plans, acquisition-related awards and subsidiary awards. The Company also capitalized \$9.1 million, \$9.7 million and \$1.5 million of stock-based compensation for the years ended December 31, 2013, 2012 and 2011, respectively, in connection with internally-developed software.

As of December 31, 2013, a total of \$214.3 million of unrecognized compensation costs related to unvested stock awards and unvested acquisition-related awards are expected to be recognized over a remaining weighted average period of 1.5 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Employee Stock Purchase Plan**

In December 2011, the Company established an employee stock purchase plan ("ESPP"). The ESPP allows substantially all full-time and part-time employees to acquire shares of the Company's common stock through payroll deductions over six month offering periods. The per share purchase price is equal to 85% of the fair value of a share of our common stock at either the beginning of the offering period or the end of the purchase period, whichever price is lower. Purchases are limited to 15% of an employee's salary, up to a maximum of \$25,000 per calendar year. The Company is authorized to grant up to 10,000,000 shares of common stock under its employee stock purchase plan ("ESPP"). For the year ended December 31, 2013, 774,288 shares of common stock were issued under the ESPP. No shares of common stock were issued under the ESPP for the years ended December 31, 2012 and 2011.

**Stock Options**

The exercise price of stock options granted is equal to the fair value of the underlying stock on the date of grant. The contractual term for stock options expires ten years from the grant date. Stock options generally vest over a three or four-year period, with 25% of the awards vesting after one year and the remainder of the awards vesting on a monthly or quarterly basis thereafter. The fair value of stock options on the date of grant is amortized on a straight-line basis over the requisite service period.

The table below summarizes the stock option activity for the year ended December 31, 2013:

	Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands) <sup>(1)</sup>
Outstanding at December 31, 2012 .....	7,713,421	\$ 1.09	7.02	\$ 29,063
Exercised.....	(4,003,544)	\$ 1.02		
Forfeited.....	(332,518)	\$ 1.51		
Expired.....	(22,305)	\$ 2.04		
Outstanding at December 31, 2013 .....	<u>3,355,054</u>	\$ 1.11	6.04	\$ 35,742
Exercisable at December 31, 2013 .....	<u>2,875,441</u>	\$ 0.93	5.95	\$ 31,165

(1) 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, multiplied by the number of options where the fair value exceeds the exercise price) that would have been received by the option holders had all option holders exercised their options as of December 31, 2013 and 2012, respectively.

The fair value of stock options granted is estimated on the date of grant using the Black-Scholes-Merton option-pricing model. Expected volatility is based on historical volatilities for publicly-traded options of comparable companies over the estimated expected life of the stock options. The expected term represents the period of time the stock options are expected to be outstanding and is based on the "simplified method." The Company used the "simplified method" due to the lack of sufficient historical exercise data to provide a reasonable basis upon which to otherwise estimate the expected life of the stock options. The risk-free interest rate is based on yields on U.S. Treasury STRIPS with a maturity similar to the estimated expected life of the stock options.

**GROUPON, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company did not grant any stock options during the years ended December 31, 2013 and 2012. The **weighted-average** assumptions for stock options granted during the year ended December 31, 2011 is outlined in the following table:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Dividend yield .....	N/A	N/A	—%
Risk-free interest rate.....	N/A	N/A	1.79%
Expected term (in years).....	N/A	N/A	4.47
Expected volatility .....	N/A	N/A	44%

Based on the above assumptions, the weighted-average grant date fair value of stock options granted during the year ended December 31, 2011 was \$6.00. The total intrinsic value of options that were exercised during the years ended December 31, 2013, 2012 and 2011 was \$30.0 million, \$75.2 million and \$56.9 million, respectively.

***Restricted Stock Units***

The restricted stock units granted under the Plans generally vest over a four-year period, with 25% of the awards vesting after one year and the remaining awards vesting on a monthly or quarterly basis thereafter. Restricted stock units are generally amortized on a straight-line basis over the requisite service period, except for restricted stock units with performance conditions, which are amortized using the accelerated method.

The table below summarizes activity regarding unvested restricted stock units under the Plans during the year ended December 31, 2013:

	<u>Restricted Stock Units</u>	<u>Weighted-Average Grant Date Fair Value (per share)</u>
Unvested at December 31, 2012 .....	29,699,348	\$ 9.31
Granted .....	37,069,481	\$ 7.23
Vested.....	(15,565,805)	\$ 8.13
Cancelled	(200,000)	\$ 5.40
Forfeited.....	(9,354,969)	\$ 8.62
Unvested at December 31, 2013 .....	<u>41,648,055</u>	\$ 8.06

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

In December 2013, the Company cancelled 200,000 of an employee's restricted stock units and offered to grant that individual a replacement award, which was approved by the Compensation Committee of the Board on January 10, 2014. The cancellation and subsequent grant of a replacement award is being accounted for as a modification and the \$0.3 million incremental fair value of the replacement award over the cancelled award is recorded as additional compensation cost. The Company recognized \$0.1 million of the additional compensation cost, which is attributable to the vested portion of the replacement award, in 2013 and the remaining \$0.2 million, which is attributable to nonvested portion of the replacement award, will be recognized during 2014.

The weighted-average grant date fair value of restricted stock units granted in 2012 and 2011 was \$8.99 and \$12.15, respectively. The fair value of restricted stock units that vested during each of the years ended December 31, 2013, 2012 and 2011 was \$126.5 million, \$50.2 million and \$12.4 million, respectively.

***Restricted Stock Awards***

The Company has granted restricted stock awards in connection with prior period business combinations. Compensation

**GROUPON, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

expense on these awards is recognized on a straight-line basis over the requisite service period.

The table below summarizes activity regarding unvested restricted stock for the year ended December 31, 2013:

	<b>Restricted Stock</b>	<b>Weighted- Average Grant Date Fair Value (per share)</b>
Unvested at December 31, 2012 .....	577,048	\$ 10.31
Vested.....	(443,373)	\$ 9.31
Forfeited.....	(35,998)	\$ 12.67
Unvested at December 31, 2013 .....	<u>97,677</u>	\$ 14.00

The fair value of restricted stock that vested during the years ended December 31, 2013, 2012 and 2011 was \$4.1 million, \$10.2 million, and \$8.6 million, respectively.

***Subsidiary Awards***

The Company made several acquisitions during the years ended December 31, 2011 and 2010 in which the selling shareholders of the acquired companies were granted RSUs and stock options in the Company's subsidiaries ("subsidiary awards"). These subsidiary awards were issued in conjunction with the acquisitions as a way to retain and motivate key employees. They generally vested on a quarterly basis for a period of three or four years, and were potentially dilutive to the Company's ownership percentage of the corresponding subsidiaries. A significant portion of the subsidiary awards were classified as liabilities on the consolidated balance sheets due to the existence of put rights that allowed the selling shareholders to put their stock back to the Company. The liabilities for the subsidiary awards were remeasured on a quarterly basis, with the offset to stock-based compensation expense within "Selling, general and administrative" on the consolidated statements of operations. The Company modified its liability-classified subsidiary awards in 2012 by paying \$17.0 million in cash and issuing 660,539 shares of the Company's common stock to settle the vested portion and providing for future settlement of the unvested portion in cash or shares of the Company's common stock upon completion of the requisite service period. See *Purchases of Additional Interests in Consolidated Subsidiaries* in Note 3 *"Business Combinations and Acquisitions of Noncontrolling Interests."*

**11. INCOME TAXES**

The components of pretax (loss) income for the years ended December 31, 2013, 2012 and 2011 were as follows (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
United States .....	\$ 62,021	\$ 88,638	\$ (42,775)
International .....	(80,930)	6,304	(211,290)
(Loss) income before provision for income taxes.....	<u>\$ (18,909)</u>	<u>\$ 94,942</u>	<u>\$ (254,065)</u>

**GROUPON, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The provision for income taxes for the years ended December 31, 2013, 2012 and 2011 consisted of the following components (in thousands):

	Year Ended December 31,		
	2013	2012	2011
<b>Current taxes:</b>			
U.S. federal .....	\$ 22,321	\$ 41,551	\$ 16,430
State .....	1,693	4,778	604
International .....	64,078	107,295	(5,540)
Total current taxes .....	<u>88,092</u>	<u>153,624</u>	<u>11,494</u>
<b>Deferred taxes:</b>			
U.S. federal .....	4,675	(2,977)	(2,075)
State .....	(5,687)	(236)	—
International .....	(17,043)	(4,438)	34,278
Total deferred taxes .....	<u>(18,055)</u>	<u>(7,651)</u>	<u>32,203</u>
Provision for income taxes .....	<u>\$ 70,037</u>	<u>\$ 145,973</u>	<u>\$ 43,697</u>

The items accounting for differences between the income tax provision or benefit computed at the federal statutory rate and the provision for income taxes for the years ended December 31, 2013, 2012 and 2011 were as follows:

	Year Ended December 31,		
	2013	2012	2011
U.S. federal income tax (benefit) provision at statutory rate .....	\$ (6,618)	\$ 33,230	\$ (88,923)
Foreign income and losses taxed at different rates .....	14,299	10,565	13,974
Unrecognized tax benefits on E-Commerce transaction .....	—	17,404	—
State income taxes, net of federal benefits and state tax credits ..	(5,361)	3,965	(762)
Change in valuation allowances .....	24,404	29,249	92,023
Effect of foreign and state rate changes on deferred items .....	837	(487)	5,843
Tax effects of intercompany transactions .....	35,158	31,011	2,541
Non-deductible stock-based compensation expense .....	9,000	14,641	12,195
Federal research and development credits .....	(4,650)	—	—
Non-deductible or non-taxable items .....	2,968	6,395	6,806
Provision for income taxes .....	<u>\$ 70,037</u>	<u>\$ 145,973</u>	<u>\$ 43,697</u>

**GROUPON, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The deferred income tax assets and liabilities consisted of the following components as of December 31, 2013 and 2012 (in thousands):

	December 31,	
	2013	2012
Deferred tax assets:		
Reserves and allowances .....	\$ 65,356	\$ 94,379
Deferred rent .....	—	1,377
Stock-based compensation .....	13,462	16,046
Net operating loss and tax credit carryforwards .....	152,271	147,954
Intangible assets, net .....	30,039	1,687
Investments .....	3,730	—
Other .....	1,692	721
Total deferred tax assets .....	266,550	262,164
Less valuation allowances .....	(173,577)	(159,249)
Deferred tax assets, net of valuation allowance .....	92,973	102,915
Deferred tax liabilities:		
Unrealized foreign exchange gain .....	(3,034)	(117)
Prepaid expenses and other assets .....	(1,078)	(1,532)
Property, equipment and software, net .....	(19,239)	(15,602)
Investments .....	—	(6,791)
Deferred revenue .....	(64,154)	(92,306)
Total deferred tax liabilities .....	(87,505)	(116,348)
Net deferred tax asset (liability) .....	\$ 5,468	\$ (13,433)

The Company regularly reviews deferred tax assets to assess whether it is more likely than not that the deferred tax assets will be realized and, if necessary, establishes a valuation allowance for portions of such assets to reduce the carrying value. For purposes of assessing whether it is more likely than not that the Company's deferred tax assets will be realized, the Company considers the following four sources of taxable income for each tax jurisdiction: (a) future reversals of existing taxable temporary differences, (b) projected future earnings, (c) taxable income in carryback years, to the extent that carrybacks are permitted under the tax laws of the applicable jurisdiction, and (d) tax planning strategies, which represent prudent and feasible actions that a company ordinarily might not take, but would take to prevent an operating loss or tax credit carryforward from expiring unused. The Company has incurred significant losses in recent years and had accumulated deficits of \$848.9 million and \$753.5 million as of December 31, 2013 and 2012, respectively. A cumulative loss in the most recent three-year period is a significant piece of negative evidence that is difficult to overcome when assessing the realizability of deferred tax assets. Outside of the United States, the Company has only recognized deferred tax assets to the extent that they will be realizable either through future reversals of existing taxable temporary differences or through taxable income in carryback years for the applicable jurisdictions. During the fourth quarter of 2013, earnings in the United States moved to a cumulative income position for the most recent three-year period. Based on the income in that jurisdiction in recent periods and projected future income, the Company released a portion of the valuation allowance against its federal and state deferred tax assets, resulting in a \$9.6 million reduction to income tax expense. The Company continues to maintain a valuation allowance in the United States as of December 31, 2013 against a portion of its acquired domestic federal net operating losses that are subject to limitations under the tax law and state net operating loss carryforwards and tax credits that are not expected to be realized. As of December 31, 2013 and 2012, the Company recorded a valuation allowance of \$173.6 million and \$159.2 million, respectively, against its domestic and foreign net deferred tax assets, as it believes it is more likely than not that these benefits will not be realized.

The Company had \$21.8 million of federal and \$45.0 million of state net operating loss carryforwards as of December 31, 2013 which will begin expiring in 2027 and 2016, respectively. As of December 31, 2013, the Company had \$584.3 million of foreign net operating loss carryforwards, a significant portion of which carry forward for an indefinite period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company is subject to taxation in the United States, state jurisdictions and foreign jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes and recording the related income tax assets and liabilities. The Company's practice for accounting for uncertainty in income taxes is to recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not criteria, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company is currently under IRS audit for the 2009, 2010 and 2011 tax years. Additionally, the Company is currently under audit by several foreign jurisdictions. It is likely that the examination phase of some of these audits will conclude in the next 12 months. The tax years 2009 to 2013 remain open to examination by the major taxing jurisdictions in which the Company is subject to tax.

The following table summarizes activity related to the Company's gross unrecognized tax benefits, excluding interest and penalties, from January 1 to December 31 for 2013, 2012 and 2011 (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Beginning Balance .....	\$ 85,481	\$ 55,127	\$ —
Increases related to prior year tax positions .....	10,494	602	—
Decreases related to prior year tax positions .....	(2,103)	(790)	—
Increases related to current year tax positions .....	14,565	29,465	55,127
Foreign currency translation .....	1,868	1,077	—
Ending Balance .....	<u>\$ 110,305</u>	<u>\$ 85,481</u>	<u>\$ 55,127</u>

The total amount of unrecognized tax benefits as of December 31, 2013, 2012 and 2011 that, if recognized, would affect the effective tax rate are \$80.0 million, \$39.3 million and \$3.2 million, respectively.

The Company recognized \$3.3 million and \$2.3 million of interest and penalties within "Provision for income taxes" on its consolidated statements of operations for the years ended December 31, 2013 and 2012, respectively, and within "Other non-current liabilities" on its consolidated balance sheets as of December 31, 2013 and 2012, respectively.

For uncertain tax positions as of December 31, 2013, the Company does not anticipate that the total amounts of unrecognized tax benefits will significantly increase or decrease within the coming year.

In general, it is the practice and intention of the Company to reinvest the earnings of its non-U.S. subsidiaries in those operations. As of December 31, 2013, no provision has been made for U.S. income taxes and foreign withholding taxes related to the undistributed earnings of the Company's foreign subsidiaries of approximately \$369.1 million, because those undistributed earnings are indefinitely reinvested outside the United States. The actual U.S. tax cost would depend on income tax laws and circumstances at the time of distribution. Determination of the amount of unrecognized U.S. deferred tax liability related to the undistributed earnings of the Company's foreign subsidiaries is not practical due to the complexities associated with the calculation.

As of December 31, 2013, the unamortized tax effects of intercompany transactions of \$28.5 million and \$20.4 million are included within "Prepaid expenses and other current assets" and "Other non-current assets," respectively, on the condensed consolidated balance sheet. As of December 31, 2012, unamortized tax effects of intercompany transactions of \$37.6 million and \$46.3 million are included within "Prepaid expenses and other current assets" and "Other non-current assets," respectively, on the consolidated balance sheet. As of December 31, 2013, the estimated future amortization of the tax effects of intercompany transactions to income tax expense is \$28.5 million for 2014 and \$20.4 million for 2015. These amounts exclude the benefits, if any, for tax deductions in other jurisdictions that the Company may be entitled to as a result of the related intercompany transactions.

**12. VARIABLE INTEREST ENTITY**

On May 9, 2011, the Company entered into a collaborative arrangement which was later amended on January 1, 2012 to create a jointly-owned sales category 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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

upon percentages between the Company and the Partner. The liabilities of the LLC are solely the LLC's obligations and are not obligations of the Company or the Partner.

The Company's obligations associated with its interests in the LLC are primarily building, maintaining, customizing, managing and operating the LLC's 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 record keeping.

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 the Partner in the event of bankruptcy by the other party; (5) sale of the LLC; or (6) a court's dissolution of the LLC.

Variable interest entities ("VIEs") are entities that have either a total equity investment that is insufficient to permit the entity to finance its activities without additional subordinated financial support, or whose equity investors lack the characteristics of a controlling financial interest (i.e., the ability to make significant decisions through voting rights and the right to receive the expected residual returns of the entity or the obligation to absorb the expected losses of the entity). A variable interest holder that has both (a) the power to direct the activities of the VIE that most significantly impact its economic performance and (b) either an obligation to absorb losses or a right to receive benefits that could potentially be significant to the VIE is referred to as the primary beneficiary and must consolidate the VIE.

The Company has determined that the LLC is a VIE and the Company is its primary beneficiary. The Company consolidates the LLC 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 and provides the editorial resources that create the verbiage included on the website with the LLC's deal offers.

**13. FAIR VALUE MEASUREMENTS**

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

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

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

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

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

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

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

*Available-for-sale securities* - The Company has investments in preferred shares of F-tuan and convertible debt securities issued by another nonpublic entity. See Note 6 "Investments" for further information regarding the Company's valuation methodology for its investments in F-tuan. The Company measures the fair value of convertible debt securities using the probability-weighted expected return method, which is an income approach that incorporates probability-weighted outcomes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company has classified its investments in available-for-sale securities as Level 3 due to the lack of observable market data over fair value inputs such as cash flow projections, discount rates and probability-weightings. Increases in projected cash flows and decreases in discount rates contribute to increases in the estimated fair values of available-for-sale securities, whereas decreases in projected cash flows and increases in discount rates contribute to decreases in their fair values. Additionally, increases in the probability of favorable investment outcomes and decreases in the probability of unfavorable outcomes, such as a default by the convertible debt issuer, contribute to increases in the fair value of those investments, whereas decreases in the probability of unfavorable investment outcomes and increases in the probability of favorable investment outcomes contribute to increases in their fair value.

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

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

GROUPON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

<b>Description</b>	<b>December 31, 2013</b>	<b>Fair Value Measurement at Reporting Date Using</b>		
		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Assets:</b>				
Cash equivalents .....	\$ 585,514	\$ 585,514	\$ —	\$ —
<b>Available-for-sale securities:</b>				
Life Media Limited (F-tuan) preferred shares ...	\$ —	\$ —	\$ —	\$ —
Convertible debt securities.....	\$ 3,174	\$ —	\$ —	\$ 3,174
<b>Liabilities:</b>				
Contingent consideration .....	\$ 606	\$ —	\$ —	\$ 606

<b>Description</b>	<b>December 31, 2012</b>	<b>Fair Value Measurement at Reporting Date Using</b>		
		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Assets:</b>				
Cash equivalents .....	\$ 585,393	\$ 585,393	\$ —	\$ —
<b>Available-for-sale securities:</b>				
Life Media Limited (F-tuan) preferred shares <sup>(1)</sup> ..	\$ 42,539	\$ —	\$ —	\$ 42,539
Convertible debt securities .....	\$ 3,087	\$ —	\$ —	\$ 3,087
<b>Liabilities:</b>				
Contingent consideration.....	\$ 7,601	\$ —	\$ —	\$ 7,601

(1) Fair value measurements of investments in F-tuan preferred shares were previously presented within the nonrecurring fair value measurements table below and have been reclassified to this recurring fair value measurements table in the current period.

GROUPON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table provides a roll-forward of the fair value of recurring Level 3 fair value measurements for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	Year Ended December 31,		
	2013	2012	2011
<b>Assets</b>			
Available-for-sale securities			
Life Media Limited (F-tuan) preferred shares <sup>(1)</sup> :			
Beginning Balance .....	\$ 42,539	\$ —	\$ —
Acquisitions of preferred shares in exchange transactions (See Note 6) .....	34,982	56,940	—
Purchases of preferred shares .....	8,000	—	—
Other-than-temporary impairments included in earnings.....	(85,521)	(14,401)	—
Ending Balance.....	\$ —	\$ 42,539	\$ —
Unrealized losses still held <sup>(2)</sup> .....	\$ 85,521	\$ 14,401	\$ —
Convertible debt securities:			
Beginning Balance .....	\$ 3,087	\$ —	\$ —
Purchases of convertible debt securities.....	370	3,000	—
Total (losses) gains included in other comprehensive income.....	(283)	87	—
Ending Balance.....	\$ 3,174	\$ 3,087	\$ —
Unrealized (gains) losses still held <sup>(2)</sup> .....	\$ 283	\$ (87)	\$ —
<b>Liabilities</b>			
Contingent Consideration:			
Beginning Balance .....	\$ 7,601	\$ 11,230	\$ —
Issuance of contingent consideration in connection with acquisitions.....	3,567	3,400	17,755
Settlements of contingent consideration liabilities.....	(4,377)	(4,936)	—
Reclass to non-fair value liabilities when no longer contingent .....	(3,014)	(4,978)	—
Total (gains) losses included in earnings <sup>(3)</sup> .....	(3,171)	897	(4,537)
Reclass of contingent consideration from Level 2 to Level 3 .....	—	1,988	(1,988)
Ending Balance.....	\$ 606	\$ 7,601	\$ 11,230
Unrealized (gains) losses still held <sup>(2)</sup> .....	\$ 360	\$ 211	\$ (4,537)

- (1) A rollforward of the fair value of investments in F-tuan preferred shares for the year ended December 31, 2012 has been added to this recurring fair value measurements table in the current period.
- (2) Represents the unrealized (gains) losses recorded in earnings or other comprehensive income during the period for assets and liabilities classified as Level 3 that are still held (or outstanding) at the end of the period.
- (3) Changes in the fair value of contingent consideration liabilities are classified within "Acquisition-related (benefit) expense, net" on the consolidated statements of operations.

GROUPON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis, including assets that are written down to fair value as a result of an impairment. The Company did not record any significant nonrecurring fair value measurements after initial recognition for the years ended December 31, 2013 and 2011. The following table summarizes the Company's assets that were measured at fair value on a nonrecurring basis as of December 31, 2012 (in thousands):

Description	December 31, 2012	Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset impairments:				
Cost method investment in Life Media Limited (F-tuan) common shares <sup>(1)</sup>	\$ 34,982	\$ —	\$ —	\$ 34,982
Equity method investment	\$ 495	\$ —	\$ —	\$ 495

- (1) Investments in F-tuan preferred shares for which an other-than-temporary impairment was recognized for the year ended December 31, 2012 were previously presented within this nonrecurring fair value measurements table and have been reclassified to the recurring fair value measurements table above.

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

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

	December 31, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cost method investments:				
Life Media Limited (F-tuan) common shares	\$ —	\$ —	\$ 34,982 <sup>(1)</sup>	\$ 34,982 <sup>(1)</sup>
Other cost method investments	\$ 15,788	\$ 15,573	\$ 1,867	\$ 2,260

- (1) The Company's cost method investment in F-tuan common shares was determined to be other-than-temporarily impaired and was written down to its fair value of \$35.0 million as of December 31, 2012. Investments in F-tuan preferred shares were previously presented within this table and have been reclassified to the recurring fair value measurements table above.

See Note 6 "Investments" for further information regarding the Company's valuation methodology for its investments in F-tuan. The fair values of the Company's other cost method investments were determined using the market approach or the income approach, depending on the availability of fair value inputs such as financial projections for the investees and market multiples for comparable companies. The Company has classified the fair value measurements of its cost method investments as Level 3 measurements within the fair value hierarchy because they involve significant unobservable inputs such as cash flow projections and discount rates.

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

GROUPON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. LOSS PER SHARE OF CLASS A AND CLASS B COMMON STOCK

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

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

The following table sets forth the computation of basic and diluted loss per share of Class A and Class B common stock for the years ended December 31, 2013 and 2012 (in thousands, except share amounts and per share amounts):

	Year Ended December 31,			
	2013		2012	
	Class A	Class B	Class A	Class B
<b>Basic loss per share:</b>				
<i>Numerator</i>				
Allocation of net loss .....	\$ (88,626)	\$ (320)	\$ (50,842)	\$ (189)
Less: Allocation of adjustment of redeemable noncontrolling interests to redemption value .....	—	—	12,557	47
Less: Allocation of net income attributable to noncontrolling interests .....	6,424	23	3,728	14
Allocation of net loss attributable to common stockholders .....	\$ (95,050)	\$ (343)	\$ (67,127)	\$ (250)
<i>Denominator</i>				
Weighted-average common shares outstanding .....	661,510,218	2,399,976	647,814,143	2,399,976
<b>Basic loss per share</b> .....	<b>\$ (0.14)</b>	<b>\$ (0.14)</b>	<b>\$ (0.10)</b>	<b>\$ (0.10)</b>
<b>Diluted loss per share:</b>				
<i>Numerator</i>				
Allocation of net loss attributable to common stockholders .....	\$ (95,050)	\$ (343)	\$ (67,127)	\$ (250)
Reallocation of net income attributable to common stockholders as a result of conversion of Class B <sup>(1)</sup> .....	—	—	—	—
Allocation of net loss attributable to common stockholders .....	\$ (95,050)	\$ (343)	\$ (67,127)	\$ (250)
<i>Denominator</i>				
Weighted-average common shares outstanding used in basic computation .....	661,510,218	2,399,976	647,814,143	2,399,976
Conversion of Class B <sup>(1)</sup> .....	—	—	—	—
Employee stock options <sup>(1)</sup> .....	—	—	—	—
Restricted shares and RSUs <sup>(1)</sup> .....	—	—	—	—
Weighted-average diluted shares outstanding <sup>(1)</sup> .....	661,510,218	2,399,976	647,814,143	2,399,976
<b>Diluted loss per share</b> .....	<b>\$ (0.14)</b>	<b>\$ (0.14)</b>	<b>\$ (0.10)</b>	<b>\$ (0.10)</b>

(1) Conversion of Class B shares into Class A shares and outstanding equity awards have not been reflected in the diluted loss per share calculation for the years ended December 31, 2013 and 2012 because the effect would be antidilutive.

**GROUPON, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table sets forth the computation of basic and diluted (loss) earnings per share of common stock for the year ended December 31, 2011 (in thousands, except share amounts and per share amounts):

	<b>Year Ended December 31, 2011 <sup>(2)</sup></b>
Net loss .....	\$ (297,762)
Redemption of preferred stock in excess of carrying value .....	(34,327)
Adjustment of redeemable noncontrolling interests to redemption value .....	(59,740)
Net loss attributable to noncontrolling interests .....	18,335
Net loss attributable to common stockholders .....	\$ (373,494)
<b>Net loss per share:</b>	
Weighted-average shares outstanding for basic and diluted net loss per share <sup>(1)</sup> .....	362,261,324
Basic and diluted net loss per share .....	\$ (1.03)

- (1) Stock options, restricted stock units, performance stock units and convertible preferred shares are not included in the calculation of diluted net loss per share for the year ended December 31, 2011 because the Company had a net loss for the year. Accordingly, the inclusion of these equity awards would have had an antidilutive effect on the calculation of diluted loss per share.
- (2) The two-class method is not applied for 2011 because the Company's two-class common share structure was not implemented until the Company's initial public offering on November 4, 2011. The impact of applying the two-class method from November 4, 2011 to December 31, 2011 would not have impacted the Company's loss per share for 2011.

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

	<b>Year Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Stock options .....	5,594,033	7,713,421	17,870,713
Restricted stock units .....	39,618,897	29,699,348	11,944,844
Restricted stock .....	298,292	577,048	86,758
ESPP shares .....	444,439	271,402	—
Total .....	45,955,661	38,261,219	29,902,315

**15. SEGMENT INFORMATION**

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

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

GROUPON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenue for each segment is based on the geographic market where the sales are completed. Revenue and profit or loss information by reportable segment reconciled to consolidated net loss for the year ended December 31, 2013, 2012 and 2011 were as follows (in thousands):

	Year Ended December 31,		
	2013	2012	2011
<b>North America</b>			
Revenue <sup>(1)</sup> .....	\$ 1,521,358	\$ 1,165,700	\$ 634,980
Segment cost of revenue and operating expenses <sup>(2)</sup> .....	1,380,746	1,025,974	630,184
Segment operating income <sup>(2)</sup> .....	140,612	139,726	4,796
<b>EMEA</b>			
Revenue <sup>(3)</sup> .....	742,915	805,476	720,219
Segment cost of revenue and operating expenses <sup>(2)</sup> .....	631,409	699,470	654,979
Segment operating income <sup>(2)</sup> .....	111,506	106,006	65,240
<b>Rest of World</b>			
Revenue.....	309,382	363,296	255,231
Segment cost of revenue and operating expenses <sup>(2)</sup> .....	364,295	405,313	469,600
Segment operating loss <sup>(2)</sup> .....	(54,913)	(42,017)	(214,369)
<b>Consolidated</b>			
Revenue.....	2,573,655	2,334,472	1,610,430
Segment cost of revenue and operating expenses <sup>(2)</sup> .....	2,376,450	2,130,757	1,754,763
Segment operating income <sup>(2)</sup> .....	197,205	203,715	(144,333)
Stock-based compensation.....	121,462	104,117	93,590
Acquisition-related (benefit) expense, net .....	(11)	897	(4,537)
Loss on equity method investments .....	44	9,925	26,652
Other expense (income), net .....	94,619	(6,166)	(5,973)
(Loss) income before provision for income taxes.....	(18,909)	94,942	(254,065)
Provision for income taxes.....	70,037	145,973	43,697
Net loss.....	\$ (88,946)	\$ (51,031)	\$ (297,762)

- (1) North America contains revenue from the United States of \$1,471.9 million, \$1,108.4 million and \$586.7 million for the years ended December 31, 2013, 2012 and 2011, respectively. There were no other individual countries located outside of the United States that represented more than 10% of consolidated total revenue for the years ended December 31, 2013, 2012 and 2011, respectively.
- (2) Segment cost of revenue and operating expenses and segment operating income (loss) exclude stock-based compensation and acquisition-related (benefit) expense, net. This presentation corresponds to the measure of segment profit or loss that the Company's chief operating decision maker uses in assessing segment performance and making resource allocation decisions. For the years ended December 31, 2013, 2012 and 2011 stock-based compensation expense was approximately \$90.9 million, \$65.1 million and \$75.8 million, respectively, for the North America segment, approximately \$16.3 million, \$15.1 million and \$9.1 million, respectively, for the EMEA segment and approximately \$14.3 million, \$23.9 million and \$8.7 million, respectively, for the Rest of World segment. For the years ended December 31, 2013, 2012 and 2011, acquisition-related (benefit) expense, net was approximately \$1.3 million of expense, \$2.8 million of benefit, and \$0.8 million of expense, respectively, for the North America segment and approximately \$1.3 million of benefit, \$3.7 million of expense, and \$5.4 million of benefit, respectively, for the EMEA segment. Acquisition-related (benefit) expense, net for the North America segment includes gains and losses relating to contingent consideration obligations incurred by U.S. legal entities relating to purchases of businesses that became part of the EMEA and Rest of World segments, which is consistent with the attribution used for internal reporting purposes.
- (3) EMEA segment revenue for the year ended December 31, 2012 included an \$18.5 million one-time increase to third party revenue for unredeemed Groupons in Germany, which represented the cumulative impact of deals in that jurisdiction for which, based on a German tax ruling, the Company's obligation to the merchant would have ended prior to the third quarter of 2012.



**GROUPON, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

	December 31,	
	2013	2012
North America.....	\$ 1,267,158	\$ 1,177,314
EMEA .....	616,126	649,978
Rest of World.....	158,726	204,182
Consolidated total assets.....	<u>\$ 2,042,010</u>	<u>\$ 2,031,474</u>

- (1) North America contains assets from the United States of \$1,231.3 million and \$1,112.6 million as of December 31, 2013 and 2012, respectively. There were no other individual countries located outside of the United States that represented more than 10% of consolidated total assets as of December 31, 2013 and 2012, respectively.

The following table summarizes the Company's tangible property and equipment, net of accumulated depreciation and amortization, by reportable segment as of December 31, 2013 and 2012 (in thousands):

	December 31,	
	2013	2012
North America <sup>(1)</sup> .....	\$ 43,126	\$ 44,539
EMEA <sup>(2)</sup> .....	23,413	28,413
Rest of World.....	9,100	9,087
Consolidated total.....	<u>\$ 75,639</u>	<u>\$ 82,039</u>

- (1) Substantially all tangible property and equipment within North America is located in the United States.
- (2) Tangible property and equipment, net located within Switzerland represented approximately 11% and 11% of the Company's consolidated tangible property and equipment, net as of December 31, 2013 and 2012, respectively. Tangible property and equipment, net located within Germany represented approximately 12% of the Company's consolidated tangible property and equipment, net as of December 31, 2012. There were no other individual countries located outside of the United States that represented more than 10% of consolidated tangible property and equipment, net as of December 31, 2013 and 2012.

The following table summarizes depreciation and amortization of property, equipment and software and intangible assets by reportable segment for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	Year Ended December 31,		
	2013	2012	2011
North America.....	\$ 57,700	\$ 30,580	\$ 10,515
EMEA.....	24,157	17,546	17,050
Rest of World.....	7,592	7,675	4,490
Consolidated total.....	<u>\$ 89,449</u>	<u>\$ 55,801</u>	<u>\$ 32,055</u>

GROUPON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the Company's expenditures for additions to tangible long-lived assets by reportable segment for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	Year Ended December 31,		
	2013	2012	2011
North America.....	\$ 14,728	\$ 38,543	\$ 19,551
EMEA.....	6,719	26,909	14,808
Rest of World.....	7,469	3,875	10,438
Consolidated total.....	\$ 28,916	\$ 69,327	\$ 44,797

The Company's equity method investments as of December 31, 2013 and 2012 were \$1.7 million and \$1.7 million, respectively, which are included in North America. All equity method investments included in North America are held by an entity in the United States.

**Category Information**

The Company offers goods and services through three primary categories: Local Deals ("Local"), Groupon Goods ("Goods") and Groupon Getaways ("Travel"). The Company also earns advertising revenue, payment processing revenue, point of sale revenue, reservation revenue and commission revenue. The Company's other revenue and related gross profit are presented within "Travel and other" in the tables below. The Company's Goods and Travel categories were launched in the second half of 2011. It is not practicable to determine the Company's revenue and gross profit by category for the year ended December 31, 2011.

The following table summarizes the Company's third party and other and direct revenue by category for its three reportable segments for the year ended December 31, 2013 and 2012 (in thousands):

	North America		EMEA		Rest of World		Consolidated	
	Year Ended December 31,		Year Ended December 31,		Year Ended December 31,		Year Ended December 31,	
	2013	2012	2013	2012	2013	2012	2013	2012
Local <sup>(1)</sup> :								
Third party.....	\$ 663,074	\$ 652,764	\$ 426,903	\$ 497,821	\$ 180,229	\$ 218,224	\$ 1,270,206	\$ 1,368,809
Direct.....	1,772	12,037	—	—	—	—	1,772	12,037
Total revenue.....	664,846	664,801	426,903	497,821	180,229	218,224	1,271,978	1,380,846
Goods:								
Third party.....	17,409	60,269	133,117	186,495	69,344	87,746	219,870	334,510
Direct.....	774,023	391,239	115,881	36,393	27,325	10,821	917,229	438,453
Total revenue.....	791,432	451,508	248,998	222,888	96,669	98,567	1,137,099	772,963
Travel and other:								
Third party and other....	65,080	49,391	67,014	80,514	32,484	46,505	164,578	176,410
Direct.....	—	—	—	4,253	—	—	—	4,253
Total revenue.....	65,080	49,391	67,014	84,767	32,484	46,505	164,578	180,663
Total revenue.....	\$ 1,521,358	\$ 1,165,700	\$ 742,915	\$ 805,476	\$ 309,382	\$ 363,296	\$ 2,573,655	\$ 2,334,472

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

**GROUPON, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes the Company's gross profit by category for its three reportable segments for the years ended December 31, 2013 and 2012 (in thousands):

	North America		EMEA		Rest of World		Consolidated	
	Year Ended December 31,		Year Ended December 31,		Year Ended December 31,		Year Ended December 31,	
	2013	2012	2013	2012	2013	2012	2013	2012
Local <sup>(1)</sup> :								
Third party .....	\$ 580,438	\$ 528,893	\$ 381,185	\$ 450,009	\$ 151,783	\$ 170,100	\$ 1,113,406	\$ 1,149,002
Direct .....	(782)	1,909	—	—	—	—	(782)	1,909
Total gross profit.....	579,656	530,802	381,185	450,009	151,783	170,100	1,112,624	1,150,911
Goods:								
Third party .....	15,319	48,288	116,357	168,429	39,699	66,271	171,375	282,988
Direct .....	66,753	36,188	13,194	(2,521)	(224)	(2,563)	79,723	31,104
Total gross profit.....	82,072	84,476	129,551	165,908	39,475	63,708	251,098	314,092
Travel and other:								
Third party and other ....	51,109	40,031	59,390	72,738	27,312	37,231	137,811	150,000
Direct .....	—	—	—	529	—	—	—	529
Total gross profit.....	51,109	40,031	59,390	73,267	27,312	37,231	137,811	150,529
Total gross profit.....	\$ 712,837	\$ 655,309	\$ 570,126	\$ 689,184	\$ 218,570	\$ 271,039	\$ 1,501,533	\$ 1,615,532

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

**16. RELATED PARTY TRANSACTIONS**

***Business Combination***

During 2013, the Company acquired Boomerang, Inc., a Lightbank LLC portfolio company, for total cash consideration of \$1.0 million. Eric Lefkofsky, the Company's current CEO and former Chairman, and Bradley Keywell, one of the Company's directors, co-founded Lightbank, a private investment firm specializing in information technology companies. They are the majority shareholders of Lightbank, and Mr. Keywell is the managing director.

***Marketing Services***

During 2011, the Company engaged InnerWorkings, Inc. ("InnerWorkings") to provide marketing services. At that time Eric Lefkofsky was the Executive Chairman and a significant stockholder of InnerWorkings. Mr. Lefkofsky is no longer a director nor a significant stockholder in InnerWorkings. The Company recognized \$1.1 million and \$1.3 million of expense under its agreement with InnerWorkings for the years ended December 31, 2012 and 2011, respectively.

***Logistics Services***

In connection with the Company's expansion of Goods offerings during 2012, the Company entered into a transportation and supply chain management agreement with Echo Global Logistics, Inc. ("Echo"). Eric Lefkofsky, Bradley Keywell and Peter Barris, one of the Company's other directors, either are currently or were previously directors of Echo and have direct and/or indirect ownership interests in Echo. The Company terminated its arrangement with Echo during 2012. Echo received payments of approximately \$1.9 million for its services under the agreement for the year ended December 31, 2012, which were expensed by the Company through "Cost of revenue" on the consolidated statement of operations.

GROUPON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. QUARTERLY RESULTS (UNAUDITED)

The following table represents data from the Company's unaudited consolidated statements of operations for the most recent eight quarters. This quarterly information has been prepared on the same basis as the consolidated financial statements and includes all normal recurring adjustments necessary to fairly state the information for the periods presented. The results of operations of any quarter are not necessarily indicative of the results that may be expected for any future period (in thousands, except per share amounts).

	Quarter Ended							
	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	Mar. 31, 2013	Dec. 31, 2012	Sept. 30, 2012	June 30, 2012	Mar. 31, 2012
<b>Consolidated Statements of Operations Data:</b>								
Revenue <sup>(1)</sup> .....	\$ 768,447	\$ 595,059	\$ 608,747	\$ 601,402	\$ 638,302	\$ 568,552	\$ 568,335	\$ 559,283
Cost of revenue .....	\$ 390,239	\$ 235,437	\$ 224,053	\$ 222,393	\$ 282,472	\$ 181,786	\$ 135,184	\$ 119,498
Gross profit .....	\$ 378,208	\$ 359,622	\$ 384,694	\$ 379,009	\$ 355,830	\$ 386,766	\$ 433,151	\$ 439,785
Income (loss) from operations ..	\$ 13,352	\$ 13,812	\$ 27,412	\$ 21,178	\$ (12,861)	\$ 25,438	\$ 46,485	\$ 39,639
Net (loss) income <sup>(2)(3)</sup> .....	\$ (78,861)	\$ (1,292)	\$ (5,551)	\$ (3,242)	\$ (80,047)	\$ (940)	\$ 33,549	\$ (3,593)
Net (loss) income attributable to Groupon, Inc. <sup>(2)(3)</sup> .....	\$ (81,247)	\$ (2,580)	\$ (7,574)	\$ (3,992)	\$ (80,983)	\$ (1,646)	\$ 32,329	\$ (4,473)
Net (loss) earnings per share								
Basic .....	\$(0.12)	\$(0.00)	\$(0.01)	\$(0.01)	\$(0.12)	\$(0.00)	\$0.04	\$(0.02)
Diluted .....	\$(0.12)	\$(0.00)	\$(0.01)	\$(0.01)	\$(0.12)	\$(0.00)	\$0.04	\$(0.02)
Weighted average number of shares outstanding								
Basic .....	668,046,073	666,432,848	662,361,436	658,800,417	655,678,123	653,223,610	647,149,537	644,097,375
Diluted .....	668,046,073	666,432,848	662,361,436	658,800,417	655,678,123	653,223,610	663,122,709	644,097,375

- (1) Revenue for the quarter ended September 30, 2012 included a \$18.5 million one-time increase to third party revenue for unredeemed Groupons in Germany, which represented the cumulative impact of deals in that jurisdiction for which, based on a recent tax ruling, the Company's obligation to the merchant would have ended prior to the third quarter of 2012.
- (2) Net income and net income attributable to Groupon, Inc. for the quarter ended June 30, 2012 included a \$56.0 million gain (\$33.0 million, net of tax) on the E-Commerce transaction. See Note 6 "Investments."
- (3) Net loss and net loss attributable to Groupon, Inc. for the quarters ended December 31, 2013 and 2012 included impairments of the Company's investments in F-tuan of \$85.5 million (\$77.8 million, net of tax) and \$50.6 million (\$45.5 million, net of tax), respectively. See Note 6 "Investments."

18. SUBSEQUENT EVENTS

On January 2, 2014, the Company acquired LivingSocial Korea, Inc., a Korean corporation and holding company of Ticket Monster Inc. ("Ticket Monster"), for total consideration of \$100.0 million cash and 13,825,283 shares of Class A common stock with an acquisition date fair value of \$162.9 million. Ticket Monster is an e-commerce company based in the Republic of Korea that connects merchants to consumers by offering goods and services at a discount. The operations of Ticket Monster will be reported within the Company's Rest of World segment beginning in 2014.

On January 13, 2014, the Company acquired Ideeli, Inc. ("Ideeli") for total cash consideration of \$43.0 million. Ideeli is a fashion flash site based in the United States and will be reported within the Company's North America segment beginning in 2014.

## **ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

### **ITEM 9A. CONTROLS AND PROCEDURES**

#### ***Evaluation of Disclosure Controls and Procedures***

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

Based on this evaluation, our management concluded that, as of December 31, 2013, our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

#### ***Management's Report on Internal Control over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act. Our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework). Our internal control over financial reporting includes policies and procedures that provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2013. Management reviewed the results of its assessment with our Audit Committee. The effectiveness of our internal control over financial reporting as of December 31, 2013 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in its report which is included below.

#### ***Changes in Internal Control over Financial Reporting***

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Annual Report on Form 10-K that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

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

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Groupon, Inc.

We have audited Groupon, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Groupon, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Groupon, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Groupon, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2013, and our report dated February 20, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Chicago, Illinois  
February 20, 2014

## ITEM 9B: OTHER INFORMATION

On February 18, 2014, the Compensation Committee of the Board of Directors approved salary increases for Jason Child, the Company's Chief Financial Officer, Kal Raman, the Company's Chief Operating Officer and David Schellhase, the Company's General Counsel. Mr. Child's salary was increased by \$32,000 to \$402,800 per year, Mr. Raman's salary was increased by \$150,000 to \$600,000 per year, and Mr. Schellhase's salary was increased by \$21,000 to \$371,000 per year.

In addition, on February 18, 2014, the Compensation Committee of the Board of Directors approved equity awards for Messrs. Child and Raman. Mr. Child received an award of 400,000 restricted stock units (RSUs), of which 50,000 will vest on December 31, 2014, 12,500 will vest quarterly during 2015 beginning on March 31, 2015, and then the remaining 300,000 shares will vest in 8 equal installments, beginning on March 31, 2016, subject to Mr. Child's continued employment with the Company through each vesting date. Mr. Raman received an award of 250,000 RSUs, of which 50,000 will vest on June 15, 2014, and the remaining 200,000 RSUs will vest in 12 equal installments at the end of each quarter, beginning March 31, 2015, subject to Mr. Raman's continued employment with the Company through each vesting date.

The Company also entered into an amended employment agreement with Mr. Raman on February 18, 2014 (the "Amendment"). The Amendment clarifies that his title is "Chief Operating Officer" and that he reports directly to the Company's current Chief Executive Officer. The Amendment sets his base salary and target bonus at \$600,000 per year. If Mr. Raman is terminated without Cause or if he leaves for Good Reason (both as defined in the Amendment) before December 31, 2014, the Amendment provides that he will be entitled to receive his salary (at the level before a change constituting Good Reason), his benefits, and he will continue to vest in his RSU awards, in each case through December 31, 2014. All other terms of his employment agreement remain the same.

## PART III

### ITEM 10: DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding the Directors of the Company is incorporated by reference from the information under the captions "Board of Directors" and "Corporate Governance at Groupon" in the Company's Proxy Statement for the 2014 Annual Meeting of Stockholders. Information regarding the Audit Committee and its Financial Experts is incorporated by reference from the information under the captions "Board Committees" and "Audit Committee Report" in the Company's Proxy Statement for the 2014 Annual Meeting of Stockholders, which will be filed with the SEC within 120 days of December 31, 2013. Information regarding the Executive Officers of the Company can be found in Part I of this Annual Report on Form 10-K. Information regarding compliance with Section 16(a) of the Exchange Act is incorporated by reference from the information under the caption "Section 16 (a) Beneficial Ownership Reporting Compliance" in the Company's Proxy Statement for the 2014 Annual Meeting of Stockholders, which will be filed with the SEC within 120 days of December 31, 2013.

#### Code of Ethics

We have adopted a Code of Conduct, which is applicable to our chief executive officer, chief financial officer and other principal executive and senior financial officers. Our Code of Conduct is available through our website ([www.groupon.com](http://www.groupon.com)). Information about the Code of Conduct is incorporated by reference from the information under the caption "Corporate Governance at Groupon" in the Company's Proxy Statement for the 2014 Annual Meeting of Stockholders, which will be filed with the SEC within 120 days of December 31, 2013.

### ITEM 11: EXECUTIVE COMPENSATION

Incorporated by reference from the information under the captions "Named Executive Officer Compensation," "Director Compensation," "Compensation Discussion and Analysis," "Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report" in our Proxy Statement for our 2014 Annual Meeting of Stockholders, which will be filed with the SEC within 120 days of December 31, 2013.

### ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated by reference from the information under the captions "Information Regarding Beneficial Ownership of Principal Stockholders, Directors and Management" and "Equity Compensation Plan Information" in our Proxy Statement for our 2014 Annual Meeting of Stockholders, which will be filed with the SEC within 120 days of December 31, 2013.

### ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Incorporated by reference from the information under the captions "Corporate Governance at Groupon," "Board Independence" and "Certain Relationships and Related Party Transactions" in our Proxy Statement for our 2014 Annual Meeting of Stockholders, which will be filed with the SEC within 120 days of December 31, 2013.

### ITEM 14: PRINCIPAL ACCOUNTANT FEES AND SERVICES

Incorporated by reference from the information under the caption "Ratification of the Independent Registered Public Accounting Firm" in our Proxy Statement for our 2014 Annual Meeting of Stockholders, which will be filed with the SEC within 120 days of December 31, 2013.



## PART IV

### ITEM 15: EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(1) We have filed the following documents as part of the Annual Report on Form 10-K

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Comprehensive Loss

Consolidated Statements of Stockholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

(2) *Financial Statement Schedules*

#### Schedule II-Valuation and Qualifying Accounts

	<u>Balance at Beginning of Year</u>	<u>Charged to Expense</u>	<u>Acquisitions and Other</u>	<u>Balance at End of Year</u>
	(in thousands)			
<b>TAX VALUATION ALLOWANCE:</b>				
Year ended December 31, 2013.....	\$ 159,249	\$ 24,404	\$ (10,076)	\$ 173,577
Year ended December 31, 2012.....	128,215	27,751	3,283	159,249
Year ended December 31, 2011.....	55,956	92,023	(19,764)	128,215

All other schedules have been omitted because they are either inapplicable or the required information has been provided in the consolidated financial statements or in the notes thereto.

(3) *Exhibits* (i) See the Exhibit Index immediately following the signature page of this Annual Report on Form 10-K.

## 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 20th day of February 2014.

### GROUPON, INC.

By: /s/ ERIC P. LEFKOFSKY  
Name: Eric P. Lefkofsky  
Title: *Chief Executive Officer*

### POWER OF ATTORNEY

KNOWN BY ALL PERSONS BY THESE PRESENTS, that the individuals whose signatures appear below hereby constitute and appoint Eric P. Lefkofsky, Jason E. Child and Brian C. Stevens, and each of them severally, as his or her true and lawful attorneys-in-fact and agents with full power of substitution and resubstitution for him or her and in his or her name, place and stead in any and all capacities to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, full power and authority to do or perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or of his substitute or substitutes, may lawfully do to cause to be done by virtue hereof. Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of February 20, 2014.

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 20th day of February 2014.

<u>Signature</u>	<u>Title</u>
<u>/s/ Eric P. Lefkofsky</u> Eric P. Lefkofsky	President, Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ Jason E. Child</u> Jason E. Child	Chief Financial Officer (Principal Financial Officer)
<u>/s/ Brian C. Stevens</u> Brian C. Stevens	Chief Accounting Officer (Principal Accounting Officer)
<u>/s/ Peter J. Barris</u> Peter J. Barris	Director
<u>/s/ Robert J. Bass</u> Robert J. Bass	Director
<u>/s/ Daniel T. Henry</u> Daniel T. Henry	Director
<u>/s/ Mellody S. Hobson</u> Mellody S. Hobson	Director
<u>/s/ Bradley A. Keywell</u> Bradley A. Keywell	Director
<u>/s/ Theodore J. Leonsis</u> Theodore J. Leonsis	Director
<u>/s/ Jeffrey T. Housenbold</u> Jeffrey T. Housenbold	Director

## EXHIBITS

Exhibit Number	Description
2.1	Share Purchase Agreement, dated as of November 6, 2013, among Groupon, Inc., Groupon Trailblazer, Inc., LivingSocial, Inc. and LivingSocial, B.V. (incorporated by reference to the Company's Current Report on Form 8-K filed on November 7, 2013).
2.2	Amendment No. 1 to the Share Purchase Agreement, dated as of November 26, 2013, among Groupon, Inc., Groupon Trailblazer, Inc., LivingSocial, Inc. and LivingSocial, B.V. (incorporated by reference to the Company's Current Report on Form 8-K filed on November 29, 2013).
2.3	Amendment No. 2 to the Share Purchase Agreement, dated as of January 1, 2014, among Groupon, Inc., Groupon Trailblazer, Inc., LivingSocial, Inc. and LivingSocial, B.V. (incorporated by reference to the Company's Current Report on Form 8-K filed on January 2, 2014).
2.4	Merger Agreement, dated as of January 13, 2014, among Groupon, Inc., Groupon Esteban, Inc., and Ideeli, Inc. (incorporated by reference to the Company's Current Report on Form 8-K filed on January 13, 2014).
3.1*	Sixth Amended and Restated Certificate of Incorporation.
3.3*	Amended and Restated By-Laws.
4.1*	Specimen Class A common stock certificate of the Registrant.
4.2*	Third Amended and Restated Investors Rights Agreement, dated as of December 10, 2010, between Groupon, Inc. and certain investors named therein.
10.1*	2008 Stock Option Plan.**
10.2*	Form of Notice of Grant of Stock Option under 2008 Stock Option Plan.**
10.3*	2010 Stock Plan.**
10.4*	Form of Notice of Grant of Stock Option under 2010 Stock Plan.**
10.5*	Form of Notice of Restricted Stock Unit Award under 2010 Stock Plan.**
10.6*	Amended and Restated Employment Agreement, dated as of April 29, 2011, by and between Groupon, Inc. and Jason Child.**
10.7	Amendment to Amended and Restated Employment Agreement, effective as of January 1, 2012, by and between Groupon, Inc. and Jason Child (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2012).**
10.8*	Agreement of Lease, dated as of October 14, 2010, by and between 600 West Chicago Associates LLC and Groupon, Inc.
10.9*	Agreement of Lease, dated as of December 7, 2010, by and between 600 West Chicago Associates LLC and Groupon, Inc.
10.10*	Form of Indemnification Agreement**
10.11	2011 Incentive Plan, as amended and restated effective as of June 13, 2013**
10.12	Form of Notice of Restricted Stock Award under 2011 Incentive Plan (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2012).**
10.13	Non-Employee Directors' Compensation Plan (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2012).**
11.14*	Amendment No. 1 to Agreement and Plan of Merger, dated as of September 22, 2011, by and between Groupon, Inc. and Mihir Shah, as the stockholders' representative on behalf of the stockholders named therein.
10.15	Offer Letter, dated April 19, 2012, by and between Groupon, Inc. and Kal Raman (incorporated by reference to the Company's Current Report on Form 8-K filed on August 7, 2012).**
10.16	Amendment to Offer Letter, dated January 29, 2013, by and between Groupon, Inc. and Kal Raman (incorporated by reference to the Company's Current Report on Form 8-K filed on January 29, 2013).**
10.17	Amendment to Offer Letter, dated February 19, 2014, by and between Groupon, Inc. and Kal Raman.**
10.18	Offer Letter, dated August 1, 2012, by and between Groupon, Inc. and Brian Stevens (incorporated by reference to the Company's Current Report on Form 8-K filed on September 13, 2012).**
10.19	Form of Severance Benefit Agreement as entered into between Groupon, Inc. and its executive officers (incorporated by reference to the Company's Current Report on Form 8-K filed on August 7, 2013).**
21.1	Subsidiaries of Groupon, Inc.
23.1	Consent of Ernst & Young LLP

- 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
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\* Incorporated by reference to the Company's registration statement on Form S-1 (registration number 333-174661)

\*\* Management contract or compensatory plan or arrangement.

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