Groupon, Inc.
Form 10-Q
May 07, 2014

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 March 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________________ to ________________
Commission file number: 1-353335
Groupon, Inc.
(Exact name of registrant as specified in its charter)

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

312-334-1579
(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 May 2, 2014, there were 679,794,637 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 2013 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)

	March 31, 2014 (unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$1,038,824	$1,240,472
Accounts receivable, net	125,527	83,673
Deferred income taxes	29,897	27,938
Prepaid expenses and other current assets	234,102	210,415
Total current assets	1,428,350	1,562,498
Property, equipment and software, net	159,649	134,423
Goodwill	447,370	220,827
Intangible assets, net	140,738	28,443
Investments	24,450	20,652
Deferred income taxes, non-current	44,559	35,941
Other non-current assets	35,490	39,226
Total Assets	$2,280,606	$2,042,010
Liabilities and Equity		
Current liabilities:		
Accounts payable	$45,524	$27,573
Accrued merchant and supplier payables	816,329	752,943
Accrued expenses	253,015	226,986
Deferred income taxes	48,368	47,558
Other current liabilities	134,315	132,718
Total current liabilities	1,297,551	1,187,778
Deferred income taxes, non-current	12,331	10,853
Other non-current liabilities	147,197	131,697
Total Liabilities	1,457,079	1,330,328
Commitments and contingencies (see Note 6)		
Stockholders' Equity		
Class A common stock, par value $0.0001 per share, 2,000,000,000 shares authorized, 687,288,634 shares issued and 679,780,134 shares outstanding at March 31, 2014 and 670,149,976 shares issued and 665,717,176 shares outstanding at December 31, 2013	69	67
Class B common stock, par value $0.0001 per share, 10,000,000 shares authorized, 2,399,976 shares issued and outstanding at March 31, 2014 and December 31, 2013	—	—
Common stock, par value $0.0001 per share, 2,010,000,000 shares authorized, no shares issued and outstanding at March 31, 2014 and December 31, 2013	—	—
Additional paid-in capital	1,768,271	1,584,211
Treasury stock, at cost, 7,508,500 shares at March 31, 2014 and 4,432,800 shares at December 31, 2013	(76,048)	(46,587)
Accumulated deficit	(886,665)	(848,870)
Accumulated other comprehensive income	20,020	24,830

Total Groupon, Inc. Stockholders' Equity	825,647	713,651
Noncontrolling interests	(2,120)	(1,969)
Total Equity	823,527	711,682
Total Liabilities and Equity	$2,280,606	$2,042,010

See Notes to unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2014	2013
Revenue:		
Third party and other	$426,429	$439,108
Direct	331,208	162,294
Total revenue	757,637	601,402
Cost of revenue:		
Third party and other	62,351	70,016
Direct	309,565	152,377
Total cost of revenue	371,916	222,393
Gross profit	385,721	379,009
Operating expenses:		
Marketing	78,924	49,557
Selling, general and administrative	324,965	308,206
Acquisition-related expense, net	1,785	68
Total operating expenses	405,674	357,831
(Loss) income from operations	(19,953)	21,178
Other expense, net	(840)	(5,083)
(Loss) income before provision for income taxes	(20,793)	16,095
Provision for income taxes	14,570	19,337
Net loss	(35,363)	(3,242)
Net income attributable to noncontrolling interests	(2,432)	(750)
Net loss attributable to Groupon, Inc.	$(37,795)	$(3,992)
Net loss per share		
Basic	$(0.06)	$(0.01)
Diluted	$(0.06)	$(0.01)
Weighted average number of shares outstanding		
Basic	682,378,690	658,800,417
Diluted	682,378,690	658,800,417

See Notes to unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2014	2013
Net loss	$(35,363)	$(3,242)
Other comprehensive (loss) income, net of tax:		
Foreign currency translation adjustments	(4,612)	2,143
Unrealized (loss) gain on available-for-sale debt securities	(301)	157
Other comprehensive (loss) income	(4,913)	2,300
Comprehensive loss	(40,276)	(942)
Comprehensive income attributable to noncontrolling interests	(2,329)	(709)
Comprehensive loss attributable to Groupon, Inc.	$(42,605)	$(1,651)

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 Comprehensive Income	Total Groupon Inc. Stockholders' Equity	Non-controlling Interests	Total Equit
Balance at December 31, 2013	672,549,952	$67	$1,584,211	(4,432,800)	$(46,587)	$(848,870)	$24,830	$713,651	$(1,969)	$711,
Net loss	—	—	—	—	—	(37,795)	—	(37,795)	2,432	(35,36
Foreign currency translation	—	—	—	—	—		(4,509)	(4,509)	(103)	(4,61
Unrealized loss on available-for-sale debt securities, net of tax	—	—	—	—	—	—	(301)	(301)	—	(301
Common stock issued in connection with acquisition of business, net of issuance costs	13,825,283	1	162,704	—	—	—	—	162,705	—	162,7
Shares issued to settle liability-classified awards and contingent consideration	102,180	—	1,041	—	—	—	—	1,041	—	1,041
Exercise of stock options	357,291	—	362	—	—	—	—	362	—	362
Vesting of restricted stock units	3,819,150	1	(1)	—	—	—	—	—	—	—
Shares issued under employee stock purchase plan	333,824	—	2,450	—	—	—	—	2,450	—	2,450
Tax withholdings related to net share settlements of stock-based compensation awards	(1,299,070)	—	(13,570)	—	—	—	—	(13,570)	—	(13,5
Stock-based compensation on equity-classified	—	—	26,031	—	—	—	—	26,031	—	26,03

awards										
Excess tax benefits, net of shortfalls, on stock-based compensation awards	—	—	5,043	—	—	—	—	5,043	—	5,043
Purchases of treasury stock	—	—	—	(3,075,700)	(29,461)	—	—	(29,461)	—	(29,46
Partnership distributions to noncontrolling interest holders	—	—	—	—	—	—	—	—	(2,480)	(2,48(
Balance at March 31, 2014	689,688,610	$69	$1,768,271	(7,508,500)	$(76,048)	$(886,665)	$20,020	$825,647	$(2,120)	$823,

See Notes to unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,			
	2014		2013	
Operating activities				
Net loss	$(35,363	)	$(3,242	)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:				
Depreciation and amortization of property, equipment and software	22,092		15,114	
Amortization of acquired intangible assets	12,648		5,586	
Stock-based compensation	23,729		29,907	
Deferred income taxes	573		(258	)
Excess tax benefits on stock-based compensation	(5,855	)	(832	)
(Gain) loss on equity method investments	(52	)	19	
(Gain) loss, net from changes in fair value of contingent consideration	(39	)	68	
Impairment of cost method investment	397		—	
Change in assets and liabilities, net of acquisitions:				
Restricted cash	2,950		2,523	
Accounts receivable	(24,393	)	(7,684	)
Prepaid expenses and other current assets	(5,150	)	12,527	
Accounts payable	7,315		(19,606	)
Accrued merchant and supplier payables	(23,649	)	(39,417	)
Accrued expenses and other current liabilities	(5,379	)	13,302	
Other, net	9,459		753	
Net cash (used in) provided by operating activities	(20,717	)	8,760	
Investing activities				
Purchases of property and equipment and capitalized software	(16,355	)	(14,468	)
Acquisitions of businesses, net of acquired cash	(117,654	)	(1,169	)
Purchases of investments	(4,599	)	(13,083	)
Settlement of liabilities related to purchase of additional interest in consolidated subsidiary	—		(1,959	)
Net cash used in investing activities	(138,608	)	(30,679	)
Financing activities				
Payments for purchases of treasury stock	(29,840	)	—	
Excess tax benefits on stock-based compensation	5,855		832	
Taxes paid related to net share settlements of stock-based compensation awards	(14,083	)	(7,712	)
Common stock issuance costs in connection with acquisition of business	(158	)	—	
Settlements of purchase price obligations related to acquisitions	(3,136	)	(2,000	)
Proceeds from stock option exercises and employee stock purchase plan	2,812		705	
Partnership distribution payments to noncontrolling interest holders	(2,053	)	(1,065	)
Payments of capital lease obligations	(889	)	(102	)
Net cash used in financing activities	(41,492	)	(9,342	)
Effect of exchange rate changes on cash and cash equivalents	(831	)	(12,378	)
Net decrease in cash and cash equivalents	(201,648	)	(43,639	)
Cash and cash equivalents, beginning of period	1,240,472		1,209,289	
Cash and cash equivalents, end of period	$1,038,824		$1,165,650	

Non-cash investing and financing activities

Issuance of common stock in connection with acquisition of business	$162,862	$—
Contingent consideration liabilities incurred in connection with acquisitions	$—	$30
Equipment acquired under capital lease obligations	$4,031	$6,538
Shares issued to settle liability-classified awards and contingent consideration	$1,041	$1,131
Liability for purchases of treasury stock	$1,368	$—
Liability for purchase consideration	$359	$—
Accounts payable and accrued expenses related to purchases of property and equipment and capitalized software	$12,423	$2,828

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

The Company's operations are organized into three principal segments: North America, EMEA, which is comprised of Europe, Middle East and Africa, and the remainder of the Company's international operations ("Rest of World"). During the second quarter of 2013, the Company changed the composition of its operating segments to separate its former International segment between EMEA and Rest of World. See Note 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, 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, 2014. 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, 2013, as filed with the SEC on February 20, 2014.

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 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." Equity investments in entities in which the Company does not have a controlling financial interest are accounted for under either the equity method, the cost method or as available-for-sale securities, as appropriate.

Reclassifications

Certain reclassifications have been made to the condensed consolidated financial statements of prior periods and the accompanying notes to conform to the current period presentation.

Use of Estimates

The preparation of condensed 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.

2. BUSINESS COMBINATIONS

The Company acquired two businesses during the three months ended March 31, 2014. 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 acquisition price for recent acquisitions have been prepared on a preliminary basis, and changes to those allocations may occur as a result of final working capital adjustments and 2013 tax return filings. 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 growing the Company's merchant and customer base, acquiring assembled workforces, expanding its presence in international markets and expanding and advancing its product offerings. The goodwill from these business combinations is not deductible for tax purposes.

For the three months ended March 31, 2014, $1.8 million of external transaction costs related to business combinations, primarily consisting of legal and advisory fees, are classified within "Acquisition-related expense, net" on the condensed consolidated statement of operations.

LivingSocial Korea, Inc.

On January 2, 2014, the Company acquired all of the outstanding equity interests of LivingSocial Korea, Inc., a Korean corporation and holding company of Ticket Monster Inc. ("Ticket Monster"). Ticket Monster is an e-commerce company based in the Republic of Korea that connects merchants to consumers by offering goods and services at a discount. The primary purpose of this acquisition was to grow the Company's merchant and customer base and expand its presence in the Korean e-commerce market. The aggregate acquisition-date fair value of the consideration transferred for the Ticket Monster acquisition totaled $263.0 million, which consisted of the following (in thousands):

Cash	$100,120
Issuance of 13,825,283 shares of Class A common stock	162,862
Total	$262,982

The fair value of the Class A Common Stock issued as consideration was measured based on the stock price upon closing of the transaction on January 2, 2014.

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

The following table summarizes the allocation of the aggregate acquisition price of the Ticket Monster acquisition (in thousands):

Cash and cash equivalents	$24,768
Accounts receivable	15,832
Deferred income taxes	1,264
Prepaid expenses and other current assets	829
Property, equipment and software	5,944
Goodwill	223,850
Intangible assets:(1)	
Subscriber relationships	57,022
Merchant relationships	32,176
Developed technology	571
Trade name	19,325
Other non-current assets	3,033
Total assets acquired	$384,614
Accounts payable	$5,951
Accrued merchant and supplier payables	82,934
Accrued expenses	22,334
Other current liabilities	3,482
Deferred income taxes, non-current	1,264
Other non-current liabilities	5,667
Total liabilities assumed	$121,632
Total acquisition price	$262,982

(1) The acquired intangible assets have estimated useful lives of between 2 and 5 years.

Ideeli, Inc.

On January 13, 2014, the Company acquired all of the outstanding equity interests of Ideeli, Inc. ("Ideeli"), a fashion flash site based in the United States. The primary purpose of this acquisition was to expand and advance the Company's product offerings. The aggregate acquisition-date fair value of the consideration transferred for the Ideeli acquisition totaled $42.7 million, which consisted of the following (in thousands):

Cash	$42,381
Liability for purchase consideration	359
Total	$42,740

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

The following table summarizes the allocation of the aggregate acquisition price of the Ideeli acquisition (in thousands):

Cash and cash equivalents	$79
Accounts receivable	988
Deferred income taxes	572
Prepaid expenses and other current assets	22,081
Property, equipment and software	8,173
Goodwill	5,421
Intangible assets[(1)]:	
Subscriber relationships	5,490
Brand relationships	7,100
Trade name	4,500
Deferred income taxes, non-current	7,753
Total assets acquired	$62,157
Accounts payable	$1,640
Accrued supplier payables	4,092
Accrued expenses	9,118
Other current liabilities	482
Deferred income taxes, non-current	332
Other non-current liabilities	3,753
Total liabilities assumed	$19,417
Total acquisition price	$42,740

(1) The acquired intangible assets have estimated useful lives of between 3 and 5 years.

Pro Forma Financial Information

The following unaudited pro forma information presents the combined operating results of the Company for the three months ended March 31, 2013, as if the Company had acquired Ticket Monster and Ideeli as of January 1, 2013 (in thousands). Pro forma results of operations have not been presented for the three months ended March 31, 2014, because the operating results of Ticket Monster and Ideeli from January 1, 2014 through their respective acquisition dates were not material to the Company's consolidated results of operations for the three months ended March 31, 2014. The underlying pro forma results include the historical financial results of the Company and its two acquired businesses adjusted for depreciation and amortization expense associated with the assets acquired. The unaudited pro forma results do not reflect any operating efficiencies or potential cost savings which may result from the consolidation of the operations of the Company and the acquired entities. Accordingly, these unaudited pro forma results are presented for informational purposes only and are not necessarily indicative of what the actual results of operations of the combined company would have been if the acquisitions had occurred as of January 1, 2013, nor are they indicative of future results of operations.

	Three Months Ended March 31, 2013
Revenue	$652,100
Net loss	(28,424)

The revenue and net loss of Ticket Monster included in our condensed consolidated statement of operations for the three months ended March 31, 2014 were $29.2 million and $13.6 million, respectively. The revenue and net loss of Ideeli included in our condensed consolidated statement of operations for the three months ended March 31, 2014 were $15.9 million and $2.5 million, respectively.

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

3. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table summarizes the Company's goodwill activity by segment for the three months ended March 31, 2014(in thousands):

	North America	EMEA	Rest of World	Consolidated
Balance as of December 31, 2013	$85,457	$115,669	$19,701	$220,827
Goodwill related to acquisitions	5,421	—	223,850	229,271
Other adjustments(1)	—	14	(2,742)	(2,728)
Balance as of March 31, 2014	$90,878	$115,683	$240,809	$447,370

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

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

	March 31, 2014		
Asset Category	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Subscriber relationships	$107,348	$36,578	$70,770
Merchant relationships	40,952	11,023	29,929
Trade names	30,317	7,831	22,486
Developed technology	23,679	20,918	2,761
Brand relationships	7,100	395	6,705
Other intangible assets	16,754	8,667	8,087
Total	$226,150	$85,412	$140,738

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

Amortization of intangible assets is computed using the straight-line method over their estimated useful lives, which range from 1 to 5 years. Amortization expense related to intangible assets was $12.6 million and $5.6 million for the three months ended March 31, 2014 and 2013, respectively. As of March 31, 2014, the Company's estimated future amortization expense related to intangible assets is as follows (in thousands):

Remaining amounts in 2014	$33,977
2015	38,703
2016	32,176
2017	18,118
2018	17,764
Thereafter	—
	$140,738

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

4. INVESTMENTS

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

	March 31, 2014	Percent Ownership of Voting Stock	December 31, 2013	Percent Ownership of Voting Stock
Cost and equity method investments:				
Cost method investments	$15,416	6 % to 19 %	$15,788	6 % to 19 %
Equity method investments	1,742	21 % to 50 %	1,690	21 % to 50 %
Total cost and equity method investments	17,158		17,478	
Available-for-sale securities:				
Convertible debt securities	2,693		3,174	
Redeemable preferred shares	4,599	19 % to 23 %	—	19 %
Total available-for-sale securities	7,292		3,174	
Total investments	$24,450		$20,652	

In February 2014, the Company acquired a 23% ownership interest in an online home services company for $4.6 million. The investment was in the form of redeemable preferred shares, and the securities are accounted for as available-for-sale.

The following table summarizes the amortized cost, gross unrealized loss and fair value of the Company's available-for-sale securities as of March 31, 2014 and December 31, 2013 (in thousands):

	March 31, 2014			December 31, 2013		
	Amortized Cost	Gross Unrealized Loss	Fair Value	Amortized Cost	Gross Unrealized Loss	Fair Value
Available-for-sale securities:						
Convertible debt securities	$3,370	$(677)	$2,693	$3,370	$(196)	$3,174
Redeemable preferred shares	4,599	—	4,599	—	—	—
Total available-for-sale securities	$7,969	$(677)	$7,292	$3,370	$(196)	$3,174

The Company's investments in convertible debt securities have been in an unrealized loss position for less than one year as of March 31, 2014.

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 reviews of all of its investments with unrealized losses on a quarterly basis to evaluate whether those impairments are other-than-temporary. This evaluation, which is performed at the individual investment level, consists of several qualitative and quantitative factors regarding the severity and duration of the unrealized loss as well as the Company's intent and ability to hold the investment for a period of time that is sufficient to allow for an anticipated recovery in value. Evidence considered in this evaluation includes the amount of the impairment, the length of time that the investment has been impaired, the factors contributing to the impairment, the financial condition and near-term prospects of the investee, recent operating trends and forecasted performance of the investee, market conditions in the geographic area or industry in which the investee operates, and the Company's strategic plans for holding the investment in relation to the period of time expected for an anticipated recovery in value. Additionally, the Company considers whether it intends to sell the investment or whether it is more likely than not that 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's investment in the redeemable preferred shares of Life Media Limited ("F-tuan"), an entity with operations based in China, was written down to zero through an other-

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than-temporary impairment charge as of December 31, 2013, and continues to have an estimated fair value of zero as of March 31, 2014.

5. SUPPLEMENTAL CONSOLIDATED BALANCE SHEETS AND STATEMENTS OF OPERATIONS INFORMATION

The following table summarizes the Company's other expense, net for the three months ended March 31, 2014 and 2013 (in thousands):

	Three Months Ended March 31,	
	2014	2013
Interest income	$376	$429
Interest expense	(88)	(57)
Impairment of investment	(397)	—
Gain (loss) on equity method investments	52	(19)
Foreign exchange and other	(783)	(5,436)
Other expense, net	$(840)	$(5,083)

The following table summarizes the Company's prepaid expenses and other current assets as of March 31, 2014 and December 31, 2013 (in thousands):

	March 31, 2014	December 31, 2013
Current portion of unamortized tax effects on intercompany transactions	$27,340	$28,502
Finished goods inventories	63,323	57,097
Prepaid expenses	35,409	29,404
Restricted cash	19,665	14,579
VAT and income taxes receivable	60,461	52,960
Prepaid marketing	15,117	17,301
Other	12,787	10,572
Total prepaid expenses and other current assets	$234,102	$210,415

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The following table summarizes the Company's accrued merchant and supplier payables as of March 31, 2014 and December 31, 2013 (in thousands):

	March 31, 2014	December 31, 2013
Accrued merchant payables	$615,696	$518,233
Accrued supplier payables[1]	200,633	234,710
Total accrued merchant and supplier payables	$816,329	$752,943

(1) Amounts include payables to suppliers of inventories and providers of shipping and fulfillment services.

The following table summarizes the Company's accrued expenses as of March 31, 2014 and December 31, 2013 (in thousands):

	March 31, 2014	December 31, 2013
Marketing	$16,660	$12,001
Refunds reserve	37,720	38,597
Payroll and benefits	72,150	64,966
Customer credits	47,799	44,728
Professional fees	24,730	24,670
Other	53,956	42,024
Total accrued expenses	$253,015	$226,986

The following table summarizes the Company's other current liabilities as of March 31, 2014 and December 31, 2013 (in thousands):

	March 31, 2014	December 31, 2013
Income taxes payable	$20,407	$21,994
VAT payable	34,095	37,627
Sales taxes payable	4,934	10,412
Deferred revenue	59,141	47,259
Other	15,738	15,426
Total other current liabilities	$134,315	$132,718

The following table summarizes the Company's other non-current liabilities as of March 31, 2014 and December 31, 2013 (in thousands):

	March 31, 2014	December 31, 2013
Long-term tax liabilities	$114,495	$109,286
Deferred rent	12,849	9,148
Other	19,853	13,263
Total other non-current liabilities	$147,197	$131,697

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The following table summarizes the components of accumulated other comprehensive income as of March 31, 2014 and December 31, 2013 (in thousands):

	March 31, 2014	December 31, 2013
Foreign currency translation adjustments	$20,443	$24,952
Unrealized loss on available-for-sale securities, net of tax	(423)	(122)
Accumulated other comprehensive income	$20,020	$24,830

6. COMMITMENTS AND CONTINGENCIES

Except for commitments under operating leases that were assumed in connection with the Ticket Monster and Ideeli acquisitions, as described in Note 2, "Business Combinations," the Company's commitments as of March 31, 2014 did not materially change from the amounts set forth in its 2013 Annual Report on Form 10-K. As of March 31, 2014, estimated future payments under operating leases assumed in connection with the Ticket Monster and Ideeli acquisitions for each of the next five years and thereafter are as follows (in thousands):

	Operating leases
2014	$3,958
2015	5,112
2016	4,911
2017	4,326
2018	2,631
Thereafter	11,110
Total minimum lease payments	$32,048

Legal Matters

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

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

The Company is currently a defendant in a proceeding pursuant to which, on October 29, 2012, a consolidated amended class action complaint was filed against the Company, certain of its directors and officers, and the underwriters that participated in the initial public offering of the Company's Class A common stock. Originally filed in April 2012, the case is currently pending before the United States District Court for the Northern District of Illinois: In re Groupon, Inc. Securities Litigation. The complaint asserts claims pursuant to Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. Allegations in the consolidated amended complaint include that the Company and its officers and directors made untrue statements or omissions of material fact by issuing inaccurate financial statements for the fiscal quarter and the fiscal year

ending December 31, 2011 and by failing to disclose information about the Company's financial controls in the registration statement and prospectus for the Company's initial public offering of Class A common stock and in the Company's subsequently-issued financial statements. The putative class action lawsuit seeks an unspecified amount of monetary damages, reimbursement for fees and costs incurred in connection with the actions, including attorneys' fees, and various other forms of monetary and non-monetary relief. The defendants filed a motion to dismiss the consolidated amended complaint on January 18, 2013, which the Court denied on September 19, 2013. Defendants' answered the consolidated amended class action complaint on December 6, 2013. Plaintiff filed an amended motion for class certification on December 4, 2013. On March 6, 2014, defendants filed their response briefs in opposition to the amended motion for class certification. On April 21, 2014, lead plaintiff filed a reply brief in support of his amended motion for class certification. On March 18, 2014, the court entered a scheduling order setting deadlines for fact discovery by March 13, 2015, expert discovery by August 31, 2015, and dispositive motions by October 30, 2015.

In addition, federal and state purported stockholder derivative lawsuits have been filed against certain of the Company's current and former directors and officers. The federal purported stockholder derivative lawsuit was originally filed in April 2012 and a consolidated stockholder derivative complaint, filed on July 30, 2012, is currently pending in the United States District Court for the Northern District of Illinois: In re Groupon Derivative Litigation. Plaintiffs assert claims for breach of fiduciary duty and abuse of control. The state derivative cases are currently pending before the Chancery Division of the Circuit Court of Cook County, Illinois: Orrego v. Lefkofsky, et al., was filed on April 5, 2012; and Kim v. Lefkofsky, et al., was filed on May 25, 2012. The state derivative complaints generally allege that the defendants breached their fiduciary duties by purportedly mismanaging the Company's business by, among other things, failing to utilize proper accounting controls and, in the case of one of the state derivative lawsuits, by engaging in alleged insider trading of the Company's Class A common stock and misappropriating information. In addition, one state derivative case asserts a claim for unjust enrichment. The derivative lawsuits purport to seek to recoup for the Company an unspecified amount of monetary damages allegedly sustained by the Company, restitution from defendants, reimbursement for fees and costs incurred in connection with the actions, including attorneys' fees, and various other forms of monetary and non-monetary relief. On June 20, 2012, the Company and the individual defendants filed a motion requesting that the court stay the federal derivative actions pending resolution of the Federal Class Actions. On July 31, 2012, the court granted defendants' motion in part, and stayed the Federal derivative actions pending a separate resolution of upcoming motions to dismiss in the federal class actions. On June 15, 2012, the state plaintiffs filed a motion to consolidate the state derivative actions, which was granted on July 2, 2012, and on July 5, 2012, the plaintiffs filed a motion for appointment of co-lead plaintiffs and co-lead counsel, which was granted on July 27, 2012. No consolidated complaint has been filed in the state derivative action. On September 14, 2012, the court granted a motion filed by the parties requesting that the court stay the state derivative actions pending the federal court's resolution of anticipated motions to dismiss in the federal class actions. On April 18, 2013, the state court appointed a lead plaintiff and approved its selection of lead counsel and local counsel for the purported class. Following entry of the court's order denying defendants' motions to dismiss in In re Groupon Securities Litigation, the parties in both the state and federal derivative actions filed motions requesting that the Court extend the litigation stay currently in place pending further developments in In re Groupon, Inc. Securities Litigation. The state court granted the motion to stay on December 6, 2013, and the federal court granted the motion to stay on January 22, 2014.

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

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

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

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

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

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

Indemnifications

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

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

7. STOCKHOLDERS' EQUITY AND STOCK-BASED COMPENSATION

Common Stock

The Board of Directors (the "Board") has authorized three classes of common stock: Class A common stock, Class B common stock and common stock. No shares of common stock will be issued or outstanding until October 31, 2016, at which time all outstanding shares of Class A common stock and Class B common stock will automatically convert into shares of common stock. In addition, the Board has authorized shares of undesignated preferred stock, the rights, preferences and privileges of which may be designated from time to time by the Board.

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Share Repurchase Programs

The Board has authorized the Company to purchase up to $300 million of its outstanding Class A common stock through August 2015. The timing and amount of any share repurchases is determined based on market conditions, share price and other factors, and the program may be discontinued or suspended at any time. During the three months ended March 31, 2014, the Company purchased 3,075,700 shares of Class A common stock for an aggregate purchase price of $29.5 million (including fees and commissions) under the share repurchase program. As of March 31, 2014, up to $224.0 million of Class A common stock remains available for repurchase 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 March 31, 2014, 18,692,035 shares were available for future issuance under the Plans.

The Company recognized stock-based compensation expense of $23.7 million and $29.9 million for the three months ended March 31, 2014 and 2013, respectively, related to stock awards issued under the Plans, acquisition-related awards and subsidiary awards. The Company also capitalized $2.3 million and $2.6 million of stock-based compensation for the three months ended March 31, 2014 and 2013, respectively, in connection with internally-developed software.

As of March 31, 2014, a total of $229.8 million of unrecognized compensation costs related to unvested stock awards and unvested acquisition-related awards are expected to be recognized over a remaining weighted average period of 1.5 years.

Employee Stock Purchase Plan

The Company is authorized to grant up to 10,000,000 shares of common stock under its employee stock purchase plan ("ESPP"). For the three months ended March 31, 2014 and 2013, 333,824 and 271,402 shares of common stock were issued under the ESPP, respectively.

Stock Options

The table below summarizes the stock option activity for the three months ended March 31, 2014:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands) (1)
Outstanding at December 31, 2013	3,355,054	$1.11	6.04	$35,742
Exercised	(357,291)	$1.02		
Forfeited	(3,929)	$1.87		
Outstanding at March 31, 2014	2,993,834	$1.11	5.79	$20,144
Exercisable at March 31, 2014	2,743,019	$0.99	5.73	$18,788

(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 March 31, 2014 and December 31, 2013, respectively.

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Restricted Stock Units

The table below summarizes activity regarding unvested restricted stock units under the Plans during the three months ended March 31, 2014:

	Restricted Stock Units		Weighted- Average Grant Date Fair Value (per share)
Unvested at December 31, 2013	41,648,055		$8.06
Granted	6,657,851		$10.05
Vested	(3,819,150	)	$7.29
Forfeited	(4,271,952	)	$8.49
Unvested at March 31, 2014	40,214,804		$8.45

Performance Share Units

The Company completed its acquisition of Ticket Monster on January 2, 2014, as described in Note 2 "Business Combinations," and approximately 2,000,000 performance share units were granted to certain key employees of that subsidiary during the three months ended March 31, 2014. The vesting of these awards into shares of the Company's Class A common stock is contingent upon the subsidiary's achievement of specified financial targets over three annual performance periods for the years ending December 31, 2014, 2015 and 2016 and is subject to continued employment at the end of each performance period. If the financial targets for a performance period are not achieved, no common stock will be issued for that performance period. The grant date fair value of the performance share units was $8.07 per share.

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 periods.
The table below summarizes activity regarding unvested restricted stock for the three months ended March 31, 2014:

	Restricted Stock		Weighted- Average Grant Date Fair Value (per share)
Unvested at December 31, 2013	97,677		$14.00
Vested	(26,015	)	$15.78
Unvested at March 31, 2014	71,662		$15.93

8. 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 March 31, 2014, the Company recorded income tax expense of $14.6 million on pre-tax losses of $20.8 million, for an effective tax rate of (70.1)%. For the three months ended March 31, 2013, the Company recorded income tax expense of $19.3 million on pre-tax income of $16.1 million, for an effective tax rate of 120.1%. The Company's U.S. statutory rate is 35%. The most significant factors impacting the effective tax rate for the three months ended March 31, 2014 and 2013 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.

As of March 31, 2014, the unamortized tax effects of intercompany transactions of $27.3 million and $13.6 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, 2013, unamortized tax effects of intercompany transactions of $28.5 million and $20.4 million are included within "Prepaid expenses and other current assets" and "Other non-current assets," respectively, on the condensed consolidated balance sheet. As of March 31, 2014, the estimated future amortization of the tax effects of intercompany transactions to income tax expense is $20.6 million for the remainder of 2014 and $20.3 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.

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 is determined based on assumptions that market participants would use in pricing an asset or a liability.

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

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

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

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

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

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

Available-for-sale securities - The Company has investments in redeemable preferred shares and convertible debt securities issued by nonpublic entities. The Company measures the fair value of available-for-sale securities using the discounted cash flow method, which is an income approach, and the probability-weighted expected return method, which is an income approach that incorporates probability-weighted outcomes.

The Company has classified its investments in available-for-sale securities as Level 3 due to the lack of observable market data over fair value inputs such as cash flow projections, discount rates and probability-weightings. Increases in projected cash flows and decreases in discount rates contribute to increases in the estimated fair values of available-for-sale securities, whereas decreases in projected cash flows and increases in discount rates contribute to decreases in their fair values. Additionally, increases in the probabilities of favorable investment outcomes, such as a sale or initial public offering of the investee, and decreases in the probabilities of unfavorable outcomes, such as a default by the investee, contribute to increases in the estimated fair value of available-for-sale securities, whereas decreases in the probabilities of favorable investment outcomes and increases in the probabilities of unfavorable investment outcomes contribute to decreases in their fair values.

Contingent consideration - The Company has previously had contingent obligations to transfer cash payments and equity shares to the former owners in conjunction with certain acquisitions if specified operational objectives and financial results are met over future reporting periods. Liabilities for contingent consideration (i.e., earn-outs) are measured at fair value each reporting period, with the acquisition-date fair value included as part of the consideration transferred and subsequent changes in fair value are recorded in earnings within "Acquisition-related expense, net" on the condensed consolidated statements of operations. There were no outstanding contingent consideration arrangements as of March 31, 2014.

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The Company uses an income approach to value contingent consideration liabilities, which is determined based on the present value of probability-weighted future cash flows. The Company has generally classified the contingent consideration liabilities as Level 3 due to the lack of relevant observable market data over fair value inputs such as probability-weighting of payment outcomes. Increases in the assessed likelihood of a higher payout under a contingent consideration arrangement contribute to increases in the fair value of the related liability. Conversely, decreases in the assessed likelihood of a higher payout under a contingent consideration arrangement contribute to decreases in the fair value of the related liability.

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	March 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$585,536	$585,536	$—	$—
Available-for-sale securities:				
Convertible debt securities	$2,693	$—	$—	$2,693
Redeemable preferred shares	$4,599	$—	$—	$4,599

		Fair Value Measurement at Reporting Date Using		
Description	December 31, 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	$585,514	$585,514	$—	$—
Available-for-sale securities:				
Convertible debt securities	$3,174	$—	$—	$3,174
Redeemable preferred shares	$—	$—	$—	$—
Liabilities:				
Contingent consideration	$606	$—	$—	$606

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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 months ended March 31, 2014 and 2013 (in thousands):

	Three Months Ended March 31,	
	2014	2013
Assets		
Available-for-sale securities		
Convertible debt securities:		
Beginning Balance	$3,174	$3,087
Total (losses) gains included in other comprehensive (loss) income	(481)	254
Ending Balance	$2,693	$3,341
Unrealized losses (gains) still held[1]	$481	$(254)
Redeemable preferred shares[2]:		
Beginning Balance	$—	$42,539
Purchase of redeemable preferred shares	4,599	—
Ending Balance	$4,599	$42,539
Unrealized (gains) losses still held[1]	$—	$—
Liabilities		
Contingent Consideration:		
Beginning Balance	$606	$7,601
Issuance of contingent consideration in connection with acquisitions	—	30
Settlements of contingent consideration liabilities	(424)	—
Reclass to non-fair value liabilities when no longer contingent	(143)	—
Total (gains) losses included in earnings[3]	(39)	68
Ending Balance	$—	$7,699
Unrealized (gains) losses still held[1]	$—	$68

(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) For the three months ended March 31, 2013, the Company's investments in Life Media Limited (F-tuan) preferred shares were previously classified as cost method investments and have been reclassified to the available-for-sale category in this table. The balance as of March 31, 2013 represents the Company's investments in F-tuan preferred shares, which were written down to zero through an other-than-temporary impairment charge as of December 31, 2013 and continue to have an estimated fair value of zero as of March 31, 2014. The $4.6 million balance as of March 31, 2014 represents the Company's investment in the preferred shares of an online home services company during the current period, as described in Note 4 "Investments."

(3) Changes in the fair value of contingent consideration liabilities are classified within "Acquisition-related 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 significant nonrecurring fair value measurements after initial recognition during the three months ended March 31, 2014 and 2013.

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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):

	March 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cost method investments	$15,416	$15,629	$15,788	$15,573

The fair values of the Company's cost method investments were determined using the market approach or the income approach, depending on the availability of fair value inputs such as financial projections for the investees and market multiples for comparable companies. The Company has classified the fair value measurements of its cost method investments as Level 3 measurements within the fair value hierarchy because they involve significant unobservable inputs such as cash flow projections and discount rates.

The Company's other financial instruments not carried at fair value consist primarily of short term certificates of deposit, accounts receivable, restricted cash, accounts payable, accrued merchant and supplier payables and accrued expenses. The carrying values of these assets and liabilities approximate their respective fair values as of March 31, 2014 and December 31, 2013 due to their short term nature.

10. LOSS PER SHARE OF CLASS A AND CLASS B COMMON STOCK

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

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

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The following table sets forth the computation of basic and diluted loss per share of Class A and Class B common stock for the three months ended March 31, 2014 and 2013 (in thousands, except share amounts and per share amounts):

	Three Months Ended March 31,			
	2014		2013	
	Class A	Class B	Class A	Class B
Basic loss per share:				
Numerator				
Allocation of net loss	$(35,239)	$(124)	$(3,231)	$(11)
Less: Allocation of net income attributable to noncontrolling interests	2,423	9	747	3
Allocation of net loss attributable to common stockholders	$(37,662)	$(133)	$(3,978)	$(14)
Denominator				
Weighted-average common shares outstanding	679,978,714	2,399,976	656,400,441	2,399,976
Basic loss per share	$(0.06)	$(0.06)	$(0.01)	$(0.01)
Diluted loss per share:				
Numerator				
Allocation of net loss attributable to common stockholders	$(37,662)	$(133)	$(3,978)	$(14)
Reallocation of net income attributable to common stockholders as a result of conversion of Class B(1)	—	—	—	—
Allocation of net loss attributable to common stockholders	$(37,662)	$(133)	$(3,978)	$(14)
Denominator				
Weighted-average common shares outstanding used in basic computation	679,978,714	2,399,976	656,400,441	2,399,976
Conversion of Class B(1)	—	—	—	—
Employee stock options(1)	—	—	—	—
Restricted shares and RSUs(1)	—	—	—	—
Weighted-average diluted shares outstanding(1)	679,978,714	2,399,976	656,400,441	2,399,976
Diluted loss per share	$(0.06)	$(0.06)	$(0.01)	$(0.01)

(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 months ended March 31, 2014 and 2013 because the effect would be antidilutive.

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

	Three Months Ended March 31,	
	2014	2013
Stock options	3,233,467	6,854,309
Restricted stock units	40,166,021	35,224,459
Restricted stock	77,008	354,128
ESPP shares	422,873	568,174
Total	43,899,369	43,001,070

In addition to the antidilutive awards as set forth in the table above, the Company also granted approximately 2,000,000 performance share units in connection with its acquisition of Ticket Monster during the three months ended March 31, 2014. Contingently issuable shares are excluded from the computation of diluted EPS if, based on current period results, the shares would not be issuable if the end of the reporting period were the end of the contingency period. These outstanding performance share units have been excluded from the table above for the three months ended March 31, 2014 as the performance conditions would not have been satisfied as of the end of the period.

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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 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, 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 appointed Mr. Lefkofsky as CEO. Mr. Lefkofsky was previously a member of the Office of the Chief Executive and continues to be the Company's CODM.

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Revenue and profit or loss information by reportable segment reconciled to consolidated net loss for the three months ended March 31, 2014 and 2013 were as follows (in thousands):

	Three Months Ended March 31,	
	2014	2013
North America		
Revenue[1]	$431,062	$339,554
Segment cost of revenue and operating expenses[2]	419,677	298,188
Segment operating income[2]	11,385	41,366
EMEA		
Revenue[3]	230,893	183,798
Segment cost of revenue and operating expenses[2]	211,970	149,622
Segment operating income[2]	18,923	34,176
Rest of World		
Revenue	95,682	78,050
Segment cost of revenue and operating expenses[2]	120,429	102,439
Segment operating loss[2]	(24,747)	(24,389)
Consolidated		
Revenue	757,637	601,402
Segment cost of revenue and operating expenses[2]	752,076	550,249
Segment operating income[2]	5,561	51,153
Stock-based compensation	23,729	29,907
Acquisition-related expense, net	1,785	68
(Loss) income from operations	(19,953)	21,178
Other expense, net	(840)	(5,083)
(Loss) income before provision for income taxes	(20,793)	16,095
Provision for income taxes	14,570	19,337
Net loss	$(35,363)	$(3,242)

(1) North America includes revenue from the United States of $419.9 million and $326.8 million for the three months ended March 31, 2014 and 2013, respectively.

(2) Segment cost of revenue and operating expenses and segment operating income (loss) exclude stock-based compensation and acquisition-related expense (benefit), 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 March 31, 2014 and 2013, stock-based compensation expense was approximately $19.5 million and $22.8 million, respectively, for the North America segment, approximately $2.3 million and $3.1 million, respectively, for the EMEA segment and approximately $2.0 million and $4.0 million, respectively, for the Rest of World segment. For the three months ended March 31, 2014 and 2013, acquisition-related expense, net was approximately $1.6 million and $0.1 million, respectively, for the North America segment and approximately $0.1 million of expense and $0.1 million of benefit, respectively, for the EMEA segment. Acquisition-related 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) Beginning in September 2013, direct revenue transactions in the EMEA Goods category have been transacted through a Switzerland-based subsidiary. As a result, EMEA includes revenue from Switzerland of $91.9 million for the three months ended March 31, 2014.

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The following table summarizes the Company's total assets by reportable segment as of March 31, 2014 and December 31, 2013 (in thousands):

	March 31, 2014	December 31, 2013
North America [(1)]	$1,141,248	$1,267,158
EMEA	607,890	616,126
Rest of World [(1)]	531,468	158,726
Consolidated total assets	$2,280,606	$2,042,010

(1) North America contains assets from the United States of $1,123.2 million and $1,231.3 million as of March 31, 2014 and December 31, 2013, respectively. Rest of World contains assets from the Republic of Korea, including those assets acquired as a part of our acquisition of Ticket Monster described in Note 2 "Business Combinations," of $384.4 million as of March 31, 2014. There were no other individual countries that represented more than 10% of consolidated total assets as of March 31, 2014 and December 31, 2013, respectively.

Category Information

The Company offers goods and services through three primary categories: Local Deals ("Local"), Groupon Goods ("Goods") and Groupon Getaways ("Travel"). The Company also earns advertising revenue, payment processing revenue, point of sale revenue, reservation revenue and commission revenue. Revenue and gross profit from these other sources were previously considered to be distinct from our primary categories and were aggregated with revenue and gross profit from Travel, our smallest category. In recent periods, these other revenue sources have been increasingly viewed by management as a component of the Local category, as they are primarily generated through the Company’s relationships with local and national merchants. Accordingly, the Company has updated its presentation of category information in the current period to include other revenue and gross profit within the Local category in the tables below, and the prior period category information has been retrospectively adjusted to conform to the current period presentation.

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 March 31, 2014 and 2013 (in thousands):

	North America Three Months Ended March 31,		EMEA Three Months Ended March 31,		Rest of World Three Months Ended March 31,		Consolidated Three Months Ended March 31,	
	2014	2013	2014	2013	2014	2013	2014	2013
Local [(1)]:								
Third party and other	$177,247	$172,294	$109,120	$111,589	$43,814	$45,414	$330,181	$329,297
Goods:								
Third party	1,321	3,144	17,475	45,875	36,175	18,062	54,971	67,081
Direct	236,114	148,065	89,414	7,451	5,680	6,778	331,208	162,294
Total	237,435	151,209	106,889	53,326	41,855	24,840	386,179	229,375
Travel:								
Third party	16,380	16,051	14,884	18,883	10,013	7,796	41,277	42,730
Total revenue	$431,062	$339,554	$230,893	$183,798	$95,682	$78,050	$757,637	$601,402

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

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The following table summarizes the Company's gross profit by category for its three reportable segments for the three months ended March 31, 2014 and 2013 (in thousands):

	North America		EMEA		Rest of World		Consolidated	
	Three Months Ended March 31,		Three Months Ended March 31,		Three Months Ended March 31,		Three Months Ended March 31,	
	2014	2013	2014	2013	2014	2013	2014	2013
Local [1]:								
Third party and other	$152,622	$146,379	$100,066	$97,389	$34,748	$39,490	$287,436	$283,258
Goods:								
Third party	1,160	2,669	15,722	39,995	23,516	6,561	40,398	49,225
Direct	11,444	9,787	11,580	(21)	(1,381)	151	21,643	9,917
Total	12,604	12,456	27,302	39,974	22,135	6,712	62,041	59,142
Travel:								