Groupon, Inc.
Form 10-Q
October 27, 2016
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, 2016

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: 1-35335

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)

Securities registered pursuant to Section 12(b) of the Act:
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 October 24, 2016, there were 571,162,037 shares of the registrant's Class A Common Stock outstanding and 2,399,976 shares of the registrant's Class B Common Stock outstanding.

TABLE OF CONTENTS

PART I

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, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, 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, but are not limited to, volatility in our revenue and operating results; risks related to our business strategy, including our strategy to grow our local marketplaces, marketing strategy and spend and the productivity of those marketing investments and the impact of our shift away from lower-margin products in our Goods category; effectively dealing with challenges arising from our international operations, including fluctuations in currency exchange rates and any potential adverse impact from the United Kingdom's likely exit from the European Union; retaining existing customers and adding new customers, including as we increase our marketing spend and shift away from lower-margin products in our Goods category; retaining and adding high quality merchants; cyber security breaches; incurring expenses as we expand our business; competing successfully in our industry; maintaining favorable payment terms with our business partners; providing a strong mobile experience for our customers; delivery and routing of our emails; product liability claims; managing inventory and order fulfillment risks; integrating our technology platforms; litigation; managing refund risks; retaining, attracting and integrating members of our executive team; difficulties, delays or our inability to successfully complete all or part of the announced restructuring actions or to realize the operating efficiencies and other benefits of such restructuring actions; higher than anticipated restructuring charges or changes in the timing of such restructuring charges; completing and realizing the anticipated benefits from acquisitions, dispositions, joint ventures and strategic investments; tax liabilities; tax legislation; compliance with domestic and foreign laws and regulations, including the CARD Act and regulation of the Internet and e-commerce; classification of our independent contractors; maintaining our information technology infrastructure; protecting our intellectual property; maintaining a strong brand; seasonality; customer and merchant fraud; payment-related risks; our ability to raise capital if necessary and our outstanding indebtedness; global economic uncertainty; the impact of our ongoing strategic review and any potential strategic alternatives we may choose to pursue; our senior convertible notes; our ability to realize the anticipated benefits from the hedge and warrant transactions; and those risks and other factors discussed in Part I, "Item 1A: Risk Factors" of our 2015 Annual Report on Form 10-K for the year ended December 31, 2015, and Part II, "Item 1A: Risk Factors" of our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2016, June 30, 2016 and September 30, 2016, 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, 2016 (unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$689,747	$853,362
Accounts receivable, net	74,047	68,175
Prepaid expenses and other current assets	145,280	153,705
Total current assets	909,074	1,075,242
Property, equipment and software, net	179,987	198,897
Goodwill	289,856	287,332
Intangible assets, net	25,475	36,483
Investments (including $150,532 and $163,675 at September 30, 2016 and December 31, 2015, respectively, at fair value)	180,617	178,236
Deferred income taxes	4,242	3,454
Other non-current assets	24,290	16,620
Total Assets	$1,613,541	$1,796,264
Liabilities and Equity		
Current liabilities:		
Accounts payable	$21,833	$24,590
Accrued merchant and supplier payables	608,939	776,211
Accrued expenses and other current liabilities	353,696	402,724
Total current liabilities	984,468	1,203,525
Convertible senior notes, net	176,473	—
Deferred income taxes	6,840	8,612
Other non-current liabilities	113,604	113,540
Total Liabilities	1,281,385	1,325,677
Commitments and contingencies (see Note 7)		
Stockholders' Equity		
Class A common stock, par value $0.0001 per share, 2,000,000,000 shares authorized, 730,849,600 shares issued and 571,551,487 shares outstanding at September 30, 2016 and 717,387,446 shares issued and 588,919,281 shares outstanding at December 31, 2015	73	72
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, 2016 and December 31, 2015	—	—
Common stock, par value $0.0001 per share, 2,010,000,000 shares authorized, no shares issued and outstanding at September 30, 2016 and December 31, 2015	—	—
Additional paid-in capital	2,094,975	1,964,453
Treasury stock, at cost, 159,298,113 shares at September 30, 2016 and 128,468,165 shares at December 31, 2015	(757,520)	(645,041)
Accumulated deficit	(1,046,422)	(901,292)
Accumulated other comprehensive income (loss)	40,132	51,206
Total Groupon, Inc. Stockholders' Equity	331,238	469,398
Noncontrolling interests	918	1,189
Total Equity	332,156	470,587
Total Liabilities and Equity	$1,613,541	$1,796,264

See Notes to 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,	
	2016	2015	2016	2015
Revenue:				
Third party and other	$309,836	$326,306	$962,533	$1,027,273
Direct	410,632	387,289	1,245,936	1,175,073
Total revenue	720,468	713,595	2,208,469	2,202,346
Cost of revenue:				
Third party and other	40,419	46,050	131,000	145,292
Direct	365,932	338,633	1,090,436	1,043,729
Total cost of revenue	406,351	384,683	1,221,436	1,189,021
Gross profit	314,117	328,912	987,033	1,013,325
Operating expenses:				
Marketing	87,858	61,587	269,616	171,127
Selling, general and administrative	253,554	326,248	811,710	904,816
Restructuring charges	1,459	24,146	29,988	24,146
Gains on business dispositions	(2,060)	(13,710)	(11,399)	(13,710)
Acquisition-related expense (benefit), net	(9)	1,064	4,305	1,300
Total operating expenses	340,802	399,335	1,104,220	1,087,679
Income (loss) from operations	(26,685)	(70,423)	(117,187)	(74,354)
Other income (expense), net	(7,028)	(8,160)	(14,303)	(25,146)
Income (loss) from continuing operations before provision (benefit) for income taxes	(33,713)	(78,583)	(131,490)	(99,500)
Provision (benefit) for income taxes	2,079	(53,970)	1,629	(42,881)
Income (loss) from continuing operations	(35,792)	(24,613)	(133,119)	(56,619)
Income (loss) from discontinued operations, net of tax	—	—	—	133,463
Net income (loss)	(35,792)	(24,613)	(133,119)	76,844
Net income attributable to noncontrolling interests	(2,184)	(3,002)	(8,880)	(9,648)
Net income (loss) attributable to Groupon, Inc.	$(37,976)	$(27,615)	$(141,999)	$67,196
Basic net income (loss) per share:				
Continuing operations	$(0.07)	$(0.04)	$(0.25)	$(0.10)
Discontinued operations	—	—	—	0.20
Basic net income (loss) per share	$(0.07)	$(0.04)	$(0.25)	$0.10
Diluted net income (loss) per share:				
Continuing operations	$(0.07)	$(0.04)	$(0.25)	$(0.10)
Discontinued operations	—	—	—	0.20
Diluted net income (loss) per share	$(0.07)	$(0.04)	$(0.25)	$0.10
Weighted average number of shares outstanding				
Basic	575,216,191	644,894,785	578,290,291	664,302,630
Diluted	575,216,191	644,894,785	578,290,291	664,302,630

See Notes to Condensed Consolidated Financial Statements.

5

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Income (loss) from continuing operations	$(35,792)	$(24,613)	$(133,119)	$(56,619)
Other comprehensive income (loss) from continuing operations:				
Foreign currency translation adjustments:				
Net unrealized gain (loss) during the period	612	(1,246)	(3,183)	6,085
Reclassification adjustments included in income (loss) from continuing operations	221	(906)	(7,776)	3,495
Net change in unrealized gain (loss)	833	(2,152)	(10,959)	9,580
Amortization of pension net actuarial gain (loss) to earnings (net of tax effect of $(4) and $(5) for the three months ended September 30, 2016 and 2015, respectively, and $(13) and $(15) for the nine months ended September 30, 2016 and 2015, respectively)	23	26	69	79
Net change in unrealized gain (loss) on available-for-sale securities (net of tax effect of $10 and $116 for the three months ended September 30, 2016 and 2015, respectively, and $113 and $9 for the nine months ended September 30, 2016 and 2015, respectively)	(16)	(193)	(184)	(17)
Other comprehensive income (loss) from continuing operations	840	(2,319)	(11,074)	9,642
Comprehensive income (loss) from continuing operations	(34,952)	(26,932)	(144,193)	(46,977)
Income (loss) from discontinued operations	—	—	—	133,463
Other comprehensive income (loss) from discontinued operations - Foreign currency translation adjustments:				
Net unrealized gain (loss) during the period	—	—	—	(4,349)
Reclassification adjustment included in net income (loss) from discontinued operations	—	—	—	12,313
Net change in unrealized gain (loss)	—	—	—	7,964
Comprehensive income (loss) from discontinued operations	—	—	—	141,427
Comprehensive income (loss)	(34,952)	(26,932)	(144,193)	94,450
Comprehensive income (loss) attributable to noncontrolling interests	(2,184)	(3,002)	(8,880)	(9,648)
Comprehensive income (loss) attributable to Groupon, Inc.	$(37,136)	$(29,934)	$(153,073)	$84,802

See Notes to Condensed Consolidated Financial Statements.

GROUPON, INC.
CONDENSED CONSOLIDATED STATEMENTS 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 (Loss)	Total Groupon Inc. Stockholders' Equity	Non-cont Interests
Balance at December 31, 2015	719,787,422	$72	$1,964,453	(128,468,165)	$(645,041)	$(901,292)	$51,206	$469,398	$1,189
Cumulative effect of change in accounting principle	—	—	—	—	—	(3,131)	—	(3,131)	—
Net income (loss)	—	—	—	—	—	(141,999)	—	(141,999)	8,880
Foreign currency translation	—	—	—	—	—	—	(10,959)	(10,959)	—
Amortization of pension net actuarial loss to earnings, net of tax	—	—	—	—	—	—	69	69	—
Unrealized gain (loss) on available-for-sale securities, net of tax	—	—	—	—	—	—	(184)	(184)	—
Forfeitures of unvested restricted stock	(196,968)	—	—	—	—	—	—	—	—
Exercise of stock options	490,283	—	618	—	—	—	—	618	—
Vesting of restricted stock units	17,667,674	2	(2)	—	—	—	—	—	—
Shares issued under employee stock purchase plan	1,669,782	—	4,358	—	—	—	—	4,358	—
Tax withholdings related to net share settlements of stock-based compensation awards	(6,168,617)	(1)	(23,829)	—	—	—	—	(23,830)	—
	—	—	105,716	—	—	—	—	105,716	—

Stock-based compensation on equity-classified awards										
Equity component of the convertible senior notes, net of tax and issuance costs	—	—	67,329	—	—	—	—	67,329	—	6
Purchase of convertible note hedges	—	—	(59,163)	—	—	—	—	(59,163)	—	(
Issuance of warrants	—	—	35,495	—	—	—	—	35,495	—	3
Purchases of treasury stock	—	—	—	(30,829,948)	(112,479)	—	—	(112,479)	—	(
Distributions to noncontrolling interest holders	—	—	—	—	—	—	—	—	(9,151)	(
Balance at September 30, 2016	733,249,576	$73	$2,094,975	(159,298,113)	$(757,520)	$(1,046,422)	$40,132	$331,238	$918	$

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2016	2015
Operating activities		
Net income (loss)	$(133,119)	$76,844
Less: Income (loss) from discontinued operations, net of tax	—	133,463
Income (loss) from continuing operations	(133,119)	(56,619)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization of property, equipment and software	88,697	84,241
Amortization of acquired intangible assets	13,643	14,966
Stock-based compensation	94,750	109,204
Restructuring-related long-lived asset impairments	45	345
Gains on business dispositions	(11,399)	(13,710)
Deferred income taxes	(6,436)	(15,252)
(Gain) loss, net from changes in fair value of contingent consideration	4,130	(268)
(Gain) loss from changes in fair value of investments	7,301	2,114
Amortization of debt discount on convertible senior notes	4,854	—
Change in assets and liabilities, net of acquisitions:		
Restricted cash	(332)	4,555
Accounts receivable	(3,593)	6,353
Prepaid expenses and other current assets	10,738	(39,813)
Accounts payable	(4,326)	(944)
Accrued merchant and supplier payables	(171,816)	(101,852)
Accrued expenses and other current liabilities	(47,919)	57,214
Other, net	(16,775)	(1,242)
Net cash provided by (used in) operating activities from continuing operations	(171,557)	49,292
Net cash provided by (used in) operating activities from discontinued operations	—	(36,578)
Net cash provided by (used in) operating activities	(171,557)	12,714
Investing activities		
Purchases of property and equipment and capitalized software	(49,215)	(68,481)
Cash derecognized upon dispositions of subsidiaries	(1,128)	(1,404)
Acquisitions of businesses, net of acquired cash	(940)	(70,130)
Purchases of investments	—	(5,000)
Proceeds from sale of investment	1,685	1,231
Settlement of liabilities related to purchase of additional interest in consolidated subsidiaries	—	(1,072)
Acquisitions of intangible assets	(2,121)	(1,156)
Net cash provided by (used in) investing activities from continuing operations	(51,719)	(146,012)
Net cash provided by (used in) investing activities from discontinued operations	—	244,470
Net cash provided by (used in) investing activities	(51,719)	98,458
Financing activities		
Proceeds from borrowings under revolving credit facility	—	195,000
Proceeds from issuance of convertible senior notes	250,000	—
Issuance costs for convertible senior notes and revolving credit agreement	(8,097)	—
Purchase of convertible note hedges	(59,163)	—
Proceeds from issuance of warrants	35,495	—
Payments for purchases of treasury stock	(115,619)	(329,378)

Taxes paid related to net share settlements of stock-based compensation awards	(23,327)	(34,477)
Proceeds from stock option exercises and employee stock purchase plan	4,976	5,673
Distributions to noncontrolling interest holders	(9,151)	(10,954)
Payment of contingent consideration related to acquisitions	(285)	(382)
Payments of capital lease obligations	(21,961)	(17,670)
Net cash provided by (used in) financing activities	52,868	(192,188)
Effect of exchange rate changes on cash and cash equivalents, including cash classified within current assets held for sale	6,793	(27,338)
Net increase (decrease) in cash and cash equivalents, including cash classified within current assets held for sale	(163,615)	(108,354)
Less: Net increase (decrease) in cash classified within current assets held for sale	—	(55,279)
Net increase (decrease) in cash and cash equivalents	(163,615)	(53,075)
Cash and cash equivalents, beginning of period	853,362	1,016,634
Cash and cash equivalents, end of period	$689,747	$963,559

8

Non-cash investing and financing activities		
Continuing operations:		
Equipment acquired under capital lease obligations	$17,556	$40,927
Leasehold improvements funded by lessor	4,990	—
Liability for purchases of treasury stock	1,041	5,059
Contingent consideration liabilities incurred in connection with acquisitions	—	9,605
Accounts payable and accrued expenses related to purchases of property and equipment and capitalized software	2,250	1,500
Minority investment recognized in connection with disposition of Ticket Monster	—	122,075
Minority investment recognized in connection with disposition of Groupon India	—	16,400
Cost method investments acquired in connection with business dispositions	11,050	—

See Notes to 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, generally at a discount. Consumers access those marketplaces through the Company's websites, primarily localized groupon.com sites in many countries, and its mobile applications.

The Company's operations are organized into three 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"). See Note 13, "Segment Information."

In May 2015, the Company sold a controlling stake in its subsidiary Ticket Monster, Inc. ("Ticket Monster"), an entity based in the Republic of Korea, that resulted in its deconsolidation. The financial results of Ticket Monster, including the gain on disposition and related income tax effects, are presented as discontinued operations in the accompanying condensed consolidated financial statements for the three and nine months ended September 30, 2015. See Note 2, "Discontinued Operations and Other Dispositions," for additional 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 income (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, 2016. 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, 2015, filed with the SEC on February 11, 2016, as amended by the Form 10-K/A for the year ended December 31, 2015, filed with the SEC on March 30, 2016.

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

Adoption of New Accounting Standards

The Company adopted the guidance in Accounting Standards Update ("ASU") 2016-09, Compensation - Stock Compensation (Topic 718) - Improvements to Employee Share-Based Payment Accounting, on January 1, 2016. Under this ASU, entities are permitted to make an accounting policy election to either estimate forfeitures on share-based payment awards, as previously required, or to recognize forfeitures as they occur. The Company has elected to recognize forfeitures as they occur and

10

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

the impact of that change in accounting policy has been recorded as a $3.1 million cumulative effect adjustment to its accumulated deficit as of January 1, 2016. Additionally, ASU 2016-09 requires that all income tax effects related to settlements of share-based payment awards be reported in earnings as an increase or decrease to income tax expense (benefit), net. Previously, income tax benefits at settlement of an award were reported as an increase (or decrease) to additional paid-in capital to the extent that those benefits were greater than (or less than) the income tax benefits reported in earnings during the award's vesting period. The requirement to report those income tax effects in earnings has been applied on a prospective basis to settlements occurring on or after January 1, 2016 and the impact of applying that guidance was not material to the condensed consolidated financial statements for the three and nine months ended September 30, 2016. ASU 2016-09 also requires that all income tax-related cash flows resulting from share-based payments be reported as operating activities in the statement of cash flows. Previously, income tax benefits at settlement of an award were reported as a reduction to operating cash flows and an increase to financing cash flows to the extent that those benefits exceeded the income tax benefits reported in earnings during the award's vesting period. The Company has elected to apply that change in cash flow classification on a retrospective basis, which has resulted in a $6.2 million increase to net cash provided by operating activities and a corresponding increase to net cash used in financing activities in the accompanying condensed consolidated statement of cash flows for the nine months ended September 30, 2015, as compared to the amounts previously reported. The remaining provisions of ASU 2016-09 did not have a material impact on the accompanying condensed consolidated financial statements.
The Company adopted the guidance in ASU 2015-02, Consolidation (Topic 810) - Amendments to the Consolidation Analysis, on January 1, 2016. This ASU expands the variable interest entity ("VIE") criteria to specifically include limited partnerships in certain circumstances. The adoption of ASU 2015-02 did not have a material impact on the accompanying condensed consolidated financial statements. The Company determined that Monster Holdings LP ("Monster LP") is not a VIE under ASU 2015-02, which is consistent with its conclusion prior to adoption of the ASU. That investment is evaluated as a corporation, rather than a limited partnership, for purposes of making consolidation determinations because its governance structure is akin to a corporation. Under the terms of Monster LP's amended and restated agreement of limited partnership, all of the objectives and purposes of Monster LP are carried out by a board of directors, rather than a general partner.

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. DISCONTINUED OPERATIONS AND OTHER DISPOSITIONS

Discontinued Operations

In May 2015, the Company sold a controlling stake in Ticket Monster to an investor group. The Company recognized a pre-tax gain on the disposition of $202.2 million ($138.0 million net of tax), which represents the excess of (a) the $398.8 million in net consideration received, consisting of (i) $285.0 million in cash proceeds and (ii) the $122.1 million fair value of its retained minority investment, less (iii) $8.3 million in transaction costs, over (b) the sum of (i) the $184.3 million net book value of Ticket Monster upon the closing of the transaction and (ii) Ticket Monster's $12.3 million cumulative translation loss, which was reclassified to earnings. The financial results of Ticket Monster, the gain on disposition and the related income tax effects are reported within discontinued operations in the accompanying condensed consolidated financial statements.

The following table summarizes the major classes of line items included in income (loss) from discontinued operations, net of tax, for the nine months ended September 30, 2015 (in thousands):

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

	Nine Months Ended September 30, 2015 (1)
Third party and other revenue	$28,145
Direct revenue	39,065
Third party and other cost of revenue	(13,958)
Direct cost of revenue	(38,031)
Marketing expense	(8,495)
Selling, general and administrative expense	(38,102)
Other income, net	96
Loss from discontinued operations before gain on disposition and provision for income taxes	(31,280)
Gain on disposition	202,158
Provision for income taxes	(37,415)
Income (loss) from discontinued operations, net of tax	$133,463

(1) The income from discontinued operations, net of tax, for the nine months ended September 30, 2015 includes the results of Ticket Monster through the disposition date of May 27, 2015.

The $37.4 million provision for income taxes for the nine months ended September 30, 2015 reflects (i) the $64.2 million current and deferred income tax effects of the Ticket Monster disposition during the second quarter of 2015, partially offset by (ii) a $26.8 million tax benefit that resulted from the recognition of a deferred tax asset related to the excess of the tax basis over the financial reporting basis of the Company's investment in Ticket Monster upon meeting the criteria for held-for-sale classification during the first quarter of 2015.

Other Dispositions

The gains from the transactions below are presented within "Gains on business dispositions" in the accompanying condensed consolidated statements of operations. The financial results of those entities are presented within income from continuing operations in the accompanying condensed consolidated financial statements through the their respective disposition dates. Those financial results were not material for the three and nine months ended September 30, 2016 and 2015.

Groupon Russia

On April 12, 2016, the Company sold its subsidiary in Russia ("Groupon Russia"). The Company recognized a pre-tax gain on the disposition of $8.9 million, consisting of Groupon Russia's $1.6 million negative net book value upon the closing of the transaction and its $7.7 million cumulative translation gain, which was reclassified to earnings, less $0.4 million in transaction costs. The Company did not receive any proceeds in connection with the transaction.

Breadcrumb

On May 9, 2016, the Company sold its point of sale business ("Breadcrumb") in exchange for a minority investment in the acquirer. See Note 4, "Investments," for information about this transaction. The Company recognized a pre-tax gain on the disposition of $0.4 million, which represents the excess of (a) $8.2 million in net consideration received, consisting of the $8.3 million fair value of the investment acquired, less $0.1 million in transaction costs, over (b) the

$7.8 million net book value of Breadcrumb upon the closing of the transaction. The Company did not receive any cash proceeds in connection with the transaction.

Groupon Indonesia

On August 5, 2016, the Company sold its subsidiary in Indonesia ("Groupon Indonesia") in exchange for a minority investment in the acquirer. See Note 4, "Investments," for information about this transaction. The Company recognized a pre-tax gain on the disposition of $2.1 million, which represents the excess of (a) the sum of (i) $2.4 million in net consideration received, consisting of the $2.7 million fair value of the investment acquired, less $0.3 million in transaction costs, and (ii) its $0.2 million cumulative translation loss, which was reclassified to earnings, over (b) the $0.1 million net book value of Groupon Indonesia upon closing of the transaction. The Company did not receive any cash proceeds in connection with the transaction.

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

Groupon India

On August 6, 2015, the Company’s subsidiary in India ("Groupon India") completed an equity financing transaction with a third party investor that obtained a majority voting interest in the entity. See Note 5, "Investments," for information about this transaction. The Company recognized a pre-tax gain on the disposition of $13.7 million, which represents the excess of (a) the sum of (i) $14.2 million in net consideration received, consisting of the $16.4 million fair value of its retained minority investment,
less $1.3 million in transaction costs and a $0.9 million guarantee liability and (ii) Groupon India's $0.9 million cumulative translation gain, which was reclassified to earnings, over (b) the $1.4 million net book value of Groupon India upon the closing of the transaction. The Company did not receive any cash proceeds in connection with the transaction.

3. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table summarizes the Company's goodwill activity by segment for the nine months ended September 30, 2016 (in thousands):

	North America	EMEA	Rest of World	Consolidated
Balance as of December 31, 2015	$178,746	$92,063	$16,523	$ 287,332
Goodwill related to acquisition	671	—	—	671
Goodwill related to dispositions	(1,260)	—	(324)	(1,584)
Foreign currency translation	(1)	2,593	845	3,437
Balance as of September 30, 2016	$178,156	$94,656	$17,044	$ 289,856

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

	September 30, 2016		
Asset Category	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Subscriber relationships	$53,402	$ 48,177	$ 5,225
Merchant relationships	9,776	8,609	1,167
Trade names	11,190	8,331	2,859
Developed technology	36,398	29,188	7,210
Brand relationships	7,960	4,267	3,693
Other intangible assets	23,097	17,776	5,321
Total	$141,823	$ 116,348	$ 25,475

	December 31, 2015		
Asset Category	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Subscriber relationships	$52,204	$ 43,725	$ 8,479
Merchant relationships	9,648	8,064	1,584
Trade names	11,013	7,396	3,617
Developed technology	37,103	25,436	11,667
Brand relationships	7,960	3,073	4,887
Other intangible assets	20,638	14,389	6,249
Total	$138,566	$ 102,083	$ 36,483

13

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

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 $4.4 million and $5.2 million for the three months ended September 30, 2016 and 2015, respectively, and $13.6 million and $15.0 million for the nine months ended September 30, 2016 and 2015, respectively. As of September 30, 2016, the Company's estimated future amortization expense related to intangible assets is as follows (in thousands):

Remaining amounts in 2016	$3,818
2017	11,927
2018	8,057
2019	985
2020	608
Thereafter	80
Total	$25,475

4. INVESTMENTS

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

	September 30, 2016	Percent Ownership of Voting Stock	December 31, 2015	Percent Ownership of Voting Stock
Available-for-sale securities:				
Convertible debt securities	$9,931		$ 10,116	
Redeemable preferred shares	17,177	19% to 25%	22,834	17% to 25%
Total available-for-sale securities	27,108		32,950	
Cost method investments	30,085	2% to 19%	14,561	2% to 10%
Fair value option investments	123,424	41% to 45%	130,725	43% to 45%
Total investments	$180,617		$ 178,236	

The following table summarizes the amortized cost, gross unrealized gain, gross unrealized loss and fair value of the Company's available-for-sale securities as of September 30, 2016 and December 31, 2015, respectively (in thousands):

	September 30, 2016				December 31, 2015			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss (1)	Fair Value	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss (1)	Fair Value
Available-for-sale securities:								
Convertible debt securities	$8,263	$ 1,704	$ (36)	$9,931	$9,234	$ 882	$ —	$10,116
Redeemable preferred shares	18,375	—	(1,198)	17,177	22,973	—	(139)	22,834
Total available-for-sale securities	$26,638	$ 1,704	$ (1,234)	$27,108	$32,207	$ 882	$ (139)	$32,950

(1) Available-for-sale securities with an unrealized loss were in a loss position for less than 12 months.

Fair Value Option Investments

In connection with the dispositions of Ticket Monster in May 2015 and the Company's subsidiary in India ("Groupon

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

India") in August 2015, the Company obtained a minority limited partner interest in Monster Holdings LP ("Monster LP") and a minority investment in GroupMax Pte Ltd. ("GroupMax"). The investments in Monster LP and GroupMax were measured at their fair values of $122.1 million and $16.4 million, respectively, as of their respective transaction dates.

The Company has made an irrevocable election to account for both of these investments at fair value with changes in fair value reported in earnings. The Company elected to apply fair value accounting to these investments because it believes that fair value is the most relevant measurement attribute for these investments, as well as to reduce operational and accounting complexity.

As of September 30, 2016, the Company has measured the fair value of the Monster LP investment primarily using the discounted cash flow method, which is an income approach. Under that method, the first step in determining the fair value of the investment that the Company holds is to estimate the fair value of Monster LP in its entirety. The key inputs to determining the fair value are cash flow forecasts and discount rates. As of September 30, 2016, the Company applied a discount rate of 21% in its discounted cash flow valuation of Monster LP. The Company also used a market approach valuation technique, which is based on market multiples of guideline companies, in determining the fair value of Monster LP as of September 30, 2016. The discounted cash flow and market approach valuations are then evaluated and weighted to determine the amount that is most representative of the fair value of the investee. Once the Company has determined the fair value of Monster LP, it then determines the fair value of its specific investment in the entity. Monster LP has a complex capital structure, so the Company applies an option-pricing model that considers the liquidation preferences of the respective classes of ownership interests in Monster LP to determine the fair value of its ownership interest in the entity. The Company recognized gains of $2.3 million and $0.9 million from changes in the fair value of its investment in Monster LP for the three and nine months ended September 30, 2016, respectively.

The following table summarizes the condensed financial information for Monster LP as of September 30, 2015, for the three months ended September 30, 2015 and for the period from May 28, 2015 through September 30, 2015 (in thousands):

	Three Months Ended September 30, 2015	Period from May 28, 2015 through September 30, 2015 [(1)]
Revenue	$ 33,465	$ 47,575
Gross profit	(6,826)	(2,488)
Loss before income taxes	(38,425)	(46,764)
Net loss	(38,485)	(46,764)

	September 30, 2015
Current assets	$ 149,662
Non-current assets	483,108
Current liabilities	223,667
Non-current liabilities	7,038

(1) The summarized financial information is presented for the period beginning May 28, 2015, after completion of the Ticket Monster disposition transaction that resulted in the Company obtaining its minority limited partner interest in Monster LP.

As of September 30, 2016, the Company has measured the fair value of the GroupMax investment primarily using the discounted cash flow method. The key inputs to determining the fair value are cash flow forecasts and discount rates.

As of September 30, 2016, the Company applied a discount rate of 20% in its discounted cash flow valuation of GroupMax. The Company also used a market approach valuation technique, which is based on market multiples of guideline companies, to determine the fair value of GroupMax as of September 30, 2016. The discounted cash flow and market approach valuations are then evaluated and weighted to determine the amount that is most representative of the fair value of the investee. Once the Company has determined the fair value of GroupMax, it then determines the fair value of its specific investment in the entity. GroupMax has a complex capital structure, so the Company applies an option-pricing model that considers the liquidation preferences of the respective classes of ownership interests in GroupMax to determine the fair value of its ownership interest in the entity. The Company recognized losses of $3.9 million and $8.2 million from changes in the fair value of its investment in GroupMax for the three and nine months ended September 30, 2016, respectively. As of September 30, 2016, the Company has an outstanding receivable due from GroupMax with a carrying amount of $1.1 million.

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

Other Investments
On May 9, 2016, the Company acquired a 13% minority investment in the preferred stock of a restaurant software provider as consideration for the sale of Breadcrumb. The preferred stock was recorded at its $8.3 million acquisition date fair value and is accounted for as a cost method investment.

On August 5, 2016, the Company acquired a 7% minority investment in the preferred stock of a company that connects consumers with fitness, beauty and wellness businesses in Asia, as consideration for the sale of Groupon Indonesia. The preferred stock was recorded at its $2.7 million acquisition date fair value and is accounted for as a cost method investment.

5. SUPPLEMENTAL CONSOLIDATED BALANCE SHEETS AND STATEMENTS OF OPERATIONS INFORMATION

The following table summarizes the Company's other income (expense), net for the three and nine months ended September 30, 2016 and 2015 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest income	$593	$331	$1,449	$888
Interest expense	(5,778)	(783)	(11,759)	(1,926)
Gains (losses), net on changes in fair value of investments	(1,594)	(2,564)	(7,301)	(2,114)
Foreign currency gains (losses), net [1]	234	(5,153)	5,362	(22,118)
Other	(483)	9	(2,054)	124
Other income (expense), net	$(7,028)	$(8,160)	$(14,303)	$(25,146)

(1) Foreign currency gains (losses), net for the nine months ended September 30, 2016 includes $0.3 million of net cumulative translation gains that were reclassified to earnings as a result of the Company's exit from certain countries as part of its restructuring plan. Refer to Note 9, "Restructuring," for additional information. Foreign currency gains (losses), net for the nine months ended September 30, 2015 includes a $4.4 million loss related to the cumulative translation adjustment from the Company's legacy business in the Republic of Korea that was reclassified to earnings as a result of the Ticket Monster disposition.

The following table summarizes the Company's prepaid expenses and other current assets as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016	December 31, 2015
Finished goods inventories	$38,297	$42,305
Prepaid expenses	63,352	49,134
Income taxes receivable	21,967	32,483
VAT receivable	10,100	14,305
Other	11,564	15,478
Total prepaid expenses and other current assets	$145,280	$153,705

The following table summarizes the Company's accrued merchant and supplier payables as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016	December 31, 2015
Accrued merchant payables	$403,779	$471,607
Accrued supplier payables [1]	205,160	304,604
Total accrued merchant and supplier payables	$608,939	$776,211

16

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

The following table summarizes the Company's accrued expenses and other current liabilities as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016	December 31, 2015
Refunds reserve	$ 27,492	$ 35,297
Payroll and benefits	62,904	50,454
Customer credits	32,706	32,293
Restructuring-related liabilities	11,200	11,556
Income taxes payable	10,033	13,885
Deferred revenue	35,873	40,396
Current portion of capital lease obligations	30,435	26,776
Other [1]	143,053	192,067
Total accrued expenses and other current liabilities	$ 353,696	$ 402,724

(1) As of December 31, 2015, Other included a $45.0 million liability for the Company's securities litigation matter (see Note 7, "Commitments and Contingencies"). Final court approval of the settlement for that matter was granted on July 13, 2016 and the Company's settlement obligation was satisfied during the three months ended September 30, 2016.

The following table summarizes the Company's other non-current liabilities as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016	December 31, 2015
Long-term tax liabilities	$ 53,230	$ 46,506
Capital lease obligations	23,240	30,943
Other	37,134	36,091
Total other non-current liabilities	$ 113,604	$ 113,540

The following table summarizes the components of accumulated other comprehensive income (loss) as of September 30, 2016 and December 31, 2015 (in thousands):

	Foreign currency translation adjustments	Unrealized gain (loss) on available-for-sale securities	Pension adjustments	Total
Balance as of December 31, 2015	$ 52,261	$ 458	$ (1,513)	$ 51,206
Other comprehensive income (loss) before reclassification adjustments	(3,183)	(184)	69	(3,298)
Reclassification adjustments included in net income (loss)	(7,776)	—	—	(7,776)
Other comprehensive income (loss)	(10,959)	(184)	69	(11,074)
Balance as of September 30, 2016	$ 41,302	$ 274	$ (1,444)	$ 40,132

6. FINANCING ARRANGEMENTS

Convertible Senior Notes

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

On April 4, 2016, the Company issued $250.0 million in aggregate principal amount of convertible senior notes (the "Notes") in a private placement to A-G Holdings, L.P. ("Atairos"). The net proceeds from this offering were $243.2 million after deducting issuance costs. The Notes bear interest at a rate of 3.25% per annum, payable annually in arrears on April 1 of each year, beginning on April 1, 2017. The Notes will mature on April 1, 2022, subject to earlier conversion or redemption.

Each $1,000 of principal amount of the Notes initially is convertible into 185.1852 shares of Class A common stock, or common stock, as applicable (the "Common Stock"), which is equivalent to an initial conversion price of $5.40 per share, subject to adjustment upon the occurrence of specified events. Upon conversion, the Company can elect to settle the conversion value in cash, shares of its Common Stock, or any combination of cash and shares of its Common Stock. Holders of the Notes may convert their Notes at their option at any time until the close of business on the scheduled trading day immediately preceding the maturity date. In addition, if specified corporate events occur prior to the maturity date, the Company may be required to increase the conversion rate for holders who elect to convert based on the effective date of such event and the applicable stock price attributable to the event, as set forth in a table contained in the indenture governing the Notes (the "Indenture").

With certain exceptions, upon a fundamental change (as defined in the Indenture), the holders of the Notes may require the Company to repurchase all or a portion of their Notes for cash at a purchase price equal to the principal amount plus accrued and unpaid interest. In addition, the Company may redeem the Notes, at its option, at a purchase price equal to the principal amount plus accrued and unpaid interest on or after April 1, 2020, if the closing sale price of the Common Stock exceeds 150% of the then-current conversion price for 20 or more trading days in the 30 consecutive trading day period preceding the Company’s exercise of this redemption right.

The Notes are senior unsecured obligations of the Company that rank equal in right of payment to all senior unsecured indebtedness of the Company and rank senior in right of payment to any indebtedness that is contractually subordinated to the Notes.

The Indenture includes customary events of default. If an event of default, as defined in the Indenture, occurs and is continuing, the principal amount of the Notes and any accrued and unpaid interest may be declared immediately due and payable. In the case of bankruptcy or insolvency, the principal amount of the Notes and any accrued and unpaid interest would automatically become immediately due and payable.

The Company has separated the Notes into their liability and equity components in the accompanying condensed consolidated balance sheet. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated conversion feature. The carrying amount of the equity component, representing the conversion option, was determined by deducting the fair value of the liability component from the principal amount of the Notes. The difference between the principal amount of the Notes and the liability component (the "debt discount") is amortized to interest expense at an effective interest rate of 9.75% over the term of the Notes. The equity component of the Notes is included in additional paid-in capital in the condensed consolidated balance sheet and is not remeasured as long as it continues to meet the conditions for equity classification.

The Company incurred transaction costs of approximately $6.8 million related to the issuance of the Notes. Those transaction costs have been allocated to the liability and equity components in the same manner as the allocation of the proceeds from the Notes. Transaction costs attributable to the liability component of $4.8 million were recorded as a debt discount in the condensed consolidated balance sheet and are being amortized to interest expense over the term of the Notes. Transaction costs attributable to the equity component of $2.0 million were recorded in stockholders' equity as a reduction of the equity component.

The carrying amount of the Notes consisted of the following (in thousands):

	September 30, 2016		
Liability component:			
Principal amount	$	250,000	
Less: debt discount	(73,527		)

Net carrying amount of liability component	$	176,473
Net carrying amount of equity component	$	67,329

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

The estimated fair value of the Notes as of September 30, 2016 was $298.0 million and was determined using a lattice model. The Company classified the fair value of the Notes as a Level 3 measurement due to the lack of observable market data over fair value inputs such as its stock price volatility over the term of the Notes and its cost of debt.
As of September 30, 2016, the remaining term of the Notes is approximately 5 years, 6 months. During the three and nine months ended September 30, 2016, the Company recognized interest expense on the Notes as follows (in thousands):

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Contractual interest expense based on 3.25% of the principal amount per annum	$ 2,032	$ 4,063
Amortization of debt discount	2,458	4,854
Total interest expense	$ 4,490	$ 8,917

Note Hedges and Warrants
On May 9, 2016, the Company purchased convertible note hedges with respect to its Common Stock for a cost of $59.1 million from certain bank counterparties. The convertible note hedges provide the Company with the right to purchase up to 46.3 million shares of the Company's Common Stock at an initial strike price of $5.40 per share, which corresponds to the initial conversion price of the Notes, and are exercisable by the Company upon conversion of the Notes. The convertible note hedges are intended to reduce the potential economic dilution upon conversion of the Notes. The convertible note hedges are separate transactions and are not part of the terms of the Notes. Holders of the Notes do not have any rights with respect to the convertible note hedges.
On May 9, 2016, the Company also sold warrants for total cash proceeds of $35.5 million to certain bank counterparties. The warrants provide the counterparties with the right to purchase up to 46.3 million shares of the Company's Common Stock at a strike price of $8.50 per share. The warrants expire on various dates between July 1, 2022 and August 26, 2022 and are exercisable on their expiration dates. The warrants are separate transactions and are not part of the terms of the Notes or convertible note hedges. Holders of the Notes and convertible note hedges do not have any rights with respect to the warrants.
The amounts paid and received for the convertible note hedges and warrants have been recorded in additional paid-in capital in the condensed consolidated balance sheet as of September 30, 2016. The convertible note hedges and warrants are not remeasured as long as they continue to meet the conditions for equity classification. The amounts paid for the convertible note hedges are tax deductible over the term of the Notes, while the proceeds received from the warrants are not taxable.
Under the if-converted method, the shares of common stock underlying the conversion option in the Notes are included in the diluted earnings per share denominator and the interest expense on the Notes, net of tax, is added to the numerator. However, upon conversion, there will be no economic dilution from the Notes, as exercise of the convertible note hedges eliminates any dilution from the Notes that would have otherwise occurred when the price of the Company’s Common Stock exceeds the conversion price. Taken together, the purchase of the convertible note hedges and sale of warrants are intended to offset any actual dilution from the conversion of these Notes and to effectively increase the overall conversion price from $5.40 to $8.50 per share. Based on the closing price of the Company's Common Stock of $5.15 on September 30, 2016, the if-converted value of the Notes was less than the principal amount.
Revolving Credit Agreement
On June 29, 2016, the Company amended and restated its senior secured revolving credit agreement (the "Amended and Restated Credit Agreement") that provides for aggregate principal borrowings of up to $250.0 million and matures in June 2019. The Amended and Restated Credit Agreement replaced the Company's previous $250.0 million credit agreement that was scheduled to mature in August 2017 (the "Original Credit Agreement"). Borrowings under the

Amended and Restated Credit Agreement bear interest, at the Company's option, at a rate per annum equal to the Alternate Base Rate or Adjusted LIBO Rate (each as defined in the Amended and Restated Credit Agreement) plus an additional margin ranging between 0.50% and 2.25%. The Company is required to pay quarterly commitment fees ranging from 0.25% to 0.40% per annum of the average daily amount of unused commitments available under the Amended and Restated Credit Agreement. The Amended and Restated Credit Agreement also provides for the issuance of up to $45.0 million in letters of credit, provided that the sum of outstanding borrowings and letters of credit do not exceed the maximum funding commitment of $250.0 million.

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

The Amended and Restated Credit Agreement is secured by substantially all of the Company's and its subsidiaries' tangible and intangible assets, including a pledge of 100% of the outstanding capital stock of substantially all of its direct and indirect domestic subsidiaries and 65% of the shares or equity interests of first-tier foreign subsidiaries and each U.S. entity whose assets substantially consist of capital stock and/or intercompany debt of one or more foreign subsidiaries, subject to certain exceptions. Certain of the Company's domestic subsidiaries are guarantors under the Amended and Restated Credit Agreement.

The Amended and Restated Credit Agreement contains various customary restrictive covenants that limit the Company's ability to, among other things: incur additional indebtedness; make dividend and other restricted payments, including share repurchases; enter into sale or leaseback transactions; make investments, loans or advances; grant or incur liens on assets; sell assets; engage in mergers, consolidations, liquidations or dissolutions; and engage in transactions with affiliates. The Amended and Restated Credit Agreement requires the Company to maintain compliance with specified financial covenants, comprised of a minimum fixed charge coverage ratio, a maximum leverage ratio, a maximum senior secured indebtedness ratio and a minimum liquidity ratio, each as set forth in the Amended and Restated Credit Agreement. The Company is also required to maintain, as of the last day of each fiscal quarter, unrestricted cash of at least $400.0 million, including $200.0 million in accounts held with lenders under the Amended and Restated Credit Agreement or their affiliates. Non-compliance with these covenants may result in termination of the commitments under the Amended and Restated Credit Agreement and any then outstanding borrowings may be declared due and payable immediately. The Company has the right to terminate the Amended and Restated Credit Agreement or reduce the available commitments at any time.

As of September 30, 2016 and December 31, 2015, the Company had no borrowings under the Amended and Restated Credit Agreement or the Original Credit Agreement, respectively, and was in compliance with all covenants. As of September 30, 2016 and December 31, 2015, the Company had outstanding letters of credit of $11.4 million and $11.6 million, respectively, under the Amended and Restated Credit Agreement and the Original Credit Agreement.

7. COMMITMENTS AND CONTINGENCIES

The Company's commitments as of September 30, 2016 did not materially change from the amounts set forth in the Company's 2015 Annual Report on Form 10-K.

Legal Matters and Other Contingencies

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 brought by former employees and merchants, intellectual property infringement suits and suits by customers (individually or as class actions) alleging, among other things, violations of the Credit Card Accountability, Responsibility and Disclosure Act and state laws governing gift cards, stored value cards and coupons. The following is a brief description of significant legal proceedings.

The Company was 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. The case was pending before the United States District Court for the Northern District of Illinois: In re Groupon, Inc. Securities Litigation. In the first quarter of 2016, the parties entered into a term sheet to settle the litigation that provides for a settlement payment to the class of $45.0 million in cash, including plaintiff’s attorneys’ fees, in exchange for a full and final release and also includes a denial of liability or any wrongdoing by the Company and the other defendants. On April 7, 2016, the Court entered an order preliminarily approving the settlement. On April 21, 2016, a $45.0 million settlement payment was made into an escrow account. On July 13, 2016, the Court entered an order providing final approval of the settlement and final judgment, dismissing the action with prejudice. The Company derecognized its liability for the matter and its related asset for the amount previously funded into the escrow account at that time.

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. 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. In the first quarter of 2016, the parties reached an agreement in principle to settle the litigation. The agreement, which is subject to court approval, provides that the Company will implement certain corporate reforms. On September 19, 2016, the parties participated in a mediation regarding a reasonable plaintiffs' attorneys' fee award to be paid as part of the settlement. The parties did not reach agreement and continue to negotiate that aspect of the settlement.

In 2010, the Company was named as a defendant in a series of class actions that were consolidated in the U.S. District Court for the Southern District of California. The consolidated actions are referred to as In re Groupon Marketing and Sales Practices Litigation. In July 2015, the parties reached an agreement in principle regarding a settlement involving a combination of cash and Groupon credits, worth a total of $8.5 million. On March 23, 2016, the district court granted final approval of the settlement over various objections posed by two individuals and entered judgment pursuant to the settlement. In April 2016, the two individuals who had objected filed notices of appeal with the Ninth Circuit Court of Appeals. One appeal challenged the district court’s approval of the class action settlement; the other appeal challenged the district court’s denial of the objector’s request for an award of attorney’s fees. The appeal challenging the approval of the settlement was dismissed on June 23, 2016, and the settlement became final and non-appealable as of that date. The case was dismissed with prejudice and settlement claims are being validated and processed. The Company was fully reserved for the settlement amount as of September 30, 2016 and December 31, 2015.

On March 2, 2016, International Business Machines Corporation ("IBM") filed a complaint in the United States District Court for the District of Delaware against the Company. In the complaint, IBM alleges that the Company has infringed and continues to willfully infringe certain IBM patents that IBM claims relate to the presentation of applications and advertising in an interactive service, preserving state information in online transactions and single sign-on processes in a computing environment and seeks unspecified damages (including a request that the amount of compensatory damages be trebled), injunctive relief and costs and reasonable attorneys’ fees. On May 9, 2016, the Company filed a complaint in the United States District Court for the Northern District of Illinois against IBM. The Company alleges that IBM has infringed and continues to willfully infringe one of the Company’s patents relating to location-based services. The Company intends to seek damages and injunctive relief for IBM’s infringement of this patent. IBM filed a motion to dismiss this case, and the court has yet to rule on that motion. Further, the Company plans to vigorously defend against the claims filed by IBM.

In addition, other 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, including patent infringement claims, 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 litigated such claims, and the Company is presently involved in several patent infringement and other intellectual property-related claims, including pending litigation or trademark disputes, some of which could involve potentially substantial claims for damages. 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, inquiries related to consumer protection, employment matters and/or hiring practices, marketing practices, tax, unclaimed property 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. These accruals represent management's best estimate of probable losses and, in such cases, there may be an exposure to loss in excess of the amounts accrued. For certain of the matters described above, there are inherent and significant uncertainties based on, among other factors, the stage of the proceedings, developments in the applicable facts of law, or the lack of a specific damage claim. However, the Company believes that the amount of reasonably possible losses in excess of the amounts accrued for these matters 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 as a result of new developments, including, but not limited to, the occurrence of new legal matters, changes in the law or regulatory environment, adverse or favorable rulings, newly discovered facts relevant to the matter, or changes in the strategy for the matter. 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, directors and underwriters, and the Company's bylaws contain similar indemnification obligations that cover officers, directors, employees and other 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.

8. STOCKHOLDERS' EQUITY AND COMPENSATION ARRANGEMENTS

Common Stock

The Company's certificate of incorporation, as amended and restated, authorizes 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 Company's certificate of incorporation authorizes shares of undesignated preferred stock, the rights, preferences and privileges of which may be designated from time to time by the Board of Directors (the "Board").

Share Repurchase Program

The Board previously authorized the Company to repurchase up to $500.0 million of its Class A common stock through August 2017 under its current share repurchase program. In April 2016, the Board approved an increase of $200.0 million to its share repurchase program and an extension of the program through April 2018. During the three and nine months ended September 30, 2016, the Company purchased 5,213,778 and 30,829,948 shares, respectively, for an aggregate purchase price of $24.6 million and $112.5 million (including fees and commissions) under that program. As of September 30, 2016, up to $244.7 million of Class A common stock remained available for purchase under that program. The timing and amount of any share repurchases are determined based on market conditions, share price and other factors, and the program may be discontinued or suspended at any time.

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, 2016, 79,071,218 shares were available for future issuance under the Plans.

The Company recognized stock-based compensation expense from continuing operations of $26.4 million and $35.6 million for the three months ended September 30, 2016 and 2015, respectively, and $94.8 million and $109.2 million for the nine months ended September 30, 2016 and 2015, respectively, related to stock awards issued under the Plans and acquisition-related awards. The Company recognized stock-based compensation expense from discontinued operations of $5.3 million for the nine months ended September 30, 2015. The Company also capitalized $2.3 million and $2.8 million of stock-based compensation for the three months ended September 30, 2016 and 2015, respectively, and $7.3 million and $9.2 million of stock-based compensation for the nine months ended September 30, 2016 and 2015, respectively, in connection with internally-developed software.

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

As of September 30, 2016, a total of $124.8 million of unrecognized compensation costs related to unvested employee stock awards and unvested acquisition-related awards are expected to be recognized over a remaining weighted-average period of 1.00 year.

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 nine months ended September 30, 2016 and 2015, 1,669,782 and 1,037,198 shares of common stock were issued under the ESPP, respectively.

Stock Options

The table below summarizes the stock option activity for the nine months ended September 30, 2016:

	Options	Weighted-Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands) (1)
Outstanding at December 31, 2015	1,584,832	$ 0.95	3.96	$ 3,360
Exercised	(490,283)	1.26		
Forfeited	(100,977)	0.86		
Outstanding and exercisable at September 30, 2016	993,572	$ 0.78	3.09	$ 4,342

(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, 2016 and December 31, 2015, respectively.

Restricted Stock Units

The restricted stock units granted under the Plans generally have vesting periods between one and four years. Restricted stock units are generally amortized on a straight-line basis over the requisite service period, except for restricted stock units with performance conditions and ratable vesting, which are amortized using the accelerated method. In May 2015, 575,744 restricted stock units previously granted to Ticket Monster employees were modified to permit continued vesting following the Company’s sale of its controlling stake in Ticket Monster. These nonemployee restricted stock units, which require ongoing employment with Ticket Monster to vest, are remeasured to fair value each reporting period. As of September 30, 2016, 194,522 nonemployee restricted stock units were outstanding.

The table below summarizes activity regarding unvested restricted stock units granted under the Plans for the nine months ended September 30, 2016:

	Restricted Stock Units	Weighted-Average Grant Date Fair Value (per share)
Unvested at December 31, 2015	39,143,509	$ 6.53
Granted	17,163,910	$ 3.73
Vested	(17,667,674)	$ 6.02

Forfeited	(9,681,219)	$ 6.53
Unvested at September 30, 2016	28,958,526	$ 5.19

Restricted Stock Awards

The Company has granted restricted stock awards in connection with business combinations. Compensation expense on these awards is recognized on a straight-line basis over the requisite service periods, which extend through January 2018.

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

The table below summarizes activity regarding unvested restricted stock for the nine months ended September 30, 2016:

	Restricted Stock Awards	Weighted-Average Grant Date Fair Value (per share)
Unvested at December 31, 2015	1,908,408	$ 5.72
Granted	—	$ —
Vested	(492,422)	$ 7.42
Forfeited	(196,968)	$ 7.42
Unvested at September 30, 2016	1,219,018	$ 4.76

Performance Share Units

During the nine months ended September 30, 2016, the Company granted 389,046 performance share units to certain key employees. The vesting of these awards into shares of the Company's Class A common stock is contingent upon the Company's achievement of specified financial and operational targets for the year ended December 31, 2016 and is subject to continued employment through the performance period. The weighted-average grant date fair value of the performance share units was $3.78 per share. There were no shares vested or forfeited during the nine months ended September 30, 2016.

9. RESTRUCTURING

In September 2015, the Company commenced a restructuring plan relating primarily to workforce reductions in its international operations. The Company has also undertaken workforce reductions in its North America segment. In addition to workforce reductions in its ongoing markets, the Company has ceased operations in six countries within its Rest of World segment and 11 countries within its EMEA segment as part of the restructuring plan, including four countries within its EMEA segment that were exited during the nine months ended September 30, 2016. The total revenue and net loss for the countries exited under the restructuring plan were $11.2 million and $2.2 million, respectively, for the three months ended September 30, 2015. The total revenue and net loss for the countries exited under the restructuring plan were $39.5 million and $8.0 million, respectively, for the nine months ended September 30, 2015. The total revenue and net loss for the countries exited under the restructuring plan for the nine months ended September 30, 2016 were not material. Costs related to the restructuring plan are classified as "Restructuring charges" on the condensed consolidated statements of operations.

From the inception of its restructuring plan in September 2015 through September 30, 2016, the Company has incurred cumulative costs for employee severance and benefits and other exit costs of $52.2 million under the plan. In addition to those costs, the Company has incurred cumulative long-lived asset impairment charges of $7.3 million resulting from its restructuring activities. Management continues to explore potential further restructuring actions in connection with its efforts to optimize the Company's cost structure and global footprint.

The following table summarizes the costs incurred by segment related to the Company's restructuring plan for the three months ended September 30, 2016 (in thousands):

	Three Months Ended September 30, 2016		
	Employee Severance	Other Exit	Total Restructuring

	and Benefit Costs (1)	Costs	Charges
North America	$274	$695	$ 969
EMEA	(412)	224	(188)
Rest of World	580	98	678
Consolidated	$442	$1,017	$ 1,459

(1) The employee severance and benefit costs for the three months ended September 30, 2016 relates to the termination of approximately 150 employees. Substantially all of the remaining cash payments for those costs are expected to be disbursed through June 30, 2017.

24

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

The following table summarizes the costs incurred by segment related to the Company's restructuring plan for the nine months ended September 30, 2016 (in thousands):

	Nine Months Ended September 30, 2016			
	Employee Severance and Benefit Costs (1)	Asset Impairments	Other Exit Costs	Total Restructuring Charges
North America	$6,487	$ 45	$2,862	$ 9,394
EMEA	15,417	—	553	15,970
Rest of World	4,301	—	323	4,624
Consolidated	$26,205	$ 45	$3,738	$ 29,988

(1) The employee severance and benefit costs for the nine months ended September 30, 2016 relates to the termination of approximately 900 employees. Substantially all of the remaining cash payments for those costs are expected to be disbursed through December 31, 2017.

The following table summarizes the costs incurred by segment related to the Company's restructuring plan for the three and nine months ended September 30, 2015 (in thousands):

	Three and Nine Months Ended September 30, 2015			
	Employee Severance and Benefit Costs (1)	Asset Impairments	Other Exit Costs	Total Restructuring Charges
North America	$890	$ —	$511	$ 1,401
EMEA	19,652	—	83	19,735
Rest of World	2,017	345	648	3,010
Consolidated	$22,559	$ 345	$1,242	$ 24,146

(1) The employee severance and benefit costs for the three and nine months ended September 30, 2015 related to the termination of approximately 1,200 employees.

The following table summarizes restructuring liability activity for the nine months ended September 30, 2016 (in thousands):

	Employee Severance and Benefit Costs	Other Exit Costs	Total
Balance as of December 31, 2015	$ 9,017	$2,539	$11,556
Charges payable in cash (1)	21,520	3,739	25,259
Cash payments	(20,268)	(5,583)	(25,851)
Foreign currency translation	223	13	236
Balance as of September 30, 2016	$ 10,492	$708	$11,200

(1) Excludes stock-based compensation of $4.7 million related to accelerated vesting of stock-based compensation awards for certain employees terminated as a result of the Company's restructuring activities for the nine months ended September 30, 2016.

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, 2016, the Company recorded income tax expense from continuing operations of $2.1 million on a pre-tax loss from continuing operations of $33.7 million. For the three months ended September 30, 2015, the Company recorded an income tax benefit from continuing operations of $54.0 million on a pre-tax loss from continuing operations of $78.6 million.

For the nine months ended September 30, 2016, the Company recorded income tax expense from continuing operations of $1.6 million on a pre-tax loss from continuing operations of $131.5 million. For the nine months ended September 30, 2015, the Company recorded an income tax benefit from continuing operations of $42.9 million on a pre-tax loss from continuing operations of $99.5 million.

The Company's U.S. statutory rate is 35%. The primary factor impacting the effective tax rate for the three and nine months ended September 30, 2016 was the pre-tax losses incurred by the Company's operations in jurisdictions that have valuation allowances against their net deferred tax assets, including the United States. Significant factors impacting the effective tax rate for the three and nine months ended September 30, 2015 included pre-tax losses incurred by the Company's operations in certain foreign jurisdictions that had valuation allowances against their net deferred tax assets, from continuing operations in jurisdictions that the Company was 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, nondeductible stock-based compensation expense and decreases in liabilities for uncertain tax positions.

The Company expects that its consolidated effective tax rate in future periods will continue to differ significantly from the U.S. federal income tax rate as a result of its tax obligations in jurisdictions with profits and valuation allowances in jurisdictions with losses.

The Company is currently undergoing income tax audits in multiple jurisdictions. There are many factors, including factors outside of the Company's control, which influence the progress and completion of those audits. As of September 30, 2016, the Company believes that it is reasonably possible that changes of up to $24.9 million in unrecognized tax benefits may occur within the next 12 months upon closing of income tax audits or the expiration of applicable statutes of limitations.

See Note 2, "Discontinued Operations and Other Dispositions," for discussion of the income tax benefit from discontinued operations for the nine months ended September 30, 2015.

11. 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. 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.

Fair value option and available-for-sale securities investments - See Note 4, "Investments," for discussion of the valuation methodologies used to measure the fair value of the Company's investments in Monster LP and GroupMax. The Company measures the fair value of those investments using the discounted cash flow method, which is an income approach, and the market approach. The Company also has investments in redeemable preferred shares and convertible debt securities issued by nonpublic entities. The Company measures the fair value of those available-for-sale securities using the discounted cash flow method.

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

The Company has classified its fair value option investments and 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 and discount rates. Increases in projected cash flows and decreases in discount rates contribute to increases in the estimated fair values of the fair value option investments and available-for-sale securities, whereas decreases in projected cash flows and increases in discount rates contribute to decreases in their fair values.

Contingent consideration - The Company has contingent obligations to transfer cash to the former owners of acquired businesses if specified financial results are met over future reporting periods (i.e., earn-outs). Liabilities for contingent consideration 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 (benefit), net" on the condensed consolidated statements of operations.
The Company uses an income approach to value contingent consideration obligations based on future financial performance, which is determined based on the present value of probability-weighted future cash flows. The Company has classified the contingent consideration liabilities as Level 3 due to the lack of relevant observable market data over fair value inputs such as probability-weighting of payment outcomes. Increases in the assessed likelihood of a higher payout under a contingent consideration arrangement contribute to increases in the fair value of the related liability. Conversely, decreases in the assessed likelihood of a higher payout under a contingent consideration arrangement contribute to decreases in the fair value of the related liability. Changes in assumptions could have an impact on the payout of contingent consideration arrangements with a maximum payout of $16.0 million.
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	September 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$ 237,070	$ 237,070	$ —	$ —
Fair value option investments	123,424	—	—	123,424
Available-for-sale securities:				
Convertible debt securities	9,931	—	—	9,931
Redeemable preferred shares	17,177	—	—	17,177
Liabilities:				
Contingent consideration	14,626	—	—	14,626

		Fair Value Measurement at Reporting Date Using		
Description	December 31, 2015	Quoted Prices in Active Markets for	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

		Identical Assets (Level 1)		
Assets:				
Cash equivalents	$305,179	$305,179	$ —	$ —
Fair value option investments	130,725	—	—	130,725
Available-for-sale securities:				
Convertible debt securities	10,116	—	—	10,116
Redeemable preferred shares	22,834	—	—	22,834
Liabilities:				
Contingent consideration	10,781	—	—	10,781

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

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, 2016 and 2015 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Assets				
Fair value option investments:				
Beginning Balance	$125,018	$122,525	$130,725	$—
Acquisition of investments	—	16,400	—	138,475
Total gains (losses) included in earnings	(1,594)	(2,564)	(7,301)	(2,114)
Ending Balance	$123,424	$136,361	$123,424	$136,361
Unrealized gains (losses) still held (1)	$(1,594)	$(2,564)	$(7,301)	$(2,114)
Available-for-sale securities				
Convertible debt securities:				
Beginning Balance	$10,573	$8,026	$10,116	$2,527
Purchase of convertible debt security	—	—	—	5,000
Sale of convertible debt security	(1,685)	—	(1,685)	—
Total gains (losses) included in other comprehensive income	566	(362)	786	(50)
Total gains (losses) included in other income (expense), net (2)	477	218	714	405
Ending Balance	$9,931	$7,882	$9,931	$7,882
Unrealized gains (losses) still held (1)	$1,043	$(144)	$1,500	$355
Redeemable preferred shares:				
Beginning Balance	$22,343	$4,881	$22,834	$4,910
Total gains (losses) included in other comprehensive income (loss)	(592)	53	(1,083)	24
Transfer to cost method investment classification upon elimination of redemption feature	(4,574)	—	(4,574)	—
Ending Balance	$17,177	$4,934	$17,177	$4,934
Unrealized (losses) gains still held (1)	$(592)	$53	$(1,083)	$24
Liabilities				
Contingent Consideration:				
Beginning Balance	$14,788	$233	$10,781	$1,983
Issuance of contingent consideration in connection with acquisitions	—	9,605	—	9,605
Settlements of contingent consideration liabilities	—	—	—	(716)
Reclass to non-fair value liabilities when no longer contingent	—	—	(285)	(331)
Total losses (gains) included in earnings (3)	(162)	435	4,130	(268)
Ending Balance	$14,626	$10,273	$14,626	$10,273
Unrealized losses (gains) still held (1)	$(162)	$435	$4,004	$(656)

(1) Represents the unrealized losses or gains recorded in earnings and/or other comprehensive income (loss) during the period for assets and liabilities classified as Level 3 that are still held (or outstanding) at the end of the period.
(2) Represents accretion of interest income and changes in the fair value of an embedded derivative.
(3) Changes in the fair value of contingent consideration liabilities are classified within "Acquisition-related expense (benefit), 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 for the three and nine months ended September 30, 2016 and 2015.

28

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

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

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

	September 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cost method investments	$30,085	$32,632	$14,561	$15,922

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 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, 2016 and December 31, 2015 due to their short-term nature.

12. INCOME (LOSS) PER SHARE OF CLASS A AND CLASS B COMMON STOCK

The Company computes net income (loss) per share of Class A and Class B common stock using the two-class method. Basic net income (loss) per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share is computed using the weighted-average number of common shares and the effect of potentially dilutive securities outstanding during the period. Potentially dilutive securities consist of stock options, restricted stock units, unvested restricted stock awards, warrants, performance share units, ESPP shares and convertible senior notes. The dilutive effect of these securities is reflected in diluted net income (loss) per share by application of the treasury stock method or the if-converted method. The computation of the diluted net income (loss) per share of Class A common stock assumes the conversion of Class B common stock, if dilutive, while the diluted net income (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 stock 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 net income (loss) per share of Class A common stock, the undistributed earnings are equal to net income (loss) for that computation.

The following table sets forth the computation of basic and diluted net income (loss) per share of Class A and Class B common stock for the three and nine months ended September 30, 2016 and 2015 (in thousands, except share amounts and per share amounts):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016		2015		2016		2015	
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
Basic net income (loss) per share:								
Numerator								
Allocation of net income (loss) - continuing operations	$(35,643)	$(149)	$(24,522)	$(91)	$(132,567)	$(552)	$(56,414)	$(205)
	2,175	9	2,991	11	8,843	37	9,613	35

Less: Allocation of net income (loss)
attributable to noncontrolling interests

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

Allocation of net income (loss) attributable to common stockholders - continuing operations	$ (37,818)	$ (158)	$ (27,513)	$ (102)	$ (141,410)	$ (589)	$ (66,027)	$ (240)
Allocation of net income (loss) attributable to common stockholders - discontinued operations	—	—	—	—	—	—	132,966	497
Allocation of net income (loss) attributable to common stockholders	$ (37,818)	$ (158)	$ (27,513)	$ (102)	$ (141,410)	$ (589)	$ 66,939	$ 257
Denominator								
Weighted-average common shares outstanding	572,816,215	2,399,976	642,494,809	2,399,976	575,890,315	2,399,976	661,902,654	2,399,976
Basic net income (loss) per share:								
Continuing operations	$ (0.07)	$ (0.07)	$ (0.04)	$ (0.04)	$ (0.25)	$ (0.25)	$ (0.10)	$ (0.10)
Discontinued operations	—	—	—	—	—	—	0.20	0.20
Basic net income (loss) per share	$ (0.07)	$ (0.07)	$ (0.04)	$ (0.04)	$ (0.25)	$ (0.25)	$ 0.10	$ 0.10
Diluted net income (loss) per share:								
Numerator								
Allocation of net income (loss) attributable to common stockholders for basic computation - continuing operations	$ (37,818)	$ (158)	$ (27,513)	$ (102)	$ (141,410)	$ (589)	$ (66,027)	$ (240)
Reallocation of net income (loss) attributable to common stockholders as a result of conversion of Class B [(1)]	—	—	—	—	—	—	—	—
Plus: Interest expense on convertible senior notes, net of tax [(1)]	—	—	—	—	—	—	—	—
Allocation of net income (loss) attributable to common stockholders - continuing operations	$ (37,818)	$ (158)	$ (27,513)	$ (102)	$ (141,410)	$ (589)	$ (66,027)	$ (240)
Allocation of net income (loss) attributable to common stockholders for basic computation - discontinued operations	$ —	$ —	$ —	$ —	$ —	$ —	$ 132,966	$ 497
	—	—	—	—	—	—	—	—

Reallocation of net income (loss) attributable to common stockholders as a result of conversion of Class B (1)								
Allocation of net income (loss) attributable to common stockholders - discontinued operations	—	—	—	—	—	—	132,966	497
Allocation of net income (loss) attributable to common stockholders	$(37,818)	$(158)	$(27,513)	$(102)	$(141,410)	$(589)	$66,939	$257
Denominator								
Weighted-average common shares outstanding used in basic computation	572,816,215	2,399,976	642,494,809	2,399,976	575,890,315	2,399,976	661,902,654	2,399,976
Conversion of Class B and other dilutive items (1)	—	—	—	—	—	—	—	—
Weighted-average diluted shares outstanding (1)	572,816,215	2,399,976	642,494,809	2,399,976	575,890,315	2,399,976	661,902,654	2,399,976
Diluted net income (loss) per share:								
Continuing operations	$(0.07)	$(0.07)	$(0.04)	$(0.04)	$(0.25)	$(0.25)	$(0.10)	$(0.10)

30

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

Discontinued operations	—	—	—	—	—	—	0.20	0.20
Diluted net income (loss) per share	$(0.07)	$(0.07)	$(0.04)	$(0.04)	$(0.25)	$(0.25)	$0.10	$0.10

(1) Other dilutive items includes employee stock options, restricted shares, RSUs, convertible senior notes and warrants. The impact of the conversion of Class B common stock into Class A common stock, outstanding equity awards and outstanding convertible senior notes and warrants have not been reflected in the diluted income (loss) per share calculation for the three and nine months ended September 30, 2016 and 2015 because the effect on net income (loss) per share from continuing operations would be antidilutive.

The following weighted-average outstanding equity awards are not included in the diluted net income (loss) per share calculations above because they would have had an antidilutive effect on the net income (loss) per share from continuing operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Stock options	1,085,188	1,778,711	1,263,796	1,966,846
Restricted stock units	31,375,699	41,788,616	35,119,921	41,004,715
Restricted stock	1,219,018	1,740,104	1,377,116	1,108,814
ESPP shares	1,079,839	1,100,701	1,237,057	853,020
Convertible senior notes	46,296,300	—	30,185,866	—
Warrants	46,296,300	—	24,250,443	—
Total	127,352,344	46,408,132	93,434,199	44,933,395

In addition to the antidilutive awards as set forth in the table above, the Company also granted 389,046 performance share units to certain key employees during the nine months ended September 30, 2016. Contingently issuable shares are excluded from the computation of diluted earnings per share 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 nine months ended September 30, 2016 as the performance conditions were not satisfied as of the end of the period.

13. SEGMENT INFORMATION

The Company organizes its operations into three segments: North America, EMEA and Rest of World. Segment operating results reflect earnings before stock-based compensation, acquisition-related expense (benefit), net, other income (expense), net and provision (benefit) for income taxes. Segment information reported in the tables below represents the operating segments of the Company organized in a manner consistent with which separate information is available and for which segment results are evaluated regularly by the Company's chief operating decision-maker in assessing performance and allocating resources.

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

Revenue and profit or loss information by reportable segment reconciled to consolidated net income (loss) for the three and nine months ended September 30, 2016 and 2015 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
North America				
Revenue [1]	$483,281	$463,931	$1,501,016	$1,425,095
Segment cost of revenue and operating expenses [3] [4] [5]	483,036	494,843	1,510,731	1,404,472
Segment operating income (loss) [3]	245	(30,912)	(9,715)	20,623
EMEA				
Revenue [1]	196,573	199,287	583,848	619,554
Segment cost of revenue and operating expenses [3] [4] [6]	192,692	195,397	570,294	586,343
Segment operating income (loss) [3]	3,881	3,890	13,554	