

Groupon, Inc.  
Form 10-Q  
November 09, 2012

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

FORM 10-Q  
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2012

OR

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

Commission file number: 1-353335

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

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

600 West Chicago Avenue, Suite 620  
Chicago, Illinois  
(Address of principal executive offices)

60654  
(Zip Code)

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

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

Yes  No

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

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

Yes  No

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

Class of Stock	Outstanding at November 7, 2012	
Class A Common Stock	653,316,120	shares
Class B Common Stock	2,399,976	shares

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## FORWARD LOOKING STATEMENTS

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

## ITEM 1. FINANCIAL STATEMENTS

## GROUPON, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	December 31, 2011	September 30, 2012 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,122,935	\$ 1,201,011
Accounts receivable, net	108,747	110,058
Prepaid expenses and other current assets	91,645	121,338
Total current assets	1,323,327	1,432,407
Property and equipment, net of accumulated depreciation of \$14,627 and \$37,564, respectively	51,800	103,876
Goodwill	166,903	196,978
Intangible assets, net	45,667	51,447
Investments in equity interests	50,604	131,039
Deferred income taxes, non-current	46,104	48,753
Other non-current assets	90,071	68,314
Total Assets	\$ 1,774,476	\$ 2,032,814
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 40,918	\$ 60,016
Accrued merchant payables	520,723	573,477
Accrued expenses	212,007	245,083
Deferred income taxes, current	76,841	75,203
Other current liabilities	144,673	171,422
Total current liabilities	995,162	1,125,201
Deferred income taxes, non-current	7,428	28,585
Other non-current liabilities	70,766	74,643
Total Liabilities	1,073,356	1,228,429
Commitments and contingencies (see Note 7)		
Redeemable noncontrolling interests	1,653	7,190
Stockholders' Equity		
Class A common stock, par value \$0.0001 per share, 2,000,000,000 shares authorized, 641,745,225 shares issued and outstanding at December 31, 2011; 2,000,000,000 shares authorized, 652,501,880 shares issued and outstanding at September 30, 2012	64	65
Class B common stock, par value \$0.0001 per share, 10,000,000 shares authorized, 2,399,976 shares issued and outstanding at December 31, 2011 and September 30, 2012	—	—
Common stock, par value \$0.0001 per share, 2,010,000,000 shares authorized, no shares issued and outstanding at December 31, 2011 and September 30, 2012	—	—

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Additional paid-in capital	1,388,253	1,459,485	
Accumulated deficit	(698,704	) (672,494	)
Accumulated other comprehensive income	12,928	11,956	
Total Groupon, Inc. Stockholders' Equity	702,541	799,012	
Noncontrolling interests	(3,074	) (1,817	)
Total Equity	699,467	797,195	
Total Liabilities and Equity	\$1,774,476	\$2,032,814	

See Notes to unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2012	2011	2012
<b>Revenue:</b>				
Third party and other revenue	\$422,989	\$423,564	\$1,111,094	\$1,466,602
Direct revenue	7,172	144,988	7,172	229,568
Total revenue	430,161	568,552	1,118,266	1,696,170
<b>Cost of revenue:</b>				
Third party and other revenue	62,339	54,173	156,907	233,834
Direct revenue	5,707	127,613	5,707	202,634
Total cost of revenue	68,046	181,786	162,614	436,468
<b>Operating expenses:</b>				
Marketing	170,349	70,919	613,173	275,941
Selling, general and administrative	196,798	287,978	565,686	871,455
Acquisition-related (benefit) expense, net	(4,793)	) 2,431	(4,793)	) 744
Total operating expenses	362,354	361,328	1,174,066	1,148,140
(Loss) income from operations	(239)	) 25,438	(218,414)	) 111,562
Interest and other income, net	8,269	617	9,808	54,445
Loss on equity method investees	(11,211)	) (138)	) (19,974)	) (8,694)
(Loss) income before provision for income taxes	(3,181)	) 25,917	(228,580)	) 157,313
Provision for income taxes	11,235	26,857	9,503	128,297
Net (loss) income	(14,416)	) (940)	) (238,083)	) 29,016
Less: Net loss (income) attributable to noncontrolling interests	3,843	(706)	) 23,602	(2,806)
Net (loss) income attributable to Groupon, Inc.	(10,573)	) (1,646)	) (214,481)	) 26,210
Redemption of preferred stock in excess of carrying value	—	—	(34,327)	) —
Adjustment of redeemable noncontrolling interests to redemption value	(43,656)	) (1,333)	) (59,307)	) (12,498)
Net (loss) income attributable to common stockholders	\$(54,229)	) \$(2,979)	) \$(308,115)	) \$13,712
<b>Net (loss) earnings per share</b>				
Basic	\$(0.18)	\$(0.00)	\$(1.01)	\$0.02
Diluted	\$(0.18)	\$(0.00)	\$(1.01)	\$0.02
<b>Weighted average number of shares outstanding</b>				
Basic	307,605,060	653,223,610	305,288,502	648,021,943
Diluted	307,605,060	653,223,610	305,288,502	663,557,250

See Notes to unaudited Condensed Consolidated Financial Statements.

## GROUPON, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2012	2011	2012
Net (loss) income	\$(14,416 )	\$(940 )	\$(238,083 )	\$29,016
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	81	(387 )	3,649	(378 )
Other comprehensive income (loss)	81	(387 )	3,649	(378 )
Comprehensive (loss) income	(14,335 )	(1,327 )	(234,434 )	28,638
Less: Comprehensive loss (income) attributable to the noncontrolling interests	3,843	(1,300 )	23,602	(3,400 )
Comprehensive (loss) income attributable to Groupon, Inc.	\$(10,492 )	\$(2,627 )	\$(210,832 )	\$25,238

See Notes to unaudited Condensed Consolidated Financial Statements



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

	Nine Months Ended September 30,	
	2011	2012
Operating activities		
Net (loss) income	\$ (238,083)	) \$ 29,016
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	22,754	39,836
Stock-based compensation	60,922	77,706
Deferred income taxes	602	9,608
Excess tax benefits on stock-based compensation	(11,323)	) (24,620)
Loss on equity method investees	19,974	8,694
Acquisition-related (benefit) expense, net	(4,793)	) 744
Gain on redemption of common stock	(4,916)	) —
Gain on E-Commerce transaction	—	(56,032)
Change in assets and liabilities, net of acquisitions:		
Restricted cash	(8,141)	) (1,855)
Accounts receivable	(69,690)	) (2,189)
Prepaid expenses and other current assets	(41,023)	) (24,937)
Accounts payable	(21,924)	) 13,174
Accrued merchant payables	314,872	53,889
Accrued expenses and other current liabilities	108,963	68,010
Other, net	(6,824)	) 10,073
Net cash provided by operating activities	121,370	201,117
Investing activities		
Purchases of property and equipment and software capitalization	(29,825)	) (55,802)
Acquisitions of businesses, net of acquired cash	(12,553)	) (44,790)
Purchases of intangible assets	(15,072)	) (10)
Purchases of additional interests in consolidated subsidiaries	(34,887)	) (8,527)
Purchases of cost and equity method investments	(20,189)	) (33,097)
Net cash used in investing activities	(112,526)	) (142,226)
Financing activities		
Proceeds from issuance of stock, net of issuance costs	509,829	—
Excess tax benefit on stock-based compensation	11,323	24,620
Tax withholdings related to net share settlements of restricted stock units	—	(7,586)
Payments of contingent acquisition liability	—	(4,250)
Repayments of loans with related parties	(14,358)	) —
Repurchase of common stock	(353,550)	) —
Proceeds from exercise of stock options	2,269	8,868
Partnership distributions to noncontrolling interest holders	—	(3,062)
Redemption of preferred stock	(35,221)	) —
Net cash provided by financing activities	120,292	18,590
Effect of exchange rate changes on cash and cash equivalents	(4,034)	) 595
Net increase in cash and cash equivalents	125,102	78,076
Cash and cash equivalents, beginning of the period	118,833	1,122,935
Cash and cash equivalents, end of the period	\$ 243,935	\$ 1,201,011

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Supplemental disclosure of cash flow information

Non-cash investing activity

Issuance of common stock in connection with acquisitions	\$11,067	\$—
Contingent consideration in connection with acquisitions	\$17,755	\$2,521
Issuance of non-voting common stock in connection with investments in equity interests	\$45,218	\$—
Stock issued in exchange for additional interests in consolidated subsidiaries	\$10,400	\$527
Contribution of investment in E-Commerce transaction	\$—	\$47,042

See Notes to unaudited Condensed Consolidated Financial Statements.

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

	Groupon, Inc. Stockholders' Equity								
	Common Stock Shares	Additional Paid-In Amount Capital	Accumulated Deficit	Accumulated Other Comp. Income	Total Groupon Inc. Stockholders' Equity	Non- controlling Interests	Total Equity		
Balance at December 31, 2011	644,145,201	\$64	\$1,388,253	\$(698,704)	\$12,928	\$702,541	\$(3,074)	\$699,467	
Net income	—	—	—	26,210	—	26,210	2,706	(1) 28,916	(1)
Foreign currency translation	—	—	—	—	(972)	(972)	594	(378)	)
Adjustment of redeemable noncontrolling interests to redemption value	—	—	(12,498)	—	—	(12,498)	—	(12,498)	)
Purchase of additional interests in consolidated subsidiaries	153,231	—	(2,493)	—	—	(2,493)	1,019	(1,474)	)
Restricted stock issued in connection with business combinations	221,723	—	—	—	—	—	—	—	
Vesting of restricted stock units	3,225,241	—	—	—	—	—	—	—	
Tax withholding related to net share settlements of restricted stock units	(1,177,671)	—	(12,980)	—	—	(12,980)	—	(12,980)	)
Stock-based compensation on equity-classified awards	—	—	65,716	—	—	65,716	—	65,716	
Excess tax benefits on stock-based compensation	—	—	24,620	—	—	24,620	—	24,620	
Exercise of stock options	8,334,131	1	8,867	—	—	8,868	—	8,868	
Partnership distributions to noncontrolling interest holders	—	—	—	—	—	—	(3,062)	(3,062)	)
Balance at September 30, 2012	654,901,856	\$65	\$1,459,485	\$(672,494)	\$11,956	\$799,012	\$(1,817)	\$797,195	

- (1) Excludes \$0.1 million attributable to redeemable noncontrolling interests, which are reported outside of permanent equity in the consolidated balance sheets.

See Notes to unaudited Condensed Consolidated Financial Statements

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GROUPON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. FINANCIAL STATEMENT INFORMATION

Company Information

Groupon, Inc., together with the subsidiaries through which it conducts business (the "Company"), is a local commerce marketplace ([www.groupon.com](http://www.groupon.com)) that connects merchants to consumers by offering goods and services at a discount. The Company has organized its operations into two segments: North America and International. See Note 12 "Segment Information."

Basis of Presentation / Unaudited Interim Financial Information

The Company has prepared the accompanying condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial reporting. These condensed consolidated financial statements are unaudited and, in the Company's opinion, include all adjustments, consisting of normal recurring adjustments and accruals, necessary for a fair presentation of the Company's condensed consolidated balance sheets, and statements of operations, comprehensive income (loss), cash flows and stockholders' equity for the periods presented. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2012. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") have been omitted in accordance with the rules and regulations of the SEC. These condensed consolidated financial statements should be read in conjunction with the audited condensed consolidated financial statements and accompanying notes in Item 8 of Part II, "Financial Statements and Supplementary Data," of the Company's 2011 Annual Report on Form 10-K.

Principles of Consolidation

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

Use of Estimates

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

Significant Accounting Policies

Revenue

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.

## GROUPON, INC.

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

## 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 merchant partners at a discount through its local commerce marketplace that connects merchants to consumers. The Company's marketplace includes deals offered in a variety of categories including: Local, National, Now!, Goods, Getaways and Live. Customers purchase Groupons from the Company and redeem them with the Company's merchant partners.

The revenue recognition criteria are met when the number of customers who purchase a given deal exceeds the predetermined threshold (where applicable), the Groupon has been electronically delivered to the purchaser and a listing of Groupons sold has been made available to the merchant. At that time, the Company's obligations to the merchant, for which it is serving as 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 the listing of Groupons sold that were previously provided to the merchant, are inconsequential or perfunctory. The Company records as revenue the net amount it retains from the sale of Groupons after paying an agreed upon percentage of the purchase price to the featured merchant, excluding any applicable taxes. Revenue is recorded on a net basis because the Company is acting as a marketing agent of the merchant in the transaction. For merchant payment arrangements that are structured under a redemption model, merchant partners are not paid until the customer redeems the Groupon that has been purchased. If a customer does not redeem the Groupon under this payment model, the Company retains all the gross billings. The Company recognizes 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. However, the Company has historically concluded based on its interpretation of applicable German law that its obligation to merchants in that jurisdiction extended for three years. Due to a recent German tax ruling, which will require the Company to remit value-added taxes (VAT) earlier on unredeemed Groupons, the Company 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 includes an \$18.5 million one-time increase to third party revenue, which represents the cumulative impact of deals in Germany for which, based on the recent tax ruling, the Company's obligation to the merchant would have ended prior to the current quarterly period (i.e., prior to July 1, 2012).

## 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 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. Direct revenue, including associated shipping revenue, is recorded when the products are shipped and title passes to customers. For Goods transactions where the Company is performing a service by acting as a marketing agent of the merchant responsible for fulfillment, revenue is recorded on a net basis and is presented within third party revenues.

## Cost of revenue

Cost of revenue is comprised of direct and indirect costs incurred to generate revenue. For direct revenue transactions, cost of revenue includes the purchase price of consumer products, warehousing, shipping costs and inventory markdowns. For third party revenue transactions, cost of revenue includes estimated refunds that are not recoverable from the merchant, for which the Company records a liability based upon the nature of the product or service and historical experience. Other costs incurred to generate revenue, which include credit card processing fees, editorial costs, certain technology costs, web hosting, and other processing fees, are allocated to cost of third party revenue,

direct revenue and other revenue in proportion to relative gross billings during the period.

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GROUPON, INC.

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

Technology costs in cost of revenue consist of a portion of the payroll and stock based compensation expense related to the Company's technology support personnel who are responsible for operating and maintaining the infrastructure of the Company's existing website. Such technology costs also include website hosting and email distribution costs. Editorial costs consist of a portion of the payroll and stock based compensation expense related to the Company's editorial personnel, as these staff members are primarily dedicated to drafting and promoting merchant 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 refund 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 Company practices in response to refund experience or economic trends that might impact customer demand. 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 in accrued expenses on the condensed consolidated balance sheets. The cost of refunds for third party revenue where the amount payable to the merchant is recoverable and for all direct revenue is presented in the condensed consolidated statements of operations as a reduction to revenue. The cost of refunds for third party revenue when there is no amount recoverable from the merchant is presented as a cost of revenue.

The Company assesses the trends that could affect its estimates and makes changes to the refund reserve quarterly when it appears that refunds may 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 condensed consolidated financial statements.

Cost method investments

Non-marketable equity investments 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 in equity interests on the condensed consolidated balance sheets. Under the cost method, investments are carried at cost and are adjusted only for other-than-temporary declines in fair value, certain distributions and additional investments. The Company evaluates the value of cost method investments for other-than-temporary impairment on a quarterly basis. See Note 10, "Fair Value Measurements" for information about the fair values and carrying amounts of cost method investments.



GROUPON, INC.

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

## 2. ACQUISITIONS

During the nine months ended September 30, 2012, the Company acquired certain entities, and the results of each of the entities have been included in the condensed consolidated financial statements beginning on the respective date of acquisition. The primary purpose of these acquisitions was to enhance the Company's technology and marketing services and to expand and advance product offerings. The aggregate acquisition-date fair value of the consideration transferred for these acquisitions totaled \$52.8 million, which consisted of the following (in thousands):

Fair Value of Consideration Transferred	Fair Value
Cash	\$46,913
Purchase price obligations	3,364
Contingent consideration	2,521
Total	\$52,798

Liabilities for contingent consideration (i.e., earn-outs) are measured at fair value each reporting period, with the acquisition-date fair value included as part of the consideration transferred and subsequent changes in fair value recorded in earnings as acquisition-related expense (benefit), net. The Company determines the fair values of contingent consideration liabilities based on the likelihood of contingent earn-out payments and stock issuances. See Note 10 "Fair Value Measurements" for information about subsequent fair value measurements of contingent consideration liabilities.

The following table summarizes the preliminary allocation of the fair value of consideration transferred as of the acquisition date (in thousands):

Description	Fair Value
Net working capital (including acquired cash of \$2.1 million)	\$1,750
Property and equipment, net	165
Goodwill	32,557
Intangible assets <sup>(1)</sup> :	
Subscriber relationships	170
Merchant relationships	1,370
Developed technology	20,070
Deferred tax liability	(3,284)
Total Purchase Price	\$52,798

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

The fair value of consideration transferred is being allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values on their corresponding acquisition date, with the remaining unallocated amount recorded as goodwill. The purchase price allocations are preliminary as the Company is in the process of finalizing the intangibles valuations. The goodwill of \$32.6 million 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. The goodwill is not deductible for tax purposes. Pro forma results of operations have not been presented because the effects of these business combinations, individually and in the aggregate, were not material to the Company's condensed consolidated results of operations. Purchases of Additional Interests in Consolidated Subsidiaries

During the nine months ended September 30, 2012, the Company acquired additional shares in various majority-

## GROUPON, INC.

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

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.

In February 2012, the Company acquired an additional interest in one majority-owned subsidiary for \$2.5 million. Additionally, in connection with this transaction, certain liability-classified subsidiary stock-based compensation awards were settled in exchange for \$2.5 million. Also in February 2012, the Company settled certain liability-classified subsidiary stock-based compensation awards in exchange for \$2.4 million of cash, \$0.5 million of Class A common stock and \$1.7 million of deferred compensation that will be recognized as compensation expense over a service period of two years and is payable in \$1.3 million of cash and \$0.4 million of Class A common stock. In May 2012, the Company acquired additional interests of two majority-owned subsidiaries for an aggregate purchase price of \$6.6 million, including \$6.0 million of cash and \$0.6 million of Class A common stock.

### 3. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table summarizes the Company's goodwill activity for the nine months ended September 30, 2012 (in thousands):

	North America	International	Consolidated
Balance as of December 31, 2011	\$40,731	\$126,172	\$166,903
Goodwill related to acquisitions	32,557	—	32,557
Other adjustments <sup>(1)</sup>	(1,254	) (1,228	) (2,482
Balance as of September 30, 2012	\$72,034	\$124,944	\$196,978

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

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

Asset Category	As of December 31, 2011		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Subscriber relationships	\$41,272	\$12,882	\$28,390
Merchant relationships	6,600	6,600	—
Trade names	5,801	5,801	—
Developed technology	5,583	2,151	3,432
Other intangible assets	15,420	1,575	13,845
Total	\$74,676	\$29,009	\$45,667
Asset Category	As of September 30, 2012		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Subscriber relationships	\$41,161	\$18,853	\$22,308
Merchant relationships	7,920	6,550	1,370
Trade names	5,751	5,751	—
Developed technology	25,422	9,432	15,990
Other intangible assets	15,469	3,690	11,779
Total	\$95,723	\$44,276	\$51,447

Amortization expense for these intangible assets was \$3.4 million and \$5.6 million for the three months ended September 30, 2011 and 2012, respectively, and \$14.1 million and \$15.6 million for the nine months ended September 30, 2011 and 2012, respectively.

As of September 30, 2012, the Company's estimated future amortization expense of these intangible assets was as follows (in thousands):

Year Ending December 31, 2011	
Remaining amounts in 2012	\$6,199
2013	22,933
2014	13,703
2015	6,949
2016	1,663
Thereafter	—
	\$51,447

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
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## 4. INVESTMENTS IN EQUITY INTERESTS

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

	December 31, 2011	Percent Ownership of Common Stock	September 30, 2012	Percent Ownership of Common and Preferred Stock
Cost method:				
Life Media Limited	\$—	—	% \$128,074	19
Equity method:				
E-Commerce King Limited	49,395	49	% —	—
Other investments in equity interests	1,209	50	% or less 2,965	50
Total investments in equity interests	\$50,604		\$131,039	% or less

## Equity Method Investment in E-Commerce King Limited

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"), an entity controlled by former CityDeal shareholders Oliver Samwer, Marc Samwer and Alexander Samwer. 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 a purchase 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 E-Commerce. In exchange for its 49.8% interest in E-Commerce and an additional \$25.0 million of cash consideration, the Company received a 19% interest in F-tuan in the form of common and Series E preferred shares. The Company paid \$5.0 million of the cash consideration on June 25, 2012 and the remaining amount was paid on July 2, 2012.

The Company recognized a non-operating pre-tax gain of \$56.0 million as a result of the transaction, which is included in "Interest and other income, net" on the condensed consolidated statement of operations. The gain represents the excess of the fair value of the Company's 19% investment in F-tuan over the carrying value of its E-Commerce investment as of the date of the transaction and the \$25.0 million of cash consideration for the Series E preferred shares.

## Cost Method Investment in Life Media Limited

The investment in Life Media Limited is accounted for using the cost method because the Company does not have the ability to exercise significant influence. The total investment of \$128.1 million, which represents the fair value on the date the Company obtained this investment, is classified within "Investments in equity interests" on the condensed consolidated balance sheet as of September 30, 2012. The investment will be adjusted only for other-than-temporary declines in fair value, certain distributions and additional investments. The approximate fair value of the investment as of September 30, 2012 was \$124.9 million. As of September 30, 2012, the gross unrealized loss of the Company's investment in Life Media was \$3.2 million, which has been in an unrealized loss position for less than 12 months.

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## 5. 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 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 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 offer.

## 6. SUPPLEMENTAL CONSOLIDATED BALANCE SHEET INFORMATION

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

	As of December 31, 2011	As of September 30, 2012
Refunds reserve	\$67,452	\$69,826
Marketing	33,472	14,042
Payroll and benefits	36,404	57,665
Subscriber rewards and credits	36,144	61,438
Professional fees	18,656	15,690
Other	19,879	26,422
Total accrued expenses	\$212,007	\$245,083

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
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	As of December 31, 2011	As of September 30, 2012
Income taxes payable	\$70,861	\$47,451
VAT and sales tax payable	50,554	63,745
Other	23,258	60,226
Total other current liabilities	\$144,673	\$171,422

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

	As of December 31, 2011	As of September 30, 2012
Long-term tax liabilities	\$55,127	\$56,246
Other	15,639	18,397
Total other non-current liabilities	\$70,766	\$74,643

## 7. COMMITMENTS AND CONTINGENCIES

The Company's commitments as of September 30, 2012 did not materially change from the amounts set forth in the Company's 2011 Annual Report on Form 10-K.

## Legal Matters

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

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

Five putative federal class action securities complaints have been filed against the Company, certain of its directors and officers, and the underwriters that participated in the initial public offering of the Company's Class A common stock. All five cases are currently pending before the United States District Court for the Northern District of Illinois: Zhang v. Groupon, Inc., et al. was filed on April 3, 2012; Roselli v. Groupon, Inc., et al. was filed on April 3, 2012; Einspahr v. Groupon, Inc., et al. was filed on April 6, 2012; Pedrow v. Groupon, Inc., et al. was filed on April 16, 2012; and Cottrell v. Groupon, Inc., et al. was filed on April 27, 2012. All five complaints assert 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. Two of the complaints additionally attempt to assert claims pursuant to Section 12(a)(2) of the Securities Act of 1933. Allegations in the complaints include that the Company and its officers and directors made untrue statements or omissions of material fact by issuing inaccurate financial statements for the fiscal quarter and the fiscal year ending December 31, 2011 and by failing to disclose information about the Company's financial controls in the registration statement and prospectus for the Company's initial public offering of Class A common stock and in the Company's subsequently-issued financial statements. The putative class action lawsuits seek an unspecified amount of monetary damages, reimbursement for fees and costs incurred in connection with the actions, including attorneys' fees, and various other forms of monetary and non-monetary relief. On June 8, 2012, the court entered an order consolidating all five federal class actions under the caption In re Groupon, Inc. Securities Litigation, Master File No. 12- CV-2450.

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On August 28, 2012, the court issued an order appointing Michael Cohn as lead plaintiff and the law firm of Pomerantz Haudek Grossman & Gross LLP as lead counsel. The lead plaintiff filed a consolidated complaint on October 29, 2012. The defendants have until December 28, 2012 to file their responsive pleadings or motions.

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In addition, six federal and two state purported stockholder derivative lawsuits have been filed against certain of the Company's current and former directors and officers. All six federal derivative cases are currently pending in the United States District Court for the Northern District of Illinois: *Monturano v. Lefkofsky, et al.* was filed on April 5, 2012; *Wong v. Mason, et al.* was filed on April 12, 2012; *Potter v. Mason, et al.* was filed on April 30, 2012, *Martin v. Mason, et al.* was filed on May 4, 2012; *Lutz v. Mason, et al.* was filed on May 14, 2012; and *Tipnis v. Mason, et al.* was filed on May 16, 2012. In the federal derivative complaints, plaintiffs assert claims for breach of fiduciary duty, abuse of control and for unjust enrichment. 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 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 May 30, 2012, the federal court entered an order consolidating all six federal derivative actions and appointing lead plaintiff and co-lead counsel, and the consolidated action was subsequently assigned the caption *In re: Groupon Derivative Litigation*, File No. 12-CV-5300. 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.

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

In June 2012, the Company was sued for breach of contract in Berlin, Germany by Fast Group S.A. ("Airfast"). Airfast sold vouchers for air travel to a subsidiary of the Company for resale by the Company to its customers under two similar agreements. On June 5, 2012, Fast Group filed a lawsuit against the Company alleging that the Company failed to make payments due to Fast Group. This case is pending before the District Court (Landgericht) Berlin under case number 19 O 344/12. On August 2, 2012, Fast Group expanded its claim to increase the amounts alleged to be due. The Company has filed an Answer and a Counterclaim on September 13, 2012. An oral hearing is scheduled for December 14, 2012. On August 27, 2012 and September 4, 2012, Fast Group filed additional lawsuits with respect to a similar agreement. The cases are pending before the District Court (Landgericht) Berlin under case numbers 19 O 447/12 and 7 O 343/12, respectively. The Company has filed an answer on October 10, 2012 with respect to the August 27, 2012 suit and intends to file an answer shortly with respect to September 4, 2012 suit. The District Court has not scheduled hearing dates yet. The Company believes it has meritorious defenses to the lawsuit and does not expect any resolution of the lawsuit to be material to its results of operations.

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

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settlement, require the Company to change its business practices in expensive ways, require significant amounts of management time, result in the diversion of significant operational resources or otherwise harm the Company's business.

The Company assesses the likelihood of any adverse judgments or outcomes with respect to these matters and determines loss contingency assessments on a gross basis after assessing the probability of incurrence of a loss and whether a loss is reasonably estimable. In addition, the Company considers other relevant factors that could impact its ability to reasonably estimate a loss. A determination of the amount of reserves required, if any, for these contingencies is made after analyzing each matter. The Company's reserves may change in the future due to new developments or changes in strategy in handling these matters.

Although the results of litigation and claims cannot be determined, based on the information currently available the Company currently believes that the final outcome of these matters will not have a material adverse effect on its business, consolidated financial position, results of operations, or cash flows. Regardless of the outcome, litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources and other factors.

#### Indemnifications

In the normal course of business to facilitate transactions related to its operations, the Company indemnifies certain parties, including lessors and from time to time merchants with respect to certain matters. The Company has agreed to hold certain parties harmless against losses arising from a breach of representations or covenants, or other claims made against certain parties. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim. In addition, the Company has entered into indemnification agreements with its officers and directors, and the Company's bylaws contain similar indemnification obligations to agents.

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

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

### Common Stock

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

The Company's authorized common stock has a par value of \$0.0001 per share, and consists of 2,000,000,000 shares designated as Class A common stock, 10,000,000 shares designated as Class B common stock and 2,010,000,000 shares designated as common stock. As of September 30, 2012, there were 652,501,880 shares of Class A common stock and 2,399,976 shares of Class B common stock outstanding.

### Groupon, Inc. Stock Plans

The Groupon, Inc. Stock Plans (the "Plans") are administered by the Compensation Committee of the Board, which determines the number of awards to be issued, the corresponding vesting schedule and the exercise price for options. As of September 30, 2012, 30,857,092 shares were available for future issuance under the Plans.

The Company recognized stock-based compensation expense of \$3.3 million and \$22.6 million during the three months ended September 30, 2011 and 2012, respectively, and \$60.9 million and \$77.7 million during the nine months ended September 30, 2011 and 2012, respectively, related to stock awards issued under the Plans, acquisition-related awards and subsidiary awards. The Company also capitalized \$3.2 million and \$5.6 million of stock-based compensation during the three and nine months ended



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September 30, 2012, respectively, in connection with internally developed software. No amounts were capitalized during the three and nine months ended September 30, 2011.

As of September 30, 2012, a total of \$251.9 million of unrecognized compensation costs related to unvested stock awards, unvested acquisition-related awards and unvested subsidiary awards are expected to be recognized over the remaining weighted average period of two years.

## Stock Award Activity

The table below summarizes the stock option activity during the nine months ended September 30, 2012:

	Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands) (1)
Outstanding at December 31, 2011	17,870,713	\$1.12	8.06	\$348,743
Exercised	(8,334,131 )	\$1.06		
Forfeited	(657,333 )	\$2.34		
Expired	(14,293 )	\$1.78		
Outstanding at September 30, 2012	8,864,956	\$1.07	7.25	\$32,752
Exercisable at September 30, 2012	4,982,867	\$0.82	6.93	\$19,645

The aggregate intrinsic value of options outstanding and exercisable represents the total pretax intrinsic value (the difference between the fair value of the Company's stock on the last day of each period and the exercise price, (1) multiplied by the number of options where the exercise price exceeds the fair value) that would have been received by the option holders had all option holders exercised their options as of December 31, 2011 and September 30, 2012, respectively.

The table below summarizes the restricted stock unit activity during the nine months ended September 30, 2012:

	Restricted Stock Units	Weighted- Average Grant Date Fair Value (per share)
Unvested at December 31, 2011	11,944,844	\$12.23
Granted	22,759,517	\$9.83
Vested	(3,225,241 )	\$10.63
Forfeited	(2,385,596 )	\$15.36
Unvested at September 30, 2012	29,093,524	\$10.29

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

The following tables set forth the computation of basic and diluted net loss per share of common stock for the three and nine months ended September 30, 2011 (in thousands, except share amounts and per share amounts):

	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011	
Net loss	\$(14,416	)	\$(238,083 )
Redemption of preferred stock in excess of carrying value	—		(34,327 )
Adjustment of redeemable noncontrolling interests to redemption value	(43,656	)	(59,307 )
Less: Net loss attributable to noncontrolling interests	3,843		23,602 )
Net loss attributable to common stockholders	\$(54,229	)	\$(308,115 )
Net loss per share:			
Weighted-average shares outstanding for basic and diluted net loss per share <sup>(1)</sup>	307,605,060		305,288,502
Basic and diluted net loss per share	\$(0.18	)	\$(1.01 )

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 three and nine months ended September 30, 2011 because the Company had a net loss for each period. Accordingly, the inclusion of these equity awards would have had an antidilutive effect on the calculation of diluted loss per share.

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

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	Class A	Class B	Class A	Class B
Basic earnings per share:				
Numerator				
Allocation of net (loss) income	\$ (937	) \$ (3	) \$ 28,908	\$ 108
Less: Allocation of adjustment of redeemable noncontrolling interests to redemption value	1,328	5	12,452	46
Less: Allocation of net income attributable to noncontrolling interests	703	3	2,796	10
Allocation of net (loss) income attributable to common stockholders	(2,968	) (11	) 13,660	52
Denominator				
Weighted-average common shares outstanding	650,823,634	2,399,976	645,621,967	2,399,976
Basic earnings per share	\$(0.00)	\$(0.00)	\$0.02	\$0.02
Diluted earnings per share:				
Numerator				
Allocation of net income attributable to common stockholders	\$(2,968	) \$(11	) \$13,660	\$52
Reallocation of net income attributable to common stockholders as a result of conversion of Class B	—	—	52	—
Allocation of net income attributable to common stockholders	(2,968	) (11	) 13,712	52
Denominator				
Weighted-average common shares outstanding used in basic computation	650,823,634	2,399,976	645,621,967	2,399,976
Conversion of Class B	—	—	2,399,976	—
Employee stock options	—	—	10,909,749	—
Restricted shares and RSUs	—	—	4,625,558	—
Weighted-average diluted shares outstanding	650,823,634	2,399,976	663,557,250	2,399,976
Diluted earnings per share	\$(0.00)	\$(0.00)	\$0.02	\$0.02

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2012	2011	2012
Antidilutive equity awards				
Stock options	18,407,510	8,864,956	18,407,510	9,018
Restricted stock units	10,575,100	29,093,524	10,575,100	7,249,438
Restricted stock	86,758	39,390	86,758	—
Convertible preferred shares	293,309,716	—	293,309,716	—
Total	322,379,084	37,997,870	322,379,084	7,258,456

## 10. FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

Cash equivalents - Cash equivalents primarily consisted 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.

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 future operational objectives and financial results are met over future reporting periods. Liabilities for contingent consideration (i.e., earn-outs) are measured at fair value each reporting period, with the acquisition-date fair value included as part of the consideration transferred and subsequent changes in fair value recorded in earnings as acquisition-related expense (benefit), net.

The Company uses one of two approaches to value the contingent consideration liabilities. The first is an income approach that is primarily determined based on the present value of probability-weighted future cash flows using internal models. The second is an option pricing methodology within a Black-Scholes framework. For contingent consideration to be settled in a variable number of shares of common stock, the Company used the most recent Groupon stock price as reported on the NASDAQ to determine the fair value of the shares potentially issuable as of December 31, 2011 and September 30, 2012. The Company has generally classified the contingent consideration liabilities as Level 3 due to the lack of relevant observable market data over fair value inputs such as probability-weighting for payment outcomes. Changes in assumptions could have an impact on the payout of contingent consideration with a maximum payout of \$17.6 million.

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

Description	As of December 31, 2011	Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	\$750,004	\$750,004	\$—	\$—
Liabilities:				
Contingent consideration	\$13,218	\$—	\$1,988	\$11,230
Description	As of September 30, 2012	Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	\$585,331	\$585,331	\$—	\$—
Liabilities:				
Contingent consideration	\$12,601	\$—	\$—	\$12,601



## GROUPON, INC.

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

The following table provides a roll-forward of the fair value of the contingent consideration categorized as Level 3 for the three and nine months ended September 30, 2011 and 2012 (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2012	2011	2012
Beginning balance	\$ 15,920	\$ 6,081	\$—	\$ 11,230
Issuance of contingent consideration in connection with acquisitions	1,835	2,100	17,755	2,100
Payments made on contingent liabilities	—	—	—	(4,250 )
Change in fair value and other <sup>(1)</sup>	(4,793 )	3,176	(4,793 )	2,277
Reclass of contingent consideration from Level 2 to Level 3	—	1,244	—	1,244
Ending balance	\$ 12,962	\$ 12,601	\$ 12,962	\$ 12,601
Unrealized (gains) losses still held <sup>(2)</sup>	\$ (4,793 )	\$ 3,176	\$ (4,793 )	\$ 2,277

<sup>(1)</sup> Changes in the fair value of contingent consideration liabilities are classified as "acquisition-related expense (benefit), net" in the condensed consolidated statements of operations.

<sup>(2)</sup> Represents the unrealized gains (losses) recorded in earnings during the period for assets (and liabilities) classified as Level 3 that are still held (or outstanding) at the end of the period.

At December 31, 2011 and September 30, 2012, no material fair value adjustments were required for non-financial assets and liabilities.

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

The fair value and carrying amount of the Company's cost method investment in F-tuan were \$124.9 million and \$128.1 million, respectively, as of September 30, 2012. The fair value of this nonmarketable equity investment was determined using the income approach and the market approach. The income approach was primarily determined based on the present value of the probability-weighted future cash flows using internal models. The market approach was primarily determined based on a revenue multiple using prior year reported results and current year projections. The Company believes that this combination is an appropriate indicator of the investment's fair value in an orderly transaction between market participants. The Company classified the fair value measurement for this cost method investment as Level 3 because it involves significant unobservable inputs.

The Company's other financial instruments not carried at fair value consist primarily of short term certificates of deposit, accounts receivable, accounts payable, accrued merchant payables and accrued expenses. The carrying values of these assets and liabilities approximate their respective fair values as of December 31, 2011 and September 30, 2012 due to their short term nature.

#### 11. INCOME TAXES

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

For the three months ended September 30, 2011, the Company recorded an income tax expense of \$11.2 million on a pre-tax loss of \$3.2 million, for an effective tax rate of (353.2)%. For the three months ended September 30, 2012, the Company recorded income tax expense of \$26.9 million on pre-tax income of \$25.9 million, for an effective tax rate of 103.6%.

For the nine months ended September 30, 2011, the Company recorded an income tax expense of \$9.5 million on a pre-tax loss of \$228.6 million, for an effective tax rate of (4.2)%. For the nine months ended September 30, 2012, the Company recorded income tax expense of \$128.3 million on pre-tax income of \$157.3 million, for an effective tax rate of 81.6%.



GROUPON, INC.

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

The Company's U.S. statutory rate is 35%. The Company's effective tax rates for the three and nine months ended September 30, 2012 reflect losses in certain jurisdictions, which the Company was not able to benefit due to valuation allowances and the current year amortization expense of taxes paid from the 2011 taxable sale of certain intellectual property rights within the Company's international structure.

The Company's reserve for unrecognized tax benefits, exclusive of interest and penalties, as of September 30, 2012, increased from the balance as of December 31, 2011, by \$10.1 million as a result of taxes attributable to current year operations. The total amount of unrecognized tax benefits at December 31, 2011 and September 30, 2012 that, if recognized, would affect the effective tax rate are \$3.2 million and \$24.8 million, respectively.

12. SEGMENT INFORMATION

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

## GROUPON, INC.

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

Revenue for each segment is based on the geographic market where the sales are completed. Revenue and profit or loss information by reportable segment reconciled to consolidated net (loss) income for the three and nine months ended September 30, 2011 and 2012 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2012	2011	2012
<b>North America</b>				
Revenue <sup>(1)</sup>	\$ 161,525	\$ 291,603	\$ 455,342	\$ 790,349
Segment cost of revenue and operating expenses <sup>(2)</sup>	142,689	252,510	468,785	667,655
Segment operating (loss) income	18,836	39,093	(13,443)	) 122,694
<b>International</b>				
Revenue	268,636	276,949	662,924	905,821
Segment cost of revenue and operating expenses <sup>(2)</sup>	289,164	265,554	811,766	838,503
Segment operating (loss) income	(20,528)	) 11,395	(148,842)	) 67,318
<b>Consolidated</b>				
Revenue	430,161	568,552	1,118,266	1,696,170
Segment cost of revenue and operating expenses <sup>(2)</sup>	431,853	518,064	1,280,551	1,506,158
Segment operating (loss) income	(1,692)	) 50,488	(162,285)	) 190,012
Stock-based compensation	3,340	22,619	60,922	77,706
Acquisition-related (benefit) expense, net	(4,793)	) 2,431	(4,793)	) 744
Interest and other income, net	(8,269)	) (617)	) (9,808)	) (54,445)
Loss on equity method investees	11,211	138	19,974	8,694
(Loss) income before income taxes	(3,181)	) 25,917	(228,580)	) 157,313
Provision for income taxes	11,235	26,857	9,503	128,297
Net (loss) income	\$ (14,416)	) \$ (940)	) \$ (238,083)	) \$ 29,016

North America contains revenue from the United States of \$147.9 million and \$278.5 million for the three months (1)ended September 30, 2011 and 2012, respectively, and \$420.1 million and \$746.8 million for the nine months ended September 30, 2011 and 2012, respectively.

(2) Represents cost of revenue and operating expenses, excluding stock-based compensation and acquisition-related (benefit) expense, net, which are not allocated to segments.

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

	As of December 31, 2011	As of September 30, 2012
North America <sup>(1)(3)</sup>	\$989,170	\$1,135,772
International <sup>(2)(3)</sup>	785,306	897,042
Consolidated total assets	\$1,774,476	\$2,032,814

(1) North America contains assets from the United States of \$981.0 million and \$1,084.3 million at December 31, 2011 and September 30, 2012, respectively.

Total assets in the Netherlands represented approximately 11.5% of consolidated total assets at September 30, (2)2012. There were no other individual countries located outside of the United States that represented more than 10% of consolidated total assets at December 31, 2011 or September 30, 2012.

(3) The December 31, 2011 total asset amounts have been reclassified in the disclosure above to conform to the current presentation, which excludes intercompany balances.



GROUPON, INC.

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

### 13. RELATED PARTIES

#### Marketing Services

During 2011, the Company engaged InnerWorkings, Inc. ("InnerWorkings") to provide marketing services. The Company's Executive Chairman, Eric Lefkofsky, is a former director and significant stockholder of InnerWorkings. Amounts paid in advance to InnerWorkings for services which had not yet been rendered as of September 30, 2012 totaled \$1.3 million and were recorded in "Prepaid expenses and other current assets" on the condensed consolidated balance sheet.

#### 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"). Three of the Company's directors, Peter Barris, Eric Lefkofsky and Bradley Keywell, either are currently or were previously in 2012 directors of Echo and have direct and/or indirect ownership interests in Echo. Pursuant to the agreement, Echo provided services either related to carrier rate negotiation and management, shipping origin and destination coordination, inventory facility set-up and management and supply chain cost analysis. Echo received payments of approximately \$1.9 million for its services under the agreement for the nine months ended September 30, 2012, which were expensed by the Company through "Cost of revenue" on the condensed consolidated statements of operations. As the Goods category has expanded, the Company has hired other outside vendors for logistics services and as of September 30, 2012, the Company has terminated its arrangement with Echo.

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

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

### Overview

Our vision is to be the operating system for local commerce. As part of that vision, we act as the local commerce marketplace that connects merchants to consumers by offering goods and services at a discount. Traditionally, local merchants have tried to reach consumers and generate sales through a variety of methods, including telephone directories, direct mail, newspaper, radio, television and online advertisements and promotions. By bringing the brick and mortar world of local commerce onto the Internet, Groupon is creating a new way for local merchant partners to attract customers and sell goods and services. We provide consumers with savings and help them discover what to do, eat, see, buy and where to travel. We also provide a suite of other merchant-oriented products and services to consumers including a customer loyalty program, scheduler and payment processing.

Each day we email our subscribers discounted offers on goods, services and travel that are targeted by location, purchase history and personal preferences. Current and potential customers also access our deals directly through our websites and mobile applications. 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 percentage of the purchase price paid to the featured merchant partners, excluding any applicable taxes and net of estimated refunds for which the merchant's share is recoverable. Our direct revenue from deals where we act as the merchant of record is the purchase price paid by the customer for the Groupon excluding any applicable taxes and net of estimated refunds. In the nine months ended September 30, 2011, we generated revenue of \$1,118.3 million, compared to \$1,696.2 million in the nine months ended September 30, 2012. Revenue has increased as a result of expanding the scale of our business both domestically and internationally and as a result of expanding our products and services.

We have organized our operations into two principal segments: North America, which represents the United States and Canada, and International, which represents the rest of our global operations. For the nine months ended September 30, 2012, we derived 53.4% of our revenue from our International segment, compared to 46.6% from our North America segment.

Primarily as a result of our net losses in prior years, we have an accumulated deficit of \$672.5 million as of September 30, 2012. Since our inception, we have driven our growth through substantial investments in infrastructure and marketing to increase customer acquisition. In particular, our net loss in previous years was driven primarily by the rapid expansion of our International segment, which involved investing heavily in upfront marketing, sales and infrastructure related to the build out of our operations in early stage countries. We intend to continue to pursue a strategy of significant investment in this segment and elsewhere in the future to support continued growth, consistent with the strategy we previously employed in North America and Europe.

### How We Measure Our Business

We measure our business with several financial and operating metrics. We use these metrics to assess the progress of our business, make decisions on where to allocate capital, time and technology investments and assess the long term performance of our marketplace. The key metrics are as follows:

#### Financial Metrics

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





Operating (loss) income excluding stock-based compensation and acquisition-related expense (benefit), net. Operating (loss) income excluding stock-based compensation and acquisition-related expense (benefit), net is the consolidated operating (loss) income of our two segments, North America and International, adjusted to exclude acquisition-related expense (benefit), net of stock-based compensation expense. Acquisition-related expense (benefit), net represents the change in the fair value of contingent consideration arrangements related to business combinations. Stock-based compensation expense is primarily a non-cash item. As reported under U.S. GAAP, we do not allocate stock based compensation and acquisition related expense (benefit), net to our segments. We use operating (loss) income excluding stock-based compensation and acquisition-related expense (benefit) to allocate resources and evaluate performance internally. Operating (loss) income excluding stock-based compensation and acquisition-related expense (benefit) is a non GAAP financial measure. For further information and a reconciliation to the most applicable financial measure under U.S. GAAP, refer to our discussion under Non-GAAP Financial Measures in the "Results of Operations" section.

Free cash flow. Free cash flow is "Net cash provided by operating activities" less "Purchases of property and equipment and software capitalization." We use free cash flow, and ratios based on it, to conduct and evaluate our business because, although it is similar to cash flow from operations, we believe it typically will present a more appropriate measure of cash flows as purchases of fixed assets, software developed for internal use and website development costs are a necessary component of ongoing operations. Free cash flow is a non-GAAP financial measure. For further information and a reconciliation to the most applicable financial measure under U.S. GAAP, refer to our discussion under Non-GAAP Financial Measures in the "Results of Operations" section.

#### Operating Metrics

Gross billings. This metric represents the 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 revenues reported in our consolidated statements of operations, which are presented net of the merchant's share of the transaction price. For direct revenue deals, gross billings are equivalent to direct revenues reported in our condensed consolidated statements of operations. We consider this metric to be an important indicator of our growth and business performance as it is a proxy for the dollar volume of transactions through our marketplace, net of tax and refunds for which the merchant's share is recoverable. Tracking gross billings also allows us to track changes in the percentage of gross billings that we are able to retain after payments to our merchant partners.

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

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

Revenue per average active customer. This metric represents the trailing twelve months revenue generated per average active customer. This metric is presented as the revenue generated in the trailing twelve months, divided by the average number of active customers in such time period. We believe revenue, not trailing twelve months revenue per average active customer, is a better indication of the overall growth of our business. As third party revenue, which is reported net of amounts payable to the featured merchant partners, represents the majority of our total revenue, trailing twelve month revenue per average active customer provides some indication as to whether our average customer is purchasing deals with a higher or lower percentage of gross billings retained by Groupon. This amount also reflects, however, the direct revenue from sales related to Groupon Goods reported on a gross basis.

	Trailing Twelve Months Ended September 30,	
	2011	2012
Operating Metrics:		
Gross billings (in thousands) <sup>(1)</sup>	\$3,169,902	\$5,090,600
TTM Active customers (in thousands) <sup>(2)</sup>	28,906	39,525
TTM Gross billings per average active customer <sup>(3)</sup>	\$188.55	\$148.78
Revenue per average active customer <sup>(4)</sup>	\$76.49	\$63.96

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

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

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

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

#### Factors Affecting Our Performance

**Deal sourcing and quality.** We consider our merchant partner relationships to be a vital part of our business model and have made significant investments in order to expand the variety of services that we can provide to our merchant partners. We depend on our ability to attract and retain merchants that are prepared to offer products or services on compelling terms, particularly as we attempt to expand our product and service offerings in order to create a more complete online marketplace for local commerce. We generally do not have long-term arrangements to guarantee availability of deals that offer attractive quality, value and variety to consumers or favorable payment terms to us. If new merchants do not find our marketing and promotional services effective, or if our existing merchants do not believe that utilizing our services provides them with a long-term increase in customers, revenue or profit, they may stop making offers through our marketplace.

**International operations.** Our international operations are critical to our revenue growth and our ability to achieve and maintain profitability. For the nine months ended September 30, 2011 and 2012, 59.3% and 53.4%, respectively, of our revenue was generated from our International segment. Expansion into and operations in international markets requires management attention and resources and requires us to localize our services to conform to a wide variety of local cultures, business practices, laws and policies. International acquisitions also expose us to a variety of execution risks. The different commercial and Internet infrastructure in other countries may make it more difficult for us to replicate our current and future business model.

**Marketing costs.** We must continue to acquire and retain customers who purchase Groupons in order to increase revenue and achieve profitability. If consumers do not perceive our Groupon offerings to be attractive, or if we fail to introduce new or more relevant deals, we may not be able to acquire or retain customers. In our limited operating history, we have not incurred significant marketing or other expense on initiatives designed to re-activate customers or increase the level of purchases by our existing customers. As we incur such expenditures, our business and profitability could be adversely affected.

**Investment in growth.** We have been a high-growth company and have aggressively invested, and intend to continue to invest, to support this growth. For example, we are developing a suite of merchant products, such as payment processing, point of sale, scheduling and rewards, which require substantial investment and these products do not currently generate a material amount of revenue. As a result, we have incurred net losses in the majority of quarters since our inception. 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.

**Competitive pressure.** Our growth and geographical expansion have drawn a significant amount of attention to our business model. As a result, a substantial number of companies that attempt to replicate our business model have emerged around the world. We expect new competitors to emerge. In addition to such competitors, we expect to increasingly compete against other large Internet and technology based businesses that have launched initiatives which are directly competitive to our core business as well as our other categories and our suite of merchant products, such as payment processing, point of sale and rewards. 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.

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## Basis of Presentation

Our basis of presentation is discussed in "Item 7- Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the U.S. Securities and Exchange Commission ("SEC") on March 30, 2012. We updated our presentation of cost of revenue in this Quarterly Report on Form 10-Q to present the costs separately for third party and direct revenue transactions. Refer to Note 1 of the condensed consolidated financial statements where we discuss additional interim updates to the significant accounting policies for the three and nine months ended September 30, 2011 and 2012.

## Results of Operations

Comparison of the nine months ended September 30, 2011 and 2012:

	Nine Months Ended September 30,		
	2011	2012	
	(in thousands)		
Revenue:			
Third party and other revenue	\$ 1,111,094	\$ 1,466,602	
Direct revenue	7,172	229,568	
Total revenue	1,118,266	1,696,170	
Cost of revenue:			
Third party and other revenue	156,907	233,834	
Direct revenue	5,707	202,634	
Total cost of revenue	162,614	436,468	
Operating expenses:			
Marketing	613,173	275,941	
Selling, general and administrative	565,686	871,455	
Acquisition-related (benefit) expense, net	(4,793	) 744	
Total operating expenses	1,174,066	1,148,140	
(Loss) income from operations	(218,414	) 111,562	
Interest and other income, net	9,808	54,445	
Loss on equity method investees	(19,974	) (8,694	)
(Loss) income before provision for income taxes	(228,580	) 157,313	
Provision for income taxes	9,503	128,297	
Net (loss) income	(238,083	) 29,016	
Less: Net loss (income) attributable to noncontrolling interests	23,602	(2,806	)
Net (loss) income attributable to Groupon, Inc.	(214,481	) 26,210	
Redemption of preferred stock in excess of carrying value	(34,327	) —	
Adjustment of redeemable noncontrolling interests to redemption value	(59,307	) (12,498	)
Net (loss) income attributable to common stockholders	\$(308,115	) \$13,712	

## Impact of stock-based compensation on cost of revenue and operating expenses

Cost of revenue and operating expenses with and without stock-based compensation are as follows:

	Nine Months Ended September 30, 2011			2012		
	As reported (in thousands)	Stock-based compensation	Net	As reported	Stock-based compensation	Net
Total cost of revenue	\$162,614	\$ (480 )	\$162,134	\$436,468	\$ (2,355 )	\$434,113
Operating expenses:						
Marketing	\$613,173	\$ (1,039 )	\$612,134	\$275,941	\$ (2,110 )	\$273,831
Selling, general and administrative	565,686	(59,403 )	506,283	871,455	(73,241 )	798,214
Acquisition-related (benefit) expense, net	(4,793 )	—	(4,793 )	744	—	744
Total operating expenses	\$1,174,066	\$ (60,442 )	\$1,113,624	\$1,148,140	\$ (75,351 )	\$1,072,789

## Foreign exchange rate neutral operating results

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

	Nine Months Ended September 30, 2012		
	At Avg. Q3 2011 YTD Rates <sup>(1)</sup> (in thousands)	Exchange Rate Effect <sup>(2)</sup>	As Reported
Revenue	\$1,765,476	\$(69,306)	\$1,696,170
Costs and expenses	1,654,709	(70,101)	1,584,608
Income (loss) from operations	\$110,767	\$795	\$111,562

(1) Represents the outcome 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 increased to \$3,859.7 million for the nine months ended September 30, 2012 from \$2,754.6 million for the nine months ended September 30, 2011, reflecting a growth rate of 40.1%. Gross billings have increased due to an increase in the volume of transactions as we continue to grow our business. We have experienced growth in our traditional local deals category in addition to our goods, travel and entertainment categories.

## Revenue

We generate revenue from third party revenue deals, direct revenue deals and other transactions. Revenue for each of the periods was as follows:

	Nine Months Ended September 30,	
	2011	2012
	(in thousands)	
Revenue:		
Third party revenue	\$1,109,104	\$1,449,172
Direct revenue	7,172	229,568
Other revenue	1,990	17,430
Total revenue	\$1,118,266	\$1,696,170

Revenue increased by \$577.9 million to \$1,696.2 million for the nine months ended September 30, 2012, as compared to \$1,118.3 million for the nine months ended September 30, 2011. In addition to expanding the scale of our business domestically and internationally, several other initiatives have driven revenue growth over the recent period. Our historical marketing spend, which focused on acquiring customers through online channels, such as social networking websites and search engines, has contributed to our large revenue growth in the period. In addition, through our daily emails we have been increasingly targeting customers by sending them deals for specific locations and personal preferences. We also added substantially to our sales force in early 2012, allowing us to increase the number of merchant partner relationships, the volume of deals we offer on a daily basis on our websites and the quality of deals we offer to our customers. The unfavorable impact on revenue from year-over-year changes in foreign exchange rates for the nine months ended September 30, 2012 was \$69.3 million.

### Third Party Revenue

Third party revenue increased by \$340.1 million to \$1,449.2 million for the nine months ended September 30, 2012, as compared to \$1,109.1 million for the nine months ended September 30, 2011. In addition to expanding the scale of our business domestically and internationally, several other initiatives have driven revenue growth during this period. We increased our total marketing spend significantly in 2011, focusing on acquiring customers through online channels, such as social networking websites and search engines, which we believe contributed to the increase in revenue during the nine months ended September 30, 2012. We also added to our sales force in early 2012, allowing us to increase the number of merchant partner relationships, the volume of deals we offer on a daily basis on our websites and the quality of deals we offer to our customers.

### Direct Revenue

Direct revenue was \$229.6 million for the nine months ended September 30, 2012, as compared to \$7.2 million for the nine months ended September 30, 2011 due to the launch of Goods in the second half of 2011. We expect direct revenue deals to continue to grow, both overall and as a percentage of our revenues, through the continued growth of our Goods category. In addition, we expect that any growth in direct revenue will result in a smaller percentage increase in income from operations than third party revenue because direct revenue includes the entire amount of gross billings, excluding taxes and net of estimated refunds, while third party revenue is net of the merchant's share of the transaction price.

### Other Revenue

Other revenue increased by \$15.4 million to \$17.4 million for the nine months ended September 30, 2012, as compared to the nine months ended September 30, 2011. Other revenue is primarily comprised of non-merchant advertising, which has increased with the growth of our business.

## Revenue by Segment

Revenue by segment for each of the periods was as follows:

	Nine Months Ended September 30,				
	2011	% of total		2012	% of total
North America:					
Third party and other revenue	\$455,342	40.7	%	\$596,648	35.2
Direct revenue	—	—		193,701	11.4
Total segment revenue	\$455,342	40.7	%	\$790,349	46.6
International:					
Third party and other revenue	\$655,752	58.6	%	\$869,954	51.3
Direct revenue	7,172	0.7		35,867	2.1
Total segment revenue	\$662,924	59.3	%	\$905,821	53.4
Total revenue	\$1,118,266	100.0	%	\$1,696,170	100.0

## North America

North America segment revenue increased by \$335.0 million to \$790.3 million for the nine months ended September 30, 2012, as compared to the nine months ended September 30, 2011. The increase in revenue was largely attributable to an increase in active customers and strong growth in our direct revenue. Direct revenue, which is recorded on a gross basis, is derived primarily from selling products through the Company's Goods category where the Company is the merchant of record.

## International

International segment revenue increased by \$242.9 million to \$905.8 million for the nine months ended September 30, 2012, as compared to the nine months ended September 30, 2011. While we continued to grow our International revenue, we have experienced slower growth than we have historically, particularly in our European markets, which comprise a majority of the revenue from our International segment.

## Cost of Revenue

Cost of revenue on third party, other and direct revenue deals for the nine months ended September 30, 2011 and 2012 was as follows:

	Nine Months Ended September 30,	
	2011	2012
	(in thousands)	
Cost of revenue:		
Third party revenue	\$156,820	\$233,684
Direct revenue	5,707	202,634
Other revenue	87	150
Total cost of revenue	\$162,614	\$436,468

Cost of revenue is comprised of direct and indirect costs incurred to generate revenue. For direct revenue transactions, cost of revenue includes the purchase price of consumer products, warehousing, shipping costs and inventory markdowns. For third party revenue transactions, cost of revenue includes estimated refunds for which the merchant's share is not recoverable. Other costs incurred to generate revenue, which include credit card processing fees, editorial costs, certain technology costs, web hosting and other processing fees, are allocated to cost of third party revenue, direct revenue, and other revenue in proportion to relative gross billings during the period. As a result of the significant growth we have experienced in recent periods from direct revenue transactions relative to our total gross billings, an increasing share of those allocable costs have been allocated to cost of direct revenue in our condensed consolidated statement of operations.

Cost of revenue increased by \$273.9 million to \$436.5 million for the nine months ended September 30, 2012, as compared to the nine months ended September 30, 2011, and was directly related to the growth in revenue. The increase in cost of revenue was primarily driven by cost of consumer products related to direct revenue deals, which was not a significant cost during the nine months ended September 30, 2011 and, to a lesser extent, refunds for which the merchant's share is not recoverable related to our third party revenue deals. In addition, there was an increase in editorial salary costs, shipping costs and processing fees. Increases in shipping costs and processing fees are driven by higher merchant partner transaction volumes. Cost of revenue also increased due to increased email distribution costs as a result of our larger subscriber base.

#### Cost of Revenue by segment

Cost of revenue by segment for each of the periods was as follows:

	Nine Months Ended September 30,				
	2011	% of total	2012	% of total	
	(dollars in thousands)				
North America:					
Cost of third party and other revenue	\$88,534	54.4	% \$118,210	27.1	%
Cost of direct revenue	—	—	168,390	38.6	
Total segment cost of revenue	\$88,534	54.4	% \$286,600	65.7	%
International:					
Cost of third party and other revenue	\$68,373	42.1	% \$115,624	26.5	%
Cost of direct revenue	5,707	3.5	34,244	7.8	
Total segment cost of revenue	\$74,080	45.6	% \$149,868	34.3	%
Total cost of revenue	\$162,614	100.0	% \$436,468	100.0	%

#### North America

North America segment cost of revenue increased by \$198.1 million to \$286.6 million for the nine months ended September 30, 2012, as compared to the nine months ended September 30, 2011. The increase in cost of revenue was primarily driven by the cost of consumer products related to direct revenue deals.

#### International

International segment cost of revenue increased by \$75.8 million to \$149.9 million for the nine months ended September 30, 2012, as compared to the nine months ended September 30, 2011. We have continued to grow our business related to both our third party and direct revenue deals in existing markets outside of North America. As a result of this growth, cost of revenue increased for the period.

#### Marketing

Marketing expense was \$275.9 million for the nine months ended September 30, 2012, as compared to \$613.2 million for the nine months ended September 30, 2011. Marketing expense by segment as a percentage of segment revenue for each of the periods was as follows:

	Nine Months Ended September 30,				
	2011	% of Segment Revenue	2012	% of Segment Revenue	
	(dollars in thousands)				
North America	\$217,461	47.8	% \$85,922	10.9	%
International	395,712	59.7	% 190,019	21.0	%
Marketing	\$613,173	54.8	% \$275,941	16.3	%

We evaluate our marketing expense as a percentage of revenue because it gives us an indication of how well our marketing spend is driving the volume of transactions. We invested heavily in customer acquisition in the nine months ended September 30, 2011, specifically in our International segment. In 2010, we began our international expansion and subsequently made significant marketing investments in our International segment to accelerate growth and establish our presence in new markets. Therefore,





marketing as a percentage of revenue for nine months ended September 30, 2011 is higher than for the comparable period of 2012. Marketing expense as a percentage of revenue for the nine months ended September 30, 2012 has decreased due to efficiencies we have realized from building a subscriber base and shifting our marketing spend to customer activation.

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

	Nine Months Ended September 30,		2012	% of total	
	2011	% of total			
	(dollars in thousands)				
North America	\$217,461	35.5	% \$85,922	31.1	%
International	395,712	64.5	190,019	68.9	
Marketing	\$613,173	100.0	% \$275,941	100.0	%

Our marketing expense decreased by \$337.2 million to \$275.9 million for the nine months ended September 30, 2012, as compared to the nine months ended September 30, 2011. For the nine months ended September 30, 2011, subscriber acquisition still comprised the primary portion of our marketing spend. This was particularly true in the international markets as we were still in the early phases of building our customer base in those markets. As those markets have developed over the last twelve months, we have begun to shift our marketing spend from subscriber acquisition marketing to activation, and as a result, overall marketing expense decreased for the nine months ended September 30, 2012.

#### North America

North America segment marketing expense decreased to \$85.9 million for the nine months ended September 30, 2012, as compared to \$217.5 million for the nine months ended September 30, 2011. The significant decrease was primarily attributable to a decrease in online marketing spend. This reflects both the continued shift in focus from subscriber acquisition marketing to activation and improving efficiency in our core operations. For the nine months ended September 30, 2012, marketing expense as a percentage of revenue for the North America segment was 10.9%, as compared to 47.8% for the nine months ended September 30, 2011. The decrease in marketing expenses as a percentage of revenue is due to efficiencies we have seen from the investments we made in 2011 and 2012.

#### International

International segment marketing expense decreased to \$190.0 million for the nine months ended September 30, 2012, as compared to \$395.7 million the nine months ended September 30, 2011. The significant decrease was primarily attributable to a decrease in online marketing spend. This reflects both the continued execution against our plan to move from subscriber acquisition marketing to activation and our commitment to improving efficiency in our core operations. For the nine months ended September 30, 2012, marketing expense as a percentage of revenue for the International segment was 21.0%, as compared to 59.7% for the nine months ended September 30, 2011. The decrease in marketing expense as a percentage of revenue is due to efficiencies we have seen from the investments we made in 2011 and 2012.

#### Selling, General and Administrative

Our selling general and administrative expense was \$871.5 million for the nine months ended September 30, 2012, as compared to \$565.7 million for the nine months ended September 30, 2011. The increases in selling, general and administrative expense were primarily related to the build out of our global sales force, investments in technology and investments in our corporate infrastructure necessary to support our current and anticipated growth. For the nine months ended September 30, 2012, selling, general and administrative expense as a percentage of revenue was 51.4%, as compared to 50.6% for the nine months ended September 30, 2011. Selling, general and administrative expense as a percentage of revenue has increased from the comparative period of the prior year as we built out our sales force through 2011 due to large growth in the period. We continue to refine our sales management and selling processes and additionally we are introducing new products and services to facilitate deeper customer and merchant partner engagement.

For the nine months ended September 30, 2012, our selling, general and administrative expense increased by \$305.8 million to \$871.5 million, an increase of 54.1% from the comparable period of the prior year. The increase in selling, general and administrative expense for the nine months ended September 30, 2012, as compared to the nine months

ended September 30, 2011 was due to increases in wages and benefits, consulting and professional fees, depreciation, rent expense and system maintenance

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expenses. Additionally, selling, general and administrative expenses as a percentage of revenue for our International segment were significantly higher than for our North America segment. This was primarily a result of the build out of our international operations, including our sales force, to support anticipated future revenue growth.

Wages and benefits (excluding stock based compensation) within selling, general and administrative expenses increased by \$175.5 million to \$482.1 million for the nine months ended September 30, 2012, as we continued to add sales force and administrative staff to support our business. Stock based compensation costs within selling, general and administrative expenses increased to \$73.2 million for the nine months ended September 30, 2012 from \$59.4 million for the nine months ended September 30, 2011. Our consulting and professional fees increased in the first nine months of 2012 primarily related to higher legal and accounting costs. Depreciation and rent expense increased \$30.7 million for the period primarily due to our expansion during 2011 and the first nine months of 2012. There was a \$27.3 million increase in system maintenance in the first nine months of 2012 as a result of investments in technology and our corporate infrastructure.

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

For the nine months ended September 30, 2012, we incurred net acquisition-related expenses of \$0.7 million, representing changes in the fair value of contingent consideration liabilities from business acquisitions. See Note 10 "Fair Value Measurements."

#### (Loss) Income from Operations

We earned \$111.6 million of income from operations for the nine months ended September 30, 2012, as compared to \$218.4 million of loss from operations for the nine months ended September 30, 2011. The change to income from operations from loss from operations in the comparable period of the prior year is primarily due to increased revenue and reduced marketing expenses. We recognized income from operations for the nine months ended September 30, 2012 as the Company was able to continue to generate revenue from subscribers and customers acquired in prior periods from marketing, sales and infrastructure investments. The favorable impact on income from operations from year-over-year changes in foreign exchange rates for the nine months ended September 30, 2012 was \$0.8 million.

#### North America

Segment operating income in our North America segment increased by \$136.1 million to \$122.7 million of segment operating income for the nine months ended September 30, 2012, as compared to \$13.4 million of segment operating loss for the nine months ended September 30, 2011. The increase in the segment operating income was primarily attributable to our expansion within North America and increased performance from our Goods category. We invested heavily in marketing, sales and infrastructure in prior periods related to the build out of our operations. These investments have contributed to our segment operating income reported in the current period.

#### International

Segment operating income in our International segment increased by \$216.1 million to \$67.3 million of segment operating income for the nine months ended September 30, 2012, as compared to \$148.8 million of segment operating loss for the nine months ended September 30, 2011. The International segment operating loss in the nine months ended September 30, 2011 was driven by our rapid expansion in the segment during that year. In the nine months ended September 30, 2012, we have generated income as result of efficiencies we have seen from the investments we made in 2011.

#### Interest and Other Income, net

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

Our interest and other income, net was \$54.4 million for the nine months ended September 30, 2012, as compared to \$9.8 million for the nine months ended September 30, 2011. The increase for the period was primarily due to the \$56.0 million pre-tax gain recognized as a result of the E-Commerce transaction. See Note 4 "Investments in Equity Interests." The increase was partially offset by foreign currency losses incurred.

#### Provision for Income Taxes

We recorded income tax expense of \$128.3 million for the nine months ended September 30, 2012, as compared to \$9.5



million for the nine months ended September 30, 2011.

The effective tax rate was 81.6% for the nine months ended September 30, 2012, as compared to (4.2)% for the nine months ended September 30, 2011. The effective tax rates for the nine months ended September 30, 2012 and 2011 reflect foreign losses in certain jurisdictions, which we were not able to benefit due to the valuation allowances and the amortization expense of taxes paid from the 2011 taxable sale of certain intellectual property rights within the Company's international structure.

Our estimated annual effective tax rate is revised quarterly and is based upon a number of significant estimates and judgments, including the Company's forecasted annual income (loss) before income taxes in each tax jurisdiction in which we operate. Our effective tax rate could vary significantly between quarters and could be adversely affected if actual results vary from forecasted results. This could occur if we have greater earnings in countries with higher statutory rates or if we have additional losses in countries where we cannot recognize a tax benefit.

We periodically assess the assumptions used in valuing our deferred tax assets. Changes in these assumptions as well as changes in the relevant tax laws, regulations, or accounting principles can also cause variability in our effective tax rate.

Results of Operations

Comparison of the three months ended September 30, 2011 and 2012:

	Three Months Ended September 30,	
	2011	2012
	(in thousands)	
Revenue:		
Third party and other revenue	\$422,989	\$423,564
Direct revenue	7,172	144,988
Total revenue	430,161	568,552
Cost of revenue:		
Third party and other revenue	62,339	54,173
Direct revenue	5,707	127,613
Total cost of revenue	68,046	181,786
Operating expenses:		
Marketing	170,349	70,919
Selling, general and administrative	196,798	287,978
Acquisition-related (benefit) expense, net	(4,793	) 2,431
Total operating expenses	362,354	361,328
(Loss) income from operations	(239	) 25,438
Interest and other income, net	8,269	617
Loss on equity method investees	(11,211	) (138
(Loss) income before provision for income taxes	(3,181	) 25,917
Provision for income taxes	11,235	26,857
Net loss	(14,416	) (940
Less: Net loss (income) attributable to noncontrolling interests	3,843	(706
Net loss attributable to Groupon, Inc.	(10,573	) (1,646
Adjustment of redeemable noncontrolling interests to redemption value	(43,656	) (1,333
Net loss attributable to common stockholders	\$(54,229	) \$(2,979

Impact of stock-based compensation on cost of revenue and operating expenses

Cost of revenue and operating expenses with and without stock-based compensation are follows:

	Three Months Ended September 30,					
	2011		2012			
	As reported	Stock-based compensation	Net	As reported	Stock-based compensation	Net
	(in thousands)					
Total cost of revenue	\$68,046	\$ (56	) \$67,990	\$181,786	\$ (858	) \$180,928
Operating expenses:						
Marketing	\$170,349	\$ (53	) \$170,296	\$70,919	\$ (739	) \$70,180
Selling, general and administrative	196,798	(3,231	) 193,567	287,978	(21,022	) 266,956
Acquisition-related (benefit) expense, net	(4,793	) —	(4,793	) 2,431	—	2,431
Total operating expenses	\$362,354	\$ (3,284	) \$359,070	\$361,328	\$ (21,761	) \$339,567

## Foreign exchange rate neutral operating results

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

	Three Months Ended September 30,		
	At Avg.	Exchange	
	Q3 2011	Rate	As
	Rates <sup>(1)</sup>	Effect <sup>(2)</sup>	Reported
	(in thousands)		
Revenue	\$594,551	\$(25,999	) \$568,552
Costs and expenses	571,962	(28,848	) 543,114
Income from operations	\$22,589	\$2,849	\$25,438

(1) Represents the outcome 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 increased to \$1,218.3 million for the three months ended September 30, 2012 from \$1,157.2 million for the three months ended September 30, 2011, reflecting a growth rate of 5.3%. Our gross billings increased during this period as a result of the continued expansion of our business, including in particular our Goods category, as well as our traditional local deals, travel and entertainment categories, partially offset by a decline in gross billings in our European operations.

## Revenue

We generate revenue from third party revenue deals, direct revenue deals and other transactions. Revenue for each of the periods was as follows:

	Three Months Ended September 30,	
	2011	2012
	(in thousands)	
Revenue:		
Third party revenue	\$422,123	\$417,249
Direct revenue	7,172	144,988
Other revenue	866	6,315
Total revenue	\$430,161	\$568,552

Revenue increased by \$138.4 million to \$568.6 million for the three months ended September 30, 2012, as compared to the three months ended September 30, 2011. The unfavorable impact on revenue from year-over-year changes in foreign exchange rates for the three months ended September 30, 2012 was \$26.0 million.

## Third Party Revenue

Third party revenue decreased by \$4.9 million to \$417.2 million for the three months ended September 30, 2012, as compared to the three months ended September 30, 2011. The decrease in third party revenue is due to the increased focus on promoting deals in our Goods sales category, which are primarily classified within direct revenue.

We recognized a one-time increase of \$18.5 million to third party revenue from unredeemed Groupons, net of applicable taxes and customer refunds, during the three months ended September 30, 2012. This one-time increase represents the cumulative impact of deals in Germany for which, based on a recent tax ruling, our obligation to the merchant would have ended prior to the beginning of the current quarter. For merchant payment arrangements that are structured under a redemption payment model, we retain all of the gross billings from unredeemed Groupons. We record revenue from unredeemed Groupons and derecognize the related accrued merchant payable when our legal obligation to the merchant expires, which we believe is



shortly after deal expiration in most jurisdictions for which use a pay on redemption model. However, we have 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 will require us to remit value-added taxes (VAT) earlier on unredeemed Groupons, we began recognizing revenue from unredeemed Groupons in Germany shortly after deal expiration in the current period, consistent with most other jurisdictions in which we pay on redemption.

#### Direct Revenue

Direct revenue was \$145.0 million for the three months ended September 30, 2012, as compared to \$7.2 million for the three months ended September 30, 2011, due to the launch of Goods in the second half of 2011. We expect direct revenue deals to continue to grow, both overall and as a percentage of total revenue, through the continued growth of our Goods category. In addition, we expect that any growth in direct revenue will result in a smaller percentage increase in income from operations than third party revenue because direct revenue includes the entire amount of gross billings, excluding taxes and net of estimated refunds, while third party revenue, which is net of the merchant's share of the transaction price.

#### Other Revenue

Other revenue increased by \$5.4 million to \$6.3 million for the three months ended September 30, 2012, as compared to the three months ended September 30, 2011. Other revenue is primarily comprised of non-merchant advertising, which has increased with growth of the business.

#### Revenue by Segment

Revenue by segment for each of the periods was as follows:

	Three Months Ended September 30,				
	2011	% of total	2012	% of total	
	(dollars in thousands)				
North America:					
Third party and other revenue	\$161,525	37.5	% \$158,545	27.9	%
Direct revenue	—	—	133,058	23.4	
Total segment revenue	\$161,525	37.5	% \$291,603	51.3	%
International:					
Third party and other revenue	\$261,464	60.8	% \$265,019	46.6	%
Direct revenue	7,172	1.7	11,930	2.1	
Total segment revenue	\$268,636	62.5	% \$276,949	48.7	%
Total revenue	\$430,161	100.0	% \$568,552	100.0	%

#### North America

North America segment revenue increased by \$130.1 million to \$291.6 million for the three months ended September 30, 2012, as compared to the three months ended September 30, 2011. The increase in revenue is reflective of strong growth in our direct revenue. Direct revenue, which is recorded on a gross basis, is derived primarily from selling products through the Company's Goods category where the Company is the merchant of record.

#### International

International segment revenue increased by \$8.3 million to \$276.9 million for the three months ended September 30, 2012, as compared to the three months ended September 30, 2011. In the three months ended September 30, 2012, for the first time we recognized revenue from unredeemed Groupons in Germany, including the \$18.5 million one-time increase, which contributed to our revenue growth during this period. The International segment was adversely affected by weakness in the Company's European operations, which we believe did not perform as well as our North American operations due in part to weakness in the European economy and to slower adoption of technology, such as deal personalization, in our European markets, which comprise a majority of our International segment.

## Cost of Revenue

Cost of revenue on third party, other and direct revenue deals was as follows:

	Three Months Ended September 30,	
	2011	2012
	(in thousands)	
Cost of revenue:		
Third party revenue	\$62,301	\$54,123
Direct revenue	5,707	127,613
Other revenue	38	50
Total cost of revenue	\$68,046	\$181,786

Cost of revenue is comprised of direct and indirect costs incurred to generate revenue. For direct revenue transactions, cost of revenue includes the purchase price of consumer products, warehousing, shipping costs, and inventory markdowns. For third party revenue transactions, cost of revenue includes estimated refunds for which the merchant's share is not recoverable. Other costs incurred to generate revenue, which include credit card processing fees, editorial costs, certain technology costs, web hosting, and other processing fees, are allocated to cost of third party revenue, direct revenue, and other revenue in proportion to relative gross billings during the period. As a result of the significant growth we have experienced in recent periods from direct revenue transactions relative to our total gross billings, an increasing share of those allocable costs have been allocated to cost of direct revenue in our condensed consolidated statement of operations.

Cost of revenue increased by \$113.7 million to \$181.8 million for the three months ended September 30, 2012, as compared to the three months ended September 30, 2011, and was primarily related to the growth in direct revenue. The increase in cost of revenue was primarily driven by the cost of consumer products and associated shipping costs related to direct revenue deals, which were not significant during the three months ended September 30, 2011, partially offset by a decrease in refunds for which the merchant's share is not recoverable related to our third party revenue deals.

## Cost of revenue by segment

Cost of revenue by segment for each of the periods was as follows:

	Three Months Ended September 30,				
	2011	% of total	2012	% of total	
	(dollars in thousands)				
North America:					
Cost of third party and other revenue	\$31,316	46.0	% \$15,475	8.5	%
Cost of direct revenue	—	—	115,560	63.6	
Total segment cost of revenue	\$31,316	46.0	% \$131,035	72.1	%
International:					
Cost of third party and other revenue	\$31,023	45.6	% \$38,698	21.3	%
Cost of direct revenue	5,707	8.4	12,053	6.6	
Total segment cost of revenue	\$36,730	54.0	% \$50,751	27.9	%
Total cost of revenue	\$68,046	100.0	% \$181,786	100.0	%

## North America

North America segment cost of revenue increased by \$99.7 million to \$131.0 million for the three months ended September 30, 2012, as compared to the three months ended September 30, 2011. The increase was primarily driven by the cost of consumer products related to direct revenue deals, partially offset by a decrease in refunds for which the merchant's share is not recoverable related to our third party revenue deals.

## International

International segment cost of revenue increased by \$14.0 million to \$50.8 million for the three months ended September 30, 2012, as compared to the three months ended September 30, 2011. We have continued to grow our business related to both our third party and direct revenue deals in existing markets outside of North America. As a result of this growth, cost of revenue increased for the period.

## Marketing

Marketing expense was \$70.9 million for the three months ended September 30, 2012, as compared to \$170.3 million for the three months ended September 30, 2011. Marketing expense by segment as a percentage of segment revenue for each of the periods was as follows:

	Three Months Ended September 30,		2012	% of Segment Revenue	
	2011	% of Segment Revenue			% of Segment Revenue
	(dollars in thousands)				
North America	\$55,873	34.6	% \$20,491	7.0	%
International	114,476	42.6	% 50,428	18.2	%
Marketing	\$170,349	39.6	% \$70,919	12.5	%

We evaluate our marketing expense as a percentage of revenue because it gives us an indication of how well our marketing spend is driving the volume of transactions. We invested heavily in customer acquisition in the three months ended September 30, 2011, specifically in our International segment. In 2010, we began our international expansion and subsequently made significant marketing investments in our International segment to accelerate growth and establish our presence in new markets. Therefore, marketing as a percentage of revenue for three months ended September 30, 2011 is higher than the comparable period in 2012. Marketing expense as a percentage of revenue for the three months ended September 30, 2012 has decreased due to efficiencies we have realized from successfully building a subscriber base. We have begun to shift our marketing spend from subscriber acquisition marketing to activation, and as a result, overall marketing expense decreased for the three months ended September 30, 2012.

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

	Three Months Ended September 30,		2012	% of total	
	2011	% of total			% of total
	(dollars in thousands)				
North America	\$55,873	32.8	% \$20,491	28.9	%
International	114,476	67.2	50,428	71.1	
Marketing	\$170,349	100.0	% \$70,919	100.0	%

Our marketing expense decreased by \$99.4 million to \$70.9 million for the three months ended September 30, 2012, as compared to the three months ended September 30, 2011. For the three months ended September 30, 2011, subscriber acquisition still comprised the primary portion of our marketing spend. This was particularly true in the international markets as we were still in the early phases of building our customer base in those markets. As those markets have developed over the last twelve months, we have begun to shift our marketing spend from subscriber acquisition marketing to activation, and as a result, overall marketing expense decreased for the three months ended September 30, 2012.

#### North America

North America segment marketing expense decreased to \$20.5 million for the three months ended September 30, 2012, as compared to \$55.9 million the three months ended September 30, 2011. The significant decrease was primarily attributable to a decrease in online marketing spend. This reflects both the shift in focus from subscriber acquisition marketing to activation and improving efficiency in our core operations. For three months ended September 30, 2012, marketing expense as a percentage of revenue for the North America segment was 7.0%, as compared to 34.6% for the three months ended September 30, 2011. The decrease in marketing expenses as a percentage of revenue is due to results we have seen from the investments we made in 2011 and 2012.

#### International

International segment marketing expense decreased to \$50.4 million for the three months ended September 30, 2012, as compared to \$114.5 million for the three months ended September 30, 2011. The significant decrease was primarily attributable to a decrease in online marketing spend. This reflects both the move from subscriber acquisition marketing to activation and improving efficiency in our core operations. For the three months ended September 30, 2012, marketing expense as a percentage of revenue for the International segment was 18.2%, as compared to 42.6% for the three months ended September 30, 2011. The decrease in marketing expenses as a percentage of revenue is due to efficiencies we have seen from the investments we made in 2011 and 2012.

#### Selling, General and Administrative

Our selling, general and administrative expense was \$288.0 million for the three months ended September 30, 2012, as compared to \$196.8 million for the three months ended September 30, 2011. The increases in selling, general and administrative expense were principally related to the build out of our global sales force, investments in technology and investments in our corporate infrastructure necessary to support our current and anticipated growth. For the three months ended September 30, 2012, selling, general and administrative expense as a percentage of revenue was 50.7%, as compared to 45.7% for the three months ended September 30, 2011. Selling, general and administrative expense as a percentage of revenue has increased from the comparative period of the prior year as we built out our sales force through 2011 due to large growth in the period. We continue to refine our sales management and selling processes and additionally we are introducing new products and services in order to facilitate deeper customer and merchant partner engagement. Over time, as our operations develop in a greater percentage of our markets, we expect that our selling, general and administrative expense will decrease as a percentage of revenue.

For the three months ended September 30, 2012, our selling, general and administrative expense increased by \$91.2 million to \$288.0 million, an increase of 46.3% from the same period of the prior year. The increase in selling, general and administrative expense for the three months ended September 30, 2012, as compared to the three months ended September 30, 2011 was primarily due to increases in wages and benefits, consulting and professional fees, depreciation and system maintenance expenses. Additionally, selling, general and administrative expenses as a percentage of revenue for our International segment were significantly higher than for our North America segment. This was primarily a result of the build out of our international operations, including our sales force, to support anticipated future revenue growth.

Wages and benefits (excluding stock based compensation) within selling, general and administrative expenses increased by \$33.4 million to \$157.9 million for the three months ended September 30, 2012 as we continued to add sales force and administrative staff to support our business. Stock based compensation costs within selling, general and administrative expense increased to \$21.0 million for the three months ended September 30, 2012 from \$3.2 million for the three months ended September 30, 2011. Our consulting and professional fees increased in the third quarter of 2012 primarily related to higher accounting costs. Depreciation and rent expense increased \$9.1 million for the period primarily due to our expansion during 2011 and the three months ended September 30, 2012. There was a \$13.2 million increase in system maintenance for the third quarter of 2012 as compared to the prior period as a result of investments in technology and our corporate infrastructure.

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

For the three months ended September 30, 2012, we incurred net acquisition-related expenses of \$2.4 million, representing changes in the fair value of contingent consideration liabilities from business acquisitions. See Note 10

"Fair Value Measurements."

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#### (Loss) Income from Operations

We earned \$25.4 million of income from operations for the three months ended September 30, 2012, as compared to \$0.2 million of loss from operations for the three months ended September 30, 2011. The change to income from operations from loss from operations for the comparable period of the prior year is primarily due to increased revenue and decreased marketing expenses. We recognized income from operations for the three months ended September 30, 2012 as the Company was able to continue to generate revenue from subscribers and customers acquired in prior periods from marketing, sales and infrastructure investments. In addition, we recognized incremental revenue of \$18.5 million in the period from unredeemed Groupons in Germany. The favorable impact on operating income from operations from year-over-year changes in foreign exchange rates for the three months ended September 30, 2012 was \$2.8 million.

#### North America

Segment operating income in our North America segment increased by \$20.3 million to \$39.1 million for the three months ended September 30, 2012, as compared to \$18.8 million for the three months ended September 30, 2011. The increase in segment operating income was primarily attributable to our expansion within North America and increased performance of our Goods category. We invested heavily in marketing, sales and infrastructure in prior periods related to the build out of our operations., and these investments have contributed to our segment operating income reported in the current period.

#### International

Segment operating income in our International segment increased by \$31.9 million to \$11.4 million of segment operating income for the three months ended September 30, 2012, as compared to \$20.5 million of segment operating loss for the three months ended September 30, 2011. The International segment operating loss in the three months ended September 30, 2011 was driven by our rapid expansion throughout 2011. In the three months ended September 30, 2012, we have generated income as a result of the efficiencies we have seen from the investments we made in 2011. In addition, we recognized revenue from unredeemed Groupons in Germany for the first time during the three months ended September 30, 2012, including the \$18.5 million one-time increase.

#### Interest and Other Income, net

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

Our interest and other income, net, was \$0.6 million for the three months ended September 30, 2012, as compared to \$8.3 million for the three months ended September 30, 2011.

#### Provision for Income Taxes

We recorded income tax expense of \$26.9 million for the three months ended September 30, 2012, as compared to \$11.2 million for the three months ended September 30, 2011.

The effective tax rate was 103.6% for the three months ended September 30, 2012, as compared to (353.2)% for the three months ended September 30, 2011. The effective tax rates for the three months ended September 30, 2012 and 2011 reflect foreign losses in certain jurisdictions, which we were not able to benefit due to the valuation allowances, and the current year amortization expense of taxes paid from the 2011 taxable sale of certain intellectual property rights within the Company's international structure.

Our estimated annual effective tax rate is revised quarterly and is based upon a number of significant estimates and judgments, including the Company's forecasted annual income (loss) before income taxes in each tax jurisdiction in which we operate. Our effective tax rate could vary significantly between quarters and could be adversely affected if actual results vary from forecasted results. This could occur if we have greater earnings in countries with higher statutory rates or if we have additional losses in countries where we cannot recognize a tax benefit.

We periodically assess the assumptions used in valuing the Company's deferred tax assets. Changes in these assumptions as well as changes in the relevant tax laws, regulations, or accounting principles can also cause variability in our effective tax rate.

### Non-GAAP Financial Measures

We use operating (loss) income excluding stock-based compensation and acquisition-related expense (benefit) and free cash flow as key non-GAAP financial measures. Operating (loss) income excluding stock-based compensation and acquisition-related expense (benefit) and free cash flow are used in addition to and in conjunction with results presented in accordance with U.S. GAAP and should not be relied upon to the exclusion of U.S. GAAP financial measures.

Operating (loss) income excluding stock-based compensation and acquisition-related expense (benefit). Operating (loss) income excluding stock-based compensation and acquisition-related expense (benefit) is the consolidated operating (loss) income of our two segments, North America and International, excluding acquisition-related expense (benefit), net and stock-based compensation expense. Acquisition-related expense (benefit), net, which represents changes in the fair value of contingent consideration obligations relating to acquisitions, are excluded because the timing and nature of these amounts is unpredictable and we believe that it is not meaningful to our core operating results. Stock-based compensation is excluded because it is primarily a non-cash item. We use operating (loss) income excluding stock-based compensation and acquisition-related expense (benefit) to allocate resources and evaluate performance internally.

We consider operating (loss) income excluding stock-based compensation and acquisition-related expense (benefit) to be an important measure for management to evaluate the performance of our business as it excludes changes in the fair value of contingent consideration related to business combinations and stock compensation expenses. We believe it is important to view operating (loss) income excluding stock-based compensation and acquisition-related expense (benefit) as a complement to our entire condensed consolidated statements of operations. When evaluating our performance, you should consider operating (loss) income excluding stock-based compensation and acquisition-related expense (benefit) as a complement to other financial performance measures, including various cash flow metrics, net income (loss) and our other U.S. GAAP results.

The following is a reconciliation of operating (loss) income excluding stock-based compensation and acquisition-related expense (benefit) to the most comparable U.S. GAAP measure, “(Loss) income from operations,” for the three and nine months ended September 30, 2011 and 2012.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2012	2011	2012
	(in thousands)		(in thousands)	
(Loss) income from operations	\$ (239	) \$25,438	\$ (218,414	) \$111,562
Adjustments:				
Stock-based compensation <sup>(1)</sup>	3,340	22,619	60,922	77,706
Acquisition-related (benefit) expense, net <sup>(2)</sup>	(4,793	) 2,431	(4,793	) 744
Total adjustments	(1,453	) 25,050	56,129	78,450
Operating (loss) income excluding stock-based compensation and acquisition-related expense (benefit)	\$ (1,692	) \$50,488	\$ (162,285	) \$190,012

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

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

Free cash flow. Free cash flow is "Net cash provided by operating activities" less "Purchases of property and equipment and software capitalization." We use free cash flow, and ratios based on it, to conduct and evaluate our business because, although it is similar to cash flow from operations, we believe it typically will present a measure of cash flows more aligned with an analysis of ongoing business operations as purchases of fixed assets, software developed for internal use and website development costs are a necessary component of ongoing operations.

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

entire condensed consolidated statements of cash flows.

The following is a reconciliation of free cash flow to the most comparable GAAP measure, "Net cash provided by operating activities," for the nine months ended September 30, 2011 and 2012:

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	Nine Months Ended September 30,	
	2011	2012
	(in thousands)	
Net cash provided by operating activities	\$ 121,370	\$ 201,117
Purchases of property and equipment and software capitalization	(29,825	) (55,802
Free cash flow	\$ 91,545	\$ 145,315
Net cash used in investing activities	\$(112,526	) \$(142,226
Net cash provided in financing activities	\$ 120,292	\$ 18,590

#### Liquidity and Capital Resources

As of September 30, 2012, we had \$1,201.0 million in cash and cash equivalents, which primarily consisted of cash and money market accounts.

Since our inception, we have funded our working capital requirements and expansion primarily with cash flows from operations and through public and private sales of common and preferred stock, which have yielded net proceeds of approximately \$1,857.1 million. We generated positive cash flow from operations for the nine months ended September 30, 2011 and 2012, and we expect cash flow from operations to remain positive in the foreseeable future. We generally use this cash flow to fund our operations, make additional acquisitions, purchase capital expenditures and meet our other cash operating needs. Cash flow from operations was \$121.4 million and \$201.1 million for the nine months ended September 30, 2011 and 2012, respectively.

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

#### Anticipated Uses of Cash

Our priority in 2012 is to continue to aggressively invest in the business by making additional investments in technology and innovations and by shifting our marketing spend from subscriber acquisition to customer activation in both our North America and International segments. In addition, we may expand our sales force and plan to continue to acquire or make strategic investments in complementary businesses that add to our customer base or provide incremental technology or talent or both.

In order to support our overall global expansion, we expect to make significant investments in our corporate facilities and technology development during 2012. Through the date of this filing, we acquired ten businesses for an aggregate purchase price of \$52.8 million, of which \$44.8 million, net of cash acquired, was paid for in cash, and we expect to continue to use cash to make strategic acquisitions.

We currently plan to fund these investments in our North America and International segments with our available cash and cash equivalents balance and cash flows generated from the respective operations during this year. We do not intend to pay dividends in the foreseeable future.

## Cash Flow

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

	Nine Months Ended September 30,	
	2011	2012
	(in thousands)	
Cash provided by (used in):		
Operating activities	\$ 121,370	\$ 201,117
Investing activities	(112,526	) (142,226
Financing activities	120,292	18,590
Effect of changes in exchange rates on cash and cash equivalents	(4,034	) 595
Net increase in cash and cash equivalents	\$ 125,102	\$ 78,076

## Cash Provided By Operating Activities

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

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

Redemption payment model - Under our redemption merchant partner payment model, we collect payments at the time our customers purchase Groupons and make payments to our merchant partners at a subsequent date. Using this payment model, merchant partners are not paid until the customer redeems the Groupon that has been purchased. If a customer does not redeem the Groupon under this payment model, we retain all of the gross billings from the unredeemed Groupon. The redemption model generally improves our overall cash flow because we do not pay our merchant partners until the customer redeems the Groupon.

Fixed payment model - Under our fixed merchant partner payment model, we pay our merchant partners in installments over a period of generally thirty days for direct revenue deals and sixty days for third party revenue deals. Under this payment model, merchant partners are paid regardless of whether the Groupon is redeemed.

As a result of these payment models, we experience swings in merchant payables 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 the current period we have offered our merchant partners more favorable and accelerated payment terms, which has reduced our overall cash flow benefits from the timing differences between when we receive cash from customers and remit payments to our merchant partners. We expect that trend to continue in the future.

For the nine months ended September 30, 2012, our net cash provided by operating activities was \$201.1 million, which consisted of \$29.0 million of net income, a \$116.2 million net increase related to changes in working capital and other assets and liabilities and a \$55.9 million net increase for certain non-cash items and items that do not relate to our operating activities. The net adjustments for non-cash and non-operating items include \$77.7 million of stock-based compensation and \$39.8 million of depreciation and amortization expense, less \$56.0 million for the gain recognized on the E-Commerce transaction.

The increase in cash resulting from changes in working capital activities primarily consisted of a \$68.0 million change in accrued expenses and other current liabilities and a \$53.9 million change in our merchant payables, due to the continued growth in the business. Costs included in accrued expenses and other current liabilities are primarily online marketing costs incurred to acquire and retain customers, operating expenses such as payroll and benefits and costs associated with customer loyalty and reward programs. Changes 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. In addition, there was an increase in cash related to changes in accounts payable of \$13.2 million due to general business growth. The increase in cash flows were offset by \$24.9 million related to the changes in prepaid expenses and other

assets as a result of business growth and a change in accounts receivable of \$2.2 million.

#### Cash Used In Investing Activities

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

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

#### Cash Used in Financing Activities

For the nine months ended September 30, 2012, our net cash provided by financing activities of \$18.6 million was driven primarily by the excess tax benefit on stock-based compensation of \$24.6 million.

#### Contractual Obligations and Commitments

We have recorded \$0 and \$10.2 million of current liabilities for unrecognized tax benefits and \$55.1 million and \$56.2 million of noncurrent liabilities for unrecognized tax benefits as of December 31, 2011 and September 30, 2012, respectively. We cannot make a reasonable estimate of the period of cash settlement for the tax positions classified as noncurrent liabilities. Our other commitments as of September 30, 2012 did not materially change from the amounts set forth in our 2011 Annual Report on Form 10-K.

#### Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of September 30, 2012.

#### Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our Condensed Consolidated Financial Statements, which have been prepared using accounting principles generally accepted in the United States of America. Our significant accounting policies are discussed in Note 1, "Summary of Significant Accounting Policies," in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the U.S. Securities and Exchange Commission ("SEC") on March 30, 2012. In Note 1 to the accompanying unaudited Condensed Consolidated Financial Statements in Item 1 of this Quarterly Report on Form 10-Q, we have identified all updated accounting policy disclosures for the period.

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

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

#### Revenue

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 collectability is reasonably assured.

#### Third party and other revenue recognition

The Company generates third party revenue, where it acts as the third party marketing agent, by offering goods and services provided by third party merchant partners at a discount through its local commerce marketplace that connects merchants to consumers. The Company's marketplace includes deals offered through a variety of categories including: Local, Deals, National, Now!, Goods, Getaways and Live. Customers purchase Groupons from the Company and redeem them with the Company's merchant partners.

The revenue recognition criteria are met when the number of customers who purchase a given deal exceeds the predetermined threshold (where applicable), the Groupon has been electronically delivered to the purchaser and a listing of Groupons sold has been made available to the merchant. At that time, the Company's obligations to the merchant, for which it is serving as 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 the listing of Groupons sold previously provided to the merchant, are inconsequential or perfunctory. The Company records as revenue the net amount it retains from the sale of Groupons after paying an agreed upon percentage of the purchase price to the featured merchant, excluding any applicable taxes 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, merchant partners are not paid until the customer redeems the Groupon that has been purchased. If a customer does not redeem the Groupon under this payment model, we retain all 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, we have 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 recent German tax ruling, which will require 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 includes an \$18.5 million one-time increase to third party revenue, which represents the cumulative impact of deals in Germany for which, based on the recent tax ruling, the Company's obligation to the merchant would have ended prior to the current quarterly period (i.e., prior to July 1, 2012).

#### 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 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 inventory risk and has latitude in establishing prices. Accordingly, direct revenue is recorded on a gross basis. 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 been immaterial. However, in future periods we may begin to increase the levels of inventory on hand for our Goods category. For Goods transactions where the Company is performing a service by acting as a marketing agent of the merchant responsible for fulfillment, revenue is recorded on a net basis.

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



## 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 refund 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 Company practices in response to refund experience or economic trends that might impact customer demand. 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 in accrued expenses on the condensed consolidated balance sheets. The cost of refunds for third party revenue where the amount payable to the merchant is recoverable and for all direct revenue is presented in the condensed consolidated statements of operations as a reduction to revenue. The cost of refunds for third party revenue when there is no amount recoverable from the merchant is presented as a cost of revenue.

The Company assesses the trends that could affect its estimates and makes changes to the refund reserve quarterly when it appears refunds may differ from our 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 condensed consolidated financial statements.

## Acquisitions and the Recoverability of Goodwill and Long-Lived Intangible Assets

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

In determining the fair value of assets acquired and liabilities assumed in business combinations and for determining fair values in impairment tests, we use one of the following recognized valuation methods: the income approach (including discounted cash flows), the market approach and the cost approach. Our significant estimates in those fair value measurements include identifying business factors such as size, growth, profitability, risk and return on investment and assessing comparable revenue and operating income multiples. Further, when measuring fair value based on discounted cash flows, we make assumptions about risk-adjusted discount rates, future price levels, rates of increase in revenues, cost of revenues, and operating expenses, weighted average cost of capital, rates of long-term growth, and income tax rates. Valuations are performed by management or independent valuation specialists under management's supervision, where appropriate. We believe that the estimated fair values assigned to the assets acquired and liabilities assumed and for determining fair value in 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 four reporting units - North America, EMEA, APAC and LATAM, at the date the goodwill is initially recorded. Once goodwill has been allocated to the reporting units, it no longer retains its identification with a particular acquisition and becomes identified with the reporting unit in its entirety. Accordingly, the fair value of the reporting unit as a whole is available to support the recoverability of its goodwill.

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

of the reporting unit determined in step one over the fair value of its net assets and identifiable intangible assets as if the reporting unit had been acquired. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount

equal to that excess.

For reporting units with a negative book value (i.e., excess of liabilities over assets), we evaluate qualitative factors to determine whether it is necessary to perform the second step of the goodwill impairment test. As of October 1, 2012, liabilities exceeded assets for our EMEA and LATAM reporting units. Due to the significant decline in our overall market capitalization, the challenging economic conditions in Europe (applicable to our EMEA reporting unit), and other qualitative factors, we have determined that the second step should be performed in connection with the October 1, 2012 goodwill impairment tests for our EMEA and LATAM reporting units. The goodwill allocated to our EMEA and LATAM reporting units was \$104.4 million and \$11.2 million, respectively, as of the testing date. The goodwill allocated to the EMEA reporting unit primarily arose from our May 2010 acquisition of CityDeal Europe GmbH (CityDeal), whose collective buying business had been launched in January 2010. We are currently in the process of finalizing our October 1, 2012 annual goodwill impairment test but we do not currently anticipate that goodwill impairment will be recognized for any of our reporting units in connection with that test. As of October 1, 2012, our market capitalization of \$3.0 billion substantially exceeded our consolidated net book value of \$0.8 billion.

Accounting guidance for the impairment or disposal of long-lived assets, other than goodwill, also requires that intangible assets with finite lives be amortized over their respective estimated useful lives and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Conditions that would necessitate an impairment assessment include a significant decline in the observable market value of an asset, a significant change in the extent or manner in which an asset is used, or any other significant adverse change that would indicate that the carrying amount of an asset or group of assets may not be recoverable. Amortization is computed using the straight-line method over the estimated useful lives of the respective intangible assets, generally from one to five years.

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 intangible assets that would require a non-cash charge to the condensed consolidated statements of operations and may have a material effect on our financial condition and operating results.

#### Income Taxes

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in evaluating our tax positions and determining our provision for income taxes. 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.

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) for which that determination is made.

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, U.S. GAAP requires that 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 \$698.7 million and \$672.5 million at December 31, 2011 and September 30, 2012, respectively. A cumulative loss in the most recent three-year period is a significant piece of negative evidence that is difficult to overcome when assessing the realizability of deferred tax assets.

Consequently, we have only recognized deferred tax assets to the extent that they will be realizable either through future reversals of existing taxable temporary differences or through taxable income in carryback years for the applicable jurisdictions. Due to our cumulative losses, we have recognized valuation allowances against deferred tax assets that are not supported by those objective sources of taxable income. As of December 31, 2011 and September 30, 2012, we have not recognized deferred tax assets without a valuation allowance when the only sources of taxable income are projected future earnings or tax planning strategies. For certain jurisdictions where applicable tax law imposes limitations that may prevent us from realizing our deferred tax assets through the scheduled reversal of taxable temporary differences, we have recorded valuation allowances in excess of the net deferred tax asset balances. A change in the assumptions used to assess the realizability of our deferred tax assets could cause an increase or decrease to the valuation allowance and, consequently, the Company's effective tax rate, which could materially impact our results of operations.

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

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

#### Foreign Currency Exchange Risk

We transact business in various foreign currencies other than the U.S. dollar, principally the euro, British pound sterling, Japanese yen and Brazilian real, which exposes us to foreign currency risk. For the nine months ended September 30, 2012, we derived approximately 53.4% of our revenue from international customers, and we expect the percentage of revenue derived from outside the United States to increase in future periods as we continue to expand globally. Revenue and related expenses generated from our international operations are denominated in the functional currencies of the corresponding country. The functional currency of our subsidiaries that either operate or support these markets is generally the same as the corresponding local currency. The results of operations of, and certain of our inter-company 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 inter-company balances. We assess our market risk based on changes in foreign currency exchange rates utilizing a sensitivity analysis that measures the potential impact on working capital based on a hypothetical 10% change (increase and decrease) in currency rates. We use a current market pricing model to assess the changes in the value of the U.S. dollar on foreign currency denominated monetary assets and liabilities. The primary assumption used in these models is a hypothetical 10% weakening or strengthening of the U.S. dollar against all our currency exposures as of December 31, 2011 and September 30, 2012.

As of September 30, 2012, our working capital deficit (defined as current assets less current liabilities) subject to foreign currency translation risk was \$208.7 million. The potential decrease in net current assets from a hypothetical 10% adverse change in quoted foreign currency exchange rates would be \$20.9 million. This compares to \$328.1 million of working capital deficit subject to foreign currency exposure at December 31, 2011, which would have resulted in a decrease of net current assets of \$32.8 million. The primary difference between foreign currency exposure from December 31, 2011 to September 30, 2012 is due to fluctuations in foreign currencies against the U.S. Dollar since December 31, 2011 and improvements in working capital deficit over the period.

#### Interest Rate Risk

Our cash and cash equivalents primarily consists of cash and money market funds. We currently do not have any long-term borrowings. Our exposure to market risk for changes in interest rates is limited because nearly all of our cash and cash equivalents have a short-term maturity and are used primarily for working capital purposes.

#### Impact of Inflation

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

### ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost benefit relationship of possible controls and procedures. Based on this evaluation, management concluded that our



disclosure controls and procedures were not effective at the reasonable assurance level due to a material weakness in our internal control over financial reporting, which is described below.

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

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

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

We did not have adequate policies and procedures in place to ensure the timely, effective review of estimates, assumptions and related reconciliations and analyses, including those related to customer refund reserves. As noted previously, our original estimate disclosed on February 8, 2012 of the reserve for customer refunds proved to be inadequate after we performed additional analysis.

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

As part of these ongoing efforts, we have documented and are in the process of testing our internal control over financial reporting in order to report on the effectiveness of our internal controls as of December 31, 2012, as required following our initial public offering in 2011. We have continued to expend significant internal and external resources in this effort. In particular, we have continued to work with another global accounting firm in preparation for reporting on the effectiveness of our internal controls, and we have expanded this firm's engagement scope to address the underlying cause of the material weakness. However, we can provide no assurance at this time that management will be able to report that our internal control over financial reporting is effective as of December 31, 2012, or that our registered independent public accounting firm will be able to attest that such internal controls are effective.

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

#### Changes in Internal Control over Financial Reporting

Other than as described above, there was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the three months ended September 30, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### ITEM 1: LEGAL PROCEEDINGS

For a description of our material pending legal proceedings, please see Note 7 “Commitments and Contingencies—Legal Matters” of the Notes to the accompanying unaudited Condensed Consolidated Financial Statements in Item 1 of this Quarterly Report on Form 10-Q.

#### ITEM 1A: RISK FACTORS

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

##### Risks Related to Our Business

Our revenue and operating results may continue to be volatile.

Although our revenue has increased substantially since inception, our revenue and operating results will 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 merchant partners and retain existing merchant partners who wish to offer deals through the sale of Groupons;
- effectively address and respond to challenges in international markets, particularly in Europe;
- expand the number, variety and relevance of products and deals we offer;
- increase the awareness of our brand domestically and internationally;
- provide a superior customer service experience for our customers and merchant partners;
- respond to changes in consumer and merchant access to and use of the Internet and mobile devices; and
- react to challenges from existing and new competitors.

Our strategy to become a 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 platform for consumers and merchants. This strategy will require us to devote significant resources, including the time and efforts of management and our engineering team, to developing, implementing and maintaining products that are new to us, our customers and our merchant partners. In addition, we anticipate that we will continue to acquire businesses and technology in order to implement this strategy. Even if we are successful in developing these products, our success is dependent upon their perceived value by our current customers and merchant partners, as well as other consumers and merchants who do not yet engage in business through our marketplace. If we are not successful in pursuing this objective, our business, financial position and results of operations could be harmed.

We cannot assure you that we will be able to manage the growth of our organization effectively.

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

operational plans and strategies, improve and expand our infrastructure of people and information systems, and train and manage our employee base.

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, as we have experienced in our European markets in particular. 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. And even where we compete successfully with other providers, we are still dependent upon our ability to optimize our deal mix, provide a superior customer and merchant experience, and leverage our technology. As we continue to expand internationally, we are increasingly subject to risks of doing business internationally, including the following:

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

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

- different regulatory requirements, including regulation of gift cards and coupon terms, Internet services, professional selling, distance selling, bulk emailing, privacy and data protection, banking and money transmitting, that may limit or prevent the offering of our services in some jurisdictions or limit our ability to enforce contractual obligations; difficulties in integrating with local payment providers, including banks, credit and debit card networks and electronic funds transfer systems;

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

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

- higher Internet service provider costs;

- seasonal reductions in business activity;

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

- differing intellectual property laws.

We are subject to complex foreign and U.S. laws and regulations that apply to our international operations, including data privacy and protection requirements, the Foreign Corrupt Practices Act 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. We experienced rapid growth over a short period in a new market that we created and we do not know whether this market will continue to develop or whether it can be maintained. If we are unable to successfully respond to changes in the market, our business could be harmed.

Our business grew rapidly as merchants and consumers have increasingly used our marketplace. However, this is a new market which we only created in late 2008 and which has operated at a substantial scale for only a limited period of time. Given the limited history, it is difficult to predict whether this market will continue to grow or whether it can be maintained. For example, as a result

of our limited operating history in a new industry, it is difficult to discern meaningful or established trends with respect to the purchase activity of our subscribers or customers. We expect that the market will evolve in ways which may be difficult to predict. For example, we believe that in some of our markets, including North America, investments in new customer acquisition are less productive and the continued growth of our revenue will require more focus on increasing 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 merchant partners or customers could broadly determine that they no longer believe in the value of our current services or marketplace. In the event of these or any other changes to the market, our continued success will depend on our ability to successfully adjust our strategy to meet the changing market dynamics. If we are unable to successfully adapt to changes in our markets, our business, financial condition and results of operations could suffer a material negative impact.

We base our decisions regarding investments in customer acquisition primarily on our analysis of the profits generated from customers that we acquired in prior periods. If the estimates and assumptions we use are inaccurate, we may not be able to recover our customer acquisition costs and our growth rate and financial results will be adversely affected. Our decisions regarding investments in customer acquisition substantially depend upon our analysis of the profits generated from customers we acquired in earlier periods. Our analysis includes several assumptions, including: Because the costs of offering or distributing deals to existing customers are not significant, our analysis focuses on the online marketing costs incurred during the quarter in which the customers are originally acquired and makes various assumptions with respect to the level of additional marketing or other expenses necessary to maintain customer loyalty and generate purchase activity in subsequent periods. If our assumptions regarding such expenses in subsequent periods are incorrect, our results could be less favorable than we had anticipated.

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

If our assumptions relating to the effectiveness of our marketing spend prove incorrect, our ability to generate profits from our investments in new customer acquisitions may be less than we have assumed. In such case, we may need to increase expenses or otherwise alter our strategy and our results of operations could be negatively impacted.

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

We had an accumulated deficit of \$672.5 million as of September 30, 2012. We anticipate that our operating expenses will increase substantially in the foreseeable future as we continue to invest to increase our customer base, increase the number and variety of deals we offer each day, expand our marketing channels, expand our operations, hire additional employees and develop our technology platform. These efforts may prove more expensive than we currently anticipate, and we may not succeed in increasing our revenue sufficiently to offset these higher expenses. Many of our efforts to generate revenue from our business are new and unproven, and any failure to increase our revenue could prevent us from attaining or increasing our profitability. We cannot be certain that we will be able to attain or increase profitability on a quarterly or annual basis. If we are unable to effectively manage these risks and difficulties as we encounter them, our business, financial condition and results of operations may suffer.

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

We incurred \$613.2 million of expenses on marketing initiatives during the nine months ended September 30, 2011 and \$275.9 million during the nine months ended September 30, 2012 and expect to continue to spend significant amounts to acquire additional customers. We have decreased our marketing costs over the past year because we no longer believe that we need to spend as much to introduce potential customers to our business through our daily emails. However, converting these subscribers to customers that purchase Groupons, and maintaining existing customers, may be difficult and may require additional marketing expenditures. We must continue to retain and acquire customers that purchase Groupons in order to increase revenue and achieve profitability. As our customer base continues to evolve, it is possible that the composition of our customers may change in a manner that makes it more difficult to generate revenue to offset the costs associated with acquiring new customers. If customers do not perceive our Groupon offers to be attractive or if we fail to introduce new and more relevant deals, we may not be able to acquire or retain customers. If we are unable to acquire new customers who purchase Groupons in numbers sufficient



to grow our business, or if customers cease to purchase Groupons, the revenue we generate may decrease and our operating results will be adversely affected.

We believe that many of our new customers originate from word-of-mouth and other non-paid referrals from existing customers, and therefore we must ensure that our existing customers remain loyal to our service in order to continue receiving those referrals.

If our efforts to satisfy our existing customers are not successful, we may not be able to acquire new customers in sufficient numbers to continue to grow our business or we may be required to incur significantly higher marketing expenses in order to acquire new customers. Further, we believe that our success is influenced by the level of communication and sharing among customers. If the level of usage by our customer base declines or does not grow as expected, we may suffer a decline in customer growth or revenue. A significant decrease in the level of usage or customer growth would have an adverse effect on our business, financial condition and results of operations.

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

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

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

We expect competition in e-commerce generally, and group buying in particular, to continue to increase. 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 merchant partners we feature;
- the timing and market acceptance of deals we offer, including the developments and enhancements to those deals offered by us or our competitors;
- customer and merchant service and support efforts;
- selling and marketing efforts;
- ease of use, performance, price and reliability of services offered either by us or our competitors;
- our ability to generate large volumes of sales, particularly with respect to 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. If we are unable to maintain favorable terms with our merchant partners, our revenue may be adversely affected. The success of our business depends in part on our ability to retain and increase the number of merchant partners who use our service, particularly as we continue to grow our marketplace. Currently, when a merchant partner works with us to offer a deal for its products or services, it receives an agreed-upon percentage of the total proceeds from each Groupon sold, and we retain the rest. If merchant partners decide that utilizing our services no longer provides an effective means of attracting new customers or selling their goods and services, they may demand a higher percentage of the total proceeds from each Groupon sold. This could adversely affect our revenue.

In addition, we expect to face increased competition from other Internet and technology-based businesses. We also have seen that some competitors will accept lower margins, or negative margins, to attract attention and acquire new customers. If competitors engage in group buying initiatives in which merchants receive a higher percentage of the revenue than we currently offer, 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, which may reduce our revenue.

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

Our merchant payment terms and revenue growth have provided us with operating cash flow to fund our working capital needs. Our merchant partner arrangements are generally structured such that we collect cash up front when our customers purchase Groupons and make payments to our merchant partners at a subsequent date, either on a fixed schedule or upon redemption by customers. Our accrued merchant payable balance increased from \$520.7 million as of December 31, 2011 to \$573.5 million as of September 30, 2012. We use the operating cash flow provided by our merchant payment terms and revenue growth to fund our working capital needs. If we offer our merchant partners more favorable or accelerated payment terms or our revenue does not continue to grow in the future, our operating cash flow and results of operations could be adversely impacted and we may have to seek alternative financing to fund our working capital needs.

Our business relies heavily on email and other messaging services, and any restrictions on the sending of emails or messages or a decrease in subscriber willingness to receive messages could adversely affect our revenue and business. Our business is highly dependent upon email and other messaging services. Deals offered through emails and other messages sent by us, or on our behalf by our affiliates, generate a substantial portion of our revenue. Because of the importance of email and other messaging services to our businesses, if we are unable to successfully deliver emails or messages to our subscribers or potential subscribers, or if subscribers decline to open our emails or messages, our revenue and profitability would be adversely affected. Actions by third parties to block, impose restrictions on, or charge for the delivery of, emails or other messages could also materially and adversely impact our business. From time to time, Internet service providers block bulk email transmissions or otherwise experience technical difficulties that result in our inability to successfully deliver emails or other messages to third parties. In addition, our use of

email and other messaging services to send communications about our website or other matters may result in legal claims against us, which if successful might limit or prohibit our ability to send emails or other messages. Any disruption or restriction on the distribution of emails or other messages or any increase in the associated costs would materially and adversely affect our revenue and profitability.

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

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

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

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

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

Purchasing the goods ourselves prior to the sale also means that we will be required to fulfill orders on an efficient and cost-effective basis. Many other online retailers have significantly larger inventories and therefore are able to rely on past experience and economies of scale to optimize their order fulfillment. Delays or inefficiencies in our processes could subject us to additional costs, as well as customer dissatisfaction, which would adversely affect our business. To date, the amount of inventory that we maintain on hand has been immaterial. However, in future periods we may begin to increase the levels of inventory on hand for our Goods category.

The loss of certain individuals involved in the operations of our International segment may cause our international expansion to suffer.

Our international expansion has been rapid and our international business has been critical to the growth in our business. For the nine months ended September 30, 2011 and 2012, 59.3% and 53.4%, respectively, of our revenue was generated from our International segment. We began our international operations in May 2010 with the acquisition of CityDeal Europe GmbH, or CityDeal, which was founded by Oliver Samwer and Marc Samwer. Historically, Messrs. Samwer have served as consultants and been extensively involved in the development and operations of our International segment. However, in recent months, as we have restructured our senior leadership, Messrs. Samwer have been transitioning out of their roles and have formally terminated their consulting agreements with us. We can make no assurances that the loss of Messrs. Samwer's services will not disrupt our international operations or have an adverse effect on our ability to grow our international business.

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

We currently use a common technology platform in our North America segment to operate our business and are in the process of migrating our operations in our International segment to the same platform. Such changes to our technology platform and related software carry risks such as cost overruns, project delays and business interruptions and delays. If we experience a material business

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interruption as a result of this process, it could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our common stock to decline.

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

Certain factors may cause our international costs of doing business to exceed our comparable costs in North America. For example, in some countries, expansion of our business may require a close commercial relationship with one or more local banks, a shared ownership interest with a local entity or registration as a bank under local law. Such requirements may reduce our revenue, increase our costs or limit the scope of our activities in particular countries. Further, as we expand our international operations and have additional portions of our international revenue denominated in foreign currencies, we could become subject to increased difficulties in collecting accounts receivable and repatriating money without adverse tax consequences and increased risks relating to foreign currency exchange rate fluctuations. Further, we could be subject to the application of U.S. tax rules to acquired international operations and local taxation of our fees or of transactions on our websites.

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

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

Subsequent to our revised earnings announcement on March 30, 2012, several lawsuits were filed against us and our current and former officers and directors alleging violations of the Federal securities laws. Litigation can be expensive, time-consuming and disruptive to normal business operations. The results of complex legal proceedings are often uncertain and difficult to predict. An unfavorable outcome with respect to any of these lawsuits could have a material adverse effect on our business, financial condition, results of operations or cash flows. For additional information regarding these and other lawsuits in which we are involved, see Note 7 "Commitments and Contingencies" to our condensed consolidated financial statements.

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

Our Groupon Promise states that we will provide our customers with a refund of the purchase price of a Groupon if they believe that we have let them down. As we increase our revenue and expand our product offerings, our refund rates may exceed our historical levels. For example, as a result of a shift in our deal mix and higher price point offers that began in the fourth quarter of 2011, our refund rates have been higher than historical levels. A downturn in general economic conditions may also increase our refund rates. An increase in our refund rates could significantly reduce our liquidity and profitability.

Because we do not have control over our merchant partners and the quality of products or services they deliver, we rely on a combination of our historical experience with each merchant partner and online and offline research of customer reviews of merchant partners for the development of our estimate for refund claims. Our actual level of refund claims could prove to be greater than the level of refund claims we estimate. If our refund reserves are not adequate to cover future refund claims, this inadequacy could have a material adverse effect on our liquidity and profitability.

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

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

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



deceptive conduct by our merchant partners could damage our reputation, reduce our ability to attract new customers or retain our current customers, and diminish the value of our brand.

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

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

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

As we become a more mature company, we may find our recruiting and retention efforts more challenging. We are seeking to hire a significant number of personnel in 2012, including certain key management personnel. If we do not succeed in attracting, hiring and integrating excellent personnel, or retaining and motivating existing personnel, we may be unable to grow effectively.

In our Payments business, we may be subject to chargeback liability if our merchants refuse or cannot reimburse chargebacks resolved in favor of their customers.

We have recently announced the launch of Payments, under which we provide payment processing for merchants. If we process a payment that is successfully disputed by the customer at a later date, the transaction is normally "charged back" to the merchant and the purchase price is credited or otherwise refunded to the cardholder. If we or our clearing bank is unable to collect such amounts from the merchant's account, or if the merchant refuses or is unable, due to closure, bankruptcy or other reasons, to reimburse us for the chargeback, we bear the loss for the amount of the refund paid to the cardholder. Any chargebacks not paid by our merchants may adversely affect our financial condition and results of operations. In addition, if our clearing bank terminates our relationship with them and we are unable to secure a relationship with another clearing bank, we would be unable to process payments. 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 have identified a material weakness in our internal control over financial reporting which could, if not remediated, result in material misstatements in our financial statements.

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

We are working to remediate the material weakness. We have taken steps to remediate the underlying causes of the material weakness, primarily through the continued development and implementation of formal policies, improved processes and documented procedures, as well as the continued hiring of additional finance personnel. The actions that we are taking are subject to ongoing senior management review, as well as audit committee oversight. Although we plan to complete this remediation process

as quickly as possible, we cannot at this time estimate how long it will take, and our initiatives may not prove to be successful in remediating this material weakness. If our remedial measures are insufficient to address the material weakness, or if additional material weaknesses or significant deficiencies in our internal control over financial reporting are discovered or occur in the future, our condensed consolidated financial statements may contain material misstatements and we could be required to restate our financial results. In addition, if we are unable to successfully remediate this material weakness and if we are unable to produce accurate and timely financial statements, our stock price may be adversely affected and we may be unable to maintain compliance with applicable stock exchange listing requirements.

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

We may have exposure to greater than anticipated tax liabilities.

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

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

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

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

Groupons may be considered gift cards, gift certificates, stored value cards or prepaid cards and therefore governed by, among other laws, the CARD Act, and state laws governing gift cards, stored value cards and coupons. Other foreign jurisdictions have similar laws in place, in particular European jurisdictions where the European E-Money Directive regulates the business of electronic money institutions. Many of these laws contain provisions governing the use of gift cards, gift certificates, stored value cards or prepaid cards, including specific disclosure requirements and prohibitions or limitations on the use of expiration dates and the imposition of certain fees. For example, if Groupons are subject to the CARD Act and are not included in the exemption for promotional programs, it is possible that the purchase value, which is the amount equal to the price paid for the Groupon, or the promotional value, which is the add-on value of the Groupon in excess of the price paid, or both, may not expire before the later of (i) five years after the date on which the Groupon was issued or the date on which the customer last loaded funds on the

Groupon if the Groupon has a reloadable feature; (ii) the Groupon's stated expiration date (if any); or (iii) a later date provided by applicable state law. We and several merchant partners with whom we have partnered are currently defendants in 16 purported class actions that have been filed in federal and state court claiming that Groupons are subject to the CARD Act and various state laws governing gift cards and that the defendants have violated these laws by issuing Groupons with expiration dates and other restrictions. We are also the defendant to a purported class action in the Canadian province of Ontario in which similar violations of provincial legislation governing gift cards are alleged. In the event that it is determined that Groupons are subject to the CARD Act or any similar state or foreign law or regulation, and are not within various exemptions that may be available to Groupon under the CARD Act or under some of the various state or foreign jurisdictions, our liabilities with respect to unredeemed Groupons may be materially higher than the amounts shown in our financial statements and we may be subject to additional fines and penalties. In addition, if federal or state laws require that the face value of Groupons have a minimum expiration period beyond the period desired by a merchant partner for its promotional program, or no expiration period, this may affect the willingness of merchant partners to issue Groupons in jurisdictions where these laws apply.

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

In certain states and foreign jurisdictions, Groupons may be considered a gift card. Some of these states and foreign jurisdictions include gift cards under their unclaimed and abandoned property laws which require companies to remit to the government the value of the unredeemed balance on the gift cards after a specified period of time (generally between one and five years) and impose certain reporting and 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 merchant partners and our role as it relates to the issuance and delivery of a Groupon. In the event that one or more states or foreign jurisdictions successfully challenges our position on the application of its unclaimed and abandoned property laws to Groupons, or if the estimates that we use in projecting the likelihood of Groupons being redeemed prove to be inaccurate, our liabilities with respect to unredeemed Groupons may be materially higher than the amounts shown in our financial statements. If we are required to materially increase the estimated liability recorded in our financial statements with respect to unredeemed gift cards, our net income could be materially and adversely affected.

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

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

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

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

Due to the global nature of the Internet, it is possible that various states or foreign countries might attempt to regulate our transmissions or levy sales, income or other taxes relating to our activities. Tax authorities at the international,

federal, state and local levels are currently reviewing the appropriate treatment of companies engaged in Internet commerce. New or revised international, federal, state or local tax regulations may subject us or our customers to additional sales, income and other taxes. We cannot predict the effect of current attempts to impose sales, income or other taxes on commerce over the Internet. New or revised taxes and, in particular, sales taxes, VAT and similar taxes would likely increase the cost of doing business online and decrease the attractiveness of advertising and selling goods and services over the Internet. New taxes could also create significant increases in internal costs necessary to capture data, and collect and remit taxes. Any of these events could have an adverse effect on our business and results of operations.

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

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

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

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

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

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

Subscribers access our deals through our websites and mobile applications. Our reputation and ability to acquire, retain and serve our subscribers and customers are dependent upon the reliable performance of our websites and mobile applications and the underlying network infrastructure. As our subscriber base and the amount of information shared on our websites and applications continue to grow, we will need an increasing amount of network capacity and computing power. We have spent and expect to continue to spend substantial amounts on data centers and equipment and related network infrastructure to handle the traffic on our websites and applications. The operation of these systems is expensive and complex and could result in operational failures. In the event that our subscriber base or the amount of traffic on our websites and applications grows more quickly than anticipated, we may be required to incur significant additional costs. Interruptions in these systems, whether due to system failures, computer viruses or physical or electronic break-ins, could affect the security or availability of our websites and applications, and prevent



our subscribers from accessing our services. A substantial portion of our network infrastructure is hosted by third-party providers. Any disruption in these services or any failure of these providers to handle existing or increased traffic could significantly harm our business. Any financial or other difficulties these providers face may adversely affect our business, and we exercise little control over these providers, which increases our vulnerability to problems with the services they provide. If we do not maintain or expand our network infrastructure successfully or if we experience operational failures, we could lose current and potential subscribers and merchant partners, which could harm our operating results and financial condition.

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

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

We, like other e-commerce businesses, use encryption and authentication technology to help provide the security and authentication to effectively secure transmission of confidential information, including credit card numbers. While these techniques are effective in maintaining confidentiality, we cannot guarantee that this will prevent all potential breaches of our system, including by means of technologies developed to bypass these securities measures. In addition, outside parties may attempt to fraudulently induce employees, merchant partners or customers to disclose sensitive information in order to gain access to our information or our merchant partners' or customers' information. Because the techniques used to gain access to, or sabotage, systems often are not recognized until launched against a target, we may be unable to anticipate the correct methods necessary to defend against these types of attacks. Any breach, or the perceived threat of a breach, could cause our customers and merchant partners to cease doing business with us, subject us to lawsuits, regulatory fines or other action or liability, which would harm our business, financial condition and results of operations.

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

The success of our services will depend largely on sufficient network availability for us, our customers and our merchant partners. The Internet has experienced, and is likely to continue to experience, significant growth in the number of users and amount of traffic, including a significant increase in bandwidth demands as a result of the use of smartphones and other mobile devices. The Internet infrastructure may be unable to support such demands. In addition, increasing numbers of users, increasing bandwidth requirements or problems caused by viruses, worms, malware and similar programs may harm the performance of the Internet. The backbone computers of the Internet have been the targets of such programs. These outages and delays could reduce the level of Internet usage generally as well as the level of usage of our services, which could adversely impact our business.

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

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

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

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

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

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

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

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

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

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

Our business, like that of our merchant partners, may be subject to some degree of sales seasonality. As the growth of our business stabilizes, these seasonal fluctuations may become more evident. Seasonality may cause our working capital cash flow requirements to vary from quarter to quarter depending on the variability in the volume and timing of sales. These factors, among other things, make forecasting more difficult and may adversely affect our ability to manage working capital and to predict financial results accurately, which could adversely affect the market price of our common stock.

We depend on the continued growth of online commerce.

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

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

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

upon which we rely are located, and our business interruption insurance may be insufficient to compensate us for losses that may occur. Such disruptions could negatively impact our ability to run our websites, which could harm our business.

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

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

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

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

We are subject to payments-related risks.

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

We are also subject to or voluntarily comply with a number of other laws and regulations relating to money laundering, international money transfers, privacy and information security and electronic fund transfers. If we were found to be in violation of applicable laws or regulations, we could be subject to civil and criminal penalties or forced to cease our payments services business.

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

Various federal laws, such as the Bank Secrecy Act and the USA PATRIOT Act and foreign laws and regulations, such as the European Directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing, impose certain anti-money laundering requirements on companies that are financial institutions or that provide financial products and services. For these purposes, financial institutions are broadly defined to include money services businesses such as money transmitters, check cashers and sellers or issuers of stored value cards. Examples of anti-money laundering requirements imposed

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

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

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

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

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

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

The individuals who now constitute our management team have limited experience managing a publicly-traded company and limited experience complying with the increasingly complex laws pertaining to public companies. Our management team may not successfully or efficiently manage our transition to being a public company that will be subject to significant regulatory oversight and reporting obligations under the federal securities laws. In particular, these new obligations will require substantial attention from our senior management and could divert their attention away from the day-to-day management of our business, which could materially and adversely impact our business operations.

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



We face increased legal, accounting, administrative and other costs and expenses as a public company that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, including the requirements of Section 404, as well as new rules and regulations subsequently implemented by the Securities and Exchange Commission, or the SEC, the Public Company Accounting Oversight Board and the exchange on which our Class A common stock is listed, impose additional reporting and other obligations on public companies. We expect that compliance with these public company requirements will increase our costs and make some

activities more time-consuming. A number of those requirements will require us to carry out activities we have not done previously. For example, we will adopt new internal controls and disclosure controls and procedures. In addition, we will incur additional expenses associated with our SEC reporting requirements. For example, under Section 404 of the Sarbanes-Oxley Act, for our annual report on Form 10-K for our fiscal year ending December 31, 2012, we will need to document and test our internal control procedures, our management will need to assess and report on our internal control over financial reporting and our independent registered public accounting firm will need to issue an opinion on the effectiveness of those controls. In connection with the preparation of our financial statements for the year ended December 31, 2011, our independent registered accounting firm identified a material weakness in the design and operating effectiveness of our internal control over financial reporting, and as a result we expect to incur additional costs remediating this material weakness. In addition, the existence of this issue could adversely affect us, our reputation or investor perceptions of us. It also may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers. Advocacy efforts by stockholders and third-parties may also prompt even more changes in corporate governance and reporting requirements. We expect that the additional reporting and other obligations imposed on us by these rules and regulations will increase our legal and financial compliance costs and the costs of our related legal, accounting and administrative activities significantly. These increased costs will require us to divert a significant amount of money that we could otherwise use to expand our business and achieve our strategic objectives.

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

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

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

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

Our Class A common stock began trading on the NASDAQ Global Select Market on November 4, 2011 and since that date has fluctuated from a high of \$31.14 per share to a low of \$3.68 per share. We expect that the trading price of our stock will continue to be volatile due to variations in our operating results and also may change in response to other factors, including factors specific to technology companies, many of which are beyond our control. Among the factors that could affect our stock price are:

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

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

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

Our Class B common stock has 150 votes per share and our Class A common stock has one vote per share. As of September 30, 2012, our founders, Eric Lefkofsky, Bradley Keywell and Andrew Mason control 100% of our outstanding Class B common stock and approximately 29.6% of our outstanding Class A common stock, representing approximately 55.4% of the voting power of our outstanding capital stock. Messrs. Lefkofsky, Keywell and Mason will therefore have significant influence over management and affairs and over all matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets, for the foreseeable future. This concentrated control will limit stockholders' ability to influence corporate matters and, as a result, we may take actions that our stockholders do not view as beneficial. As a result, the market price of our Class A common stock could be adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

On May 4, 2012, we issued 51,000 shares of Class A common stock as partial consideration in connection with our acquisition of additional interests in two majority-owned subsidiaries. On July 15, 2012, we issued 25,609 shares of Class A common stock to settle certain liability-classified subsidiary stock-based compensation awards. We relied on Section 4(2) of the Securities Act of 1933, as amended, for an exemption from registration of these shares.

**ITEM 6. EXHIBITS**

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

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 8th day of November 2012.

**GROUPON, INC.**

By: /s/ ANDREW D. MASON  
Name: Andrew D. Mason  
Title: Chief Executive Officer

EXHIBITS

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

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