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

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

FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2013

OR

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

Commission file number: 1-353335

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

Delaware (State or other jurisdiction of incorporation or organization)	27-0903295 (I.R.S. Employer Identification No.)
600 West Chicago Avenue, Suite 400 Chicago, Illinois (Address of principal executive offices)	60654 (Zip Code)

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

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

Yes x No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No

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

Large accelerated filer x Accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No x

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

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PART I. Financial Information

FORWARD LOOKING STATEMENTS

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

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

ITEM 1. FINANCIAL STATEMENTS

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

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

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

See Notes to unaudited Condensed Consolidated Financial Statements.

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

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

See Notes to unaudited Condensed Consolidated Financial Statements.

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

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

See Notes to unaudited Condensed Consolidated Financial Statements.

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

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

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

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

See Notes to unaudited Condensed Consolidated Financial Statements.

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

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

compensation awards										
Purchases of treasury stock	—	—	—	(770,900)	(9,014)	—	—	(9,014)	—	(9,014
Partnership distributions to noncontrolling interest holders	—	—	—	—	—	—	—	—	(4,412)	(4,412
Balance at September 30, 2013	668,500,925	$66	$1,563,815	(770,900)	$(9,014)	$(767,623)	$23,579	$810,823	$(2,026)	$808,79

See Notes to unaudited Condensed Consolidated Financial Statements.

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

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Company Information

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

The Company's operations are organized into three principal segments: North America, EMEA, which is comprised of Europe, Middle East and Africa, and the remainder of the Company's international operations ("Rest of World"). During the second quarter of 2013, the Company changed the composition of its operating segments to separate its former International segment between EMEA and Rest of World. See Note 11 "Segment Information" for further information.

Unaudited Interim Financial Information

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

Principles of Consolidation

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

Use of Estimates

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

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

2. BUSINESS COMBINATIONS

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

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

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

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

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

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

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

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

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

3. GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

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

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

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

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

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

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

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

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

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

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

4. INVESTMENTS

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

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

Cost Method Investments

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

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

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

Available-for-Sale Debt Security

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

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Other-Than-Temporary Impairment

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

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

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

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5. SUPPLEMENTAL CONSOLIDATED BALANCE SHEET AND STATEMENT OF OPERATIONS INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

6. COMMITMENTS AND CONTINGENCIES

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

Legal Matters

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Indemnifications

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

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

7. STOCKHOLDERS' EQUITY AND STOCK-BASED COMPENSATION

Common Stock

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

Share Repurchase Program

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

Groupon, Inc. Stock Plans

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

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

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Employee Stock Purchase Plan

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

Stock Options

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

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

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

Restricted Stock Units

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

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

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

Restricted Stock Awards

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

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

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

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

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

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

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

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

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

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

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

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

9. FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

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

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

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

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

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

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

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

10. INCOME TAXES

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

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

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

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

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

transactions.

11. SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

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

(1) North America contains assets from the United States of $1,144.6 million and $1,112.6 million as of September 30, 2013 and December 31, 2012, respectively. There were no other individual countries located outside of the United States that represented more than 10% of consolidated total assets as of September 30, 2013 or December 31, 2012.

Category Information

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

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