

GROUPON

2019 ANNUAL REPORT

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

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2019

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

(State or other jurisdiction of incorporation or organization)

27-0903295

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

600 W Chicago Avenue

Suite 400

Chicago

Illinois

(Address of principal executive offices)

60654

(Zip Code)

(312) 334-1579

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value \$0.0001 per share	GRPN	NASDAQ Global Select Market

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

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

Yes ☒

No ☐

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

Yes ☐

No ☒

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

Yes ☒

No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes ☒

No ☐

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Yes ☐

No ☒

As of June 30, 2019, the aggregate market value of shares held by non-affiliates of the registrant was \$1,626,327,012 based on the number of shares of common stock held by non-affiliates as of June 30, 2019 and based on the last reported sale price of the registrant's common stock on June 30, 2019.

As of February 14, 2020, there were 566,915,978 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Report, to the extent not set forth herein, is incorporated herein by reference from the registrant's definitive proxy statement relating to the Annual Meeting of Stockholders to be held in 2020, which definitive proxy statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Report relates.

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PART I

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, 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, our ability to execute, and achieve the expected benefits of our go-forward strategy, including our planned exit from the Goods business; volatility in our operating results; execution of our business and marketing strategies; retaining existing customers and adding new customers; challenges arising from our international operations, including fluctuations in currency exchange rates, legal and regulatory developments and any potential adverse impact from the United Kingdom's exit from the European Union, retaining and adding high quality merchants; our reliance on email, internet search engines and mobile application marketplaces to drive traffic to our marketplace; cybersecurity breaches; reliance on cloud-based computing platforms; competing successfully in our industry; providing a strong mobile experience for our customers; maintaining and improving our information technology infrastructure; our voucherless offerings; claims related to product and service offerings; managing inventory and order fulfillment risks; litigation; managing refund risks; retaining and attracting members of our executive team; completing and realizing the anticipated benefits from acquisitions, dispositions, joint ventures and strategic investments; lack of control over minority investments; compliance with domestic and foreign laws and regulations, including the CARD Act, GDPR and regulation of the Internet and e-commerce; classification of our independent contractors or employees; tax liabilities; tax legislation; protecting our intellectual property; maintaining a strong brand; customer and merchant fraud; payment-related risks; our ability to raise capital if necessary and our outstanding indebtedness; global economic uncertainty; our common stock, including volatility in our stock price; our convertible senior notes; our ability to realize the anticipated benefits from the hedge and warrant transactions; and those risks and other factors discussed in Item 1A. Risk Factors of this Annual Report on Form 10-K, as well as in our consolidated financial statements, related notes, and the other financial information appearing elsewhere in this report and our other filings with the Securities and Exchange Commission ("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," "the Company," "we," "our," "us" and similar terms include Groupon, Inc. and its subsidiaries, unless the context indicates otherwise.

ITEM 1. BUSINESS

Groupon is a global scaled two-sided marketplace that connects consumers to merchants. Consumers access our marketplace through our mobile applications and our websites, primarily localized groupon.com sites in many countries. We operate in two segments, North America and International, and historically we have operated in three categories, Local, Goods and Travel. In February 2020, we announced that we plan to leverage our global leadership position in local commerce to focus on our Local and Travel categories and to exit the Goods category by the end of 2020. Our vision is to make it easy for consumers around the world to discover and purchase local experiences from quality merchants who want to grow their businesses.

We earn service revenue from transactions in which we earn commissions by selling goods or services on behalf of third-party merchants. Those transactions generally involve a customer's purchase of a voucher through one of our online marketplaces that can be redeemed with a third-party merchant for goods or services (or for discounts on goods or services). Service revenue from those transactions is reported on a net basis and equals the purchase price received from the customer for the voucher less an agreed upon portion of the purchase price paid to the merchant. Service revenue also includes commissions that we earn when customers make purchases with retailers using digital coupons accessed through our digital properties and from voucherless merchant offerings. We earn product revenue from direct sales of merchandise inventory through our Goods category. Our product revenue from those transactions is the purchase price received from the customer. After we exit the Goods category, we will no longer generate product revenue or service revenue from goods offerings. We currently anticipate that when we cease operations in the Goods category, its financial results will be presented as a discontinued operation in our consolidated financial statements.

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

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

Our Strategy

In February 2020, we shifted our strategy toward turning Groupon into the local experiences marketplace. As part of this strategy, we plan to exit our Goods category in 2020 and focus our resources on the following four key priorities:

Inventory. We plan to build high-quality inventory density in core cities and bring merchants' full catalogs of experiences onto our marketplace.

Modernization. We intend to deliver a modern mobile experience for customers and new tools to help merchants grow their businesses.

Brand. We plan to relaunch our brand and marketing strategy to move from deal-centric to a local experiences marketplace.

Cost. We intend to evaluate and reduce our cost structure to align with the needs of the ongoing business.

Our Categories

Local. Our Local category includes offerings from local and national merchants, and other revenue sources that are primarily generated through our relationships with local and national merchants, including advertising revenue. Our offerings comprise multiple subcategories of local experiences, including: events and activities; health, beauty and wellness; food and drink; home and garden; and automotive. In addition to local and national offerings, we give consumers the ability to access digital coupons from thousands of retailers through our coupons offering.

Goods. In our Goods category, we earn product revenue from transactions in which we sell merchandise inventory directly to customers, as well as service revenue from transactions in which third-party merchants sell products to customers through our marketplaces. Our Goods category currently offers merchandise across multiple product lines, including electronics, sporting goods, jewelry, toys, household items and apparel. We plan to exit our Goods category by the end of 2020.

Travel. Through our Travel category, we feature travel offers at both discounted and market rates, including hotels, airfare and package deals covering both domestic and international travel. For many of our travel offerings, the customer must contact the merchant directly to make a travel reservation after purchasing a travel voucher from us. However, for some of our hotel offerings, customers make room reservations directly through our websites.

Distribution

Our customers access our online local commerce marketplaces through our mobile applications and our websites, which primarily consist of localized groupon.com sites in countries throughout the world. Our applications and mobile websites enable consumers to browse, purchase, manage and redeem deals on their mobile devices. For the year ended December 31, 2019, over 75% of our global transactions were completed on mobile devices.

We use a variety of marketing channels to direct customers to the offerings available through these marketplaces, as described in the *Marketing* section below.

Marketing

We primarily use marketing to acquire and retain high-quality customers and promote awareness of our marketplaces. In 2019, we leveraged improved marketing analytics to drive efficiency in our marketing spend and maximize the lifetime value of our customer base. In total, we decreased our global marketing spend by \$56.4 million, or 14.2%, for the year ended December 31, 2019.

We are in the process of evolving our brand strategy to better showcase the unique aspects of our two-sided marketplace, particularly focusing on local experiences. As part of this process, we are pragmatically evaluating our marketing spend. We also expect to relaunch the brand in 2020 to clarify our market position and build a powerful connection between how our customers, merchants and partners view us and the marketplace we are building.

We use a variety of marketing channels to make customers aware of the offerings, including search engines, email and push notifications, affiliate channels, social and display advertising and offline marketing.

Search engines. Customers can access our offerings indirectly through third-party search engines. We use search engine optimization ("SEO") and search engine marketing ("SEM") to increase the visibility of our offerings in web search results.

Email and push notifications. We communicate offerings through email and by push notification to our customers based on their locations and personal preferences. A customer who interacts with an email or push notification is directed to our website or mobile application to learn more about the deal and to make a purchase.

Affiliate channels. We have an affiliate program that uses third parties to promote our offerings online. Affiliates earn commissions when customers access our offerings through links on their websites and make purchases on our platform. We expect to continue to leverage affiliate relationships to extend our deals to a broad base of potential customers.

Social and display. We publish offerings through various social networks and adapt our notifications to the particular format of each of these social networking platforms. Our websites and mobile applications enable consumers to share our offerings with their personal social networks. We also promote our offerings using display advertising on websites.

Television and other offline. We use offline marketing such as television advertising, and to a lesser extent, print and radio advertising, to help build awareness of our offerings and brand.

Our marketing activities also include elements that are not presented as Marketing on our consolidated statements of operations, such as order discounts and free shipping on qualifying merchandise sales.

Sales and Operations

Our sales force consists of 2,316 merchant sales representatives and sales support staff who build merchant relationships and provide local expertise. Our North America merchant sales representatives and support staff are primarily based in our offices in Chicago, and our International merchant sales representatives and support staff are based in their respective local offices. Our global sales and sales support headcount by segment as of December 31, 2019 was as follows:

North America	933
International	1,383
Total	2,316

Other key operational functions include editorial, merchant development, customer service, technology, merchandising and logistics. Our editorial department is responsible for creating the written and visual content for our offerings. The merchant development team works with merchants to plan the offering before it is active and serves as an ongoing point of contact for the merchant over the term of an offering. Our customer service department is responsible for answering questions via phone, email, chat and social media platforms regarding purchases, shipping status, returns and other areas of customer inquiry. Our technology team is focused on the design and development of new features and products to enhance the customer and merchant experience, maintenance of our websites and development and maintenance of our internal systems. Merchandising and logistics personnel are responsible for managing inventory and the flow of products from suppliers to our customers.

Our websites are hosted at two U.S. data centers in California and at an international data center in Ireland. Our data centers host our public-facing websites and applications, as well as our back-end business intelligence systems. We employ security practices to protect and maintain the systems located at our data centers. We have invested in intrusion and anomaly detection tools to try to recognize intrusions to our websites. We engage independent third-party Internet security firms to regularly test the security of our websites and identify vulnerabilities. In financial transactions with customers conducted on our websites and mobile applications, we use data encryption protocols to secure information while in transit. See *Risk Factors* for additional information relating to cyber threats.

Competition

Our customers and merchants are at the center of our two-sided marketplace. The quality and stability of both our customers and merchants are key to our business model. We face competition on both sides of our marketplace.

We compete with other marketplaces, some of these marketplaces have longer operating histories, significantly greater financial, technical, marketing and other resources, greater scale and larger customer bases than we do. These factors may allow our competitors to benefit from their existing customer base with lower acquisition costs or to respond more quickly than we can to new or emerging technologies and changes in customer trends. These competitors may engage in more extensive research and development efforts, undertake more far-reaching marketing campaigns and adopt more aggressive pricing policies, which may allow them to build a larger subscriber base or to monetize that subscriber base more effectively than we do. We believe that after our planned exit of the Goods category, which we expect to occur by the end of 2020, we will be well-positioned to compete in our more differentiated local experiences business.

We also compete with companies that can offer alternative services for our merchants. There are companies that offer other types of advertising and promotional services to local businesses. Our merchants could choose to leverage these other platforms to attract customers to their businesses. We believe we can compete due to the access we provide our merchants to our large customer base, our trusted brand, and the investments we are making in self-service tools that will allow merchants to manage demand more effectively and better attract and retain customers.

Seasonality

Some of our offerings, particularly those within our Goods category, experience seasonal buying patterns mirroring that of the larger consumer retail and e-commerce markets, where demand increases during the fourth quarter holiday season. We believe this seasonal pattern has affected our business and quarterly sequential revenue growth rates in the past and may continue to have an impact, although to a lesser extent, after exiting the Goods category. We recognized 27.6%, 30.3% and 30.7% of our annual revenue during the fourth quarter of 2019, 2018 and 2017.

Regulation

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

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

Various U.S. laws and regulations, such as the Bank Secrecy Act of 1970 (the "Bank Secrecy Act"), the Dodd-Frank Wall Street Reform and Consumer Protection Act, the USA PATRIOT Act and the CARD Act impose certain anti-money laundering requirements on companies that are financial institutions or that provide financial products and services. Those laws and regulations broadly define financial institutions to include money services businesses such as money transmitters, check cashers and sellers or issuers of stored value. Requirements imposed on financial institutions under those laws include customer identification and verification programs, record retention policies and procedures and transaction reporting. We do not believe that we are a financial institution subject to those laws and regulations.

We are subject to a variety of federal, state and international laws and regulations governing consumer data. The General Data Protection Regulation ("GDPR"), which was adopted by the European Union and became effective in May 2018, requires companies to satisfy new requirements regarding the handling of personal and sensitive data, including its collection, use, protection and the ability of persons whose data is stored to correct or delete such data about themselves. Complying with the GDPR caused us to update certain business practices and systems. Non-compliance with GDPR could result in proceedings against us by governmental entities or others and fines up to the greater of €20 million or 4% of annual global revenue. In addition, the State of California adopted the California Consumer Protection Act of 2018 ("CCPA"), which became effective in January 2020 and regulates the collection and use of consumers' data. Compliance with the CCPA is expected to cause us to make additional updates to certain business practices and systems.

Intellectual Property

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

In addition to those contractual arrangements, we also rely on a combination of trade secrets, copyrights, trademarks, service marks, trade dress, domain names and patents to protect our intellectual property. Groupon and its related entities own a number of trademarks and service marks registered or pending in the United States and internationally. In addition, we own a number of issued patents and pending patent applications in the United States and internationally and own and have applied for copyright registrations in the United States.

Circumstances outside our control could pose a threat to our intellectual property rights and the efforts we have taken to protect our proprietary rights may not be sufficient or effective or deter independent development of equivalent or superior intellectual property rights by others. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. Also, protecting our intellectual property rights is costly and time-consuming. Any unauthorized disclosure or use of our intellectual property could make it more expensive to do business and harm our operating results.

Companies in the Internet, technology and other industries as well as non-practicing entities may own large

numbers of patents, copyrights and trademarks or other intellectual property rights and may request license agreements, threaten litigation or file suit against us based on allegations of infringement or other violations of intellectual property rights. We are currently subject to, and expect to face in the future, lawsuits and allegations that we have infringed the intellectual property rights of third parties. As our business grows, we will likely face more claims of infringement, and may experience an adverse result which could impact our business and/or our operating results.

We have received in the past, and we anticipate we will receive in the future, communications alleging that items offered or sold through our website infringe third-party copyrights, trademarks, patents and trade names or other intellectual property rights or that we have otherwise infringed third parties' past, current or future intellectual property rights. We may be unable to prevent third parties from offering and selling unlawful or infringing goods or goods of disputed authenticity, and we may be subject to allegations of civil or criminal liability for unlawful activities carried out by third parties through our website. We may implement measures in an effort to protect against these potential liabilities that could require us to spend substantial resources and/or to reduce revenue by discontinuing certain service offerings. Any costs incurred as a result of liability or asserted liability relating to the sale of unlawful goods or the unlawful sale of goods could harm our business.

Employees

As of December 31, 2019, there were 2,358 employees in our North America segment, consisting of 933 sales representatives and 1,425 corporate, operational and customer service representatives, and 3,987 employees in our International segment, consisting of 1,383 sales representatives and 2,604 corporate, operational and customer service representatives.

Information About Our Executive Officers

The following table sets forth information about our executive officers:

Name	Age	Position
Rich Williams	45	Chief Executive Officer and Director
Melissa Thomas	40	Chief Financial Officer, Chief Accounting Officer and Treasurer
Steven Krenzer	61	Chief Operating Officer
Dane Drobny	52	General Counsel and Corporate Secretary

Rich Williams has served as our Chief Executive Officer and a member of our Board of Directors since November 2015. Prior to this role, Mr. Williams served as our Chief Operating Officer since June 2015 and President of North America since October 2014. He joined the Company in June 2011 as Senior Vice President of Marketing. Prior to joining Groupon, Mr. Williams served in a variety of marketing leadership roles at Amazon.com, Inc. (NASDAQ: AMZN) from January 2008 to June 2011, most recently as the Director, Paid Traffic leading global advertising. Prior to joining Amazon, he spent nearly seven years in sales and marketing leadership roles at Experian plc (LSE: EXPN), a global information services company.

Melissa Thomas was appointed as our Chief Financial Officer in February 2020 and currently also serves as our Chief Accounting Officer and Treasurer. She previously served as our Interim Chief Financial Officer since August 2019, our Chief Accounting Officer and Treasurer since November 2018 and our Vice President of Commercial Finance since May 2017. Prior to joining Groupon, Ms. Thomas served as Vice President of Finance at Surgical Care Affiliates from June 2016 to May 2017. From August 2007 to May 2016, Ms. Thomas served in a variety of finance and accounting leadership roles at Orbitz Worldwide (NYSE: OWW), most recently as Vice President of Finance. Prior to Orbitz, Ms. Thomas held accounting positions at Equity Office Properties and began her career at PricewaterhouseCoopers.

Steve Krenzer has served as our Chief Operating Officer since November 2017. Prior to joining Groupon, Mr. Krenzer was the Chief Executive Officer of Core Digital Media, Inc. from October 2012 to November 2017. From November 1996 to October 2012, Mr. Krenzer held a variety of senior executive positions at Experian (LSE: EXPN), ultimately serving as President of Interactive Media.

Dane Drobny has served as our General Counsel and Corporate Secretary since July 2014. Prior to joining Groupon, Mr. Drobny was Senior Vice President, General Counsel and Corporate Secretary at Sears Holdings

Corporation (NASDAQ: SHLD) from May 2010 to June 2014. Prior to joining Sears Holdings, he spent 17 years at the international law firm of Winston & Strawn LLP, most recently as a partner.

Available Information

We electronically file reports with the SEC. The SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are also available free of charge through our website (www.groupon.com), as soon as reasonably practicable after electronically filing with or otherwise furnishing such information to the SEC, and are available in print to any stockholder who requests them. Our Code of Conduct, Corporate Governance Guidelines and committee charters are also posted on the site. We use our Investor Relations website (investor.groupon.com) and our blog (www.groupon.com/blog) as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Information contained on our website and blog is not a part of this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

Our business, prospects, financial condition, operating results and the trading price of our common stock could be materially adversely affected by the risks described below. In assessing those risks, you should also refer to the other information contained in this Annual Report on Form 10-K, including Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and the consolidated financial statements and the related notes in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

Risks Related to Our Business

Our strategy may be unsuccessful and may expose us to additional risks. If our strategy does not achieve its expected benefits, there could be negative impacts to our business, financial condition and results of operations.

We are implementing a strategy to turn the Company into the leading local experiences marketplace and return the Company to growth. As part of our strategy, we plan to exit our Goods category by the end of 2020. We intend to execute our strategy by focusing on four priorities: (i) Inventory - build high-quality merchant and offer density in core cities and bring merchants' full catalogs onto our marketplace, (ii) Product - deliver a modern mobile experience for customers and new tools to help merchants grow their businesses, (iii) Brand - relaunch the Groupon brand and marketing strategy to move from deal-centric to a local experiences marketplace, and (iv) Cost - reduce our costs and right-size our spend to support our go-forward business.

We have an obligation to inform, negotiate and consult with our international workers' councils regarding plans to exit the Goods category, which may impact the timing, cost and execution of our planned exit. In particular, the consultation and negotiation process with workers' councils could be protracted and delay our anticipated timeline for fully exiting the Goods category in International. We also may incur greater than expected costs in connection with an exit of the Goods category, including employee severance, contractual termination costs, liquidation of assets, restructuring charges and write-offs or impairment of goodwill or other assets. In addition, we expect to experience internal disruption in the organization that could negatively impact our operations and financial results, including decreased productivity, employee morale and employee retention. Such disruption could be higher than expected and negatively impact our ability to realize the full benefits of our strategy and increases the costs associated with any exit of the Goods category. Further, our planned exit of the Goods category may adversely impact our Goods-Local cross-shoppers, and if such impact is significant, it could adversely affect our customer base and purchase frequency, limiting our ability to achieve the expected results from our strategy.

There are no assurances that our actions will be successful in building out a local experiences marketplace and return the Company to growth. Our efforts to execute our strategy may prove more difficult than we currently anticipate, including with respect to timing and our ability to increase high-quality density in key locations, improve our product in a way that appeals to consumers and merchants and effectively reduce costs. Further, we may not succeed in realizing the benefits of these efforts on our anticipated timeline or at all. Even if fully implemented, our strategy may not result in a return to growth or the other anticipated benefits to our business, financial condition and results of operations. If we are unable to effectively execute our strategy and realize its anticipated benefits, it could negatively impact our business, financial condition and results of operations.

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

Our marketing strategy is focused on acquiring and retaining customers who we believe will have higher long-term value, activation and conversion rates, and purchase frequency. We also are focused on increasing awareness of our brand and online marketplaces and introducing consumers and merchants to new inventory. We intend to relaunch our brand in the second half of 2020 in an effort to evolve our image from deal-centric to a local experiences marketplace. Following the relaunch of our brand, we plan to employ a full-funnel marketing strategy targeting higher funnel marketing channels in addition to transactional marketing. We also expect to continue to focus on maintaining a payback period on our global marketing spend of approximately 12 to 18 months; however, there are no assurances that we will be able to achieve this result. If any of our assumptions regarding our marketing activities and strategies prove incorrect, including with respect to our full-funnel approach, payback periods and the efficiency of our marketing spend, or there are significant delays in our brand relaunch, our ability to generate revenue and gross profit from our investments may be less than we anticipated. In such case, we may need to increase marketing expenditures or

otherwise alter our strategy and our results of operations could be negatively impacted. Further, even if we successfully execute our marketing strategy and brand relaunch, we may not be able to drive the customer benefits expected

Our operating results may vary significantly from quarter to quarter.

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

- acquire new customers and retain existing customers;
- attract and retain high-quality merchants;
- effectively address and respond to challenges in international markets;
- increase the number, variety, quality, density and relevance of offers, including through third party business partners and technology integrations, as we attempt to build a local experiences marketplace;
- leverage other platforms to display our offerings;
- deliver a modern mobile experience and achieve additional mobile adoption to capitalize on customers' continued shift toward mobile device usage;
- increase booking capabilities and voucherless offerings;
- increase the awareness of, and evolve, our brand to a local experiences marketplace;
- reduce costs and improve SG&A leverage;
- successfully achieve the anticipated benefits of business combinations or acquisitions, strategic investments, divestitures and restructuring activities;
- provide a superior customer service experience for our customers;
- avoid interruptions to our services, including as a result of attempted or successful cybersecurity attacks or breaches;
- respond to continuous changes in consumer and merchant use of technology;
- offset declines in email, search engine optimization ("SEO") and other traffic channels and further diversify our traffic channels;
- react to challenges from existing and new competitors;
- respond to seasonal changes in supply and demand; and
- address challenges from existing and new laws and regulations.

In addition, our margins and profitability may depend on our inventory mix, geographic revenue mix, discount rates mix and merchant and third-party business partner pricing terms. Accordingly, our operating results and profitability may vary significantly from quarter to quarter.

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

We must continue to retain and acquire customers who make purchases on our platform in order to increase profitability. Further, as our customer base evolves, the composition of our customers may change in a manner that makes it more difficult to generate revenue to offset the loss of existing customers and the costs associated with acquiring and retaining customers and to maintain or increase our customers' purchase frequency. If customers do not perceive our offerings to be attractive or if we fail to introduce new and more relevant deals or increase awareness and understanding of the offerings on our marketplace platform, we may not be able to retain or acquire customers at levels necessary to grow our business and profitability. Further, the traffic to our websites and mobile applications, including traffic from consumers responding to our emails and SEO, has declined in recent years, such that an increasing proportion of our traffic is generated from paid marketing channels, such as search engine marketing ("SEM"). In addition, changes to search engine algorithms or similar actions are not within our control and could adversely affect traffic to our websites and mobile applications. If we are unable to acquire new customers in numbers sufficient to grow our business and offset the number of existing active customers that have ceased to make purchases, or if new

customers do not make purchases at expected levels, our profitability may decrease and our operating results may be adversely affected.

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

Our international operations require management attention and resources and also require us to localize our services to conform to a wide variety of local cultures, business practices, laws and policies. Our international operations are subject to numerous risks, including the following:

- disruption resulting from the execution of our strategy, including our planned exit from the Goods category, and ability to retain Goods-Local cross shoppers;
- our ability to maintain merchant and customer satisfaction such that our marketplace will continue to attract high quality merchants;
- our ability to successfully respond to macroeconomic challenges, including by optimizing our deal mix to take into account consumer preferences at a particular point in time;
- political, economic and civil instability and uncertainty (including acts of terrorism, civil unrest, labor unrest, violence and outbreaks of war);
- currency exchange rate fluctuations;
- strong local competitors, who may better understand the local market and/or have greater resources in the local market;
- different regulatory or other legal requirements (including potential fines and penalties that may be imposed for failure to comply with those requirements), such as regulation of gift cards and coupon terms, Internet services, professional selling, distance selling, bulk emailing, privacy and data protection (including GDPR), cybersecurity, business licenses and certifications, taxation (including the European Union's voucher directive, digital service tax and similar regulations), consumer protection laws including those restricting the types of services we may offer (e.g., medical-related services), banking and money transmitting, that may limit or prevent the offering of our services in some jurisdictions, cause unanticipated compliance expenses or limit our ability to enforce contractual obligations;
- our ability to use a common technology platform in our North America and International segments to operate our business without significant business interruptions or delays;
- difficulties in integrating with local payment providers, including banks, credit and debit card networks and electronic funds transfer systems;
- different employee and employer relationships and the existence and actions of workers' councils and labor unions;
- difficulty in staffing, developing and managing foreign operations, including through centralized shared service centers, as a result of distance, language barriers and cultural differences;
- seasonal reductions in business activity;
- expenses associated with localizing our products; and
- differing intellectual property laws.

We are subject to complex foreign and U.S. laws and regulations that apply to our international operations, such as data privacy and protection requirements, including GDPR, the Foreign Corrupt Practices Act, the UK Anti-Bribery Act and similar local laws prohibiting certain payments to government officials, banking and payment processing regulations and anti-competition regulations, among others. The cost of complying with these various, and sometimes conflicting, laws and regulations is substantial. We have implemented and continue to implement policies and procedures to ensure compliance with these laws and regulations, however, we cannot ensure that our employees, contractors, or agents will not violate our policies. Changing laws, regulations and enforcement actions in the United States and throughout the world could harm our business. If commercial and regulatory constraints in our international markets restrict our ability to conduct our operations or execute our strategic plan, our business may be adversely affected.

In addition, we are subject to risks associated with the withdrawal of the United Kingdom from the European Union ("Brexit"), which occurred on January 31, 2020. Pursuant to the Withdrawal Agreement Bill, the United Kingdom will remain in the European Union's free market and customs union until December 31, 2020. On January 1, 2021, the United Kingdom will withdraw from the free market and customs union, and trade between the European Union and the United Kingdom will be subject to border controls. During the transition, the parties will negotiate a free trade agreement to manage future trade in goods and services. However, it is possible that an agreement will not be reached within the transition period, and there remains significant uncertainty about the terms of the future trade relationship between the European Union and the United Kingdom. We have significant operations in both the United Kingdom and the European Union. Our operations and that of our merchants are highly integrated across the United Kingdom and the European Union, and we are highly dependent on the free flow of labor and goods in those regions. The ongoing uncertainty concerning trade between the United Kingdom and European Union nations could negatively impact our merchant and customer relationships and financial performance. The ultimate effects of Brexit on us will depend on the timing and specific terms of any agreement the United Kingdom and the European Union reach to provide access to each other's respective markets.

Our future success depends upon our ability to attract and retain high quality merchants and third-party business partners.

We must continue to attract and retain high quality merchants in order to increase profitability. A key priority of our strategy is to increase high-quality inventory density in core cities and bring merchants' full catalogs onto our marketplace. We intend to realign our sales teams to target merchants in core cities with a new go-to-market strategy, focused on improving quality supply and offering them modern tools to help grow their businesses. If we are not able to effectively execute our inventory initiatives, it could adversely affect our ability to attract and retain merchants.

In addition, in most instances, we do not have long-term arrangements to guarantee the availability of deals that offer attractive quality, value and variety to customers or favorable payment terms to us. If merchants decide that utilizing our services no longer provides an effective means of attracting new customers or selling their offerings, they may stop working with us or negotiate to pay us lower margins or fees. In addition, current or future competitors may accept lower margins, or negative margins, to secure merchant offers that attract attention and acquire new customers. We also may experience attrition in our merchants resulting from several factors, including losses to competitors and merchant closures or merchant bankruptcies. If we are unable to attract and retain high quality merchants in numbers sufficient to grow our business, or if merchants are unwilling to offer products or services with compelling terms through our marketplace, our operating results may be adversely affected.

We rely on email, Internet search engines and mobile application marketplaces to drive traffic to our marketplace.

The traffic to our websites and mobile applications, including from consumers responding to our emails and SEO, has declined in recent years. As such, we must focus on diversifying our sources of traffic, including by developing sources of traffic in addition to email and SEO and optimizing the efficiency of our marketing spending. If we are not able to diversify our sources of traffic and acquire and retain customers efficiently, our business and results of operations could be adversely affected.

Email continues to be a significant source of organic traffic for us. If email providers or Internet service providers implement new or more restrictive email or content delivery or accessibility policies, including with respect to net neutrality, it may become more difficult to deliver emails to our customers or for customers to access our site and services. For example, certain email providers, including Google, categorize our emails as "promotional," and these emails are directed to an alternate, and less readily accessible, section of a customer's inbox. If email providers materially limit or halt the delivery of our emails, or if we fail to deliver emails to customers in a manner compatible with email providers' email handling or authentication technologies, our ability to contact customers through email could be significantly restricted. In addition, if we are placed on "spam" lists or lists of entities that have been involved in sending unwanted, unsolicited emails, our operating results and financial condition could be substantially harmed.

We also rely heavily on Internet search engines to generate traffic to our websites, principally through SEM and SEO. The number of consumers we attract from search engines to our platform is due in large part to how and where information from, and links to, our websites are displayed on search engine results pages. The display, including rankings, of search results can be affected by a number of factors, many of which are not in our control and may

change at any time. Search engines frequently update and change the logic that determines the placement and display of the results of a user's search, such that the purchased or algorithmic placement of links to our websites can be negatively affected. In addition, a search engine could, for competitive or other purposes, alter its search algorithms or results causing our websites to place lower in search query results. If a major Internet search engine changes its algorithms in a manner that negatively affects the search engine ranking it could create additional traffic headwinds for us and negatively affect our results of operations.

We also rely on mobile marketplace operators (i.e., app store operators) to drive downloads of our mobile application. If any mobile marketplace operator determines that our mobile application is non-compliant with its vendor policies, the operator may revoke our rights to distribute through its marketplace or refuse to permit a mobile application update at any time. These operators may also change their mobile application marketplaces in a way that negatively affects the prominence of, or ease with which users can access, our mobile application. Such actions may adversely impact the ability of customers to access our offerings through mobile devices, which could have a negative impact on our business and results of operations.

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

In operating a global online business, we and our third-party service providers maintain significant proprietary information and manage large amounts of personal data and confidential information about our employees, customers and merchants. We and such service providers are at constant risk of cyber-attacks or cyber intrusions via the Internet, computer viruses, break-ins, malware, phishing attacks, hacking, denial-of-service attacks or other attacks and similar disruptions from the unauthorized use of or access to computer systems (including from internal and external sources). These types of incidents have become more prevalent and pervasive across industries, including in our industry, and such attacks on our systems have occurred in the past and are expected to occur in the future. Further, we believe that we are a compelling target for such attacks as a result of the high profile of our brand and the amount and type of information we maintain relating to our customers and merchants. Any such incident could lead to interruptions, delays or website outages, causing loss of critical data or the unauthorized disclosure or use of personally identifiable or other confidential information.

Any failure to prevent or mitigate cybersecurity breaches or other improper access to, or disclosure of, our data or confidential information, including non-public financial information, could result in the loss or misuse of such data or information, negatively impacting customers', merchants' and third-party business partners' confidence in the security of our services and potentially resulting in significant customer or merchant attrition, a decline in customer purchase frequency, litigation and/or regulatory investigations, and/or damage to our brand and reputation.

Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, our prominent size and scale, the large number of transactions that we process, our geographic footprint and international presence, our use of open source software, the complexity of our systems, the maturity of our systems, processes and risk management framework, our number of employees, the location of our businesses and data storage facilities, the jurisdictions in which we operate and the various and evolving laws and regulatory schemes governing data and data protection applicable to us, the extent to which our current systems, controls, processes and practices permit us to detect, log and monitor security events, our use of cloud based technologies and the outsourcing of some of our business operations.

Although cybersecurity and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access are a high priority for us, our activities and investment may not be deployed quickly enough or successfully protect our systems against all vulnerabilities, including technologies developed to bypass our security measures or zero day vulnerabilities. In addition, outside parties may attempt to fraudulently induce employees, merchants or customers to disclose access credentials or other sensitive information in order to gain access to our systems and networks. We also may be subject to additional vulnerabilities as we integrate the systems, computers, software and data of acquired businesses and third-party business partners into our networks and separate the systems, computers, software and data of disposed businesses from our networks.

We maintain a cybersecurity risk management program that is overseen by our Vice President, Information Security, who reports directly to our Chief Technology Officer. Our Vice President, Information Security regularly reports

to the Audit Committee on the state of our cybersecurity program and provides updates on cybersecurity matters. We also conduct an annual cybersecurity review with our Board of Directors. As part of our cybersecurity risk management program, we employ security practices to protect and maintain the systems located at our data centers and hosting providers, invest in intrusion, anomaly, and vulnerability detection tools and engage third-party security firms to test the security of our websites and systems. In addition, we regularly evaluate and assess our systems and the controls, processes and practices to protect those systems and also conduct penetration testing against our own system. The evaluations, assessments and testing identify areas of potential weakness in, and suggested improvements to, the maturity of our systems, processes, and risk management framework as well as vulnerabilities in those systems, processes, and risk management framework that could be attacked and exploited to access and acquire proprietary and confidential information, including information about our customers and merchants. There are no assurances that our cybersecurity risk mitigation program or actions and investments to improve the maturity of our systems, processes and risk management framework or remediate vulnerabilities will be sufficient or completed quickly enough to prevent or limit the impact of any cyber intrusion. In addition, in the future we may be required to expend significant additional resources to modify or enhance our protective measures, controls and systems or to improve the maturity of our systems, processes and risk management framework, or investigate or remediate any information security vulnerabilities. These improvements, modifications and enhancements may take significant time to implement. Further, the sophistication of potential attacks or the capabilities of our systems and processes may not permit us to detect the occurrence of cyber incidents until significant data loss has occurred. Moreover, because the techniques used to gain access to or sabotage systems often are not recognized until launched against a target, we may be unable to anticipate the methods necessary to defend against these types of attacks and we cannot predict the extent, frequency or impact these problems may have on us. Any actual breach, the perceived threat of a breach or a perceived breach, could cause our customers, merchants, card brands and payment card processors to cease doing business with us or do business with us less frequently, subject us to lawsuits (including claims for damages), investigations, regulatory fines or other action or liability or damage to our brand and reputation, which would harm our business, financial condition and results of operations.

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

Competition in our industry may increase in future periods. A number of e-commerce sites that attempt to replicate our business model operate around the world. We also compete against companies that offer other types of advertising and promotional services to local businesses. In addition to such competitors, we may experience increased competition from other large businesses who offer deals similar to ours as an add-on to their core business. We also compete with other companies that offer digital coupons and/or card-linking services through their websites or mobile applications. Further, we compete against other e-commerce companies that serve niche markets and interests, including within the local experiences market. In some of our categories, such as Travel, we compete against much larger companies who have more resources and significantly greater scale. In addition, we compete with traditional offline coupon and discount services, as well as newspapers, magazines and other traditional media companies who provide coupons and discounts on products and services.

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

- the size, composition and retention of our customer base and the number of merchants we feature;
- quality of our inventory;
- delivery of a modern user experience for customers and tools to help merchants grow their businesses;
- mobile penetration;
- understanding local business trends;
- our ability to structure deals to generate positive return on investment for merchants;
- the timing and market acceptance of deals we offer, including the developments and enhancements to those deals offered by us or our competitors;
- our customer and merchant service and support efforts;
- selling and marketing efforts;
- ease of use, performance, price and reliability of services offered either by us or our competitors;

- our ability to improve customer purchase frequency and customer lifetime value;
- our ability to drive traffic to our marketplace;
- the number, quality and reliability of the digital coupons that can be accessed through our platform;
- the quality and performance of our merchants;
- our ability to cost-effectively manage our operations; and
- our reputation and brand strength relative to our competitors.

Many of our current and potential competitors have longer operating histories, greater financial, marketing and other resources and larger customer bases than we do. These factors may allow our competitors to benefit from their existing customer base with lower customer acquisition costs or to respond more quickly than we can to new or emerging technologies and changes in consumer habits. In addition, our competitors may engage in more extensive research and development efforts, undertake more far-reaching marketing campaigns and adopt more aggressive pricing policies, which may allow them to build larger customer and/or merchant bases or generate revenue from their customer bases more effectively than we do. Our competitors may offer deals that are similar to the deals we offer or that achieve greater market acceptance than the deals we offer. This could attract customers away from our websites and mobile applications, reduce our market share and adversely impact our gross profit. In addition, we are dependent on some of our existing or potential competitors for display advertisements and other marketing initiatives to acquire new customers. Our ability to utilize their platforms to acquire new customers may be adversely affected if they choose to compete more directly with us or prevent us from using their services.

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

In the year ended December 31, 2019, over 75% of our global transactions were completed on mobile devices. Additionally, our mobile application has been downloaded over 200 million times as of December 31, 2019. While the focus on mobile is key to our long-term strategy, currently average purchase prices and conversion rates on mobile tend to be significantly lower than desktop. In order to continue to grow our mobile transactions and improve mobile conversion rates, it is critical that our applications are compatible with a range of mobile technologies, systems, networks and standards and that we provide a good customer experience. Further, we have been developing and testing a number of product features that are intended to make our offerings easier to use for customers and merchants. We also are working on a next-generation mobile application that we plan to launch in the second quarter of 2020. Our business may be adversely affected if our customers choose not to access our offerings on their mobile devices, we are not successful in increasing mobile conversion rates or if we fail to develop applications and product enhancements with adequate functionality and a positive customer experience on a wide range of mobile devices. In addition, the success of our mobile application depends on our continued ability to distribute it through mobile application marketplaces (e.g., an app store).

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

Customers access our marketplaces through our websites and mobile applications, as well as via emails that are often targeted by location, purchase history and personal preferences. Customers can also access our deal offerings indirectly through third-party search engines. Our reputation and ability to acquire, retain and serve our current and potential customers are dependent upon the reliable performance of our websites, mobile applications, email delivery and transaction processing systems and the underlying network infrastructure. Our systems may not be adequately designed with the necessary reliability and redundancy to avoid performance delays or outages that could be prolonged and harmful to our business. If our websites or mobile applications are unavailable when users attempt to access them, or if they do not load as quickly as expected, users may not return as often in the future, or at all. As our customer base and the amount of information shared on our websites and mobile applications continue to grow, we will need an increasing amount of network capacity and computing power. We have spent and expect to continue to spend substantial amounts on data centers and equipment, cloud-based technology and related network infrastructure and services to handle the traffic on our websites and mobile applications and to help shorten the time of or prevent system interruptions. The operation of these systems is expensive and complex and could result in operational failures. While resiliency and redundancy are considerations in the design and operation of Groupon's systems, interruptions, delays

or failures in these systems, whether due to earthquakes, adverse weather conditions, other natural disasters, power loss, computer viruses, cybersecurity attacks, physical break-ins, terrorism, errors in our software or otherwise, could be prolonged and could affect the security or availability of our websites and applications, and prevent our customers from accessing our services. If we do not maintain or expand our network infrastructure successfully or if we experience operational failures or prolonged disruptions or delays in the availability of our systems or a significant search engine, we could lose current and potential customers and merchants, which could harm our operating results and financial condition.

In addition, a portion of our network infrastructure is hosted by third-party providers. We also rely on a variety of tools and third-party commercial partners to provide certain services and offerings (e.g., booking and ticketing tools). Any disruption or failure of these providers, tools and/or other third parties to handle existing or increased traffic and transactions could significantly harm our business. Any financial or other difficulties these providers face may adversely affect our business, and we exercise little control over these providers, which increases our vulnerability to problems with the services they provide.

Our business is exposed to risks associated with our voucherless offerings.

We are developing and scaling voucherless offerings, which includes working to significantly increase the number of bookable offerings on our marketplace. Although we believe that voucherless offerings have the potential to increase customer purchase frequency and generate revenue and gross profit growth over the long term, there are no assurances that we will be able to scale our voucherless offerings or that these offerings will be successful in increasing customer purchase frequency or revenue or gross profit growth, if and when scaled. If we are unable to grow the number of and scale voucherless offerings on our marketplace, our results of operations may be adversely affected.

In addition, we currently depend on third party business partners and technology integrations for many of our voucherless offerings. If we are unable to increase our third-party voucherless offerings or successfully complete the associated technology integrations, the quality of our supply and customer experience may be negatively impacted and decrease which could adversely affect our business operations and financial condition. Furthermore, our ability to provide card linked offers in which customers earn cash back on their credit card statements depends, in part, on our arrangements with card brand networks. In the event any card brand network no longer supports our card-linked offerings, imposes significant restrictions on our offerings or deal structures or significantly changes their fees, such offerings may be unsuccessful.

We purchase and sell some products from indirect suppliers and allow third parties to sell products via our site and services, which increase our risk of litigation and other losses.

We source merchandise both directly from brand owners and indirectly from retailers and third-party distributors, and we often take title to the goods before we offer them for sale to our customers. Further, some brand owners, retailers and third-party distributors may be unwilling to offer products for sale on the Internet or through Groupon in particular, which could have an adverse impact on our ability to source and offer popular products. We also allow third party merchants to sell products to our customers via our marketplace platform. By selling merchandise sourced from parties other than the brand owners, and allowing the sale of merchandise by third parties, we are subject to an increased risk that the merchandise may be damaged or of disputed authenticity, which could result in potential liability under applicable laws, regulations, agreements and orders, and increase the amount of returned merchandise or customer refunds. Further, we may be found to be directly liable for actions by third party merchants who sell goods on our site. In addition, brand owners or regulators may take legal action against us. Even if we prevail, any such legal action could result in costly litigation, generate adverse publicity for us, and have a material adverse impact on our business, financial condition, results of operations, brand and reputation. Further, in any such matter, we may not be entitled to indemnification from our supplier or merchant, or able to effectively enforce the supplier's or merchant's contractual indemnification obligations.

We may be subject to substantial liability claims and damage to our brand and reputation if people or property are harmed by the products or services offered through our marketplace.

Some of the products and services offered through our marketplace may expose us to liability claims relating to personal injury, death, negligence, intentional misconduct, assault, abuse or environmental or property damage. Certain merchants and third parties sell products and offer services using our marketplace that based on the type of product or service, may increase our exposure to substantial claims and litigation, especially if these merchants or

third-party sellers do not have sufficient protection from such claims. Although we believe we are not liable for the goods or services that merchants or third-parties offer through our marketplace, there is no assurance that a court would rule in our favor on such issues. Further, while we maintain liability insurance, we cannot be certain our coverage will apply to the claims at issue, be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all. In addition, some of our agreements with vendors, merchants and third-party sellers do not indemnify us from certain liability and costs or we may not be able to effectively enforce our contractual indemnification rights. Claims relating to products or services offered through our marketplace also could result in significant damage to our brand and reputation regardless of whether we are ultimately liable for any such claims.

Our processes and procedures for onboarding merchants and third-party sellers also may expose us to liability claims or damage to our brand and reputation if the processes or procedures are deemed inadequate. Additionally, while we maintain multiple channels through which our customers can submit feedback or complaints about their experiences with merchants and other third-party sellers on our platform, because our customers often deal directly with the sellers, pertinent feedback may not be provided to us. Moreover, our evaluation of any customer feedback or complaints we receive is subjective based on the information, which is sometimes very limited, that our customers provide, and we may not take action in response to feedback or complaints. If our systems and procedures with respect to any such feedback or complaints are determined to be inadequate or any action or inaction is found to be inadequate, including, by way of example, not discontinuing on a timely basis offers of deals with merchants or sellers that have been the subject of material complaints, we could face substantial additional liability and damage to our brand and reputation for the misconduct of such merchants or third-party sellers.

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

We purchase a portion of the merchandise that we offer for sale to our customers. The demand for products can change for a variety of reasons, including customer preference, quality, seasonality, and customers' perception of the value of purchasing the product through us. If we do not adequately predict customer demand and efficiently manage inventory, we could have either an excess or a shortage of inventory, either of which would adversely impact our business. Delays or inefficiencies in our processes, or those of our third-party logistics providers or third-party sellers, also could subject us to additional costs, as well as customer dissatisfaction, which could adversely affect our business. Additionally, in some cases we assume the risks of inventory damage, theft and obsolescence. Further, as we execute our planned exit of the Goods category, we may have excess inventory that we are forced to sell at a discount or loss, which could increase overall costs of executing our go-forward strategy.

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

We are involved from time to time in litigation regarding, among other matters, patent, consumer, privacy and employment issues. Litigation can be expensive, time-consuming and disruptive to normal business operations. The results of complex legal proceedings are often uncertain and difficult to predict. An unfavorable outcome with respect to any of these lawsuits could have a material adverse effect on our business, financial condition, results of operations and cash flows. For additional information regarding these and other lawsuits in which we are involved, see Item 8, Note 11, *Commitments and Contingencies*, to the consolidated financial statements.

An increase in our refund rates or estimated liabilities with respect to unredeemed vouchers could adversely affect our profitability or net income.

As we expand our product offerings and inventory density, our customer refund rates may exceed historical levels. A downturn in general economic conditions or extended period of low consumer confidence (e.g, continued UK macroeconomic conditions) could also increase our refund rates. An increase in our refund rates could significantly reduce our liquidity and profitability. We estimate future refunds utilizing a statistical model that incorporates historical refund experience, including the relative risk of refunds based on deal category. Our actual level of refund claims could prove to be greater than the level of refund claims we estimate. If our refund reserves are not adequate to cover future refund claims, this inadequacy could have a material adverse effect on our profitability. In addition, we may not be able to obtain reimbursement from merchants for refunds that we issue, which could have an adverse effect on our liquidity and profitability.

In recent periods, we have increased our use of redemption payment terms with our North America merchants. In addition, the revenue recognition standard that we adopted in 2018 requires us to estimate variable consideration

from unredeemed vouchers. As a result, a greater percentage of our transactions in North America than in prior periods will require us to use projections in order to estimate revenue and liabilities associated with unredeemed vouchers. If the estimates that we use in projecting the likelihood of vouchers being redeemed prove to be inaccurate, our liabilities with respect to unredeemed vouchers may be materially higher than the amounts shown in our financial statements, and our net income could be materially and adversely affected.

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

In order to be successful, we must attract, retain and motivate executives and other key employees, including those in managerial, technical and sales positions. Hiring and retaining qualified executives, engineers and qualified sales representatives are critical to our success, and competition for experienced and well qualified employees can be intense. Further, disruption in our business due to the implementation of our strategy, including the planned exit of our Goods category, may make it more difficult to attract and retain talent. In order to attract and retain executives and other key employees in a competitive marketplace, we must provide a competitive compensation package, including cash and equity-based compensation. We currently utilize restricted stock units and performance share units as our forms of share-based incentive compensation. If the anticipated value of such equity-based incentive awards does not materialize, if our equity-based compensation otherwise ceases to be viewed as a valuable benefit or if our total compensation package is not viewed as competitive, our ability to attract, retain and motivate executives and key employees could be weakened. The failure to successfully hire executives and key employees or the loss of any executives and key employees could have a significant impact on our operations.

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

We routinely evaluate and consider a wide array of potential strategic transactions, including acquisitions and dispositions of businesses, joint ventures, technologies, services, products and other assets and minority investments. The pursuit and consummation of such transactions can result in operating difficulties, dilution, management distraction and other potentially adverse consequences. In the past, we have acquired and divested a number of companies and may complete additional transactions in the future.

Acquisitions involve significant risks and uncertainties, including uncertainties as to the future financial performance of the acquired business and the performance of acquired customers, valuation of the acquired business and integration risks such as difficulties integrating acquired personnel into our business, the potential loss of key employees, customers or suppliers, difficulties in integrating different computer, payment and accounting systems and exposure to unknown or unforeseen liabilities of acquired companies. In addition, the integration of an acquisition could divert management's time and our resources. If we pay for an acquisition or a minority investment in cash, it would reduce our cash available for operations or cause us to incur debt, and if we pay with our stock, it could be dilutive to our stockholders. Additionally, we do not have the ability to exert control over our minority investments, and therefore we are dependent on others in order to realize their potential benefits. Dispositions and attempted dispositions also involve significant risks and uncertainties, such as the risk of destabilizing the applicable operations, the loss of key personnel, the terms and timing of any dispositions, the ability to obtain necessary governmental or regulatory approvals, post-disposal disputes and indemnification obligations and risks and uncertainties with respect to the separation of disposed operations, including, for example, transition services, access by purchasers to certain of our systems and tools during transition periods, the migration of data and separation of systems, data privacy matters and misuse of trademarks and intellectual property. We may be unable to successfully complete potential strategic transactions or dispositions on a timely basis or at all, or we may not realize the anticipated benefits of any of our strategic transactions in the time frame expected or at all.

We do not have the ability to exert control over our minority investments, and therefore we are dependent on others in order to realize their potential benefits.

We currently hold non-controlling minority investments in Monster Holdings LP ("Monster LP") and other entities and we may make additional strategic minority investments in the future. Such minority investments inherently involve a lesser degree of control over business operations, thereby potentially increasing the financial, legal, operational and/or compliance risks associated with the investments. Other investors in these entities may have business goals and interests that are not aligned with ours, or may exercise their rights in a manner in which we do not approve. These circumstances could lead to delayed decisions or disputes and litigation with those other investors, all of which could have a material adverse impact on our reputation, business, financial condition and results of operations.

If Monster LP or other entities seek additional financing, such financing transactions may result in further dilution of our ownership stakes and such transactions have and in the future may occur at lower valuations than the investment transactions through which we acquired such interests, which could significantly decrease the fair values of our investments in those entities. Additionally, if Monster LP or other entities are unable to obtain any such financing, those entities could need to significantly reduce their spending in order to fund their operations. Such actions as well as a decline in the business performance, financial condition and competitive environment of an entity likely would result in reduced growth forecasts, which also could significantly decrease the fair values of our investments in those entities. Further, we have made an irrevocable election to account for our investments in Monster LP and other entities at fair value with changes in fair value reported in earnings. Our election to apply fair value accounting to those investments has and may continue to cause fluctuations in our earnings from period to period.

The application of certain laws and regulations, including, among other laws, the CARD Act and similar state and foreign laws, may harm our business and results of operations.

The application of certain laws and regulations to vouchers is uncertain. Vouchers may be considered gift cards, gift certificates, stored value cards or prepaid cards and therefore governed by, among other laws, the CARD Act, and state laws governing gift cards, stored value cards and coupons, and, in certain instances, potentially subject to unclaimed and abandoned property laws. Other foreign jurisdictions have similar laws in place, in particular European jurisdictions where the European E-Money Directive regulates the business of electronic money institutions. Many of these laws contain provisions governing the use of gift cards, gift certificates, stored value cards or prepaid cards, including specific disclosure requirements and prohibitions or limitations on the use of expiration dates and the imposition of certain fees. For example, if vouchers are subject to the CARD Act and are not included in the exemption for promotional programs, it is possible that the purchase value, which is the amount equal to the price paid for the voucher, or the promotional value, which is the add-on value of the voucher in excess of the price paid, or both, may not expire before the later of (i) five years after the date on which the voucher was issued; (ii) the voucher's stated expiration date (if any); or (iii) a later date provided by applicable state law. In the event that it is determined that vouchers sold through our platform are subject to the CARD Act or any similar state or foreign law or regulation, and are not within various exemptions that may be available under the CARD Act or under some of the various state or foreign jurisdictions, our liabilities with respect to unredeemed vouchers may be materially higher than the amounts shown in our financial statements and we may be subject to additional fines and penalties.

In addition, from time to time, we may be notified of additional laws, or developments in existing, laws and regulations that governmental organizations or others may claim should be applicable to our business, or that otherwise affect our operations. If we are required to alter our business practices, or there are other market changes, as a result of any laws and regulations, our revenue could decrease, our costs could increase and our business could otherwise be harmed. In addition, the costs and expenses associated with defending any actions related to, or otherwise reacting to, such legal or regulatory developments, and any related payments (including penalties, judgments, settlements or fees) could adversely impact our profitability. To the extent that we expand into new lines of business and new geographies, we will become subject to additional laws and regulations.

We may have exposure to greater than anticipated tax liabilities.

We are subject to income taxes in the United States (federal and state) and numerous foreign jurisdictions. Tax laws, regulations, and administrative practices in various jurisdictions may be subject to significant change due to economic, political, and other conditions, and significant judgment is required in evaluating and estimating our provision and accruals for these taxes. Our income tax obligations are based on our corporate operating structure, including the manner in which we develop, value and use our intellectual property and the scope of our international operations.

The tax laws applicable to our domestic and international business activities, including the laws of the United States and other jurisdictions, are subject to interpretation. The taxing authorities of the jurisdictions in which we operate may challenge our methodologies for valuing developed technology or intercompany arrangements, which could potentially increase our worldwide effective tax rate and harm our financial position and results of operations. In addition, there are many transactions that occur during the ordinary course of business for which the ultimate tax determination is uncertain. Our effective tax rates could be adversely affected by earnings being lower than anticipated in jurisdictions where we have lower statutory rates and higher than anticipated in jurisdictions where we have higher statutory rates, losses incurred in jurisdictions for which we are not able to realize the related tax benefits, changes in foreign currency exchange rates, entry into new businesses and geographies and changes to our existing businesses, acquisitions and investments, changes in our deferred tax assets and liabilities and their valuation and changes in the relevant tax, accounting and other laws, regulations, administrative practices, principles and interpretations, including fundamental

changes to the tax laws applicable to corporate multinationals. Developments in an audit, litigation or the relevant laws, regulations, administrative practices, principles and interpretations could have a material effect on our financial position, operating results and cash flows in the period or periods for which that development occurs, as well as for prior and subsequent periods.

We also are subject to regular review and audit by both U.S. federal and state and foreign tax authorities. In particular, we currently are, and expect to continue to be, subject to numerous federal, state and international tax audits relating to income, transfer pricing, sales, VAT and other tax liabilities. Some of these pending and future audits could involve significant liabilities and/or penalties. We are subject to claims for tax assessments by foreign jurisdictions, including a proposed assessment for \$113.3 million (inclusive of estimated incremental interest from the original assessment). We believe that the assessment, which primarily relates to transfer pricing on transactions occurring in 2011, is without merit and we intend to vigorously defend ourselves in that matter. See Item 8, Note 16, *Income Taxes*, for additional information. Any adverse outcome of such a review or audit could have a significant negative effect on our financial position and results of operations. In addition, the determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment by management, and there are many transactions where the ultimate tax determination is uncertain. Although we believe that our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

The adoption of tax reform policies, including the enactment of legislation or regulations implementing changes in the tax treatment of companies engaged in Internet commerce or the U.S. taxation of international business activities could materially affect our financial position and results of operations.

Further, due to the global nature of the Internet, it is possible that various states or foreign countries might attempt to regulate our transmissions or levy sales, income or other taxes relating to our activities. Tax authorities at the international, federal, state and local levels are currently reviewing the appropriate treatment of companies engaged in Internet commerce, and new or revised international, federal, state or local tax regulations may subject us or our customers to additional sales, income and other taxes. We cannot predict the effect of current attempts to impose sales, income or other taxes on commerce over the Internet. New or revised taxes and, in particular, obligations on online marketplaces and remote sellers to collect sales taxes, VAT and similar taxes, including digital service taxes, may result in liability for third party obligations and would likely increase the cost of doing business online and decrease the attractiveness of advertising and selling goods and services over the Internet. For example, the voucher directive adopted by the European Union, digital service taxes adopted by certain countries or similar regulations could adversely affect our financial results. New taxes or the enactment of new tax laws could also create significant increases in internal costs necessary to capture data, and collect and remit taxes. Any of these events could have an adverse effect on our business and results of operations.

If we are required to materially increase the liability recorded in our financial statements with respect to unredeemed vouchers our results of operations could be materially and adversely affected.

In certain states and foreign jurisdictions, vouchers may be considered a gift card. Some of these states and foreign jurisdictions include gift cards under their unclaimed and abandoned property laws which require companies to remit to the government the full value or a portion of the value of the unredeemed balance on the gift cards after a specified period of time (generally between one and five years) and impose certain reporting and record-keeping obligations. We do not remit any amounts relating to unredeemed vouchers based on our assessment of applicable laws. The analysis of the potential application of the unclaimed and abandoned property laws to vouchers is complex, involving an analysis of constitutional and statutory provisions and factual issues, including our contractual relationship with customers and merchants. In recent periods, we increased our use of redemption payment terms with our North America merchants, and we expect that trend to continue. The determinations we make with respect to variable consideration that we earn on those transactions may be subject to the laws described above, and we expect the amount of that variable consideration to increase as our use of redemption payment terms increases. In the event that one or more states or foreign jurisdictions successfully challenges our position on the application of its unclaimed and abandoned property laws to vouchers, our liabilities with respect to unredeemed vouchers, including any resulting penalties and interest, may be materially higher than the amounts shown in our financial statements which could have a material adverse impact on our results of operations.

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

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

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

A variety of federal, state and international laws and regulations govern the collection, use, retention, sharing and security of consumer data. The existing privacy-related laws and regulations are evolving and subject to potentially differing interpretations. In addition, various federal, state and foreign legislative and regulatory bodies may expand current or enact new laws regarding privacy matters. For example, the European Union adopted the GDPR, which became effective in May 2018, and requires companies to satisfy new requirements regarding the handling of personal and sensitive data, including its collection, use, protection and the ability of persons whose data is stored to correct or delete such data about themselves. In addition, the State of California adopted the California Consumer Protection Act of 2018 ("CCPA"), which became effective in January 2020, and also will regulate the collection and use of consumers' data. Complying with the GDPR, CCPA and similar laws and regulations may cause us to incur substantial operational costs or require us to change our business practices. Further, despite our diligent efforts to comply with these laws and regulations, we may not be successful either due to internal or external factors such as resource allocation limitations or a lack of vendor cooperation. Noncompliance could result in proceedings against us by governmental entities or others and fines. For example, fines under GDPR could be up to the greater of €20 million or 4% of annual global revenue and damage our reputation and brand. As a result of GDPR, in particular, we may also experience difficulty retaining or obtaining new European or multi-national customers due to the compliance cost, potential risk exposure, portability of customer data and uncertainty for these entities. We also may find it necessary to establish systems to maintain personal data originating from the European Union in the European Economic Area as a result of changes or restrictions to currently legitimate methods of effectuating cross-border personal data transfers to countries outside of the European Economic Area, which may involve substantial expense and distraction from other aspects of our business. Additionally, there could be uncertainty as to how to comply with privacy laws, in various jurisdictions such as country or state-specific laws that may conflict with or deviate from privacy directives, such as GDPR, CCPA or future laws and regulations.

We have posted privacy policies and practices concerning the collection, use and disclosure of subscriber data on our websites and applications. Several Internet companies have incurred substantial penalties for failing to abide by the representations made in their privacy policies and practices. In addition, several states have adopted legislation that requires businesses to implement and maintain reasonable security procedures and practices to protect sensitive personal information and to provide notice to consumers in the event of a security breach resulting in a loss or likely loss of personal information. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any data-related consent orders, Federal Trade Commission requirements or orders or other federal, state or international privacy or consumer protection-related laws, regulations or industry self-regulatory principles could result in claims, proceedings or actions against us by governmental entities or other third-parties or other liabilities, which could adversely affect our business. In addition, a failure or perceived failure to comply with industry standards or with our own privacy policies and practices could result in a loss of subscribers or merchants and adversely affect our business. Federal, state and international governmental authorities continue to evaluate the privacy implications inherent in the use of third-party web "cookies" for tracking and behavioral advertising. The regulation of these cookies and other current online advertising practices could adversely affect our business.

Misclassification or reclassification of our independent contractors or employees could increase our costs and adversely impact our business.

Our workers are classified as either employees or independent contractors, and if employees, as either exempt from overtime or non-exempt (and therefore overtime eligible). Regulatory authorities and private parties have recently asserted within several industries that some independent contractors should be classified as employees and that some exempt employees, including those in sales-related positions, should be classified as non-exempt based upon the applicable facts and circumstances and their interpretations of existing rules and regulations. If we are found to have misclassified employees as independent contractors or non-exempt employees as exempt, we could face penalties and have additional exposure under federal and state tax, workers' compensation, unemployment benefits, labor, employment and tort laws, including for prior periods, as well as potential liability for employee overtime and benefits and tax withholdings. Legislative, judicial, or regulatory (including tax) authorities could also introduce proposals or assert interpretations of existing rules and regulations that would change the classification of a significant number of independent contractors doing business with us from independent contractor to employee and a significant number of exempt employees to non-exempt. A reclassification in either case could result in a significant increase in employment-related costs such as wages, benefits and taxes. The costs associated with employee classification, including any related regulatory action or litigation, could have a material adverse effect on our results of operations and our financial position.

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

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

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

As we increase our reliance on cloud-based platforms to operate and deliver our products and services, any disruption or interference with these platforms could adversely affect our financial condition and results of operations.

We are migrating a significant portion of our computing infrastructure to third party hosted cloud-based computing platforms. These migrations can be risky and may cause disruptions to the availability of our products due to service outages, downtime or other unforeseen issues that could increase our costs. We also may be subject to additional risk of cybersecurity breaches or other improper access to our data or confidential information during or following migrations to cloud-based computing platforms. In addition, cloud computing services may operate differently than anticipated when introduced or when new versions or enhancements are released. As we increase our reliance on cloud-based computing services, our exposure to damage from service interruptions may increase. In the event any such issues arise, it may be difficult for us to switch our operations from our primary cloud computing service providers to alternative providers. Further, any such transition would involve significant time and expense and could negatively impact our ability to deliver our products and services, which could harm our financial condition and results of operations.

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

We regard our trademarks, service marks, copyrights, patents, trade dress, trade secrets, proprietary technology, merchant lists, subscriber lists, sales methodology and similar intellectual property as critical to our success,

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

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

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

Our business depends on a strong brand, and if we are not able to maintain and enhance our brand, our ability to expand our base of customers and merchants could be impaired and our business and operating results could be harmed.

We believe that the brand identity that we have developed has significantly contributed to the success of our business. We also believe that maintaining and enhancing the "Groupon" brand is critical to expanding our base of customers and merchants. We intend to relaunch our brand in the second half of 2020 in an effort to evolve our image from deal-centric to a local experiences marketplace. In addition, maintaining and enhancing our brand may require us to make substantial additional investments over time and these investments may not be successful. If we fail to promote, maintain and protect the "Groupon" brand or if our brand relaunch is not successful, our business, operating results and financial condition may be adversely affected. We anticipate that, as the local experiences market becomes increasingly competitive, maintaining and enhancing our brand may become more difficult and expensive. Maintaining and enhancing our brand will depend largely on our ability to continue to provide reliable, trustworthy and high quality offerings on our marketplace, which we may not do successfully.

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

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

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

Although we have not incurred significant losses from fraud and counterfeit vouchers in the past, we could incur significant losses from such activities in future periods. Additionally, we may incur losses from claims that the customer did not authorize a purchase, from credit card fraud, from merchant fraud, from erroneous transmissions, and from customers who have closed bank accounts or have insufficient funds in them to satisfy payments. We also may incur losses as a result of purchases made with fraudulent credit card information, even if the associated financial institution approved payment of the transaction. In addition to the direct costs of any such losses, if the losses are related to credit card transactions and become excessive, they could potentially result in our losing the right to accept credit cards for payment. If we were unable to accept credit cards for payment, we would suffer substantial reductions in revenue, which would cause our business to suffer. While we have taken measures to detect and reduce the risk of fraud, these measures need continual improvement and may not be effective against new and continually evolving forms of fraud or in connection with new product offerings. If we are unable to effectively combat the use of fraudulent credit cards on our websites or if we otherwise experience increased levels of fraud or disputed credit card payments, our business could materially suffer.

We are subject to payments-related risks.

We accept payments using a variety of methods, including credit cards, debit cards and gift certificates. As we offer new payment options to customers, we may be subject to additional regulations, compliance requirements and fraud. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower profitability. In addition, our credit card and other payment processors, at their discretion, could impose receivable holdback or reserve requirements in the future, which could have a material impact on our cash flow and available liquidity. As we implement our planned exit of the Goods category or in the event our strategy is unsuccessful, these payment processors could increase holdback amounts due to concerns with our financial condition, which could adversely affect our liquidity. We rely on third parties to provide payment processing services, including the processing of credit cards and debit cards, and it could disrupt our business if these companies become unwilling or unable to provide these services to us. We are also subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from customers or facilitate other types of online payments, and our business and operating results could be adversely affected.

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

Federal laws and regulations, such as the Bank Secrecy Act and the USA PATRIOT Act and similar foreign laws, could be expanded to include Groupon vouchers or other offerings.

Various federal laws, such as the Bank Secrecy Act and the USA PATRIOT Act and foreign laws and regulations, such as the European Directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing, impose certain anti-money laundering requirements on companies that are financial institutions or that provide financial products and services. For these purposes, financial institutions are broadly defined to include money services businesses such as money transmitters, check cashers and sellers or issuers of stored value cards. Examples of anti-money laundering requirements imposed on financial institutions include subscriber identification and verification programs, record retention policies and procedures and transaction reporting. We do not believe that we are a financial institution subject to these laws and regulations based, in part, upon the characteristics of Groupon vouchers and our role with respect to the distribution of Groupon vouchers to customers. For example, the Financial Crimes Enforcement Network ("FinCEN"), a division of the U.S. Treasury Department tasked with implementing the requirements of the Bank Secrecy Act (the "BSA"), has adopted regulations expanding the scope of the BSA and requirements for parties involved in stored value or prepaid access cards, including a proposed expansion of financial institutions to include sellers or issuers of prepaid access cards. While we believe Groupon vouchers are not subject to these regulations, it is possible that FinCEN or a court of law could consider Groupon vouchers (or other Groupon products) a financial product and that we could be a financial institution. In the event that we become subject to the requirements of the Bank Secrecy Act or any other anti-money laundering law or regulation imposing obligations on

us as a money services business, our regulatory compliance costs to meet these obligations would likely increase which could adversely impact our operating results.

State and foreign laws regulating money transmission could be expanded to include Groupon vouchers or other Groupon products or services.

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

Our access to capital and ability to raise capital in the future may be limited, which could prevent us from growing, and our existing credit agreement could restrict our business activities.

We may need additional capital in the future and seek additional financing. Such financing may not be available on acceptable terms, or at all, and our failure to raise capital when needed could harm our business. In addition, we are party to a \$400.0 million amended and restated credit agreement with JPMorgan Chase Bank, N.A., as Administrative Agent, dated as of May 14, 2019, as amended (the "Credit Agreement"), which matures in May 2024. Our Credit Agreement contains financial and other covenants that may restrict our business activities or our ability to execute our strategic objectives, and our failure to comply with these covenants could result in a default under our Credit Agreement. In addition, general economic conditions, as well as our future operating performance, which we expect to be impacted by our planned exit of the Goods category, could ultimately limit our access to funding under our revolving credit agreement. We also expect a one-time decrease in working capital in 2020 in connection with our planned exit of the Goods category, which could impact our liquidity and, potentially, our access to capital during that period. Furthermore, additional equity financing may dilute the interests of our common stockholders, and debt financing, if available, may involve restrictive covenants that could further restrict our business activities or our ability to execute our strategic objectives and could reduce our profitability. If we cannot access the full capacity of our credit facility or raise or borrow funds on acceptable terms, we may not be able to grow our business or respond to competitive pressures.

In addition, advances under our revolving credit facility generally bear interest based on (i) the Alternate Base Rate (as defined in our Credit Agreement) or (ii) the Adjusted LIBO Rate (as defined in our Credit Agreement) and calculated using the London Inter-bank Offered Rate ("LIBOR"). On July 27, 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021, and it is unclear whether new methods of calculating LIBOR will be established. If LIBOR ceases to exist after 2021, any calculation of interest based upon the Alternate Base Rate (or any comparable or replacement formulation), may result in higher interest rates. To the extent that these interest rates increase, our interest expense will increase, which could adversely affect our financial condition, operating results and cash flows.

We may not have the ability to use cash to settle the principal amount of our 3.25% convertible notes due 2022 (the "Notes") upon conversion or to repurchase the Notes upon a fundamental change, which could result in dilution and could adversely affect our financial condition.

The Notes are convertible any time prior to their maturity on April 1, 2022 into cash, stock or a combination of cash and stock at an initial conversion rate set forth in the indenture governing the Notes (the "Indenture"). Notes that are converted in connection with a make-whole fundamental change (as defined in the Indenture) may be entitled to an increase in the conversion rate for such Notes. Upon a conversion event, if we do not have adequate cash available or cannot obtain additional financing, or our use of cash is restricted by applicable law, regulations or agreements governing our current or future indebtedness, we may not be able to use cash to settle the principal amount of the Notes upon conversion. If we settle any portion of the principal amount of the Notes upon conversion in stock, it will result in immediate dilution to the ownership interests of existing stockholders and such dilution could be material.

In addition, holders of the Notes have the right to require us to repurchase their Notes upon the occurrence of a fundamental change (as defined in the Indenture) at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any. If we do not have adequate cash available or cannot obtain additional financing, or our use of cash is restricted by applicable law, regulations or agreements governing our current or future indebtedness, we may not be able repurchase the Notes when required under the Indenture,

which would constitute an event of default under the Indenture. An event of default under the Indenture could also lead to a default under other agreements governing our current and future indebtedness, and if the repayment of such other indebtedness were accelerated, we may not have sufficient funds to repay the indebtedness and repurchase the Notes or make cash payments upon conversion of the Notes.

The terms of the Notes could delay or prevent an attempt to take over our Company.

The terms of the Notes require us to repurchase the Notes in the event of a fundamental change. A takeover of our Company would constitute a fundamental change. This could have the effect of delaying or preventing a takeover of our Company that may otherwise be beneficial to our stockholders.

Risks Related to Ownership of Our Common Stock

The trading price of our common stock is highly volatile.

The trading price of our common stock has fluctuated significantly since our initial listing on NASDAQ. We expect that the trading price of our stock will continue to be volatile due to variations in our operating results and also may change in response to other factors, including factors specific to technology and Internet commerce companies, many of which are beyond our control. Among the factors that could affect our stock price are:

- our financial results;
- any financial projections that we provide to the public, any changes in these projections or our failure for any reason to meet these projections or projections made by research analysts;
- the number of shares of our common stock that are available for sale;
- the relative success of competitive products or services;
- the public's response to press releases or other public announcements by us or others, including our filings with the SEC and announcements relating to litigation;
- speculation about our business in the press or the investment community;
- future sales of our common stock by our significant stockholders, officers and directors;
- announcements about our share repurchase program and purchases under the program;
- changes in our capital structure, such as future issuances of debt or equity securities;
- our entry into new markets or exits from existing markets;
- regulatory developments;
- strategic acquisitions, joint ventures or restructurings announced or consummated by us or our competitors;
- strategic dispositions of businesses or other assets announced or consummated by us;
- our ability to execute our strategy; and
- changes in accounting principles.

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

If securities or industry analysts do not publish research or reports about our business, or publish inaccurate or unfavorable research reports about our business, our share price and trading volume could decline.

The trading market for our common stock depends, in part, on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts, and in the past, we have had changes in analyst ratings that have affected our stock price. If one or more of the analysts who cover us should downgrade our shares or change their opinion of our shares, industry sector or products, our share price would likely decline. If one or more of these analysts ceases coverage of our company or fails to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

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

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

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

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. These provisions include the following:

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

The convertible note hedge and warrant transactions may affect the value of our common stock.

On May 9, 2016, we purchased convertible note hedges from certain bank counterparties. The convertible note hedges are intended to reduce the potential economic dilution upon conversion of the Notes. On May 9, 2016, we also sold warrants to certain bank counterparties. The warrant transactions would separately have a dilutive effect to the extent that the market price per share of our common stock exceeds the applicable strike price of the warrants.

The bank counterparties or their respective affiliates may modify their initial hedge positions by entering into or unwinding various derivatives contracts with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the Notes (and are likely to do so during any observation period related to a conversion of Notes or following any repurchase of Notes by us on any fundamental change repurchase date or otherwise). This activity could cause or avoid a significant change in the market price of our common stock.

In addition, in some circumstances, such as an early termination of the convertible note hedge and warrant transactions, including in connection with certain change of control transactions or other extraordinary events, the bank counterparties or their respective affiliates may unwind their hedge positions with respect to our common stock, which could adversely affect the value of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 31, 2019, we owned no property and leased approximately 1.3 million square feet of space. Our corporate headquarters and principal executive offices are located in Chicago, Illinois. Other properties are located throughout the world and largely represent local operating facilities. We believe that our properties are in good condition and meet the needs of our business, and that suitable additional or alternative space will be available as needed to accommodate our business operations and future growth.

Description of Use	Segment	Leased Square Feet	Various lease expirations through
Corporate offices	North America	518,000	January 2026
Corporate offices	International	401,000	June 2025
Fulfillment and data centers	North America	337,000	April 2023
Fulfillment and data centers	International	9,000	March 2021

ITEM 3. LEGAL PROCEEDINGS

For a description of our material pending legal proceedings, please see Item 8, Note 11, *Commitments and Contingencies*, to the consolidated financial statements of this Annual Report on Form 10-K.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Our common stock has been listed on the NASDAQ Global Select Market under the symbol "GRPN" since November 4, 2011.

Holders

As of February 14, 2020, there were 140 holders of record of our common stock. Each holder of our common stock is entitled to one vote per share on any matter that is submitted to a vote of stockholders.

Equity Compensation Plan Information

Information about the securities authorized for issuance under our compensation plans is incorporated by reference from the Proxy Statement for our 2020 Annual Meeting of Stockholders.

Recent Sales of Unregistered Securities

During the year ended December 31, 2019, we did not issue any unregistered equity securities.

Issuer Purchases of Equity Securities

In May 2018, the Board authorized us to repurchase up to \$300.0 million of our common stock under our share repurchase program. The timing and amount of share repurchases, if any, will be determined based on market conditions, limitations under the 2019 Credit Agreement, share price and other factors, and the share repurchase program may be terminated at any time. We will fund the repurchases, if any, through cash on hand, future cash flows and borrowings under our credit facility. Repurchases will be made in compliance with SEC rules and other legal requirements and may be made in part under a Rule 10b5-1 plan, which permits stock repurchases when we might otherwise be precluded from doing so. During the three months ended December 31, 2019, we did not purchase any shares under our repurchase program. As of December 31, 2019, up to \$245.0 million of common stock remained available for purchase under our program.

From the inception of our share repurchase programs in August 2013 through December 31, 2019, we have repurchased 205,882,355 shares of our common stock (or Class A common stock prior to the conversion of our Class A common stock and Class B common stock to a single class of common stock on October 31, 2016) for an aggregate purchase price of \$922.7 million (including fees and commissions).

The following table provides information about purchases of shares of our common stock during the three months ended December 31, 2019 related to shares withheld upon vesting of restricted stock units for minimum tax withholding obligations:

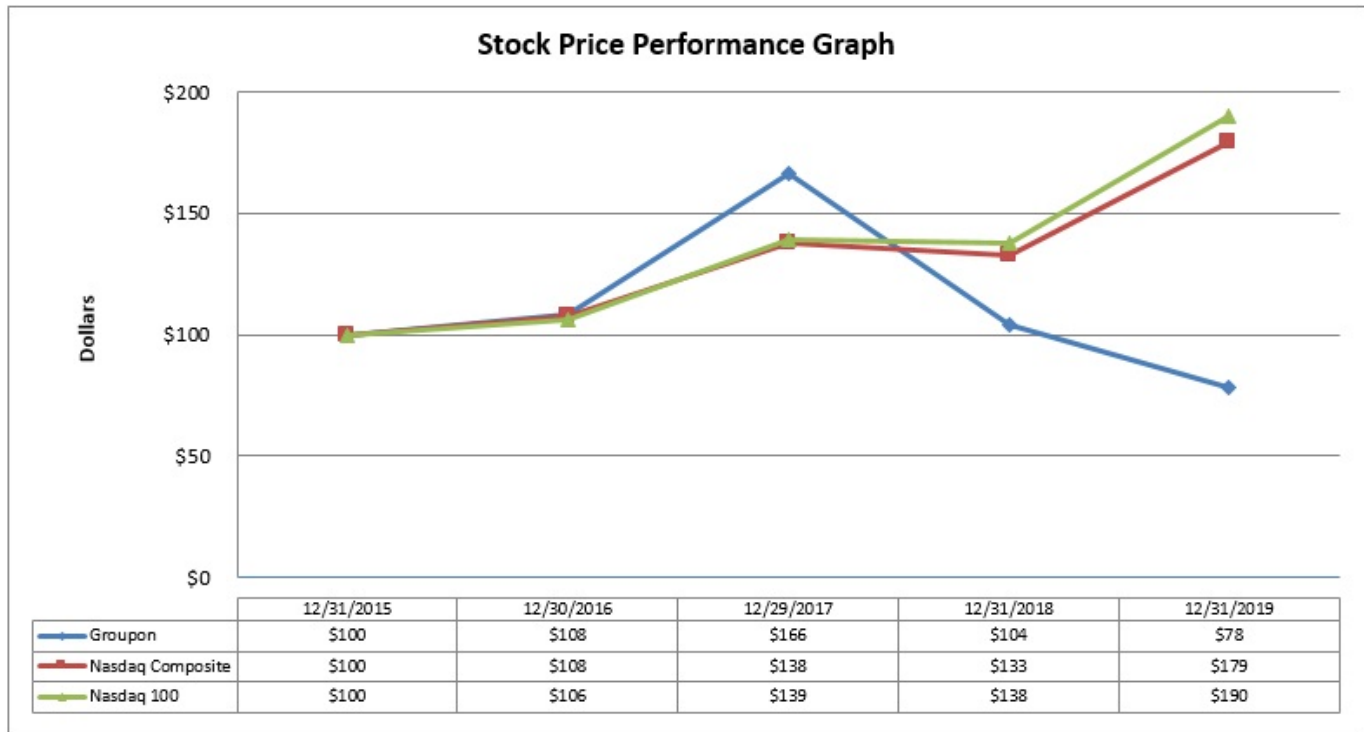
Date	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under Program
October 1-31, 2019	909,693	\$ 3.05	—	—
November 1-30, 2019	99,807	3.00	—	—
December 1-31, 2019	369,355	2.96	—	—
Total	1,378,855	\$ 2.84	—	—

- (1) Total number of shares delivered to us by employees to satisfy the mandatory tax withholding requirement upon vesting of stock-based compensation awards.

Stock Performance Graph

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

The graph set forth below compares the cumulative total return on our common stock (or Class A common stock prior to the conversion of our Class A common stock and Class B common stock to a single class of common stock on October 31, 2016) with the cumulative total return of the Nasdaq Composite Index and the Nasdaq 100 Index, resulting from an initial investment of \$100 in each and assuming the reinvestment of any dividends, based on closing prices on the last trading day of each year end period for 2015, 2016, 2017, 2018 and 2019.



ITEM 6. SELECTED FINANCIAL DATA

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

	Year Ended December 31,				
	2019	2018	2017	2016	2015
(in thousands, except share and per share amounts)					
Consolidated Statements of Operations Data ⁽¹⁾:					
Revenue:					
Service	\$ 1,126,357	\$ 1,205,487	\$ 1,266,452	\$ 1,206,441	\$ 1,250,149
Product	1,092,558	1,431,259	1,577,425	1,807,174	1,704,667
Total revenue	2,218,915	2,636,746	2,843,877	3,013,615	2,954,816
Cost of revenue:					
Service	114,462	120,077	160,810	150,031	158,095
Product	918,324	1,196,068	1,349,206	1,582,931	1,508,911
Total cost of revenue	1,032,786	1,316,145	1,510,016	1,732,962	1,667,006
Gross profit	1,186,129	1,320,601	1,333,861	1,280,653	1,287,810
Operating expenses:					
Marketing	339,355	395,737	400,918	352,175	241,342
Selling, general and administrative ⁽²⁾	806,945	870,961	901,829	999,677	1,102,385
Restructuring charges	31	(136)	18,828	40,438	28,464
Gain on sale of intangible assets	—	—	(17,149)	—	—
Gains on business dispositions	—	—	—	(11,399)	(13,710)
Total operating expenses	1,146,331	1,266,562	1,304,426	1,380,891	1,358,481
Income (loss) from operations	39,798	54,039	29,435	(100,238)	(70,671)
Other income (expense), net	(53,329)	(53,008)	6,710	(71,289)	(25,586)
Income (loss) from continuing operations before provision (benefit) for income taxes	(13,531)	1,031	36,145	(171,527)	(96,257)
Provision (benefit) for income taxes	761	(957)	7,544	(5,318)	(23,010)
Income (loss) from continuing operations	(14,292)	1,988	28,601	(166,209)	(73,247)
Income (loss) from discontinued operations, net of tax	2,597	—	(1,974)	(17,114)	106,926
Net income (loss)	(11,695)	1,988	26,627	(183,323)	33,679
Net income attributable to noncontrolling interests	(10,682)	(13,067)	(12,587)	(11,264)	(13,011)
Net income (loss) attributable to Groupon, Inc.	\$ (22,377)	\$ (11,079)	\$ 14,040	\$ (194,587)	\$ 20,668
Basic net income (loss) per share ⁽³⁾:					
Continuing operations	\$ (0.04)	(0.02)	\$ 0.03	\$ (0.31)	\$ (0.13)
Discontinued operations	0.00	0.00	(0.00)	(0.03)	0.16
Basic net income (loss) per share	\$ (0.04)	\$ (0.02)	\$ 0.03	\$ (0.34)	\$ 0.03
Diluted net income (loss) per share ⁽³⁾:					
Continuing operations	\$ (0.04)	\$ (0.02)	\$ 0.03	\$ (0.31)	\$ (0.13)
Discontinued operations	0.00	0.00	(0.01)	(0.03)	0.16
Diluted net income (loss) per share	\$ (0.04)	\$ (0.02)	\$ 0.02	\$ (0.34)	\$ 0.03
Weighted average number of shares outstanding ⁽²⁾					
Basic	567,408,340	566,511,108	559,367,075	576,354,258	650,106,225
Diluted	567,408,340	566,511,108	568,418,371	576,354,258	650,106,225

(1) The consolidated statements of operations data for prior years has been retrospectively adjusted to reflect discontinued operations. Refer to Item 8, Note 3, *Discontinued Operations*, for additional information.

(2) Includes \$0.7 million, \$5.7 million, and \$1.9 million of acquisition-related expenses for the years ended December 31, 2018, 2016, and 2015. Refer to Item 8, Note 4, *Business Combinations*, for additional information.

(3) Prior to October 31, 2016, our certificate of incorporation, as amended and restated, authorized three classes of common stock: Class A common stock, Class B common stock and common stock. On October 31, 2016, each share of our Class A common stock and Class B common stock automatically converted into a single class of common stock pursuant to the terms of our sixth amended and restated certificate of incorporation. Upon conversion, all shares of Class A common stock and Class B stock were retired.

	As of December 31,				
	2019	2018	2017	2016	2015
Consolidated Balance Sheet Data:	(in thousands)				
Cash and cash equivalents	\$ 750,887	\$ 841,021	\$ 880,129	\$ 862,977	\$ 824,307
Working capital (deficit)	66,366	41,455	(61,051)	(121,115)	(128,283)
Total assets	1,586,743	1,642,142	1,677,505	1,761,377	1,796,264
Total long-term liabilities	370,150	302,357	292,161	283,264	122,152
Total Groupon, Inc. Stockholders' Equity	393,936	381,248	250,973	264,420	469,398

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and related notes included under Item 8 of this Annual Report on Form 10-K. This discussion contains forward-looking statements about our business and operations. Our actual results may differ materially from those we currently anticipate as a result of many factors, including those we describe under Item 1A, *Risk Factors*, and elsewhere in this Annual Report. See Part I, *Forward-Looking Statements*, for additional information.

Overview

Groupon is a global scaled two-sided marketplace that connects consumers to merchants. Consumers access our marketplace through our mobile applications and our websites, primarily localized groupon.com sites in many countries. We operate in two segments: North America and International. For the year ended December 31, 2019, we derived 61.2% of our revenue from our North America segment and 38.8% of our revenue from our International segment. See Item 8, Note 20, *Segment Information* for additional information. Historically, we have operated in three categories: Local, Goods and Travel. In February 2020, following a comprehensive review of opportunities and strategic alternatives, we announced that we plan to exit the Goods category by the end of 2020 and focus on our local experiences marketplace, which we believe best positions us for long-term and sustained growth.

We generate product and service revenue from our current business operations. We earn service revenue from transactions in which we earn commissions by selling goods or services on behalf of third-party merchants. Those transactions generally involve a customer's purchase of a voucher through one of our online marketplaces that can be redeemed with a third-party merchant for goods or services (or for discounts on goods or services). Service revenue from those transactions is reported on a net basis and equals the purchase price received from the customer for the voucher less an agreed upon portion of the purchase price paid to the merchant. Service revenue also includes commissions that we earn when customers make purchases with retailers using digital coupons accessed through our digital properties and from voucherless merchant offerings. We earn product revenue from direct sales of merchandise inventory through our Goods category. Our product revenue from those transactions is the purchase price received from the customer. Following our planned exit of the Goods category, which we expect to occur by the end of 2020, we will no longer generate product revenue or service revenue from goods offerings. We currently anticipate that given our plan to exit the Goods category, its financial results will ultimately be presented as a discontinued operation in our consolidated financial statements.

How We Measure Our Business

We use several operating and financial metrics to assess the progress of our business and make decisions on where to allocate capital, time and technology investments. Certain of the financial metrics are reported in accordance with U.S. GAAP and certain of those metrics are considered non-GAAP financial measures. As our business evolves, we may make changes to the key financial and operating metrics that we use to measure our business. For further information and reconciliations to the most applicable financial measures under U.S. GAAP, refer to our discussion under Non-GAAP Financial Measures in the *Results of Operations* section.

Operating Metrics

- *Gross billings* is the total dollar value of customer purchases of goods and services. Gross billings is presented net of customer refunds, order discounts and sales and related taxes. The substantial majority of our service revenue transactions are comprised of sales of vouchers and similar transactions in which we collect the transaction price from the customer and remit a portion of the transaction price to the third-party merchant who will provide the related goods or services. For these transactions, gross billings differs from revenue reported in our consolidated statements of operations, which is presented net of the merchant's share of the transaction price. For product revenue transactions, gross billings are equivalent to product revenue reported in our consolidated statements of operations. Gross billings is an indicator of our growth and business performance as it measures the dollar volume of transactions generated through our marketplaces. Tracking gross billings on service revenue transactions also allows us to monitor the percentage of gross billings that we are able to retain after payments to merchants. However, we are focused on achieving long-term gross profit and Adjusted EBITDA growth.

- *Active customers* are unique user accounts that have made a purchase during the trailing twelve months ("TTM") either through one of our online marketplaces or directly with a merchant for which we earned a commission. We consider this metric to be an important indicator of our business performance as it helps us to understand how the number of customers actively purchasing our offerings is trending. Some customers could establish and make purchases from more than one account, so it is possible that our active customer metric may count certain customers more than once in a given period. For entities that we have acquired in a business combination, this metric includes active customers of the acquired entity, including customers who made purchases prior to the acquisition. We do not include consumers who solely make purchases with retailers using digital coupons accessed through our websites and mobile applications in our active customer metric, nor do we include consumers who solely make purchases of our inventory through third-party marketplaces with which we partner.
- *Gross billings and gross profit per active customer* are the TTM gross billings and gross profit generated per active customer. We use these metrics to evaluate trends in customer spend and in the average contribution to gross billings and gross profit on a per-customer basis.
- *Units* are the number of purchases during the reporting period, before refunds and cancellations, made either through one of our online marketplaces, a third-party marketplace, or directly with a merchant for which we earn a commission. We do not include purchases with retailers using digital coupons accessed through our websites and mobile applications in our units metric. We consider units to be an important indicator of the total volume of business conducted through our marketplaces.
- *Gross billings per unit* are the TTM gross billings generated per unit. We use this metric to evaluate trends in units and in the average contribution to gross billings on a per-unit basis.

Our gross billings, units and gross billings per unit for the years ended December 31, 2019, 2018 and 2017 were as follows (in thousands, except gross billings per unit amounts):

	Year Ended December 31,		
	2019	2018	2017
Gross billings	\$ 4,613,531	\$ 5,202,814	\$ 5,645,898
Units	150,879	172,305	188,905
Gross billings per unit	\$ 30.58	\$ 30.20	\$ 29.89

Our active customers, gross billings per active customer and gross profit per active customer for the years ended December 31, 2019, 2018 and 2017 were as follows:

	Year Ended December 31,		
	2019	2018	2017
TTM Active customers (in thousands)	43,620	48,159	49,536
TTM Gross billings per active customer	\$ 105.77	\$ 108.03	\$ 113.98
TTM Gross profit per active customer	\$ 27.19	\$ 27.42	\$ 26.93

Financial Metrics

- *Revenue* is earned through product and service revenue transactions. We earn service revenue from transactions in which we generate commissions by selling goods or services on behalf of third-party merchants, primarily through sales of vouchers and similar transactions in which we collect the transaction price from the customer and remit a portion of that transaction price to the third-party merchant who will provide the related goods or services. We report service revenue from those transactions on a net basis as the purchase price collected from the customer less the portion of the purchase price that is payable to the third-party merchant. Service revenue also includes commissions we earn when customers make purchases with retailers using digital coupons accessed through our websites and mobile applications. We earn product revenue from direct sales of merchandise inventory in our Goods category and report product revenue on a gross basis as the purchase price received from the customer. After we exit the Goods category, we will no longer generate product revenue or service revenue from goods offerings.
- *Gross profit* reflects the net margin we earn after deducting our cost of revenue from our revenue. Due to the lack of comparability between product revenue, which is reported on a gross basis, and service revenue, which

primarily consists of transactions reported on a net basis, we believe that gross profit is an important measure for evaluating our performance.

- *Adjusted EBITDA* is a non-GAAP financial measure that we define as net income (loss) from continuing operations excluding income taxes, interest and other non-operating items, depreciation and amortization, stock-based compensation, acquisition-related expense (benefit), net and other special charges and credits, including items that are unusual in nature or infrequently occurring. For further information and a reconciliation to Income (loss) from continuing operations, refer to our discussion under Non-GAAP Financial Measures in the *Results of Operations* section.
- *Free cash flow* is a non-GAAP financial measure that comprises net cash provided by (used in) operating activities from continuing operations less purchases of property and equipment and capitalized software. For further information and a reconciliation to Net cash provided by (used in) operating activities from continuing operations, refer to our discussion in the *Liquidity and Capital Resources* section.

The following table presents the above financial metrics for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Revenue	\$ 2,218,915	\$ 2,636,746	\$ 2,843,877
Gross profit	1,186,129	1,320,601	1,333,861
Adjusted EBITDA	227,248	269,807	249,939
Free cash flow	3,955	121,160	71,387

Operating Expenses

- *Marketing* expense consists primarily of online marketing costs, such as search engine marketing, advertising on social networking sites and affiliate programs, and offline marketing costs, such as television and radio advertising. Additionally, compensation expense for marketing employees is classified within marketing expense. We record these costs within Marketing on the consolidated statements of operations when incurred. From time to time, we have offerings from well-known national merchants for customer acquisition and activation purposes, for which the amount we owe the merchant for each voucher sold exceeds the transaction price paid by the customer. Our gross billings from those transactions generate no service revenue and our net cost (i.e., the excess of the amount owed to the merchant over the amount paid by the customer) is classified as marketing expense. We evaluate marketing expense as a percentage of gross profit because it gives us an indication of how well our marketing spend is driving gross profit performance.
- *Selling, general and administrative* expenses ("SG&A") include selling expenses such as sales commissions and other compensation expenses for sales representatives, as well as costs associated with supporting the sales function such as technology, telecommunications and travel. General and administrative expenses include compensation expense for employees involved in customer service, operations, technology and product development, as well as general corporate functions, such as finance, legal and human resources. Additional costs included in general and administrative include depreciation and amortization, rent, professional fees, litigation costs, travel and entertainment, recruiting, office supplies, maintenance, certain technology costs and other general corporate costs. We evaluate SG&A expense as a percentage of gross profit because it gives us an indication of our operating efficiency.
- *Restructuring charges* represent severance and benefit costs for workforce reductions, impairments of long-lived assets and other exit costs resulting from our restructuring activities. See Item 8, Note 15, *Restructuring*, for additional information.

Factors Affecting Our Performance

Attracting and retaining local merchants. As we seek to build a more complete local experiences marketplace, we depend on our ability to attract and retain merchants who are willing to offer their experiences on our platform. Merchants can generally withdraw their offerings from our marketplace at any time, and their willingness to continue offering services through our marketplace depends on the effectiveness of our marketing and promotional services.

Driving purchase frequency and retaining customers. In order to drive purchase frequency and retain our customers, we must increase high-quality inventory density in core cities, continue to improve the customer experience on our websites and mobile applications, and launch innovative products that remove friction from the customer journey.

Increasing traffic to our websites and mobile applications. The traffic to our websites and mobile applications, including from consumers responding to our emails and search engine optimization ("SEO"), has declined in recent years. As such, we must focus on developing sources of traffic in addition to email and SEO and optimizing the efficiency of our marketing spending, which is primarily guided by return on investment thresholds that are based on expected months-to-payback targets ranging from 12 to 18 months. We also plan to relaunch our brand in 2020, and our new marketing strategy will take a full-funnel approach to drive top-of-mind awareness.

In addition to the factors outlined above, we believe that our plan to exit the Goods category by the end of 2020 presents three key challenges set forth below that could affect our performance:

Disruption caused by the planned Goods exit. Aligning our global organization toward one vision may cause disruption that negatively impacts our team. We must encourage our employees to focus on our core priorities and work to minimize disruption including decreased productivity, employee morale and retention.

Consultation and negotiation with international workers' councils. We must inform, negotiate and consult with our international workers' councils on an exit plan for our Goods category, which may impact the timing, cost and execution of our planned exit in International.

Keeping our cross-shopping customers engaged on our platform. As we shift more impressions toward our Local category, we intend to target our Goods-Local cross-shoppers with marketing efforts designed to retain these customers.

Results of Operations

North America

Operating Metrics

North America segment gross billings, units and TTM active customers for the years ended December 31, 2019, 2018 and 2017 were as follows (in thousands, except percentages and gross billings per unit):

	Year Ended December 31,			% Change	
	2019	2018	2017	2019 vs 2018	2018 vs 2017
Gross billings					
Service gross billings:					
Local	\$ 2,021,052	\$ 2,161,192	\$ 2,415,243	(6.5)%	(10.5)%
Goods	95,855	113,863	114,638	(15.8)	(0.7)
Travel	306,012	352,247	404,523	(13.1)	(12.9)
Total service gross billings	2,422,919	2,627,302	2,934,404	(7.8)	(10.5)
Product gross billings - Goods	563,694	796,393	993,326	(29.2)	(19.8)
Total gross billings	<u>\$ 2,986,613</u>	<u>\$ 3,423,695</u>	<u>\$ 3,927,730</u>	(12.8)	(12.8)
Units					
Local	64,976	74,533	85,247	(12.8)%	(12.6)%
Goods	25,632	35,330	42,208	(27.4)	(16.3)
Travel	1,514	1,567	1,792	(3.4)	(12.6)
Total units	<u>92,122</u>	<u>111,430</u>	<u>129,247</u>	(17.3)	(13.8)
Gross billings per unit	\$ 32.42	\$ 30.73	\$ 30.39	5.5 %	1.1 %
TTM Active customers	26,505	30,579	32,722	(13.3)%	(6.5)%

Comparison of the Years Ended December 31, 2019 and 2018:

North America active customers declined by 4.1 million for the year ended December 31, 2019. The decline is primarily attributable to a decline in traffic, including traffic from email and SEO, as well as our efforts to improve the efficiency of our marketing spend, which has led to a decrease in the number of active customers. We expect the trend of declining active customers in our North America segment to continue in 2020 due to ongoing traffic declines and our plan to exit the Goods category by the end of 2020.

The decline in active customers also impacted North America gross billings and units, which declined by \$437.1 million and 19.3 million for the year ended December 31, 2019. The decrease in gross billings was partially offset by higher gross billings per unit due to a shift in mix of offerings sold.

Comparison of the Years Ended December 31, 2018 and 2017:

North America active customers declined by 2.1 million for the year ended December 31, 2018, due primarily to a decline in traffic to our websites and mobile applications, as well as our efforts to improve the efficiency of our marketing spend.

The decrease in active customers adversely impacted North America gross billings and units, which declined by \$504.0 million and 17.8 million for the year ended December 31, 2018. Gross billings were also impacted by the following:

- our shift of customer impressions from traditional voucher offerings with food and drink merchants towards voucherless cash-back offerings;

- our ongoing focus on optimizing for long-term gross profit generation rather than gross billings growth, which resulted in merchandising and product mix decisions that adversely impacted transaction volume and gross billings from our Goods category;
- ceasing most of our food delivery operations in the third quarter 2017, which resulted in a \$45.9 million decrease in Local gross billings; and
- a \$25.5 million unfavorable impact on gross billings for the year ended December 31, 2018 as a result of adopting Accounting Standards Codification Topic 606, Revenue from Contracts with Customers ("Topic 606") as compared with previous accounting guidance.

Financial Metrics

North America segment revenue, cost of revenue and gross profit for the years ended December 31, 2019, 2018 and 2017 were as follows (dollars in thousands):

	Year Ended December 31,			% Change	
	2019	2018	2017	2019 vs 2018	2018 vs 2017
Revenue					
Service revenue:					
Local	\$ 721,038	\$ 752,863	\$ 825,579	(4.2)%	(8.8)%
Goods	16,236	18,283	16,768	(11.2)	9.0
Travel	57,939	71,856	78,495	(19.4)	(8.5)
Total service revenue	795,213	843,002	920,842	(5.7)	(8.5)
Product revenue - Goods	563,694	796,393	993,326	(29.2)	(19.8)
Total revenue	<u>\$ 1,358,907</u>	<u>\$ 1,639,395</u>	<u>\$ 1,914,168</u>	(17.1)	(14.4)
Cost of revenue					
Service cost of revenue:					
Local	\$ 77,539	\$ 81,511	\$ 117,006	(4.9)%	(30.3)%
Goods	3,071	2,981	3,839	3.0	(22.3)
Travel	12,200	13,911	17,901	(12.3)	(22.3)
Total service cost of revenue	92,810	98,403	138,746	(5.7)	(29.1)
Product cost of revenue - Goods	458,352	650,308	847,744	(29.5)	(23.3)
Total cost of revenue	<u>\$ 551,162</u>	<u>\$ 748,711</u>	<u>\$ 986,490</u>	(26.4)	(24.1)
Gross profit					
Service gross profit:					
Local	\$ 643,499	\$ 671,352	\$ 708,573	(4.1)%	(5.3)%
Goods	13,165	15,302	12,929	(14.0)	18.4
Travel	45,739	57,945	60,594	(21.1)	(4.4)
Total service gross profit	702,403	744,599	782,096	(5.7)	(4.8)
Product gross profit - Goods	105,342	146,085	145,582	(27.9)	0.3
Total gross profit	<u>\$ 807,745</u>	<u>\$ 890,684</u>	<u>\$ 927,678</u>	(9.3)	(4.0)
Service margin ⁽¹⁾	32.8%	32.1%	31.4%		
% of Consolidated revenue	61.2%	62.2%	67.3%		
% of Consolidated cost of revenue	53.4	56.9	65.3		
% of Consolidated gross profit	68.1	67.4	69.5		

(1) Represents the percentage of service gross billings that we retained after deducting the merchant's share from revenue.

Comparison of the Years Ended December 31, 2019 and 2018:

North America revenue and gross profit decreased by \$280.5 million and \$82.9 million for the year ended December 31, 2019. Those decreases were driven by a decline in gross billings and transaction volume due to fewer customers and lower customer traffic, including traffic from email and SEO, as discussed above.

The decrease in gross profit was partially offset by a \$197.5 million decline in cost of revenue, which was primarily due to the decrease in transaction volume and gross billings, and higher gross profit per customer due to a shift in mix of offerings sold.

Comparison of the Years Ended December 31, 2018 and 2017:

North America revenue and gross profit decreased by \$274.8 million and \$37.0 million for the year ended December 31, 2018. Those declines were primarily driven by a decline in transaction volume and gross billings, as discussed above.

The decline in gross profit was partially offset by a \$2.4 million favorable impact to revenue as a result of adopting Topic 606, as well as a decrease in cost of revenue. The decrease in cost of revenue was due to a decline in gross billings and transaction volume, our optimization of shipping and fulfillment costs and a \$25.4 million favorable impact to cost of revenue as a result of adopting Topic 606.

Operating Expenses and Income (Loss) from Operations

North America segment operating expenses and income (loss) from operations for the years ended December 31, 2019, 2018 and 2017 were as follows (dollars in thousands):

	Year Ended December 31,			% Change	
	2019	2018	2017	2019 vs 2018	2018 vs 2017
Operating expenses					
Marketing	\$ 214,069	\$ 273,787	\$ 299,454	(21.8)%	(8.6)%
Selling, general and administrative	527,948	596,811	633,420	(11.5)	(5.8)
Restructuring charges	—	177	11,998	(100.0)	(98.5)
Gain on sale of intangible assets	—	—	(17,149)	—	100.0
Total operating expenses	<u>\$ 742,017</u>	<u>\$ 870,775</u>	<u>\$ 927,723</u>	(14.8)	(6.1)
Income (loss) from operations	\$ 65,728	\$ 19,909	\$ (45)	230.1 %	NM
<i>% of Gross profit:</i>					
Marketing	26.5%	30.7%	32.3%		
Selling, general and administrative	65.4	67.0	68.3		

Comparison of the Years Ended December 31, 2019 and 2018:

North America marketing expense and marketing expense as a percentage of gross profit declined for the year ended December 31, 2019 as we leveraged improved marketing analytics to drive efficiency in our marketing spend and maximize the lifetime value of our customer base. We also decreased our offline marketing spend during the year in anticipation of relaunching our brand in 2020 to better support our evolving marketplace.

The decrease in North America SG&A and SG&A as a percentage of gross profit for the year ended December 31, 2019 was primarily due to the following:

- the absence of expense related to our patent litigation with IBM of \$34.6 million recorded in 2018; and
- lower technology, facilities, and payroll-related expenses.

The improvement in our North America income (loss) from operations for the year ended December 31, 2019 was primarily attributable to decreases in SG&A and marketing expense of \$68.9 million and \$59.7 million, partially offset by an \$82.9 million decrease in gross profit, as discussed above.

Comparison of the Years Ended December 31, 2018 and 2017:

North America marketing expense and marketing expense as a percentage of gross profit declined for the year ended December 31, 2018 as compared with the prior year as we leveraged improved marketing analytics to drive efficiency in our marketing spend and maximize the lifetime value of our customer base.

North America SG&A and SG&A as a percentage of gross profit declined for the year ended December 31, 2018, primarily due to the following:

- a \$38.9 million decrease in compensation-related costs, including variable compensation; and
- decreases in facilities costs, systems costs, and other general expenses; partially offset by
- the expense related to our patent litigation with IBM of \$34.6 million.

North America restructuring charges declined for the year ended December 31, 2018. See Item 8, Note 15, *Restructuring*, for additional information.

The improvement in our North America income (loss) from operations for the year ended December 31, 2018 was attributable to decreases in SG&A, marketing expense and restructuring charges, partially offset by a decrease in gross profit and a decrease in gains from the sale of intangible assets. See Item 8, Note 6, *Goodwill and Other Intangible Assets* for additional information on our sale of customer lists and other intangible assets during 2017. For the year ended December 31, 2018, there was also a \$27.0 million favorable impact on income (loss) from operations as a result of adopting Topic 606 as compared with previous accounting guidance.

International

Operating Metrics

International segment gross billings, units and TTM active customers for the years ended December 31, 2019, 2018 and 2017 were as follows (in thousands, except percentages and gross billings per unit):

	Year Ended December 31,			% Change	
	2019	2018	2017	2019 vs 2018	2018 vs 2017
Gross billings					
Service gross billings:					
Local	\$ 855,820	\$ 865,271	\$ 812,785	(1.1)%	6.5%
Goods	51,663	71,492	112,639	(27.7)	(36.5)
Travel	190,571	207,490	208,645	(8.2)	(0.6)
Total service gross billings	1,098,054	1,144,253	1,134,069	(4.0)	0.9
Product gross billings - Goods	528,864	634,866	584,099	(16.7)	8.7
Total gross billings	<u>\$ 1,626,918</u>	<u>\$ 1,779,119</u>	<u>\$ 1,718,168</u>	(8.6)	3.5
Units					
Local	33,069	32,055	30,860	3.2 %	3.9%
Goods	24,269	27,300	27,180	(11.1)	0.4
Travel	1,419	1,520	1,618	(6.6)	(6.1)
Total units	<u>58,757</u>	<u>60,875</u>	<u>59,658</u>	(3.5)	2.0
Gross billings per unit	\$ 27.69	\$ 29.23	\$ 28.80	(5.3)%	1.5%
TTM Active customers	17,115	17,580	16,814	(2.6)%	4.6%

Comparison of the Years Ended December 31, 2019 and 2018:

International gross billings, units and active customers decreased by \$152.2 million, 2.1 million and 0.5 million for the year ended December 31, 2019. Those decreases were primarily due to weak consumer sentiment in Europe, especially in the United Kingdom, and intense competition in our Goods business. The decline in gross billings was also attributable to an \$83.1 million unfavorable impact from year-over-year changes in foreign currency rates. We expect the trend of declining active customers in our International segment to continue in 2020, primarily after we exit the Goods category, which we expect to occur by the end of 2020.

Comparison of the Years Ended December 31, 2018 and 2017:

International units increased by 1.2 million during the year ended December 31, 2018 primarily due to higher transaction volume from our customer acquisition.

The increase in customers favorably impacted International gross billings, which increased \$61.0 million during the year ended December 31, 2018. That increase was also largely driven by a \$55.0 million benefit from year-over-year changes in foreign currency rates, partially offset by the impact of pricing and promotional strategies on our International gross billings per unit.

Financial Metrics

International segment revenue, cost of revenue and gross profit for the years ended December 31, 2019, 2018 and 2017 were as follows (dollars in thousands):

	Year Ended December 31,			% Change	
	2019	2018	2017	2019 vs 2018	2018 vs 2017
Revenue					
Service revenue:					
Local	\$ 287,611	\$ 306,700	\$ 281,466	(6.2)%	9.0%
Goods	9,441	14,602	20,358	(35.3)	(28.3)
Travel	34,092	41,183	43,786	(17.2)	(5.9)
Total service revenue	331,144	362,485	345,610	(8.6)	4.9
Product revenue - Goods	528,864	634,866	584,099	(16.7)	8.7
Total revenue	<u>\$ 860,008</u>	<u>\$ 997,351</u>	<u>\$ 929,709</u>	(13.8)	7.3
Cost of revenue					
Service cost of revenue:					
Local	\$ 17,945	\$ 17,273	\$ 16,118	3.9 %	7.2%
Goods	932	1,350	2,448	(31.0)	(44.9)
Travel	2,775	3,051	3,498	(9.0)	(12.8)
Total service cost of revenue	21,652	21,674	22,064	(0.1)	(1.8)
Product cost of revenue - Goods	459,972	545,760	501,462	(15.7)	8.8
Total cost of revenue	<u>\$ 481,624</u>	<u>\$ 567,434</u>	<u>\$ 523,526</u>	(15.1)	8.4
Gross profit					
Service gross profit:					
Local	\$ 269,666	\$ 289,427	\$ 265,348	(6.8)%	9.1%
Goods	8,509	13,252	17,910	(35.8)	(26.0)
Travel	31,317	38,132	40,288	(17.9)	(5.4)
Total service gross profit	309,492	340,811	323,546	(9.2)	5.3
Product gross profit - Goods	68,892	89,106	82,637	(22.7)	7.8
Total gross profit	<u>\$ 378,384</u>	<u>\$ 429,917</u>	<u>\$ 406,183</u>	(12.0)	5.8
Service margin ⁽¹⁾	30.2%	31.7%	30.5%		
% of Consolidated revenue	38.8%	37.8%	32.7%		
% of Consolidated cost of revenue	46.6	43.1	34.7		
% of Consolidated gross profit	31.9	32.6	30.5		

(1) Represents the percentage of service gross billings that we retained after deducting the merchant's share from revenue.

Comparison of the Years Ended December 31, 2019 and 2018:

International revenue and gross profit decreased by \$137.3 million and \$51.5 million for the year ended December 31, 2019. Those decreases were primarily driven by a decline in gross billings as a result of weak consumer sentiment in Europe, especially in the United Kingdom, and intense competition in our Goods business, as well as

unfavorable impacts on revenue and gross profit of \$45.3 million and \$19.3 million from year-over-year changes in foreign currency rates. The decrease in gross profit was also driven by a customer shift toward lower margin offerings.

The decline in gross profit was partially offset by a decrease in cost of revenue of \$85.8 million, which was primarily due to the decline in gross billings, as discussed above, a shift in our Goods category mix from product revenue transactions, which are reported on a gross basis, toward service revenue transactions, which are reported on a net basis, and a \$26.0 million favorable impact from year-over-year changes in foreign currency rates.

Comparison of the Years Ended December 31, 2018 and 2017:

International revenue and gross profit increased by \$67.6 million and \$23.7 million for the year ended December 31, 2018. Those increases resulted from the following:

- favorable impacts on revenue and gross profit of \$33.1 million and \$13.3 million from year-over-year changes in foreign currency rates;
- higher transaction volume driven in part by our customer acquisition, as discussed above; and
- the expansion of our digital coupon offerings through our acquisition of Cloud Savings.

The increase in gross profit was partially offset by the impact of pricing and promotional strategies, as well as an increase in cost of revenue of \$43.9 million for the year ended December 31, 2018. The increase in cost of revenue was due primarily to a shift in our Goods category mix from service revenue transactions, which are reported on a net basis, toward product revenue transactions, which are reported on a gross basis, and a \$19.9 million unfavorable impact from year-over-year changes in foreign currency rates.

Operating Expenses and Income (Loss) from Operations

International segment operating expenses and income (loss) from operations for the years ended December 31, 2019, 2018 and 2017 were as follows (dollars in thousands):

	Year Ended December 31,			% Change	
	2019	2018	2017	2019 vs 2018	2018 vs 2017
Operating expenses					
Marketing	\$ 125,286	\$ 121,950	\$ 101,464	2.7 %	20.2%
Selling, general and administrative	278,997	274,150	268,409	1.8	2.1
Restructuring charges	31	(313)	6,830	NM	(104.6)
Total operating expenses	\$ 404,314	\$ 395,787	\$ 376,703	2.2	5.1
Income (loss) from operations	\$ (25,930)	\$ 34,130	\$ 29,480	(176.0)%	15.8%
% of Gross profit:					
Marketing	33.1%	28.4%	25.0%		
Selling, general and administrative	73.7	63.8	66.1		

Comparison of the Years Ended December 31, 2019 and 2018:

International marketing expense and marketing expense as a percentage of gross profit increased for the year ended December 31, 2019 as we continued to invest in the long-term potential of our International segment. That increase was partially offset by a \$6.2 million favorable impact from year-over-year changes in foreign currency rates.

SG&A and SG&A as a percentage of gross profit increased for the year ended December 31, 2019 primarily due to increases in technology-related expenses, partially offset by lower payroll and facilities-related expenses and a \$14.4 million favorable impact from year-over-year changes in foreign currency rates.

The decrease in International income (loss) from operations for the year ended December 31, 2019 was primarily attributable to a \$51.5 million decrease in gross profit, as well as increases in SG&A and marketing expense, as discussed above.

Comparison of the Years Ended December 31, 2018 and 2017:

International marketing expense and marketing expense as a percentage of gross profit for the year ended December 31, 2018 increased as we continued to invest in the long-term potential of our International segment.

International SG&A increased for the year ended December 31, 2018 primarily due to an \$8.7 million unfavorable impact from year-over-year changes in foreign currency rates.

International restructuring charges declined for the year ended December 31, 2018. See Item 8, Note 15, *Restructuring*, for additional information.

The increase in our income from operations for the year ended December 31, 2018 as compared with the prior year was primarily attributable to an increase in gross profit and a decrease in restructuring costs, partially offset by an increase in marketing expense and SG&A, as discussed above. For the year ended December 31, 2018, there was a \$2.7 million favorable impact on income (loss) from operations as a result of adopting Topic 606 as compared with previous accounting guidance.

Other Income (Expense), Net

Other income (expense), net includes interest income, interest expense, gains and losses on fair value option investments, adjustments for observable price changes of investments, impairments of investments and foreign currency gains and losses, primarily resulting from intercompany balances with our subsidiaries that are denominated in foreign currencies.

Other income (expense), net for the years ended December 31, 2019, 2018 and 2017 was as follows (dollars in thousands):

	Year Ended December 31,		
	2019	2018	2017
Interest income	\$ 7,744	\$ 6,420	\$ 3,287
Interest expense	(23,593)	(21,909)	(20,680)
Changes in fair value of investments	(72,497)	(9,064)	382
Gain on sale of investment	(412)	—	7,624
Foreign currency gains (losses), net	(5,960)	(20,325)	18,634
Impairments of investments	(9,961)	(10,156)	(2,944)
Upward adjustment for observable price changes of investment	51,397	—	—
Other	(47)	2,026	407
Other income (expense), net	<u>\$ (53,329)</u>	<u>\$ (53,008)</u>	<u>\$ 6,710</u>

Comparison of the Years Ended December 31, 2019, 2018, and 2017:

The change in Other income (expense), net for the year ended December 31, 2019 as compared with the prior year is primarily related to a \$69.4 million loss from changes in fair value of our investment in Monster LP, partially offset by an unrealized gain of \$51.4 million as a result of an upward adjustment for observable price changes on an other equity investment. See Item 8, Note 7, *Investments*, for additional information. The change in Other income (expense) was also partially offset by a \$14.4 million decrease in foreign currency losses for the year ended December 31, 2019. Foreign currency gains (losses) primarily result from intercompany balances with our subsidiaries that are denominated in foreign currencies.

The change in Other income (expense), net for the year ended December 31, 2018 as compared with the prior year was primarily related to \$20.3 million in foreign currency losses for the year ended December 31, 2018, as compared with \$18.6 million in foreign currency gains for the year ended December 31, 2017. Foreign currency gains (losses) primarily result from intercompany balances with our subsidiaries that are denominated in foreign currencies. Foreign currency losses for the year ended December 31, 2018 were driven by the depreciation of the Euro against the U.S. dollar from December 31, 2017 to December 31, 2018.

Provision (Benefit) for Income Taxes

Comparison of the Years Ended December 31, 2019, 2018, and 2017:

Provision (benefit) for income taxes for the years ended December 31, 2019, 2018 and 2017 was as follows (dollars in thousands):

	Year Ended December 31,			% Change	
	2019	2018	2017	2019 vs 2018	2018 vs 2017
Provision (benefit) for income taxes	\$ 761	\$ (957)	\$ 7,544	179.5%	(112.7)%
Effective tax rate	(5.6)%	(92.8)%	20.9%		

Our U.S. Federal income tax rate was 21% for the years ended December 31, 2019 and 2018 and 35% for the year ended December 31, 2017. The primary factor impacting the effective tax rate for the years ended December 31, 2019, 2018 and 2017 was the pretax losses incurred in jurisdictions that have valuation allowances against their net deferred tax assets. We expect that our consolidated effective tax rate in future periods will continue to differ significantly from the U.S. federal income tax rate as a result of our tax obligations in jurisdictions with profits and valuation allowances in jurisdictions with losses. See Item 8, Note 16, *Income Taxes*, for additional information relating to tax audits and assessments and regulatory and legal developments that may impact our business and results of operations in the future.

The effective tax rate for the year ended December 31, 2019 also reflected the reversal of reserves for uncertain tax positions due to the closure of a tax audit and due to the close of applicable statutes of limitation. The effective tax rate for year ended December 31, 2018 also reflected a \$6.4 million income tax benefit resulting from the impact of adopting Topic 606 on intercompany activity in certain foreign jurisdictions.

Income (Loss) from Discontinued Operations

In connection with a strategic initiative to optimize our global footprint, we sold or ceased our operations in 12 countries between November 2016 and March 2017. The financial results of those operations have been presented as discontinued operations in the consolidated financial statements. See Item 8, Note 3, *Discontinued Operations*, for additional information about the dispositions and see Item 8, Note 11, *Commitments and Contingencies*, for information about indemnification obligations related to discontinued operations.

Non-GAAP Financial Measures

In addition to financial results reported in accordance with U.S. GAAP, we have provided the following non-GAAP financial measures: Adjusted EBITDA, free cash flow and foreign currency exchange rate neutral operating results. Those non-GAAP financial measures, which are presented on a continuing operations basis, are intended to aid investors in better understanding our current financial performance and prospects for the future as seen through the eyes of management. We believe that those non-GAAP financial measures facilitate comparisons with our historical results and with the results of peer companies who present similar measures (although other companies may define non-GAAP measures differently than we define them, even when similar terms are used to identify such measures). However, those non-GAAP financial measures are not intended to be a substitute for those reported in accordance with U.S. GAAP.

Adjusted EBITDA. Adjusted EBITDA is a non-GAAP performance measure that we define as net income (loss) from continuing operations excluding income taxes, interest and other non-operating items, depreciation and amortization, stock-based compensation, acquisition-related expense (benefit), net and other special charges and credits, including items that are unusual in nature or infrequently occurring. Our definition of Adjusted EBITDA may differ from similar measures used by other companies, even when similar terms are used to identify such measures. Adjusted EBITDA is a key measure used by our management and Board of Directors to evaluate operating performance, generate future operating plans and make strategic decisions for the allocation of capital. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and Board of Directors. However, Adjusted EBITDA is not intended to be a substitute for income (loss) from continuing operations.

We exclude stock-based compensation expense and depreciation and amortization because they are primarily non-cash in nature and we believe that non-GAAP financial measures excluding those items provide meaningful supplemental information about our operating performance and liquidity. Acquisition-related expense (benefit), net is comprised of the change in the fair value of contingent consideration arrangements and external transaction costs related to business combinations, primarily consisting of legal and advisory fees. The composition of our contingent consideration arrangements and the impact of those arrangements on our operating results vary over time based on a number of factors, including the terms of our business combinations and the timing of those transactions. For the years ended December 31, 2019, 2018, 2017, special charges and credits included charges related to our restructuring plan. For the year ended December 31, 2018, special charges and credits also included a \$34.6 million charge related to our patent litigation with IBM. For the year ended December 31, 2017, special charges and credits also included a \$17.1 million credit related to the sale of intangible assets (see Item 8, Note 6, *Goodwill and Other Intangible Assets*). We exclude special charges and credits from Adjusted EBITDA because we believe that excluding those items provides meaningful supplemental information about our core operating performance and facilitates comparisons with our historical results.

The following is a reconciliation of Adjusted EBITDA to the most comparable U.S. GAAP financial measure, Income (loss) from continuing operations for the years ended December 31, 2019, 2018, and 2017 (dollars in thousands):

	Year Ended December 31,		
	2019	2018	2017
Income (loss) from continuing operations	\$ (14,292)	\$ 1,988	\$ 28,601
Adjustments:			
Stock-based compensation ⁽¹⁾	81,615	64,821	80,950
Depreciation and amortization	105,765	115,828	137,827
Acquisition-related expense (benefit), net	39	655	48
Restructuring charges ⁽¹⁾	31	(136)	18,828
IBM patent litigation	—	34,600	—
Gain on sale of intangible assets	—	—	(17,149)
Other (income) expense, net	53,329	53,008	(6,710)
Provision (benefit) for income taxes	761	(957)	7,544
Total adjustments	241,540	267,819	221,338
Adjusted EBITDA	\$ 227,248	\$ 269,807	\$ 249,939

- (1) Represents stock-based compensation expense recorded within Selling, general and administrative, Cost of revenue and Marketing. Restructuring charges include \$0.8 million of additional stock-based compensation for the year ended December 31, 2017. Stock-based compensation recorded within Restructuring for the years ended December 31, 2019 and 2018 was not material.

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

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

Foreign currency exchange rate neutral operating results. Foreign currency exchange rate neutral operating results show current period operating results as if foreign currency exchange rates had remained the same as those in effect in the prior year period. Those measures are intended to facilitate comparisons to our historical performance.

The following table represents the effect on our consolidated statements of operations from changes in exchange rates versus the U.S. dollar for the years ended December 31, 2019 and 2018 (in thousands):

	Year Ended December 31, 2019			Year Ended December 31, 2018		
	At Avg. 2018 Rates ⁽¹⁾	Exchange Rate Effect ⁽²⁾	As Reported	At Avg. 2017 Rates ⁽¹⁾	Exchange Rate Effect ⁽²⁾	As Reported
Gross billings	\$ 4,696,950	\$ (83,419)	\$ 4,613,531	\$ 5,147,297	\$ 55,517	\$ 5,202,814
Revenue	2,264,279	(45,364)	2,218,915	2,603,611	33,135	2,636,746
Cost of revenue	1,058,791	(26,005)	1,032,786	1,296,296	19,849	1,316,145
Gross profit	1,205,488	(19,359)	1,186,129	1,307,315	13,286	1,320,601
Marketing	345,568	(6,213)	339,355	391,569	4,168	395,737
Selling, general and administrative	823,527	(16,582)	806,945	861,274	9,687	870,961
Restructuring charges	27	4	31	(184)	48	(136)
Income (loss) from operations	36,366	3,432	39,798	54,656	(617)	54,039

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

Liquidity and Capital Resources

Our principal sources of liquidity are cash flows from operations, cash balances, which totaled \$750.9 million as of December 31, 2019, and available borrowing capacity under our 2019 Credit Agreement.

Our net cash flows from operating, investing and financing activities from continuing operations for the years ended December 31, 2019, 2018 and 2017 were as follows (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Cash provided by (used in):			
Operating activities	\$ 71,283	\$ 190,855	\$ 130,545
Investing activities	(67,591)	(135,982)	(25,323)
Financing activities	(92,619)	(84,417)	(138,046)

Free cash flow is a non-GAAP liquidity measure that comprises net cash provided by operating activities from continuing operations, less purchases of property and equipment and capitalized software from continuing operations. Our free cash flow for the years ended December 31, 2019, 2018 and 2017 and reconciliations to the most comparable U.S. GAAP financial measure, Net cash provided by (used in) operating activities from continuing operations, for those periods are as follows (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Net cash provided by (used in) operating activities from continuing operations	\$ 71,283	\$ 190,855	\$ 130,545
Purchases of property and equipment and capitalized software from continuing operations	(67,328)	(69,695)	(59,158)
Free cash flow	\$ 3,955	\$ 121,160	\$ 71,387

Our revenue-generating transactions are primarily structured such that we collect cash up-front from customers and pay third-party merchants at a later date, either based on a fixed payment schedule or upon the customer's redemption of the related voucher. For merchants on fixed payment terms, we remit payments on an ongoing basis, generally bi-weekly, throughout the term of the merchant's offering. For purchases of merchandise inventory, our supplier payment terms generally range from net 30 to net 60 days. We have primarily paid merchants on fixed payment terms in North America and upon voucher redemption internationally. In prior periods, we began to increase our use of redemption payment terms with our North America merchants and we expect that trend to continue.

Our cash balances fluctuate significantly throughout the year based on many variables, including gross billings growth rates, the timing of payments to merchants and suppliers, seasonality and the mix of transactions between Goods and Local. For example, we have historically generated strong cash inflows during the fourth quarter holiday

season, driven primarily by our Goods category, followed by significant cash outflows in the following period when payments are made to inventory suppliers.

For the year ended December 31, 2019, our net cash provided by operating activities from continuing operations was \$71.3 million, as compared with our \$14.3 million loss from continuing operations. That difference was primarily attributable to \$230.6 million of non-cash items, including depreciation and amortization, stock-based compensation, a \$69.4 million loss from changes in fair value of our investment in Monster LP and a \$51.4 million upward adjustment to an other equity investment for observable price changes in an orderly transaction. The difference between our net cash provided by operating activities and our income from continuing operations due to non-cash items was partially offset by a \$145.0 million net decrease from changes in working capital and other assets and liabilities. The working capital impact was primarily related to the decline of billings, and to a lesser extent, seasonal timing of payments to inventory suppliers.

For the year ended December 31, 2018, our net cash provided by operating activities from continuing operations was \$190.9 million, as compared with our \$2.0 million income from continuing operations. That difference was primarily attributable to \$206.8 million of non-cash items, including depreciation and amortization and stock-based compensation. The difference between our net cash provided by operating activities and our income from continuing operations due to non-cash items was partially offset by a \$17.9 million net decrease from changes in working capital and other assets and liabilities. The working capital impact was primarily related to the seasonal timing of payments to inventory suppliers and also includes \$42.1 million of the payment to IBM related to the settlement of our patent litigation.

For the year ended December 31, 2017, our net cash provided by operating activities from continuing operations was \$130.5 million, as compared with our \$28.6 million income from continuing operations. That difference was primarily attributable to \$209.1 million of non-cash items, including depreciation and amortization, stock-based compensation and the gain on sale of intangible assets. The difference between net cash provided by operating activities and our income from continuing operations due to non-cash items was partially offset by a \$107.1 million decrease from changes in working capital and other assets and liabilities. The working capital impact was primarily related to the seasonal timing of payments to inventory suppliers and payments related to our restructuring activities.

Our net cash used in investing activities from continuing operations was \$67.6 million, \$136.0 million and \$25.3 million for the years ended December 31, 2019, 2018 and 2017. For the year ended December 31, 2019, our net cash used in investing activities from continuing operations included purchases of property and equipment and capitalized software of \$67.3 million. For the year ended December 31, 2018, our net cash used in investing activities from continuing operations included net cash paid for a business acquisition of \$58.1 million, purchases of property and equipment and capitalized software of \$69.7 million and net cash paid of \$18.3 million for acquisitions of intangible assets, including \$15.4 million related to the settlement of our IBM patent litigation. For the year ended December 31, 2017, our net cash used in investing activities from continuing operations included purchases of property and equipment and capitalized software of \$59.2 million, proceeds of \$18.3 million from the sale of intangible assets and proceeds of \$16.6 million from sales and maturities of investments.

Our net cash used in financing activities was \$92.6 million, \$84.4 million and \$138.0 million for the years ended December 31, 2019, 2018 and 2017. For the year ended December 31, 2019, net cash used in financing activities included \$45.6 million in repurchases of common stock under our share repurchase program, \$19.7 million in payments of finance lease obligations and \$18.1 million in taxes paid related to net share settlements of stock-based compensation awards. For the year ended December 31, 2018, net cash used in financing activities included \$33.0 million in payments of finance lease obligations, \$24.1 million in taxes paid related to net share settlements of stock-based compensation awards, \$9.6 million in repurchases of common stock under our share repurchase program and an \$8.4 million payment of a financing obligation related to a business acquisition. For the year ended December 31, 2017, net cash used in financing activities included \$61.2 million in repurchases of common stock under our share repurchase program, \$34.0 million in payments of finance lease obligations and \$27.7 million in taxes paid related to net share settlements of stock-based compensation awards.

In May 2019, we entered into the 2019 Credit Agreement which provides for aggregate principal borrowings of up to \$400.0 million and matures in May 2024. As of December 31, 2019, we had no borrowings under our 2019 Credit Agreement and were in compliance with all covenants. See Item 8, Note 9, *Financing Arrangements*, for additional information.

As of December 31, 2019, we had \$205.2 million in cash held by our international subsidiaries, which is primarily denominated in Euros, British Pounds Sterling, Canadian dollars, and, to a lesser extent, Australian dollars

and Japanese yen. In general, it is our practice and intention to re-invest the earnings of our non-U.S. subsidiaries in those operations. We have not, nor do we anticipate the need to, repatriate funds to the United States to satisfy domestic liquidity needs arising in the ordinary course of business.

In May 2018, the Board of Directors authorized us to repurchase up to \$300.0 million of our common stock under our share repurchase program. During the year ended December 31, 2019, we repurchased 14,027,227 shares for an aggregate purchase price of \$45.2 million (including fees and commissions) under our repurchase program. As of December 31, 2019, up to \$245.0 million of common stock remained available for purchase under our program. The timing and amount of share repurchases, if any, will be determined based on market conditions, limitations under the 2019 Credit Agreement, share price and other factors, and the program may be terminated at any time. Repurchases will be made in compliance with SEC rules and other legal requirements and may be made, in part, under a Rule 10b5-1 plan, which permits share repurchases when we might otherwise be precluded from doing so.

In April 2016, we issued convertible notes with an aggregate principal amount of \$250.0 million. We received net proceeds of \$243.2 million from the issuance of the Notes. We have used the proceeds from the Notes for general corporate purposes, including repurchases of shares of our common stock. Additionally, we entered into note hedge and warrant transactions with certain bank counterparties that are designed to offset, in part, the potential dilution from conversion of the Notes. See Item 8, Note 9, *Financing Arrangements*, for additional information.

Our cash balances and cash flows generated from our operations may be used to fund strategic investments, business acquisitions, working capital needs, investments in technology, marketing and share repurchases. Additionally, we have the ability to borrow funds under the 2019 Credit Agreement, which requires compliance with specified financial covenants. Although we were in compliance with all covenants as of December 31, 2019, general economic conditions, as well as our future operating performance, which will be impacted by our plan to exit the Goods category by the end of 2020, could limit our access to funding under our revolving credit agreement. We could also seek to raise additional financing, if available on terms that we believe are favorable, to increase the amount of liquid funds that we can access for acquisitions, share repurchases or other strategic investment opportunities. We also believe our working capital will be impacted by our plan to exit the Goods category, and expect a one-time decrease in working capital, which could impact our liquidity. Although we can provide no assurances, we believe that our cash balances and cash generated from operations should be sufficient to meet our working capital requirements and capital expenditures for at least the next twelve months.

Contractual Obligations and Commitments

The following table summarizes (in thousands) our future contractual obligations and commitments as of December 31, 2019. The table below excludes \$30.1 million of non-current liabilities for unrecognized tax benefits, including interest and penalties, as of December 31, 2019. We cannot make a reasonable estimate of the period of cash settlement for the tax positions classified as non-current liabilities.

	Payments due by period						
	Total	2020	2021	2022	2023	2024	Thereafter
Finance lease obligations ⁽¹⁾	\$ 14,501	\$ 8,510	\$ 5,264	\$ 715	\$ 12	\$ —	\$ —
Operating lease obligations ⁽²⁾	163,749	39,261	34,457	32,546	24,126	17,117	16,242
Convertible senior notes ⁽³⁾	274,375	8,125	8,125	258,125	—	—	—
Purchase obligations ⁽⁴⁾	19,550	10,675	4,671	4,123	61	20	—
Total	\$ 472,175	\$ 66,571	\$ 52,517	\$ 295,509	\$ 24,199	\$ 17,137	\$ 16,242

- (1) Finance lease obligations include both principal and interest components of future minimum finance lease payments.
- (2) Operating lease obligations are primarily for office facilities and are noncancelable. Certain leases contain periodic rent escalation adjustments and renewal and expansion options. Operating lease obligations expire at various dates with the latest maturity in 2026.
- (3) Represents the principal amount and related interest on our convertible senior notes.
- (4) Purchase obligations primarily represent noncancelable contractual obligations related to cloud computing and other information technology services.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of December 31, 2019.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. Our significant accounting policies are discussed in Item 8, Note 2, *Summary of Significant Accounting Policies*, in the notes to the consolidated financial statements.

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts and classifications of assets and liabilities, revenue and expenses, and related disclosure of contingent liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates under different assumptions or conditions.

We believe that the estimates and assumptions related to revenue recognition, lease recognition, impairment assessments of goodwill and long-lived assets, income taxes and fair value option investments have the greatest potential impact on our consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

Revenue Recognition

Refer to Item 8, Note 2, *Summary of Significant Accounting Policies* and Item 8, Note 14, *Revenue Recognition*, for information about our revenue recognition accounting policies, including estimates of our refund liabilities.

Leases

Refer to Item 8, Note 2, *Summary of Significant Accounting Policies* and Item 8, Note 10, *Leases* for information about our lease accounting policies, including lease recognition policy.

Impairment Assessments of Goodwill and Long-Lived Assets

Refer to Item 8, Note 2, *Summary of Significant Accounting Policies*, and Note 6, *Goodwill and Other Intangible Assets*, for information about our accounting policies relating to goodwill and impairment of long-lived assets. Additional information about those accounting policies and estimates is set forth in the following paragraphs.

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

Our three reporting units as of October 1, 2019 were North America, EMEA (Europe, the Middle East and Africa) and Asia Pacific. There was no impairment of goodwill for any reporting unit because the fair values of the reporting units exceeded their carrying values.

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

Income Taxes

Refer to Item 8, Note 2, *Summary of Significant Accounting Policies*, and Note 16, *Income Taxes*, for information about our income tax accounting policies.

Fair Value Option Investments

Refer to Item 8, Note 7, *Investments*, for information about the fair value measurements of our fair value option investments.

Estimating the fair values of our investments requires significant judgment regarding the assumptions that market participants would use in pricing those assets. As the fair value measurements involve significant unobservable inputs, such as cash flow projections and discount rates, they are classified as Level 3 within the fair value hierarchy. Future changes in judgment about the related fair value inputs, including changes that may result from any subsequent financing transactions undertaken by those investees, could result in significant increases or decreases in fair value that would be recognized in earnings. Our election to apply fair value accounting to those investments has and may continue to cause fluctuations in our earnings from period to period.

Recently Issued Accounting Standards

For a description of recently issued accounting standards, please see Item 8, Note 2, *Summary of Significant Accounting Policies*, to the consolidated financial statements of this Annual Report on Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Foreign Currency Exchange Risk

We transact business in various foreign currencies other than the U.S. dollar, principally the euro, British pound sterling, Canadian dollar and Australian dollar, which exposes us to foreign currency risk. For the year ended December 31, 2019, we derived approximately 38.8% of our revenue from our International segment. Revenue and related expenses generated from our international operations are generally denominated in the local currencies of the corresponding countries. The functional currencies of our subsidiaries that either operate or support these markets are generally the same as the corresponding local currencies. However, the results of operations of, and certain of our intercompany balances associated with, our international operations are exposed to foreign currency exchange rate fluctuations. Upon consolidation, as exchange rates vary, our revenue and other operating results may differ materially from expectations, and we may record significant gains or losses on the re-measurement of intercompany balances.

We assess our foreign currency exchange risk based on hypothetical changes in rates utilizing a sensitivity analysis that measures the potential impact on working capital based on a 10% change (increase and decrease) in currency rates. We use a current market pricing model to assess the changes in the value of the U.S. dollar on foreign currency denominated monetary assets and liabilities. The primary assumption used in this model is a hypothetical 10% weakening or strengthening of the U.S. dollar against those currency exposures as of December 31, 2019 and 2018.

As of December 31, 2019, our net working capital deficit (defined as current assets less current liabilities) from subsidiaries that are subject to foreign currency translation risk was \$69.2 million. The potential increase in this working capital deficit from a hypothetical 10% adverse change in quoted foreign currency exchange rates would be \$6.9 million. This compares to a \$20.8 million working capital deficit subject to foreign currency exposure as of December 31, 2018, for which a 10% adverse change would have resulted in a potential increase in this working capital deficit of \$2.1 million.

Interest Rate Risk

Our cash balance as of December 31, 2019 consists of bank deposits, so exposure to market risk for changes in interest rates is limited. In April 2016, we issued convertible notes with an aggregate principal amount of \$250.0 million (see Item 8, Note 9, *Financing Arrangements*). The convertible notes bear interest at a fixed rate, so we have no financial statement impact from changes in interest rates. However, changes in market interest rates impact the fair value of the convertible notes along with other variables such as our credit spreads and the market price and volatility of our common stock. In May 2019, we entered into the 2019 Credit Agreement which provides for aggregate principal borrowings of up to \$400.0 million. As of December 31, 2019, we had no borrowings outstanding under the 2019 Credit Agreement. Because the 2019 Credit Agreement bears interest at a variable rate, we are exposed to market risk relating to changes in interest rates if we borrow under the 2019 Credit Agreement. We also have \$156.9 million of lease obligations as of December 31, 2019. Interest rates on existing leases typically do not change unless there is a modification to a lease agreement and as such, we do not believe that the interest rate risk on the lease obligations is significant.

Impact of Inflation

We believe that our results of operations are not materially impacted by moderate changes in the inflation rate. Inflation and changing prices did not have a material effect on our business, financial condition or results of operations for the year ended December 31, 2019.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Groupon, Inc.
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As of December 31, 2019 and 2018 and for the Years Ended December 31, 2019, 2018 and 2017

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Groupon, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Groupon, Inc. and subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows, for each of the three years in the period ended December 31, 2019, and the related notes and the schedule listed in the Index at Item 15(2) (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 18, 2020, expressed an unqualified opinion on the Company's internal control over financial reporting.

Adoption of New Lease Accounting Standard

As discussed in Note 10 to the financial statements, the Company has changed its method of accounting for leases in 2019 due to the adoption of the guidance in ASC Topic 842, *Leases*, using the modified retrospective method.

Adoption of New Revenue Recognition Accounting Standard

As discussed in Note 14 to the financial statements, the Company has changed its method of accounting for revenue transactions in 2018 due to the adoption of the guidance in ASC Topic 606, *Revenue from Contracts with Customers*, using the modified retrospective method.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Income Taxes - Foreign tax position- Refer to Notes 2 and 16 to the financial statements

Critical Audit Matter Description

The Company received a proposed income tax assessment from the tax authority in one foreign jurisdiction in the amount of \$113.3 million, inclusive of estimated incremental interest from the original assessment. The Company

believes the assessment, which primarily relates to transfer pricing on transactions occurring during 2011, is without merit and it intends to vigorously defend itself.

Given the complexity of the relevant tax laws and regulations, auditing management's evaluation and accounting for the tax position associated with the foreign income tax assessment involved especially subjective and complex judgments.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the accounting for the tax position associated with the foreign income tax assessment included the following, among others:

- We tested the effectiveness of controls over income taxes, including those over accounting for uncertain tax positions.
- With the assistance of our foreign and US income tax specialists, we evaluated management's analysis regarding the likelihood of sustaining its foreign tax position upon examination by the relevant foreign tax authorities; and, we evaluated management's estimate of the amount of tax benefit recognized.
- We assessed the basis of the Company's analysis and measurement by:
 - Obtaining, reading, and evaluating the outside legal opinion received by the Company supporting its foreign tax position.
 - Obtaining, reading, and evaluating the written response from the outside legal counsel representing the Company provided to us as part of our annual legal inquiry process.
 - Obtaining, reading, and evaluating management's written analysis supporting the accounting position.
 - Making direct inquiries of the outside legal counsel representing the Company in this proposed assessment by the foreign tax authority.
 - Evaluating any developments in the matter during the current fiscal year through inquiry of Company personnel and their outside legal counsel.

Investments - Monster Holdings LP Fair Value Option Investment - Refer to Notes 2 and 7 to the financial statements

Critical Audit Matter Description

The Company has a minority interest investment in Monster Holdings LP, an entity based in the Republic of Korea, which is accounted for using the fair value method. When determining the fair value of the investment, management is required to make significant estimates and assumptions, particularly regarding cash flow forecasts of the investee, including revenue growth, margins, and operating expenses. The Company recorded a \$69.4 million loss during 2019 due to a decline in the fair value of the investment. The reported fair value of the investment at December 31, 2019 is \$0.

Auditing the Company's cash flow forecasts of the investee used in its valuation of its investment in Monster Holdings LP involved especially subjective judgment.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the forecasted cash flows of the investee included the following, among others:

- We tested the effectiveness of controls over the measurement of the fair value of the investment, including those over the determination of forecasted cash flows of the investee.
- We assessed the reasonableness of forecasted investee cash flows by (1) comparing the projections to historical results and previous forecasts, (2) considering the extent of management's historical ability to reliably forecast prospective operating results of the investee, (3) obtaining and evaluating management's written analysis supporting the forecasted cash flows of the investee, and (4) making direct inquiries of management of the investee regarding operating strategies and outlook of the business to assess the reasonability of management achieving the forecasted performance.

Goodwill - Refer to Notes 2 and 6 to the financial statements

Critical Audit Matter Description

The Company's annual evaluation of goodwill impairment involves the comparison of the fair value of each of the Company's three reporting units to its carrying value. The Company determines the fair value of its reporting units

using the income approach (including discounted cash flows) and the market approach. With respect to the income approach, management makes significant estimates and assumptions related to forecasts of future performance, including revenues; earnings before interest, income taxes, depreciation, and amortization (EBITDA) margins; and risk-adjusted discount rates. The goodwill balance subject to the impairment test was \$325 million as of December 31, 2019.

Auditing the estimates and assumptions that impacted the valuation of the reporting units involved especially subjective judgment, specifically related to the forecasts of revenues, EBITDA margins, and selection of risk-adjusted discount rates.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the Company's forecasts of revenues and EBITDA margins, and its selection of risk-adjusted discount rates included the following, among others:

- We tested the effectiveness of controls over the annual goodwill impairment assessment, including those over the forecasts.
- We evaluated management's ability to accurately forecast by comparing actual results to management's historical forecasts.
- We evaluated the reasonableness of management's forecasts by comparing the forecasts to (1) historical results and previous forecasts, (2) internal communications to management and the Board of Directors, and (3) analyst and industry reports of the Company and companies in its peer group. Additionally, we obtained and evaluated management's written analysis supporting the forecasted cash flows.
- With the assistance of fair value specialists, we evaluated the reasonableness of the (1) valuation methodology and (2) risk-adjusted discount rates by:
 - Evaluating whether the fair value models being used are appropriate considering the Company's circumstances and valuation premise identified.
 - Testing the source information and the mathematical accuracy of the calculation underlying the determination of the risk-adjusted discount rates, and developing a range of independent estimates and comparing those to the risk-adjusted discount rates selected by management.

/s/ Deloitte & Touche LLP

Chicago, Illinois
February 18, 2020

We have served as the Company's auditor since 2017.

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

	December 31,	
	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 750,887	\$ 841,021
Accounts receivable, net	54,953	69,493
Prepaid expenses and other current assets	82,073	88,115
Total current assets	887,913	998,629
Property, equipment and software, net	124,950	143,117
Right-of-use assets - operating leases, net	108,390	—
Goodwill	325,017	325,491
Intangible assets, net	35,292	45,401
Investments (including \$1,405 and \$84,242 at December 31, 2019 and December 31, 2018 at fair value)	76,576	108,515
Other non-current assets	28,605	20,989
Total Assets	\$ 1,586,743	\$ 1,642,142
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 20,415	\$ 38,359
Accrued merchant and supplier payables	540,940	651,781
Accrued expenses and other current liabilities	260,192	267,034
Total current liabilities	821,547	957,174
Convertible senior notes, net	214,869	201,669
Operating lease obligations	110,294	—
Other non-current liabilities	44,987	100,688
Total Liabilities	1,191,697	1,259,531
Commitments and contingencies (see Note 11)		
Stockholders' Equity		
Common stock, par value \$0.0001 per share, 2,010,000,000 shares authorized; 771,697,087 shares issued and 565,814,732 shares outstanding at December 31, 2019; 760,939,440 shares issued and 569,084,312 shares outstanding at December 31, 2018	77	76
Additional paid-in capital	2,310,320	2,234,560
Treasury stock, at cost, 205,882,355 and 191,855,128 shares at December 31, 2019 and December 31, 2018	(922,666)	(877,491)
Accumulated deficit	(1,032,876)	(1,010,499)
Accumulated other comprehensive income (loss)	39,081	34,602
Total Groupon, Inc. Stockholders' Equity	393,936	381,248
Noncontrolling interests	1,110	1,363
Total Equity	395,046	382,611
Total Liabilities and Equity	\$ 1,586,743	\$ 1,642,142

See Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2019	2018	2017
Revenue:			
Service	\$ 1,126,357	\$ 1,205,487	\$ 1,266,452
Product	1,092,558	1,431,259	1,577,425
Total revenue	2,218,915	2,636,746	2,843,877
Cost of revenue:			
Service	114,462	120,077	160,810
Product	918,324	1,196,068	1,349,206
Total cost of revenue	1,032,786	1,316,145	1,510,016
Gross profit	1,186,129	1,320,601	1,333,861
Operating expenses:			
Marketing	339,355	395,737	400,918
Selling, general and administrative	806,945	870,961	901,829
Restructuring charges	31	(136)	18,828
Gain on sale of intangible assets	—	—	(17,149)
Total operating expenses	1,146,331	1,266,562	1,304,426
Income (loss) from operations	39,798	54,039	29,435
Other income (expense), net	(53,329)	(53,008)	6,710
Income (loss) from continuing operations before provision (benefit) for income taxes	(13,531)	1,031	36,145
Provision (benefit) for income taxes	761	(957)	7,544
Income (loss) from continuing operations	(14,292)	1,988	28,601
Income (loss) from discontinued operations, net of tax	2,597	—	(1,974)
Net income (loss)	(11,695)	1,988	26,627
Net income attributable to noncontrolling interests	(10,682)	(13,067)	(12,587)
Net income (loss) attributable to Groupon, Inc.	\$ (22,377)	\$ (11,079)	\$ 14,040
Basic net income (loss) per share:			
Continuing operations	\$ (0.04)	\$ (0.02)	\$ 0.03
Discontinued operations	0.00	—	(0.00)
Basic net income (loss) per share	\$ (0.04)	\$ (0.02)	\$ 0.03
Diluted net income (loss) per share:			
Continuing operations	\$ (0.04)	\$ (0.02)	\$ 0.03
Discontinued operations	0.00	—	(0.01)
Diluted net income (loss) per share	\$ (0.04)	\$ (0.02)	\$ 0.02
Weighted average number of shares outstanding:			
Basic	567,408,340	566,511,108	559,367,075
Diluted	567,408,340	566,511,108	568,418,371

See Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2019	2018	2017
Income (loss) from continuing operations	\$ (14,292)	\$ 1,988	\$ 28,601
Other comprehensive income (loss) from continuing operations:			
Net change in unrealized gain (loss) on foreign currency translation adjustments	4,858	3,332	(10,776)
Net change in unrealized gain (loss) on defined benefit pension plan	—	—	585
Available-for-sale securities:			
Net unrealized gain (loss) during the period	(379)	(841)	(1,109)
Reclassification adjustment for realized (gain) loss on investment included in income (loss) from continuing operations	—	106	1,603
Net change in unrealized gain (loss) on available-for-sale securities (net of tax effect of \$0, \$34 and \$0 for the years ended December 31, 2019, 2018, and 2017)	(379)	(735)	494
Other comprehensive income (loss) from continuing operations	4,479	2,597	(9,697)
Comprehensive income (loss) from continuing operations	(9,813)	4,585	18,904
Income (loss) from discontinued operations	2,597	—	(1,974)
Other comprehensive income (loss) from discontinued operations - foreign currency translation adjustments:			
Net unrealized gain (loss) during the period	—	—	(1,793)
Reclassification adjustment included in income (loss) from discontinued operations	—	—	(14,718)
Net change in unrealized gain (loss)	—	—	(16,511)
Comprehensive income (loss) from discontinued operations	2,597	—	(18,485)
Comprehensive income (loss)	(7,216)	4,585	419
Comprehensive income attributable to noncontrolling interests	(10,682)	(13,067)	(12,587)
Comprehensive income (loss) attributable to Groupon, Inc.	<u>\$ (17,898)</u>	<u>\$ (8,482)</u>	<u>\$ (12,168)</u>

See Notes to Consolidated Financial Statements.

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

Groupon, Inc. Stockholders' Equity

	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Groupon, Inc. Stockholders' Equity	Non- controlling Interests	Total Equity
	Shares	Amount		Shares	Amount					
Balance at December 31, 2016	736,531,771	\$ 74	\$ 2,112,728	(171,695,908)	\$(807,424)	\$ (1,099,010)	\$ 58,052	\$ 264,420	\$ 642	\$ 265,062
Cumulative effect of change in accounting principle	—	—	—	—	—	(3,234)	—	(3,234)	—	(3,234)
Comprehensive income (loss)	—	—	—	—	—	14,040	(26,208)	(12,168)	12,587	419
Exercise of stock options	102,803	—	230	—	—	—	—	230	—	230
Vesting of restricted stock units and performance share units	16,596,562	2	(2)	—	—	—	—	—	—	—
Shares issued under employee stock purchase plan	1,879,656	—	5,283	—	—	—	—	5,283	—	5,283
Tax withholdings related to net share settlements of stock-based compensation awards	(6,568,930)	(1)	(27,187)	—	—	—	—	(27,188)	—	(27,188)
Stock-based compensation on equity-classified awards	—	—	83,656	—	—	—	—	83,656	—	83,656
Repurchases of common stock	—	—	—	(16,906,334)	(60,026)	—	—	(60,026)	—	(60,026)
Distributions to noncontrolling interest holders	—	—	—	—	—	—	—	—	(12,357)	(12,357)
Balance at December 31, 2017	748,541,862	\$ 75	\$ 2,174,708	(188,602,242)	\$(867,450)	\$ (1,088,204)	\$ 31,844	\$ 250,973	\$ 872	\$ 251,845
Cumulative effect of change in accounting principle, net of tax	—	—	—	—	—	88,945	—	88,945	—	88,945
Reclassification for impact of U.S. tax rate change	—	—	—	—	—	(161)	161	—	—	—
Comprehensive income (loss)	—	—	—	—	—	(11,079)	2,597	(8,482)	13,067	4,585
Exercise of stock options	672,793	—	81	—	—	—	—	81	—	81
Vesting of restricted stock units and performance share units	14,264,895	1	(1)	—	—	—	—	—	—	—
Shares issued under employee stock purchase plan	1,621,061	—	5,634	—	—	—	—	5,634	—	5,634
Shares issued to settle liability-classified awards	1,240,379	—	6,436	—	—	—	—	6,436	—	6,436
Tax withholdings related to net share settlements of stock-based compensation awards	(5,401,550)	—	(22,709)	—	—	—	—	(22,709)	—	(22,709)
Stock-based compensation on equity-classified awards	—	—	70,411	—	—	—	—	70,411	—	70,411
Repurchases of common stock	—	—	—	(3,252,886)	(10,041)	—	—	(10,041)	—	(10,041)
Distributions to noncontrolling interest holders	—	—	—	—	—	—	—	—	(12,576)	(12,576)
Balance at December 31, 2018	760,939,440	\$ 76	\$ 2,234,560	(191,855,128)	\$(877,491)	\$ (1,010,499)	\$ 34,602	\$ 381,248	\$ 1,363	\$ 382,611
Comprehensive income (loss)	—	—	—	—	—	(22,377)	4,479	(17,898)	10,682	(7,216)
Exercise of stock options	74,875	—	40	—	—	—	—	40	—	40
Vesting of restricted stock units and performance share units	14,419,012	1	(1)	—	—	—	—	—	—	—
Shares issued under employee stock purchase plan	1,486,006	—	4,083	—	—	—	—	4,083	—	4,083
Tax withholdings related to net share settlements of stock-based compensation awards	(5,222,246)	—	(17,413)	—	—	—	—	(17,413)	—	(17,413)
Stock-based compensation on equity-classified awards	—	—	89,051	—	—	—	—	89,051	—	89,051
Repurchases of common stock	—	—	—	(14,027,227)	(45,175)	—	—	(45,175)	—	(45,175)
Distributions to noncontrolling interest holders	—	—	—	—	—	—	—	—	(10,935)	(10,935)
Balance at December 31, 2019	771,697,087	\$ 77	\$ 2,310,320	(205,882,355)	\$(922,666)	\$ (1,032,876)	\$ 39,081	\$ 393,936	\$ 1,110	\$ 395,046

See Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2019	2018	2017
Operating activities			
Net income (loss)	\$ (11,695)	\$ 1,988	\$ 26,627
Less: Income (loss) from discontinued operations, net of tax	2,597	—	(1,974)
Income (loss) from continuing operations	(14,292)	1,988	28,601
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization of property, equipment and software	91,410	101,330	114,795
Amortization of acquired intangible assets	14,355	14,498	23,032
Stock-based compensation	81,615	64,821	82,044
Gain on sale of intangible assets	—	—	(17,149)
(Gain) loss on sale of investment	412	—	(7,624)
Impairments of investments	9,961	10,156	2,944
Upward adjustment for observable price change of investment	(51,397)	—	—
Deferred income taxes	(1,485)	(5,000)	603
(Gain) loss from changes in fair value of investments	72,497	9,064	(382)
Amortization of debt discount on convertible senior notes	13,200	11,916	10,758
Change in assets and liabilities, net of acquisitions and dispositions:			
Accounts receivable	13,577	32,057	(18,793)
Prepaid expenses and other current assets	3,176	7,166	4,074
Right-of-use assets - operating leases	26,226	—	—
Accounts payable	(17,401)	5,805	(199)
Accrued merchant and supplier payables	(109,176)	(45,268)	(29,823)
Accrued expenses and other current liabilities	(26,071)	(31,430)	(40,361)
Operating lease obligations	(28,552)	—	—
Other, net	(6,772)	13,752	(21,975)
Net cash provided by (used in) operating activities from continuing operations	71,283	190,855	130,545
Net cash provided by (used in) operating activities from discontinued operations	—	—	(2,418)
Net cash provided by (used in) operating activities	71,283	190,855	128,127
Investing activities			
Purchases of property and equipment and capitalized software	(67,328)	(69,695)	(59,158)
Proceeds from sale of intangible assets	—	1,500	18,333
Proceeds from sales and maturities of investments	3,475	8,594	16,561
Acquisition of business, net of acquired cash	—	(58,119)	—
Acquisitions of intangible assets and other investing activities	(3,738)	(18,262)	(1,059)
Net cash provided by (used in) investing activities from continuing operations	(67,591)	(135,982)	(25,323)
Net cash provided by (used in) investing activities from discontinued operations	—	—	(9,548)
Net cash provided by (used in) investing activities	(67,591)	(135,982)	(34,871)
Financing activities			
Issuance costs for revolving credit agreement	(2,384)	—	—
Payments for repurchases of common stock	(45,631)	(9,585)	(61,233)
Taxes paid related to net share settlements of stock-based compensation awards	(18,105)	(24,105)	(27,681)
Proceeds from stock option exercises and employee stock purchase plan	4,123	5,715	5,513
Distributions to noncontrolling interest holders	(10,935)	(12,576)	(12,357)
Payments of finance lease obligations	(19,687)	(33,023)	(34,025)
Payments of contingent consideration related to acquisitions	—	(1,815)	(7,790)
Payment of financing obligation related to acquisition	—	(8,391)	—
Other financing activities	—	(637)	(473)
Net cash provided by (used in) financing activities	(92,619)	(84,417)	(138,046)
Effect of exchange rate changes on cash, cash equivalents and restricted cash, including cash classified within current assets of discontinued operations	(3,144)	(11,209)	26,499
Net increase (decrease) in cash, cash equivalents and restricted cash, including cash classified within current assets of discontinued operations	(92,071)	(40,753)	(18,291)
Less: Net increase (decrease) in cash classified within current assets of discontinued operations	—	—	(28,866)
Net increase (decrease) in cash, cash equivalents and restricted cash	(92,071)	(40,753)	10,575
Cash, cash equivalents and restricted cash, beginning of period ⁽¹⁾	844,728	885,481	874,906
Cash, cash equivalents and restricted cash, end of period ⁽¹⁾	<u>\$ 752,657</u>	<u>\$ 844,728</u>	<u>\$ 885,481</u>

See Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2019	2018	2017
Supplemental disclosure of cash flow information			
Income tax payments (refunds) for continuing operations	\$ 11,898	\$ 2,781	\$ 8,646
Income tax payments (refunds) for discontinued operations	—	—	(56)
Cash paid for interest	9,145	9,556	9,425
Non-cash investing and financing activities			
Continuing operations:			
Equipment acquired under capital lease arrangements ⁽²⁾	\$ —	\$ 18,064	\$ 28,271

- (1) The following table provides a reconciliation of cash, cash equivalents and restricted cash shown above to amounts reported within the consolidated balance sheets as of December 31, 2019, 2018 and 2017 (in thousands):

	December 31, 2019	December 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 750,887	\$ 841,021	\$ 880,129
Restricted cash included in prepaid expenses and other current assets	1,534	3,320	4,932
Restricted cash included in other non-current assets	236	387	420
Cash, cash equivalents and restricted cash	<u>\$ 752,657</u>	<u>\$ 844,728</u>	<u>\$ 885,481</u>

- (2) Please refer to Note 10, *Leases*, for supplemental cash flow information on our leasing obligations, as required by our adoption of Accounting Standards Update ("ASU") 2016-02, *Leases* ("Topic 842"), on January 1, 2019.

See Notes to Consolidated Financial Statements.

GROUPON, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Company Information

Groupon, Inc. and subsidiaries, 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. Customers access those marketplaces through our mobile applications and our websites, primarily localized groupon.com sites in many countries.

Our operations are organized into two segments: North America and International. See Note 20, *Segment Information*.

In connection with a strategic initiative to optimize our global footprint, we sold or ceased our operations in 12 countries between November 2016 and March 2017. The financial results of those operations have been presented as discontinued operations in the consolidated financial statements. See Note 3, *Discontinued Operations*, for additional information.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Groupon, Inc. and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The 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 we exercise control and variable interest entities for which we have determined that we are the primary beneficiary. Outside stockholders' interests in subsidiaries are shown on the consolidated financial statements as Noncontrolling interests. Investments in entities in which we do not have a controlling financial interest are accounted for at fair value, as available-for-sale securities or at cost adjusted for observable price changes and impairments, as appropriate.

Adoption of New Accounting Standards

We adopted the guidance in ASU 2016-02, *Leases (Topic 842)*, on January 1, 2019. This ASU requires the recognition of lease assets and liabilities for operating leases, in addition to the finance lease assets and liabilities historically recorded on our consolidated balance sheets. See Note 10, *Leases*, for additional information on the impact of adopting Topic 842 on our accounting policies.

We adopted the guidance in ASU 2018-07, *Compensation - Stock Compensation (Topic 718) - Improvements to Nonemployee Share-Based Payment Accounting*, on January 1, 2019. This ASU expands the scope to make the guidance for share-based payment awards to nonemployees consistent with the guidance for share-based payment awards to employees. The adoption of ASU 2018-07 did not have a material impact on the consolidated financial statements.

We adopted the guidance in ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) - Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, on January 1, 2019. This ASU requires entities in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40, *Internal-Use Software*, to determine which costs to implement the service contract would be capitalized as an asset related to the service contract and which costs would be expensed. The requirements of ASU 2018-15 have been applied on a prospective basis to implementation costs incurred on or after January 1, 2019. As a result of the adoption of ASU 2018-15, we capitalized \$7.4 million of implementation costs for the year ended December 31, 2019. We have not recognized any amortization related to these implementation costs for the year ended December 31, 2019.

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

We adopted the guidance in ASC Topic 606, *Revenue from Contracts with Customers*, on January 1, 2018. Topic 606 is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. We adopted Topic 606 using the modified retrospective method. Beginning on January 1, 2018, results are presented in accordance with the revised policies, while prior period amounts are not adjusted and continue to be reported in accordance with our historical policies. The adoption of Topic 606 did not significantly impact our presentation of revenue on a gross or net basis. For additional information on the impact of adoption of Topic 606 on our accounting policies, refer to our discussion under *Revenue Recognition* below.

We recorded a net reduction to our opening accumulated deficit of \$88.9 million, which is net of a \$6.7 million income tax effect, as of January 1, 2018 due to the cumulative impact of adopting Topic 606. The following table summarizes balance sheet accounts impacted by the cumulative effect of adopting Topic 606 (in thousands):

	Increase (decrease) to beginning accumulated deficit
Prepaid expenses and other current assets	\$ (4,007)
Other non-current assets	(10,223)
Accrued merchant and supplier payables	(64,970)
Accrued expenses and other current liabilities	(13,188)
Other non-current liabilities	3,443
Effect on beginning accumulated deficit	<u>\$ (88,945)</u>

We adopted the guidance in ASU 2016-01, *Financial Instruments (Topic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities*, as amended, on January 1, 2018. This ASU generally requires equity investments to be measured at fair value with changes in fair value recognized through net income and eliminates the cost method for equity securities. However, for equity investments without readily determinable fair values, the ASU permits entities to elect to measure the investments at cost adjusted for observable price changes and impairments, with changes in the measurement recognized through net income. We applied that measurement alternative to our equity investments that were previously accounted for under the cost method. At the time of the adoption of ASU 2016-01, there was not a material impact on the consolidated financial statements.

We adopted the guidance in ASU 2016-18, *Statement of Cash Flows (Topic 230) - Restricted Cash*, on January 1, 2018. This ASU requires companies to include amounts generally described as restricted cash and restricted cash equivalents, along with cash and cash equivalents, when reconciling the beginning-of-period and end-of-period amounts shown on the statement of cash flows. Previously, changes in restricted cash were reported within cash flows from operating activities. We applied that change in cash flow classification on a retrospective basis, which resulted in a \$7.0 million decrease to net cash provided by operating activities for the year ended December 31, 2017.

We adopted the guidance in ASU 2017-05, *Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20) - Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*, on January 1, 2018. This ASU is meant to clarify the scope of ASC Subtopic 610-20, *Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets*, and to add guidance for partial sales of nonfinancial assets. The adoption of ASU 2017-05 did not have a material impact on the consolidated financial statements.

We adopted the guidance in ASU 2017-07, *Compensation - Retirement Benefits (Topic 715) - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, on January 1, 2018. This ASU requires employers to include only the service cost component of net periodic pension cost in operating expenses, together with other employee compensation costs. The other components of net periodic pension cost, including interest cost, expected return on plan assets, amortization of prior service cost and settlement and curtailment effects, are to be included in non-operating expenses. The adoption of ASU 2017-07 did not have a material impact on the consolidated financial statements.

We adopted the guidance in ASU 2017-09, *Compensation - Stock Compensation (Topic 718) - Scope of Modification Accounting*, on January 1, 2018. This ASU clarifies the changes to terms or conditions of a share-based payment award that require an entity to apply modification accounting. The adoption of ASU 2017-09 did not have a material impact on the consolidated financial statements.

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

We adopted the guidance in ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220) - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, as of January 1, 2018. This ASU permits a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (the "Jobs Act"). As a result of the adoption of ASU 2018-02, we reclassified \$0.2 million from accumulated other comprehensive income to accumulated deficit.

We adopted the guidance in ASU 2017-01, *Business Combinations (Topic 805) - Clarifying the Definition of a Business*, on July 1, 2017. This ASU provides clarification on the definition of a business and provides guidance on whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance in ASU 2017-01 was applied in determining that the sale of customer lists and other intangible assets in certain food delivery markets, as described in Note 6, *Goodwill and Other Intangible Assets*, did not meet the definition of a business. The adoption of ASU 2017-01 did not otherwise have a material impact on the consolidated financial statements.

We adopted the guidance in ASU 2016-16, *Intra-Entity Transfers of Assets Other Than Inventory (Topic 740)*, on January 1, 2017. This ASU requires immediate recognition of the income tax consequences of intercompany asset transfers other than inventory. We recorded a \$3.2 million cumulative effect adjustment to increase our accumulated deficit as of January 1, 2017 to recognize the impact of that change in accounting policy.

We adopted the guidance in ASU 2015-11, *Inventory (Topic 330) - Simplifying the Measurement of Inventory*, on January 1, 2017. This ASU requires inventory to be measured at the lower of cost or net realizable value, rather than the lower of cost or market. The adoption of ASU 2015-11 did not have a material impact on the consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the consolidated financial statements of prior periods and the accompanying notes to conform to the current period presentation, including the change in presentation of restricted cash in the consolidated statements of cash flows upon adoption of ASU 2016-18 as described above.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires estimates and assumptions that affect the reported amounts and classifications of assets and liabilities, revenue and expenses, and the related disclosures of contingent liabilities in the consolidated financial statements and accompanying notes. Estimates are used for, but not limited to, variable consideration from unredeemed vouchers, income taxes, leases, initial valuation and subsequent impairment testing of goodwill and intangible assets, investments, customer refunds, contingent liabilities and the useful lives of property, equipment and software and intangible assets. Actual results could differ materially from those estimates.

Cash, Cash Equivalents and Restricted Cash

We consider all highly liquid investments with an original maturity of three months or less from the date of purchase to be cash equivalents. Restricted cash represents amounts that we are unable to access for operational purposes. These amounts primarily relate to withholdings from employee paychecks under our employee stock purchase plan ("ESPP").

Accounts Receivable, Net

Accounts receivable primarily represents the net cash due from credit card and other payment processors and from merchants and performance marketing networks for commissions earned on consumer purchases. The carrying amount of receivables is reduced by an allowance for doubtful accounts that reflects management's best estimate of amounts that will not be collected. The allowance is based on historical loss experience and any specific risks identified in collection matters. Accounts receivable are charged off against the allowance for doubtful accounts when it is determined that the receivable is uncollectible.

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

Inventories

Inventories, consisting of merchandise purchased for resale, are accounted for using the first-in, first-out method of accounting and are valued at the lower of cost or net realizable value. We write down our inventory to the lower of cost or net realizable value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected, additional inventory write-downs may be required. Once established, the original cost of the inventory less the related inventory write-down represents a new cost basis.

Property and Equipment

Property and equipment are stated at cost and assets under finance leases are stated at the lesser of the present value of minimum lease payments or their fair market value. Depreciation and amortization of property and equipment is recorded on a straight-line basis over the estimated useful lives of the assets. Generally, the useful lives are three to five years for computer hardware and office equipment, five to ten years for furniture and fixtures and warehouse equipment and the shorter of the term of the lease or five years for leasehold improvements and assets under finance leases.

Internal-Use Software

We incur costs related to internal-use software and website development, including purchased software and internally-developed software. Costs incurred in the planning and evaluation stage of internally-developed software and website development are expensed as incurred. Costs incurred and accumulated during the application development stage are capitalized and included within Property, equipment and software, net on the consolidated balance sheets. Amortization of internal-use software is recorded on a straight-line basis over the two-year estimated useful life of the assets.

Cloud Computing Costs

We have entered into non-cancellable cloud computing hosting arrangements for which we incur implementation costs. Costs incurred in the planning and evaluation stage of the cloud computing hosting arrangement are expensed as incurred. Costs incurred during the application development stage related to implementation of the hosting arrangement are capitalized and included within Other non-current assets on the consolidated balance sheets. Amortization of implementation costs is recorded on a straight-line basis over the term of the associated hosting arrangement for each module or component of the related hosting arrangement when it is ready for its intended use. Amortization costs will be recorded primarily in Selling, general and administrative expense on the consolidated statements of operations.

Impairment of Long-Lived Assets

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

Long-lived assets or disposal groups classified as held for sale are recorded at the lower of their carrying amount or fair value less estimated selling costs. Long-lived assets are not depreciated or amortized while classified as held for sale.

Goodwill

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

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

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

During the fourth quarter of 2019, we determined the deterioration of our financial condition when compared with our previous projections to be a triggering event requiring assessment of goodwill impairment as of December 31, 2019. There was no goodwill impairment recognized for the year ended December 31, 2019 as a result of that assessment.

Investments

Investments in equity shares without a readily determinable fair value and for which we do not have the ability to exercise significant influence are accounted for at cost adjusted for observable price changes and impairments, with changes in the measurement recognized through net income (loss). Those investments are classified within Investments on the consolidated balance sheets.

We have investments in common stock or in-substance common stock for which we have the ability to exercise significant influence and we have made an irrevocable election to account for those investments at fair value. Those investments are classified within Investments on the consolidated balance sheets.

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

Other-than-Temporary Impairment of Investments

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

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

Income Taxes

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

For purposes of assessing whether it is more likely than not that deferred tax assets will be realized, we consider the following four sources of taxable income for each tax jurisdiction: (a) future reversals of existing taxable temporary differences, (b) projected future earnings, (c) taxable income in carryback years, to the extent that carrybacks are permitted under the tax laws of the applicable jurisdiction, and (d) tax planning strategies, which represent prudent and feasible actions that a company ordinarily might not take, but would take to prevent an operating loss or tax credit carryforward from expiring unused. To the extent that evidence about one or more of these sources of taxable income is sufficient to support a conclusion that a valuation allowance is not necessary, other sources need not be considered. Otherwise, evidence about each of the sources of taxable income is considered in arriving at a conclusion about the need for and amount of a valuation allowance. See Note 16, *Income Taxes*, for further information about our valuation allowance assessments.

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

Lease and Asset Retirement Obligations

We have entered into various non-cancelable operating lease agreements for our offices and data centers and non-cancelable finance lease agreements for property and equipment. On January 1, 2019, we adopted Topic 842 using the modified retrospective transition method. Beginning on January 1, 2019, results are presented in accordance with the revised policies, while prior period amounts are not adjusted and continue to be reported in accordance with our historical policies. See Note 10, *Leases*, for additional information on the impact of adoption of Topic 842.

Significant judgment is required when determining whether a contract is or contains a lease. We review contracts to determine whether the language conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

We classify leases at their commencement as either operating or finance leases. We may receive renewal or expansion options, rent holidays, leasehold improvements or other incentives on certain lease agreements. We recognize a right-of-use asset and lease liability for all of our leases at the commencement of the lease. Lease liabilities are measured based on the present value of the minimum lease payments discounted by a rate determined as of the date of commencement. Right-of-use assets are measured based on the lease liability adjusted for any initial direct costs, prepaid rent, or lease incentives. Minimum lease payments made under operating and finance leases are apportioned between interest expense and a reduction of the related operating and finance lease obligations. Operating lease costs, including interest expense on operating leases, are presented within Selling, general and administrative expense on the consolidated statements of operations and the related operating lease obligation is presented within Accrued expenses and other current liabilities and Operating lease obligations on the consolidated balance sheets. Amortization and interest expense on finance leases are presented within Selling, general and administrative expense and Other income (expense), net on the consolidated statements of operations and the related finance lease obligation is presented within Accrued expenses and other current liabilities and Other non-current liabilities on the consolidated balance sheets.

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

As discussed above, the present value of minimum lease payments is used in determining the value of our operating and finance leases. The discount rate used to calculate the present value for lease payments is the rate implicit in the lease, unless that rate cannot be readily determined. For leases in which the rate implicit in the lease is not readily determinable, the discount rate is our incremental borrowing rate, which is determined based on information available at lease commencement and is equal to the rate of interest that we would have to pay to borrow on a collateralized basis over a similar term in an amount equal to the lease payments in a similar economic environment.

Certain lease agreements include variable lease costs which are primarily related to costs that are dependent on our usage of the underlying asset or lease payments that are dependent on an index when that index has changed since lease commencement. Those costs are expenses in the period in which they are incurred.

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

We have also subleased certain office facilities under operating lease agreements, for which we recognize sublease income on a straight-line basis over their respective lease terms.

Revenue Recognition

We recognize revenue when we satisfy a performance obligation by transferring a promised good or service to a customer. Substantially all of our performance obligations are satisfied at a point in time rather than over time. We offer goods and services through our online marketplaces in three primary categories: Local, Goods and Travel.

Service revenue

Service revenue primarily represents the net commissions earned from selling goods or services on behalf of third-party merchants. Those transactions generally involve a customer's purchase of a voucher through one of our online marketplaces that can be redeemed by the customer with a third-party merchant for goods or services (or for discounts on goods or services). Service revenue from those transactions is reported on a net basis as the purchase price collected from the customer less the portion of the purchase price that is payable to the third-party merchant. We recognize revenue from those transactions when our commission has been earned, which occurs when a sale through one of our online marketplaces is completed and the related voucher has been made available to the customer. We believe that our remaining obligations to remit payment to the merchant and to provide information about vouchers sold are administrative activities that are immaterial in the context of the contract with the merchant. Revenue from hotel reservation offerings is recognized at the time the reservation is made, net of an allowance for estimated cancellations. Prior to our adoption of Topic 606, we deferred the revenue from hotel reservation offerings until the customer's stay commenced.

We also earn commissions when customers make purchases with retailers using digital coupons accessed through our websites and mobile applications. We recognize those commissions as revenue in the period in which the underlying transactions between the customer and the third-party merchant are completed. Additionally, we earn advertising revenue when the advertiser's logo or website link has been included on our websites or in specified email distributions for the requisite period of time as set forth in the agreement with the advertiser.

Product revenue

We generate product revenue from direct sales of merchandise inventory to customers through our Goods category. For product revenue transactions, we are the primary party responsible for providing the good to the customer, we have inventory risk and we have discretion in establishing prices. As such, product revenue is reported on a gross basis as the purchase price received from the customer. Product revenue, including associated shipping revenue, is recognized when title passes to the customer upon delivery of the product.

Variable Consideration for Unredeemed Vouchers

For merchant agreements with redemption payment terms, the merchant is not paid its share of the sale price for a voucher sold through one of our online marketplaces until the customer redeems the related voucher. If the customer does not redeem a voucher with such merchant payment terms, we retain all of the gross billings for that

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

voucher, rather than retaining only our net commission. We estimate the variable consideration from vouchers that will not ultimately be redeemed using our historical voucher redemption experience and recognize that amount as revenue at the time of sale. We only recognize amounts in variable consideration when we believe it is probable that a significant reversal of revenue will not occur in future periods, which requires us to make significant estimates of future redemptions. If actual redemptions differ from our estimates, the effects could be material to the consolidated financial statements. As of December 31, 2019 and 2018, we constrained \$14.6 million and \$13.7 million in revenue from unredeemed vouchers that we may recognize in future periods when we determine it is probable that a significant amount of that revenue will not be subsequently reversed. Prior to our adoption of Topic 606, we recognized that variable consideration from unredeemed vouchers and derecognized the related accrued merchant payables when our legal obligation to the merchant expired.

Refunds

Refunds are recorded as a reduction of revenue. The liability for estimated refunds is included within Accrued expenses and other current liabilities on the consolidated balance sheets. Prior to our adoption of Topic 606, we classified refunds on service revenue transactions for which the merchant's share of the refund amount is not recoverable as a cost of revenue.

We estimate our refund reserve using historical refund experience by category. We assess the trends that could affect our estimates on an ongoing basis and make adjustments to the refund reserve calculations if it appears that changes in circumstances, including changes to our refund policies or general economic conditions, may cause future refunds to differ from our initial estimates. If actual refunds differ from our estimates, the effects could be material to the consolidated financial statements.

Discounts, Customer Credits and Other Consideration Payable to Customers

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

Additionally, we issue credits to customers that can be applied to future purchases through our online marketplaces. Credits are primarily issued as consideration for refunds. To a lesser extent, credits are issued for customer relationship purposes. Credits issued to satisfy refund requests are applied as a reduction to the refunds reserve and customer credits issued for relationship purposes are classified as a reduction of revenue. Prior to our adoption of Topic 606, we classified credits issued to consumers for relationship purposes as a marketing expense. Breakage income from customer credits that are not expected to be used is estimated and recognized as revenue in proportion to the pattern of redemption for customer credits that are used. Prior to our adoption of Topic 606, we recognized breakage income for unused customer credits when they expired or were forfeited.

Sales and Related Taxes

Sales, use, value-added and related taxes that are imposed on specific revenue-generating transactions are presented on a net basis and excluded from revenue.

Costs of Obtaining Contracts

Incremental costs to obtain contracts with third-party merchants, such as sales commissions, are deferred and recognized over the expected period of the merchant arrangement, generally from 12 to 18 months. Those costs are classified within Selling, general and administrative expenses in the consolidated statements of operations. Prior to our adoption of Topic 606, we expensed the incremental costs to obtain contracts with third-party merchants, such as sales commissions, as incurred.

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

Cost of Revenue

Cost of revenue is comprised of direct and certain indirect costs incurred to generate revenue. Costs incurred to generate revenue, which include credit card processing fees, editorial costs, compensation expense for technology support personnel who are responsible for maintaining the infrastructure of our websites, amortization of internal-use software relating to customer-facing applications, web hosting and other processing fees are attributed to the cost of service and product revenue in proportion to gross billings during the period. For product revenue transactions, cost of revenue also includes the cost of inventory, shipping and fulfillment costs and inventory markdowns. Fulfillment costs are comprised of third-party logistics provider costs, as well as rent, depreciation, personnel costs and other costs of operating our fulfillment center.

Stock-Based Compensation

We measure stock-based compensation cost at fair value. Expense is generally recognized on a straight-line basis over the service period during which awards are expected to vest, except for awards with both performance conditions and a graded vesting schedule, which are recognized using the accelerated method. We present stock-based compensation expense within the consolidated statements of operations based on the classification of the respective employees' cash compensation. See Note 13, *Compensation Arrangements*.

Foreign Currency

Balance sheet accounts of our operations outside of the United States are translated from foreign currencies into U.S. dollars at exchange rates as of the consolidated balance sheet dates. Revenue and expenses are translated at average exchange rates during the period. Foreign currency translation adjustments and foreign currency gains and losses on intercompany balances that are of a long-term investment nature are included within Accumulated other comprehensive income on the consolidated balance sheets. Foreign currency gains and losses resulting from transactions that are denominated in currencies other than the entity's functional currency, including foreign currency gains and losses on intercompany balances that are not of a long-term investment nature, are included within Other income (expense), net on the consolidated statements of operations.

Business Combinations

The results of businesses acquired are included in the consolidated financial statements beginning on the respective acquisition dates. The fair value of consideration transferred in business combinations is allocated to the tangible and intangible assets acquired and liabilities assumed at the acquisition date, with the remaining unallocated amount recorded as goodwill. Acquired goodwill represents the premium paid over the fair value of the net tangible and intangible assets acquired. We may pay a premium for a number of reasons, including growing our merchant base and acquiring an assembled workforce. The goodwill from business combinations is generally not deductible for tax purposes.

Recently Issued Accounting Standards

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326) - Measurement of Credit Losses of Financial Instruments*. This ASU requires entities to measure credit losses for financial assets measured at amortized cost based on expected losses rather than incurred losses. For available-for-sale debt securities with unrealized losses, entities will be required to recognize credit losses through an allowance for credit losses. The ASU will be effective for annual reporting periods beginning after December 15, 2019 and interim periods within those annual periods. We believe that the adoption of this guidance will not have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment*. This ASU eliminates Step 2 of the goodwill impairment test and requires a goodwill impairment to be measured as the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of its goodwill. The ASU is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019 and early adoption is permitted. We believe that the adoption of this guidance will not have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) - Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU modifies the disclosure requirements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

in Topic 820, *Fair Value Measurement*, by removing, modifying, or adding certain disclosures. The ASU will be effective for annual reporting periods beginning after December 15, 2019 and interim periods within those annual periods. Early adoption is permitted, and entities are permitted to early adopt any removed or modified disclosures and delay adoption of the additional disclosures until the effective date. We believe that the adoption of this guidance will not have a material impact on our consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes*. This ASU simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. The ASU will be effective for annual reporting periods beginning after December 15, 2020 and interim periods within those annual periods and early adoption is permitted. We are still assessing the impact of ASU 2019-12 on our consolidated financial statements.

There are no other accounting standards that have been issued but not yet adopted that we believe could have a material impact on our consolidated financial statements.

3. DISCONTINUED OPERATIONS

In October 2016, we completed a strategic review of our international markets in connection with our efforts to optimize our global footprint and focus on the markets that we believe have the greatest potential to benefit our long-term financial performance. Based on that review, we decided to focus our business on 15 core countries and to pursue strategic alternatives for our operations in the remaining 12 countries, which were primarily based in Asia and Latin America. The dispositions of our operations in those 12 countries were completed between November 2016 and March 2017.

A business disposition that represents a strategic shift and has (or will have) a major effect on our operations and financial results is reported as a discontinued operation. We determined that the decision reached by management and our Board of Directors to exit those 12 non-core countries, which comprised a substantial majority of the operations outside of North America and EMEA (Europe, the Middle East and Africa), represented a strategic shift in our business. Additionally, based on our review of quantitative and qualitative factors relevant to the dispositions, we determined that the disposition of the businesses in those countries would have a major effect on our operations and financial results. As such, the results of operations and cash flows for the operations in those countries, including the gains and losses on the dispositions and related income tax effects, are presented as discontinued operations in the accompanying consolidated financial statements.

In connection with our strategic initiative to exit non-core countries as discussed above, we sold an 83% controlling stake in our subsidiary in Israel and sold our subsidiaries in Argentina, Chile, Colombia, Peru, Mexico, Brazil, Singapore and Hong Kong during the first quarter 2017. For the year ended December 31, 2017, we recognized a net pretax loss of \$1.6 million on those dispositions, which consisted of the following (in thousands):

	Year Ended December 31, 2017
Net consideration received:	
Fair value of minority investments retained or acquired	\$ 2,021
Cash proceeds received	3,462
Cash proceeds receivable	2,000
Less: Transaction costs	1,394
Total net consideration received	6,089
Cumulative translation gain reclassified to earnings	14,718
Less: Net book value upon closing of the transactions	14,958
Less: Indemnification liabilities ⁽¹⁾	5,365
Less: Unfavorable contract liability for transition services	2,114
Loss on dispositions	\$ (1,630)

(1) See Note 11, *Commitments and Contingencies*, for additional information about the indemnification liabilities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the major classes of line items included in income (loss) from discontinued operations, net of tax, for the years ended December 31, 2019 and 2017 (in thousands). There was no activity related to discontinued operations for the year ended December 31, 2018.

	Year Ended December 31,	
	2019	2017 ⁽¹⁾
Service revenue	\$ —	\$ 12,602
Product revenue	—	2,962
Service cost of revenue	—	(2,557)
Product cost of revenue	—	(3,098)
Marketing expense	—	(1,239)
Selling, general and administrative expense ⁽²⁾	2,597	(12,007)
Restructuring	—	(778)
Other income (expense), net	—	3,852
Income (loss) from discontinued operations before loss on dispositions and provision for income taxes	2,597	(263)
Loss on dispositions	—	(1,630)
Provision for income taxes	—	(81)
Income (loss) from discontinued operations, net of tax	\$ 2,597	\$ (1,974)

- (1) The loss from discontinued operations before loss on dispositions and provision for income taxes for the year ended December 31, 2017 includes the results of each business through its respective disposition date.
- (2) Selling, general and administrative expense from discontinued operations for the year ended December 31, 2019 primarily consists of a gain related to the expiration of certain contingent liabilities under indemnification agreements. Selling, general and administrative expense from discontinued operations for the year ended December 31, 2017 includes increases to contingent liabilities under indemnification agreements. See Note 11, *Commitments and Contingencies*, for additional information about the indemnification liabilities.

4. BUSINESS COMBINATIONS

On April 30, 2018, we acquired 80% of the outstanding shares of Cloud Savings Company, Ltd. ("Cloud Savings"), a UK-based business that operates online discount code and digital gift card platforms. The primary purpose of this acquisition was to expand digital coupon offerings in our International segment. The transaction included a contingent consideration arrangement with an acquisition-date fair value of \$1.6 million. In addition, concurrent with the acquisition, we entered into an agreement with the noncontrolling shareholder that gave us the right to acquire and the noncontrolling shareholder's right to put to us the remaining outstanding shares of Cloud Savings in December 2018. The acquisition-date fair value of the right and obligation to acquire the remaining outstanding shares of \$8.6 million was initially recorded as a financing obligation and classified within Accrued expenses and other current liabilities on the consolidated balance sheets. We paid \$8.4 million to exercise that right in December 2018. The aggregate acquisition-date fair value of the consideration transferred for the Cloud Savings acquisition totaled \$74.6 million, which consisted of the following (in thousands):

Cash	\$ 64,363
Financing obligation	8,604
Contingent consideration	1,589
Total	<u>\$ 74,556</u>

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

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

Cash and cash equivalents	\$ 6,244
Accounts receivable	5,885
Prepaid expenses and other current assets	804
Property, equipment and software	226
Goodwill	46,515
Intangible assets ⁽¹⁾ :	
Merchant relationships	20,322
Trade names	2,609
Developed technology	549
Other intangible assets	687
Total assets acquired	<u>\$ 83,841</u>
Accounts payable	\$ 693
Accrued merchant and supplier payables	386
Accrued expenses and other current liabilities	6,130
Other non-current liabilities	<u>2,076</u>
Total liabilities assumed	<u>\$ 9,285</u>
Total acquisition price	<u><u>\$ 74,556</u></u>

- (1) The estimated useful lives of the acquired intangible assets are 6 years for merchant relationships, 8 years for trade names, 2 years for developed technology, and 1 year for other intangible assets.

The results of the Cloud Savings acquisition are included in the consolidated financial statements beginning on the acquisition date of April 30, 2018. The revenue and net income of Cloud Savings included in our consolidated statements of operations were \$12.9 million and \$1.1 million for the period from April 30, 2018 through December 31, 2018. Pro forma results of operations for the Cloud Savings acquisition are not presented because the pro forma effects of that acquisition were not material to our consolidated results of operations.

In connection with the acquisition of Cloud Savings, we incurred \$0.7 million of external transaction costs, primarily consisting of legal and advisory fees. Those costs are classified within Selling, general and administrative on the consolidated statements of operations. We did not acquire any other businesses during the years ended December 31, 2019, 2018 and 2017.

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

5. PROPERTY, EQUIPMENT AND SOFTWARE, NET

The following summarizes property, equipment and software, net as of December 31, 2019 and 2018 (in thousands):

	December 31,	
	2019	2018
Warehouse equipment	\$ 5,144	\$ 5,265
Furniture and fixtures	9,113	9,677
Leasehold improvements	47,927	50,314
Office equipment	1,735	2,261
Purchased software	7,207	8,523
Computer hardware ⁽¹⁾	143,118	174,700
Internally-developed software ⁽²⁾	222,140	196,807
Total property, equipment and software, gross	436,384	447,547
Less: accumulated depreciation and amortization	(311,434)	(304,430)
Property, equipment and software, net	\$ 124,950	\$ 143,117

(1) Includes computer hardware acquired under finance leases of \$78.5 million and \$120.5 million as of December 31, 2019 and 2018.

(2) The net carrying amount of internally-developed software was \$71.1 million and \$70.9 million as of December 31, 2019 and 2018.

Depreciation and amortization expense on property, equipment and software is classified as follows in the accompanying consolidated statements of operations for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Service cost of revenue	\$ 28,917	\$ 28,102	\$ 26,738
Product cost of revenue	6,466	8,467	9,900
Selling, general and administrative	56,027	64,761	78,157
Total	\$ 91,410	\$ 101,330	\$ 114,795

The above amounts include amortization of internally-developed software of \$56.6 million, \$53.9 million and \$57.0 million, and amortization expense on assets under finance leases of \$18.9 million, \$30.2 million and \$35.2 million, for the years ended December 31, 2019, 2018 and 2017.

6. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table summarizes goodwill activity by segment for the years ended December 31, 2019 and 2018 (in thousands):

	North America	International	Consolidated
Balance as of December 31, 2017	\$ 178,685	\$ 108,304	\$ 286,989
Goodwill related to acquisition	—	46,515	46,515
Foreign currency translation	—	(8,013)	(8,013)
Balance as of December 31, 2018	\$ 178,685	\$ 146,806	\$ 325,491
Foreign currency translation	—	(474)	(474)
Balance as of December 31, 2019	\$ 178,685	\$ 146,332	\$ 325,017

There was no goodwill impairment for the years ended December 31, 2019, 2018 and 2017.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes intangible assets as of December 31, 2019 and 2018 (in thousands):

	December 31, 2019			December 31, 2018		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Customer relationships	\$ 16,200	\$ 16,200	\$ —	\$ 16,200	\$ 11,700	\$ 4,500
Merchant relationships	22,193	8,268	13,925	21,554	4,105	17,449
Trade names	9,558	7,369	2,189	9,476	6,799	2,677
Developed technology	3,651	2,685	966	13,825	13,485	340
Patents	23,021	18,167	4,854	20,508	16,451	4,057
Other intangible assets	26,115	12,757	13,358	26,007	9,629	16,378
Total	<u>\$ 100,738</u>	<u>\$ 65,446</u>	<u>\$ 35,292</u>	<u>\$ 107,570</u>	<u>\$ 62,169</u>	<u>\$ 45,401</u>

Amortization of intangible assets is computed using the straight-line method over their estimated useful lives, which range from 1 to 10 years. Amortization expense from continuing operations related to intangible assets was \$14.4 million, \$14.5 million and \$23.0 million for the years ended December 31, 2019, 2018 and 2017. As of December 31, 2019, our estimated future amortization expense related to intangible assets is as follows (in thousands):

2020	\$ 8,791
2021	7,692
2022	7,118
2023	5,956
2024	2,316
Thereafter	3,419
Total	<u>\$ 35,292</u>

Sale of Intangible Assets

In 2017, we sold customer lists and other intangible assets in certain food delivery markets to a subsidiary of Grubhub Inc. ("Grubhub"). We recognized a pretax gain on the sale of assets of \$17.1 million, which represents the excess of the \$19.8 million in net proceeds received, consisting of \$20.0 million in cash less \$0.2 million in transaction costs, over the \$2.7 million net book value of the assets upon closing of the transaction. See Note 15, *Restructuring*, for additional information.

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

7. INVESTMENTS

The following table summarizes investments as of December 31, 2019 and 2018 (dollars in thousands):

	December 31, 2019	Percent Ownership of Voting Stock	December 31, 2018	Percent Ownership of Voting Stock
Available-for-sale securities - redeemable preferred shares	\$ —	19% to 25%	\$ 10,340	19% to 25%
Fair value option investments	1,405	10% to 19%	73,902	10% to 19%
Other equity investments	75,171	1% to 19%	24,273	1% to 19%
Total investments	<u>\$ 76,576</u>		<u>\$ 108,515</u>	

Available-for-Sale Securities

The following table summarizes amortized cost, gross unrealized gain (loss) and fair value of redeemable preferred shares as of December 31, 2019 and 2018 (in thousands):

	December 31, 2019	2018
Amortized cost	\$ —	\$ 9,961
Gross unrealized gain (loss) in Accumulated other comprehensive income (loss)	—	379
Fair value	<u>\$ —</u>	<u>\$ 10,340</u>

We recorded \$10.0 million, \$5.6 million and \$2.9 million of impairments of available-for-sale securities for the years ended December 31, 2019, 2018 and 2017 due to declines in the financial performance of the investee. Those impairments are classified within Other income (expense), net on the consolidated statements of operations.

In September 2018, we sold an available-for-sale security for total consideration of \$8.6 million, which approximated its carrying amount and amortized cost as of the closing date.

Fair Value Option Investments

In connection with the dispositions of controlling stakes in Ticket Monster, an entity based in the Republic of Korea, and Groupon India in prior periods, we obtained minority investments in Monster Holdings LP ("Monster LP") and in Nearbuy Pte Ltd. ("Nearbuy"). We have made an irrevocable election to account for both of those investments at fair value with changes in fair value reported in earnings. We elected to apply fair value accounting to those investments because we believe that fair value is the most relevant measurement attribute for those investments, as well as to reduce operational and accounting complexity. Our election to apply fair value accounting to those investments has and may continue to cause fluctuations in our earnings from period to period.

We determined that the fair value of our investments in Monster LP and Nearbuy was \$0.0 million and \$1.4 million as of December 31, 2019, and \$69.4 million and \$4.5 million as of December 31, 2018. The following table summarizes gains and losses due to changes in fair value of those investments for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	Year Ended December 31, 2019	2018	2017
Monster LP	\$ (69,408)	\$ (9,509)	\$ 249
Nearbuy	(3,089)	445	133
Total	<u>\$ (72,497)</u>	<u>\$ (9,064)</u>	<u>\$ 382</u>

Monster LP

In 2015, we completed the sale of a controlling stake in Ticket Monster to an investor group, whereby we contributed all of the issued and outstanding share capital of Ticket Monster to Monster LP in exchange for Class B units of Monster LP, a newly-formed limited partnership, and \$285.0 million in cash consideration. In February 2017, we participated in a recapitalization transaction with Monster LP whereby it exchanged all of its Class B units for

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

16,609,195 newly issued Class A-1 units. Upon closing of the transaction, we own 57% of the outstanding Class A-1 units, which represents 9% of the total outstanding partnership units.

Following the February 2017 recapitalization transaction, the Class A-1 units are entitled to an \$150.0 million liquidation preference, including an \$85.0 million liquidation preference attributable to the Class A-1 units held by us, which must be paid prior to any distributions to the holders of the Class A-2, Class B and Class C units. Class A-1 unit holders are also entitled to share in distributions between \$950.0 million and \$1,494.0 million in accordance with the terms of Monster LP's distribution waterfall and in distributions in excess of \$1,494.0 million based on their pro rata ownership of total outstanding partnership units. As a result of the February 2017 recapitalization transaction, we currently hold an investment in the most senior equity units in Monster LP's capital structure. However, while providing more downside protection, those Class A-1 units provide less opportunity for appreciation than the Class B units previously held by us.

During the first quarter of 2019, we recognized a \$41.5 million loss from changes in the fair value of our investment in Monster LP due to the revised cash flow projections provided by TMON in March 2019 and an increase in the discount rate applied to those forecasts, which increased to 26.0% as of March 31, 2019, as compared with 21.0% as of December 31, 2018. The increase in the discount rate applied as of March 31, 2019 was due to the deterioration in the financial condition of TMON and the competitive environment in the Korean e-commerce industry, which resulted in an increase to financial projection risk. During the second quarter of 2019, we recognized an additional loss of \$27.9 million from changes in the fair value of our investment in Monster LP due to revised financial projections provided by TMON in June 2019. The revisions to the financial projections were made as a result of TMON's continued underperformance as compared with prior projections along with adjustments to their business model.

The following tables summarize the condensed financial information for Monster LP as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Revenue	\$ 569,869	\$ 416,042	\$ 280,612
Gross profit	43,416	27,838	37,773
Loss before income taxes	(105,212)	(132,276)	(124,873)
Net loss	(105,212)	(132,276)	(124,873)

	December 31,	
	2019	2018
Current assets	\$ 73,598	\$ 85,844
Non-current assets	436,809	482,505
Current liabilities	430,592	432,133
Non-current liabilities	150,118	78,434

Nearbuy

In 2015, Groupon India completed an equity financing transaction with a third-party investor that obtained a majority voting interest in the entity, whereby (a) the investor contributed \$17.0 million in cash to Nearbuy, a newly formed Singapore-based entity, in exchange for Series A Preference Shares and (b) we contributed the shares of Groupon India to Nearbuy in exchange for seed preference shares of Nearbuy. In January 2017, Nearbuy issued additional Series A Preference Shares to its controlling investor for total proceeds of \$3.0 million. Upon closing of that transaction, the Series A Preference Shares are entitled to a \$20.0 million liquidation preference, which must be paid prior to any distributions to other equity holders. In December 2017, Nearbuy sold its subsidiary Nearbuy India Pte Ltd., which represented substantially all of its business operations, to a third-party investor in exchange for a minority investment in the acquirer. During the fourth quarter of 2019, we recognized a \$3.1 million loss from changes in the fair value of our investment in Nearbuy due to the revised cash flow projections provided in December 2019.

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

The following tables summarize the condensed financial information for Nearbuy as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Revenue	\$ 5,507	\$ 6,016	\$ 3,839
Gross profit	4,944	5,857	3,405
Income (loss) before income taxes ⁽¹⁾	(1,777)	(13,594)	15,122
Net income (loss) ⁽¹⁾	(1,777)	(13,594)	15,122

	December 31,	
	2019	2018
Current assets	\$ 3,611	\$ 5,286
Non-current assets	40,083	46,940
Current liabilities	4,966	4,015
Non-current liabilities	1,268	144

(1) Nearbuy's income before income taxes and net income for the year ended December 31, 2017 includes a \$22.6 million gain from the sale of its subsidiary Nearbuy India Pte Ltd.

Other Equity Investments

Other equity investments represent equity investments without readily determinable fair values. Upon our adoption of ASU 2016-01 on January 1, 2018, we have elected to record equity investments without readily determinable fair values at cost adjusted for observable price changes and impairments.

The following table summarizes other equity investment activity for the years ended December 31, 2019 and 2018 (in thousands):

Balance as of December 31, 2017	\$	25,438
Transfer to other equity investment upon conversion of convertible debt security		4,008
Impairment of investment included in earnings		(4,574)
Foreign currency translation		(599)
Balance as of December 31, 2018	\$	24,273
Upward adjustments for observable price changes		51,397
Dispositions		(640)
Foreign currency translation		141
Balance as of December 31, 2019	\$	75,171

We adjusted the carrying value of an other equity investment due to observable price changes in orderly transactions that occurred during the fourth quarter of 2019, which resulted in an unrealized gain of \$51.4 million. That gain is included within Other income (expense), net on the consolidated statements of operations for the year ended December 31, 2019. During the fourth quarter of 2019, we also identified buyers for 50% of our shares in that investment for an agreed-upon purchase price of \$34.0 million which approximated the cost adjusted for observable price changes as of December 31, 2019. Refer to Note 23, *Subsequent Events*, for additional information on the closing of that sale in January 2020.

In July 2017, we sold an other equity investment for total cash consideration of \$16.0 million. We recognized a pretax gain on the disposition of \$7.6 million, which is classified within Other income (expense), net on the consolidated statement of operations.

In March 2017, in connection with the disposition of Groupon Israel, we retained a minority investment in the entity. The investment was recorded at its \$0.4 million fair value at initial recognition and is accounted for as an other equity investment.

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

8. SUPPLEMENTAL CONSOLIDATED BALANCE SHEETS AND STATEMENTS OF OPERATIONS INFORMATION

The following table summarizes other income (expense), net for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Interest income	\$ 7,744	\$ 6,420	\$ 3,287
Interest expense	(23,593)	(21,909)	(20,680)
Changes in fair value of investments	(72,497)	(9,064)	382
Gain (loss) on sale of investment	(412)	—	7,624
Foreign currency gains (losses), net	(5,960)	(20,325)	18,634
Impairments of investments	(9,961)	(10,156)	(2,944)
Upward adjustment for observable price change of investment	51,397	—	—
Other	(47)	2,026	407
Other income (expense), net	<u>\$ (53,329)</u>	<u>\$ (53,008)</u>	<u>\$ 6,710</u>

The following table summarizes prepaid expenses and other current assets as of December 31, 2019 and 2018 (in thousands):

	December 31,	
	2019	2018
Merchandise inventories	\$ 25,426	\$ 33,739
Prepaid expenses	27,077	28,209
Income taxes receivable	4,791	6,717
Other	24,779	19,450
Total prepaid expenses and other current assets	<u>\$ 82,073</u>	<u>\$ 88,115</u>

The following table summarizes accrued merchant and supplier payables as of December 31, 2019 and 2018 (in thousands):

	December 31,	
	2019	2018
Accrued merchant payables	\$ 366,573	\$ 371,279
Accrued supplier payables ⁽¹⁾	174,367	280,502
Total accrued merchant and supplier payables	<u>\$ 540,940</u>	<u>\$ 651,781</u>

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

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

The following table summarizes accrued expenses and other current liabilities as of December 31, 2019 and 2018 (in thousands):

	December 31,	
	2019	2018
Refund reserve	\$ 22,002	\$ 27,957
Compensation and benefits	49,009	56,173
Accrued marketing	41,110	39,094
Customer credits	13,764	15,118
Income taxes payable	5,044	8,987
Deferred revenue	17,951	25,452
Current portion of lease obligations ⁽¹⁾	40,768	17,207
Other	70,544	77,046
Total accrued expenses and other current liabilities	<u>\$ 260,192</u>	<u>\$ 267,034</u>

- (1) Current portion of lease obligations as of December 31, 2019 includes \$25.0 million of additional lease obligations that were recognized on January 1, 2019 as a result of the adoption of Topic 842. Refer to Note 10, *Leases*, for additional information.

The following table summarizes other non-current liabilities as of December 31, 2019 and 2018 (in thousands):

	December 31,	
	2019	2018
Contingent income tax liabilities	\$ 30,121	\$ 39,858
Deferred rent ⁽¹⁾	—	32,186
Finance lease obligations	5,831	12,481
Deferred income taxes	3,903	6,619
Other	5,132	9,544
Total other non-current liabilities	<u>\$ 44,987</u>	<u>\$ 100,688</u>

- (1) Non-current operating lease liabilities as of December 31, 2019 are included within Operating lease obligations on the consolidated balance sheet as a result of the adoption of Topic 842 on January 1, 2019. Refer to Note 10, *Leases*, for additional information.

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

The following table summarizes the activity for accumulated other comprehensive income (loss), net of tax, for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	Foreign currency translation adjustments	Unrealized gain (loss) on available-for- sale securities	Pension adjustments	Total
Balance as of December 31, 2016	\$ 58,249	\$ 388	\$ (585)	\$ 58,052
Other comprehensive income (loss) before reclassification adjustments	(12,382)	(1,109)	—	(13,491)
Reclassification adjustments included in net income (loss)	(14,905)	1,603	585	(12,717)
Other comprehensive income (loss)	(27,287)	494	585	(26,208)
Balance as of December 31, 2017	30,962	882	—	31,844
Other comprehensive income (loss) before reclassification adjustments	3,332	(841)	—	2,491
Reclassification adjustments included in net income (loss)	—	106	—	106
Other comprehensive income (loss)	3,332	(735)	—	2,597
Reclassification for impact of U.S. tax rate change	—	161	—	161
Balance as of December 31, 2018	34,294	308	—	34,602
Other comprehensive income (loss) before reclassification adjustments	4,858	(379)	—	4,479
Reclassification adjustments included in net income (loss)	—	—	—	—
Other comprehensive income (loss)	4,858	(379)	—	4,479
Balance as of December 31, 2019	\$ 39,152	\$ (71)	\$ —	\$ 39,081

The effects of amounts reclassified from accumulated other comprehensive income (loss) to net income (loss) for the years ended December 31, 2019, 2018 and 2017 are presented within the following line items in the consolidated statements of operations (in thousands):

	Year Ended December 31,			Consolidated Statements of Operations Line Item
	2019	2018	2017	
Foreign currency translation adjustments				
Loss (gain) on country exits - continuing operations	\$ —	\$ —	\$ (187)	Other income (expense), net
Loss (gain) on dispositions - discontinued operations	—	—	(14,718)	Income (loss) from discontinued operations, net of tax
Reclassification adjustments	—	—	(14,905)	
Unrealized gain (loss) on available-for-sale securities				
Other-than-temporary impairment of available-for-sale security	—	—	2,944	Other income (expense), net
Realized (gain) loss on investment	—	106	(1,341)	Other income (expense), net
Reclassification adjustment	—	106	1,603	
Pension adjustments				
Curtailment gain	—	—	583	Selling, general and administrative
Amortization of net actuarial loss (gain)	—	—	2	Selling, general and administrative
Reclassification adjustment	—	—	585	
Total reclassification adjustments	\$ —	\$ 106	\$ (12,717)	

9. FINANCING ARRANGEMENTS

Convertible Senior Notes

On April 4, 2016, we issued \$250.0 million in aggregate principal amount of convertible senior notes (the "Notes") in a private placement to A-G Holdings, L.P. ("AGH"). Michael Angelakis, the chairman and chief executive officer of Atairos Group, Inc. ("Atairos"), joined our Board of Directors (the "Board") in connection with the issuance of the Notes. Atairos controls the voting power of AGH. 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 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, we can elect to settle the conversion value in cash, shares of our common stock, or any combination of cash and shares of our 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, we 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"). Based on the closing price of the common stock of \$2.39 as of December 31, 2019, the if-converted value of the Notes was less than the principal amount.

With certain exceptions, upon a fundamental change (as defined in the Indenture), the holders of the Notes may require us 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, we may redeem the Notes, at our 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 exercise of this redemption right.

The Notes are senior unsecured obligations that rank equal in right of payment to all senior unsecured indebtedness 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.

We have separated the Notes into their liability and equity components in the accompanying consolidated balance sheets. 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 consolidated balance sheets and is not remeasured as long as it continues to meet the conditions for equity classification.

We incurred transaction costs of approximately \$6.8 million related to the issuance of the Notes. Those transaction costs were 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 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.

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

The carrying amount of the Notes consisted of the following as of December 31, 2019 and 2018 (in thousands):

	December 31,	
	2019	2018
Liability component:		
Principal amount	\$ 250,000	\$ 250,000
Less: debt discount	(35,131)	(48,331)
Net carrying amount of liability component	<u>\$ 214,869</u>	<u>\$ 201,669</u>
Net carrying amount of equity component	<u>\$ 67,014</u>	<u>\$ 67,014</u>

The estimated fair value of the Notes as of December 31, 2019 and 2018 was \$262.7 million and \$257.1 million, and was determined using a lattice model. We 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 our stock price volatility over the term of the Notes and our cost of debt.

As of December 31, 2019, the remaining term of the Notes is approximately 2 years and 3 months. During the years ended December 31, 2019, 2018 and 2017, we recognized interest costs on the Notes as follows (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Contractual interest (3.25% of the principal amount per annum)	\$ 8,128	\$ 8,128	\$ 8,128
Amortization of debt discount	13,200	11,916	10,758
Total	<u>\$ 21,328</u>	<u>\$ 20,044</u>	<u>\$ 18,886</u>

Note Hedges and Warrants

In May 2016, we purchased convertible note hedges with respect to our common stock for a cost of \$59.1 million from certain bank counterparties. The convertible note hedges provide us with the right to purchase up to 46.3 million shares of our 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 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.

In May 2016, we 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 our 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 were recorded in additional paid-in capital in the consolidated balance sheets as of December 31, 2019 and 2018. 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 our common stock exceeds the conversion price. Taken together, the purchase of the convertible note hedges and

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

sale of warrants are intended to offset any actual dilution from the conversion of the Notes and to effectively increase the overall conversion price from \$5.40 to \$8.50 per share.

Revolving Credit Agreement

In May 2019, we entered into a second amended and restated senior secured revolving credit agreement (the "2019 Credit Agreement") which provides for aggregate principal borrowings of up to \$400.0 million and matures in May 2024. The 2019 Credit Agreement replaced our previous \$250.0 million amended and restated credit agreement (the "2016 Credit Agreement"). We deferred debt issuance costs of \$2.4 million related to the 2019 Credit Agreement. Those deferred costs are included within Other non-current assets on the consolidated balance sheet as of December 31, 2019 and will be amortized to interest expense over the term of the agreement.

Borrowings under the 2019 Credit Agreement bear interest, at our option, at a rate per annum equal to (a) an adjusted LIBO rate or (b) a customary base rate (with loans denominated in certain currencies bearing interest at rates specific to such currencies) plus an additional margin ranging between 0.50% and 2.00%. We are required to pay quarterly commitment fees ranging from 0.25% to 0.35% per annum of the average daily amount of unused commitments available under the 2019 Credit Agreement. The 2019 Credit Agreement also provides for the issuance of up to \$75.0 million in letters of credit, provided that the sum of outstanding borrowings and letters of credit do not exceed the maximum funding commitment of \$400.0 million.

The 2019 Credit Agreement is secured by substantially all of our tangible and intangible assets, including a pledge of 100% of the outstanding capital stock of substantially all of our 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 our domestic subsidiaries are guarantors under the 2019 Credit Agreement.

The 2019 Credit Agreement contains various customary restrictive covenants that limit our ability to, among other things: incur additional indebtedness; make dividend and other restricted payments, including limiting the amount of our share repurchases; enter into sale and 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 2019 Credit Agreement requires us to maintain compliance with specified financial covenants, comprised of a minimum fixed charge coverage ratio, a maximum leverage ratio, a maximum senior secured leverage ratio and a minimum liquidity ratio, each as set forth in the 2019 Credit Agreement. We are also required to maintain, as of the last day of each fiscal quarter, unrestricted cash of at least \$250.0 million, including \$125.0 million in accounts held with lenders under the 2019 Credit Agreement or their affiliates. Non-compliance with these covenants may result in termination of the commitments under the 2019 Credit Agreement and any then outstanding borrowings may be declared due and payable immediately. We have the right to terminate the 2019 Credit Agreement or reduce the available commitments at any time.

As of December 31, 2019 and 2018, we had no borrowings outstanding under the respective credit agreements. As of December 31, 2019 and 2018, we had outstanding letters of credit of \$18.1 million and \$19.2 million under the 2019 Credit Agreement and 2016 Credit Agreement, respectively.

10. LEASES

Adoption of ASC Topic 842, *Leases*

On January 1, 2019, we adopted ASC Topic 842 using the modified retrospective transition method. Topic 842 requires the recognition of lease assets and liabilities for operating leases, in addition to the finance lease assets and liabilities previously recorded on our consolidated balance sheets. Beginning on January 1, 2019, our consolidated financial statements are presented in accordance with the revised policies, while prior period amounts are not adjusted and continue to be reported in accordance with our historical policies. The modified retrospective transition method required the cumulative effect, if any, of initially applying the guidance to be recognized as an adjustment to our accumulated deficit as of our adoption date. As a result of adopting Topic 842, we recognized additional lease assets and liabilities of \$109.6 million as of January 1, 2019. The discount rate used to calculate that adjustment was the rate implicit in the lease, unless that rate was not readily determinable. For leases for which the rate was not readily determinable, the discount rate used was our incremental borrowing rate as of the adoption date, January 1, 2019. There was no cumulative effect adjustment to our accumulated deficit as a result of initially applying the guidance. Aside from the impact to our consolidated balance sheet discussed above, lease accounting policies and presentation within the consolidated statement of operations and consolidated statements of cash flows is substantially consistent with historical treatment.

We elected the package of practical expedients permitted under the transition guidance within Topic 842, which allowed us to carry forward prior conclusions about lease identification, classification and initial direct costs for leases entered into prior to adoption of Topic 842. Additionally, we elected to not separate lease and non-lease components for all of our leases. For leases with a term of 12 months or less, we elected the short-term lease exemption, which allowed us to not recognize right-of-use assets or lease liabilities for qualifying leases existing at transition and new leases we may enter into in the future.

General Description of Leases

We have entered into various non-cancelable operating lease agreements for our offices and data centers and non-cancelable finance lease agreements for property and equipment. We classify leases at their commencement as either operating or finance leases. We may receive renewal or expansion options, rent holidays, leasehold improvements or other incentives on certain lease agreements.

Our operating leases primarily consist of leases for real estate throughout the world with lease expirations between 2020 and 2026. These arrangements typically do not transfer ownership of the underlying asset as we do not assume, nor do we intend to assume, the risks and rewards of ownership. Our finance leases are related to purchases of property and equipment, primarily computer hardware, with expirations between 2020 and 2023. We have also subleased certain office facilities under operating lease agreements, with expirations between 2023 and 2026.

We lease our headquarters located in Chicago, Illinois ("600 West Chicago"). Our lease agreement for 600 West Chicago extends through January 31, 2026 and includes rent escalations that range from one to two percent per year, as well as expansion options and a five-year renewal option. The 600 West Chicago lease represents \$79.4 million of the estimated future payments under operating leases shown in the table below. We account for the 600 West Chicago lease as an operating lease and recognize rent expense on a straight-line basis, taking into account rent escalations and lease incentives.

For more information about our lease accounting policies, including lease recognition policy and significant assumptions and judgments used, refer to Note 2, *Summary of Significant Accounting Policies*.

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

The following summarizes right-of-use assets as of December 31, 2019 (in thousands):

	December 31, 2019
Right-of-use assets - operating leases	\$ 133,832
Right-of-use assets - finance leases ⁽¹⁾	28,193
Total right-of-use assets, gross	162,025
Less: accumulated depreciation and amortization	(36,380)
Right-of-use assets, net	<u>\$ 125,645</u>

(1) Right-of-use assets for finance leases are included in Property, equipment and software, net on the consolidated balance sheet.

The following table summarizes our lease cost and sublease income for the year ended December 31, 2019 (in thousands):

	Year Ended December 31, 2019
Financing lease cost:	
Amortization of right-of-use assets	\$ 18,922
Interest on lease liabilities	1,021
Total finance lease cost	19,943
Operating lease cost ⁽¹⁾	34,397
Variable lease cost	8,551
Short-term lease cost	365
Sublease income, gross ⁽²⁾	(5,045)
Total lease cost	<u>\$ 58,211</u>

(1) Rent expense under operating leases was \$40.1 million and \$42.5 million for the years ended December 31, 2018 and 2017.

(2) Sublease income was \$6.5 million and \$7.1 million for the years ended December 31, 2018 and 2017.

As of December 31, 2019, the future payments under finance leases and operating leases for each of the next five years and thereafter are as follows (in thousands):

	Finance Leases	Operating Leases
2020	\$ 8,510	\$ 39,261
2021	5,264	34,457
2022	715	32,546
2023	12	24,126
2024	—	17,117
Thereafter	—	16,242
Total minimum lease payments	14,501	163,749
Less: Amount representing interest	(658)	(20,699)
Present value of net minimum lease payments	13,843	143,050
Less: Current portion of lease obligations	(8,012)	(32,756)
Total long-term lease obligations	<u>\$ 5,831</u>	<u>\$ 110,294</u>

As of December 31, 2019, we also had \$12.3 million of non-cancelable operating lease commitments for offices that have not yet commenced. These operating leases will commence in 2020 with lease terms of 3 years to 5 years.

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

As of December 31, 2018, the future payments under lease agreements in accordance with our historical accounting policies under Topic 840 were as follows (in thousands):

	Capital Leases	Operating Leases
2019	\$ 18,169	\$ 32,533
2020	7,634	31,116
2021	4,784	26,876
2022	687	26,097
2023	—	21,944
Thereafter	—	31,633
Total minimum lease payments	31,274	\$ 170,199
Less: Amount representing interest	(1,586)	
Present value of net minimum capital lease payments	29,688	
Less: Current portion of capital lease obligations	(17,207)	
Total long-term capital lease obligations	\$ 12,481	

As of December 31, 2019, the future amounts due under subleases for each of the next five years and thereafter are as follows (in thousands):

	Subleases
2020	\$ 5,027
2021	5,065
2022	5,103
2023	4,385
2024	2,333
Thereafter	2,559
Total future sublease income	\$ 24,472

The discount rate used for our lease obligations as of both December 31, 2019 and January 1, 2019 ranged from 1.5% to 6.9%. As of December 31, 2019, the weighted-average remaining lease term and weighted-average discount rate for our finance leases and operating leases was as follows:

	Finance Leases	Operating Leases
Weighted-average lease term	2 years	5 years
Weighted-average discount rate	5.2%	5.6%

The following table summarizes supplemental cash flow information on our leasing obligations for the year ended December 31, 2019 (in thousands):

	Year Ended December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from finance leases	\$ (1,021)
Operating cash flows from operating leases	(36,723)
Financing cash flows from finance leases	(19,687)
Right-of-use assets obtained in exchange for lease liabilities:	
Finance leases	3,929
Operating leases	27,293

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

11. COMMITMENTS AND CONTINGENCIES

Purchase Obligations

We have entered into non-cancelable arrangements with third-parties, primarily related to cloud computing and other information technology services. As of December 31, 2019, future payments under these contractual obligations were as follows (in thousands):

2020	\$	10,675
2021		4,671
2022		4,123
2023		61
2024		20
Thereafter		—
Total purchase obligations	\$	<u>19,550</u>

Legal Matters and Other Contingencies

From time to time, we are party to various legal proceedings incident to the operation of our business. For example, we currently are involved in proceedings brought by former employees and merchants, intellectual property infringement suits, customer lawsuits, consumer class actions and suits alleging, among other things, violations of state consumer protection or privacy laws.

In addition, third parties have from time to time claimed, and others may claim in the future, that we have infringed their intellectual property rights. We are subject to intellectual property disputes, including patent infringement claims, and expect that we will continue to be subject to intellectual property infringement claims as our services expand in scope and complexity. In the past, we have litigated such claims, and we are presently involved in several patent infringement and other intellectual property-related claims, including pending litigation or trademark disputes relating to, for example, our Goods category, some of which could involve potentially substantial claims for damages or injunctive relief. We may also become more vulnerable to third-party claims as laws such as the Digital Millennium Copyright Act are interpreted by the courts, and we become subject to laws in jurisdictions where the underlying laws with respect to the potential liability of online intermediaries are either unclear or less favorable. We believe that additional lawsuits alleging that we have violated patent, copyright or trademark laws will be filed against us. Intellectual property claims, whether meritorious or not, are time consuming and often costly to resolve, could require expensive changes in our methods of doing business or the goods we sell, or could require us to enter into costly royalty or licensing agreements.

We also are subject to consumer claims or lawsuits relating to alleged violations of consumer protection or privacy rights and statutes, some of which could involve potentially substantial claims for damages, including statutory or punitive damages. Consumer and privacy related claims or lawsuits, whether meritorious or not, could be time consuming, result in costly litigation, damage awards, fines and penalties, injunctive relief or increased costs of doing business through adverse judgment or settlement, or require us to change our business practices, sometimes in expensive ways.

We are also subject to, or in the future may become subject to, a variety of regulatory inquiries, audits, and investigations across the jurisdictions where we conduct our 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 us, whether meritorious or not, could be time consuming, result in costly litigation, damage awards, fines and penalties, injunctive relief or increased costs of doing business through adverse judgment or settlement, require us to change our business practices in expensive ways, require significant amounts of management time, result in the diversion of significant operational resources or otherwise harm our business.

We establish an accrued liability for loss contingencies related to legal and regulatory matters when the loss is both probable and reasonably estimable. Those 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, we believe

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

that the amount of reasonably possible losses in excess of the amounts accrued for those matters would not have a material adverse effect on our business, consolidated financial position, results of operations or cash flows. Our 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 and other regulatory matters can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Indemnifications

In connection with the disposition of our operations in Latin America in the first quarter of 2017 (see Note 3, *Discontinued Operations*), we recorded \$5.4 million in indemnification liabilities for certain tax and other matters upon the closing of the transactions as an adjustment to the net loss on the dispositions within discontinued operations at their fair value. We estimated the indemnification liabilities using a probability-weighted expected cash flow approach. In 2019, we decreased our indemnification liabilities due to the expiration of certain indemnification obligations. The resulting benefit of \$2.2 million is recorded within Income (loss) from discontinued operations on the consolidated statement of operations for the year ended December 31, 2019. Our remaining indemnification liabilities were \$3.2 million as of December 31, 2019. We estimate that the total amount of obligations that are reasonably possible to arise under the indemnifications in excess of amounts accrued as of December 31, 2019 is approximately \$13.3 million.

In the normal course of business to facilitate transactions related to our operations, we indemnify certain parties, including employees, lessors, service providers, merchants, and counterparties to investment agreements and asset and stock purchase agreements with respect to various matters. We have 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. We are also subject to increased exposure to various claims as a result of our divestitures and acquisitions, particularly in cases where we are entering into new businesses in connection with such acquisitions. We may also become more vulnerable to claims as we expand the range and scope of our services and are subject to laws in jurisdictions where the underlying laws with respect to potential liability are either unclear or less favorable. In addition, we have entered into indemnification agreements with our officers, directors and underwriters, and our bylaws contain similar indemnification obligations that cover officers, directors, employees and other agents.

Except as noted above, 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 we have made under these agreements have not had a material impact on our operating results, financial position or cash flows.

12. STOCKHOLDERS' EQUITY

Preferred Stock

Our Board of Directors has the authority, without approval by the stockholders, to issue up to a total of 50,000,000 shares of preferred stock in one or more series. The Board may establish the number of shares to be included in each such series and may fix the designations, preferences, powers and other rights of the shares of a series of preferred stock. The Board could authorize the issuance of preferred stock with voting or conversion rights that could dilute the voting power or rights of the holders of our common stock. As of December 31, 2019 and 2018, there were no shares of preferred stock outstanding.

Common Stock

Pursuant to our restated certificate of incorporation, the Board has the authority to issue up to a total of 2,010,000,000 shares of common stock. Each holder of common stock is entitled to one vote per share on any matter that is submitted to a vote of stockholders. In addition, holders of our common stock will vote as a single class of stock on any matter that is submitted to a vote of stockholders.

Share Repurchase Program

In May 2018, the Board authorized us to repurchase up to \$300.0 million of our common stock under our share repurchase program. During the year ended December 31, 2019, we repurchased 14,027,227 shares for an aggregate

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

purchase price of \$45.2 million (including fees and commissions) under our repurchase program. As of December 31, 2019, up to \$245.0 million of common stock remained available for purchase under our program. The timing and amount of share repurchases, if any, will be determined based on market conditions, limitations under the 2019 Credit Agreement, share price and other factors, and the share repurchase program may be terminated at any time.

13. COMPENSATION ARRANGEMENTS

Groupon, Inc. Stock Plans

In January 2008, we adopted the 2008 Stock Option Plan, as amended (the "2008 Plan"), under which options for up to 64,618,500 shares of common stock were authorized to be issued to employees, consultants and directors. The 2008 Plan was frozen in December 2010. In April 2010, we established the Groupon, Inc. 2010 Stock Plan, as amended in April 2011 (the "2010 Plan"), under which options and restricted stock units ("RSUs") for up to 20,000,000 shares of common stock were authorized for future issuance to employees, consultants and directors. No new awards may be granted under the 2010 Plan following our initial public offering in November 2011. In August 2011, we established the Groupon, Inc. 2011 Stock Plan (the "2011 Plan"), as amended in November 2013, May 2014, June 2016 and April 2019, under which options, RSUs and performance stock units for up to 187,500,000 shares of common stock were authorized for future issuance to employees, consultants and directors.

The Groupon, Inc. Stock Plans described above (the "Plans") are administered by the Compensation Committee of the Board (the "Compensation Committee"). As of December 31, 2019, 71,617,500 shares of common stock were available for future issuance under the Plans.

The stock-based compensation expense related to stock awards issued under the Plans and acquisition-related awards are presented within the following line items of the consolidated statements of operations for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Cost of revenue	\$ 1,482	\$ 1,485	\$ 2,658
Marketing	5,809	6,948	7,949
Selling, general and administrative	74,324	56,288	70,343
Restructuring charges	—	—	849
Other income (expense), net	—	100	245
Total stock-based compensation expense	<u>\$ 81,615</u>	<u>\$ 64,821</u>	<u>\$ 82,044</u>

We capitalized \$7.1 million, \$7.4 million and \$6.2 million of stock-based compensation for the years ended December 31, 2019, 2018 and 2017, in connection with internally-developed software and cloud computing arrangements. We recognized stock-based compensation from discontinued operations of \$0.2 million for the year ended December 31, 2017.

Employee Stock Purchase Plan

The Groupon, Inc. 2012 Employee Stock Purchase Plan, as amended, authorizes us to grant up to 20,000,000 shares of common stock under that plan. For the years ended December 31, 2019, 2018 and 2017, 1,486,006, 1,621,061 and 1,879,656 shares of common stock were issued under the ESPP.

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

Restricted Stock Units

The restricted stock units granted under the Plans generally have vesting periods between one and four years and are amortized on a straight-line basis over their requisite service period.

The table below summarizes restricted stock unit activity under the Plans for the year ended December 31, 2019:

	Restricted Stock Units	Weighted- Average Grant Date Fair Value (per share)
Unvested at December 31, 2018	\$ 26,623,432	\$ 4.47
Granted	28,922,775	3.44
Vested	(13,641,439)	4.23
Forfeited	(11,364,476)	4.10
Unvested at December 31, 2019	<u>\$ 30,540,292</u>	<u>\$ 3.74</u>

The weighted-average grant date fair value of restricted stock units granted in 2018 and 2017 was \$4.59 and \$4.10. The fair value of restricted stock units that vested during each of the three years ended December 31, 2019, 2018 and 2017 was \$43.8 million, \$64.1 million and \$67.0 million. As of December 31, 2019, \$85.3 million of unrecognized compensation costs related to unvested employee restricted stock units are expected to be recognized over a remaining weighted-average period of 1.61 years.

Performance Share Units

We grant performance share units under the Plans that vest in shares of our common stock upon the achievement of financial and operational targets specified in the respective award agreement ("Performance Share Units"). For the year ended December 31, 2019, we granted performance share units that will vest if our average daily closing stock price is equal to or greater than \$6.00 per share over a period of 30 consecutive trading days prior to December 31, 2022 or if a change in control occurs during the performance period at the specified stock price (and on a proportional basis for a change in control price between the grant date price and the specified stock price) ("Market-based Performance Share Units"). We determined these awards are subject to a market condition, and therefore we used a Monte Carlo simulation to calculate the grant date fair value of the awards and the related derived service period over which we will recognize the expense. The key inputs used in the Monte Carlo simulation were the risk-free rate, our volatility of 49.8% and our cost of equity of 12.8%.

All of our performance share awards are subject to both continued employment through the performance period dictated by the award and certification by the Compensation Committee that the specified performance conditions have been achieved.

The table below summarizes Performance Share Unit activity under the Plans for the year ended December 31, 2019:

	Performance Share Units	Weighted- Average Grant Date Fair Value (per unit)	Market-based Performance Share Units	Weighted- Average Grant Date Fair Value (per unit)
Unvested at December 31, 2018	3,431,918	\$ 4.90	—	\$ —
Granted	4,640,467	3.89	8,486,708	3.03
Vested	(777,573)	4.88	—	—
Forfeited	(3,217,736)	4.65	(1,666,667)	3.03
Unvested at December 31, 2019	<u>4,077,076</u>	<u>\$ 3.99</u>	<u>6,820,041</u>	<u>\$ 3.03</u>
Maximum shares issuable upon vesting at December 31, 2019	3,898,508		6,820,041	

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

As of December 31, 2019, \$5.6 million of unrecognized compensation costs related to unvested performance share units are expected to be recognized over a remaining weighted-average period of 2.26 years and \$3.1 million of unrecognized compensation costs related to unvested market-based performance share units are expected to be recognized over a remaining weighted-average period of 0.16 years.

Restricted Stock Awards

We previously granted restricted stock awards in connection with business combinations. Compensation expense on those awards was recognized on a straight-line basis over the requisite service periods of the awards. During the year ended December 31, 2017, 1.2 million restricted shares with a fair value of 5.2 million vested. There were no restricted shares outstanding as of December 31, 2017. No Restricted stock awards were granted, vested or forfeited in the years ended December 31, 2019 and 2018.

Stock Options

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

The table below summarizes the stock option activity for the year ended December 31, 2019:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands) ⁽¹⁾
Outstanding and exercisable at December 31, 2018	\$ 212,787	\$ 1.80	1.37	\$ 298
Exercised	(74,875)	0.96		
Forfeited	(3,250)	1.68		
Outstanding and exercisable at December 31, 2019	<u>\$ 134,662</u>	<u>\$ 1.95</u>	<u>0.67</u>	<u>\$ 74</u>

- (1) The aggregate intrinsic value of options outstanding and exercisable represents the total pretax intrinsic value (the difference between the fair value of our stock on the last day of each period and the exercise price, multiplied by the number of options where the fair value exceeds the exercise price) that would have been received by the option holders had all option holders exercised their options as of December 31, 2019 and 2018, respectively.

We did not grant any stock options during the years ended December 31, 2019, 2018 and 2017. The total intrinsic value of options that were exercised during the years ended December 31, 2019, 2018 and 2017 was \$0.1 million, \$3.2 million and \$4.0 million.

14. REVENUE RECOGNITION

We recognize revenue when we satisfy a performance obligation by transferring a promised good or service to a customer. Substantially all of our performance obligations are satisfied at a point in time rather than over time. We offer goods and services through our online marketplaces in three primary categories: Local, Goods and Travel. Refer to Note 20, *Segment Information*, for revenue summarized by reportable segment and category.

Product revenue is earned from direct sales of merchandise inventory to customers through our Goods category and includes any related shipping fees. Service revenue primarily represents the net commissions earned from selling goods or services on behalf of third-party merchants. Those transactions generally involve a customer's purchase of a voucher through one of our online marketplace that can be redeemed by the customer with a third-party merchant for goods or services (or for discounts on goods or services). To a lesser extent, service revenue also includes commissions earned when customers make purchases with retailers using digital coupons accessed through our websites and mobile applications.

In connection with most of our product and service revenue transactions, we collect cash from credit card payment processors shortly after a sale occurs. For transactions in which we earn commissions when customers make purchases with retailers using digital coupons accessed through our websites and mobile applications, we generally collect payment from affiliate networks on terms ranging from 30 to 150 days.

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

On January 1, 2018, we adopted ASC Topic 606 using the modified retrospective method. Beginning on January 1, 2018, results are presented in accordance with the revised policies, while prior period amounts are not adjusted and continue to be reported in accordance with our historical policies. The adoption of Topic 606 did not significantly impact our presentation of revenue on a gross or net basis. Refer to Note 2, *Summary of Significant Accounting Policies*, for additional information about our revenue recognition accounting policies and the impact of adopting Topic 606.

Contract Balances

A substantial majority of our deferred revenue relates to product sales for which revenue will be recognized as the products are delivered to customers, generally within one week following the balance sheet date. Our deferred revenue was \$18.0 million, \$25.5 million and \$25.8 million as of December 31, 2019, December 31, 2018 and January 1, 2018. The amount of revenue recognized for the years ended December 31, 2019 and 2018 that was included in the deferred revenue balance at the beginning of the period was \$25.4 million and \$25.1 million.

The following table summarizes the activity in the liability for customer credits for the years ended December 31, 2019 and 2018 (in thousands):

	Customer Credits
Balance as of January 1, 2018	\$ 19,414
Credits issued	126,874
Credits redeemed ⁽¹⁾	(112,161)
Breakage revenue recognized	(18,802)
Foreign currency translation	(207)
Balance as of December 31, 2018	15,118
Credits issued	115,031
Credits redeemed ⁽¹⁾	(102,682)
Breakage revenue recognized	(13,699)
Foreign currency translation	(4)
Balance as of December 31, 2019	\$ 13,764

- (1) Customer credits can be redeemed through our online marketplaces for goods or services provided by a third-party merchant or for merchandise inventory sold by us. When customer credits are redeemed for goods or services provided by a third-party merchant, service revenue is recognized on a net basis as the difference between the carrying amount of the customer credit liability derecognized and the amount due to the merchant for the related transaction. When customer credits are redeemed for merchandise inventory sold by us, product revenue is recognized on a gross basis equal to the amount of the customer credit liability derecognized. Customer credits are primarily used within one year of issuance.

Cost of Obtaining Contracts

Deferred contract acquisition costs are presented within the following line items of the consolidated balance sheets as of December 31, 2019 and 2018 (in thousands):

	December 31,	
	2019	2018
Prepaid expenses and other current assets	2,501	2,923
Other non-current assets	10,133	11,285

For the years ended December 31, 2019 and 2018, we amortized \$20.4 million and \$25.2 million of deferred contract acquisition costs and did not recognize any impairment losses in relation to the deferred costs.

15. RESTRUCTURING

In September 2015, we commenced a restructuring plan relating primarily to workforce reductions in our international operations. We have also undertaken workforce reductions in our North America segment. In addition to workforce reductions in our ongoing markets, we ceased operations in 17 countries within our International segment as part of the restructuring plan between September 2015 and March 2016. Those country exits, which generally comprised our smallest international markets, resulted from a series of separate decisions made at different times

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

during that period that were not part of an overall strategic shift. Costs related to the restructuring plan are classified as Restructuring charges on the consolidated statements of operations. The actions under our restructuring plan were completed as of September 30, 2017 and substantially all of the cash payments for actions under that plan were disbursed as of December 31, 2018.

During the third quarter of 2017, we reached a decision to cease most of our food delivery operations and entered into a long-term commercial agreement with a subsidiary of Grubhub that will allow us to provide customers with the ability to order food delivery through our websites and mobile applications in the United States from Grubhub's network of restaurant merchants. See Note 6, *Goodwill and Other Intangible Assets*, for additional information. For the year ended December 31, 2017, our restructuring costs associated with ceasing those food delivery operations were \$2.6 million, primarily related to employee severance. Additionally, we entered into an agreement to sell customer lists and other intangible assets in certain food delivery markets to Grubhub.

We incurred cumulative costs for employee severance and benefits and other exit costs of \$80.1 million under the plan since its inception in September 2015. In addition to those costs, we incurred cumulative long-lived asset impairment charges of \$7.5 million resulting from our restructuring activities. There were no asset impairments as a result of restructuring activities during the years ended December 31, 2019, 2018 and 2017. The amounts presented in Restructuring charges for the years ended December 31, 2019 and 2018 reflect changes in estimates related to prior actions.

The following tables summarize costs incurred by segment related to the restructuring plan for the years ended December 31, 2019, 2018 and 2017 (in thousands):

Year Ended December 31, 2019			
	Employee Severance and Benefit Costs	Other Exit Costs	Total Restructuring Charges
North America	\$ —	\$ —	\$ —
International	31	—	31
Consolidated	<u>\$ 31</u>	<u>\$ —</u>	<u>\$ 31</u>
Year Ended December 31, 2018			
	Employee Severance and Benefit Costs	Other Exit Costs	Total Restructuring Charges
North America	\$ —	\$ 177	\$ 177
International	(353)	40	(313)
Consolidated	<u>\$ (353)</u>	<u>\$ 217</u>	<u>\$ (136)</u>
Year Ended December 31, 2017			
	Employee Severance and Benefit Costs ⁽¹⁾	Other Exit Costs	Total Restructuring Charges
North America	\$ 8,172	\$ 3,826	\$ 11,998
International	4,814	2,016	6,830
Consolidated	<u>\$ 12,986</u>	<u>\$ 5,842</u>	<u>\$ 18,828</u>

(1) The employee severance and benefit costs for the year ended December 31, 2017 related to the termination of approximately 750 employees.

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

The following table summarizes restructuring liability activity for the years ended December 31, 2019 and 2018 (in thousands):

	Employee Severance and Benefit Costs	Other Exit Costs	Total
Balance as of December 31, 2017	\$ 3,817	\$ 304	\$ 4,121
Charges payable in cash	(353)	217	(136)
Cash payments	(2,256)	(521)	(2,777)
Foreign currency translation	(89)	—	(89)
Balance as of December 31, 2018	\$ 1,119	\$ —	\$ 1,119
Charges payable in cash	31	—	31
Cash payments	(436)	—	(436)
Foreign currency translation	(15)	—	(15)
Balance as of December 31, 2019	\$ 699	\$ —	\$ 699

16. INCOME TAXES

The components of pretax income (loss) from continuing operations for the years ended December 31, 2019, 2018 and 2017 were as follows (in thousands):

	Year Ended December 31,		
	2019	2018	2017
United States	\$ 6,758	\$ 23,349	\$ 30,095
International	(20,289)	(22,318)	6,050
Income (loss) before provision (benefit) for income taxes	\$ (13,531)	\$ 1,031	\$ 36,145

The provision (benefit) for income taxes for the years ended December 31, 2019, 2018 and 2017 was allocated between continuing operations and discontinued operations as follows (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Continuing Operations	\$ 761	\$ (957)	\$ 7,544
Discontinued Operations	—	—	—
Total	\$ 761	\$ (957)	\$ 7,544

The provision (benefit) for income taxes from continuing operations for the years ended December 31, 2019, 2018 and 2017 consisted of the following components (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Current taxes:			
U.S. federal	\$ (5,901)	\$ 768	\$ (120)
State	929	57	191
International	7,218	3,218	6,870
Total current taxes	2,246	4,043	6,941
Deferred taxes:			
U.S. federal	32	(319)	(1,335)
State	(9)	—	50
International	(1,508)	(4,681)	1,888
Total deferred taxes	(1,485)	(5,000)	603
Provision (benefit) for income taxes	\$ 761	\$ (957)	\$ 7,544

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The items accounting for differences between the income tax provision (benefit) from continuing operations computed at the U.S. federal statutory rate and the provision (benefit) for income taxes for the years ended December 31, 2019, 2018 and 2017 were as follows (in thousands):

	Year Ended December 31,		
	2019	2018 ⁽³⁾	2017
U.S. federal income tax provision (benefit) at statutory rate	\$ (2,842)	\$ 216	\$ 12,651
Foreign income and losses taxed at different rates ⁽¹⁾	5,529	2,113	4,524
State income taxes, net of federal benefits, and state tax credits	5,297	720	(4,980)
Change in valuation allowances	(10,074)	(7,727)	(36,057)
Effect of income tax rate changes on deferred items ⁽²⁾	(3,443)	1,544	20,466
Tax effects of intercompany transactions	—	607	3,332
Adjustments related to uncertain tax positions	(12,418)	18	1,824
Non-deductible stock-based compensation expense	6,355	3,239	5,002
Tax shortfalls on stock-based compensation awards	2,042	(335)	4,290
Federal research and development credits	3,447	(8,331)	(7,862)
Forgiveness of intercompany liabilities	67	(1,340)	(2,494)
Ordinary stock loss	—	(11,815)	—
Net operating loss expiration	12,537	—	—
Non-deductible or non-taxable items	(5,736)	20,134	6,848
Provision (benefit) for income taxes	<u>\$ 761</u>	<u>\$ (957)</u>	<u>\$ 7,544</u>

- (1) Tax rates in foreign jurisdictions were generally lower than the U.S. federal statutory rate through December 31, 2019. This results in an adverse impact to the provision (benefit) for income taxes in this rate reconciliation for the years ended December 31, 2019, 2018 and 2017 prior to the impact of valuation allowances, due to the net pretax losses from continuing operations in certain foreign jurisdictions with lower tax rates.
- (2) The effect of income tax rate changes on deferred items for the year ended December 31, 2017 is primarily related to the U.S. tax reform legislation that was signed into law on December 22, 2017, which included a reduction of the U.S. Federal income tax rate to 21 percent. That rate reduction did not impact our provision for income taxes for the year ended December 31, 2017 due to the valuation allowance against our U.S. net deferred tax assets.
- (3) During the year ended December 31, 2019, we updated our net operating losses to remove deferred tax assets that could never be utilized due to IRC Section 382 limitations. The amount of State income taxes, net of federal benefits, and state tax credits, Change in valuation allowances and Non-deductible or non-taxable items for the year ended December 31, 2018 have been updated from \$2.0 million, \$3.8 million and \$7.3 million previously reported to reflect that change.

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

The deferred income tax assets and liabilities consisted of the following components as of December 31, 2019 and 2018 (in thousands):

	December 31,	
	2019	2018
Deferred tax assets:		
Accrued expenses and other liabilities	\$ 35,565	\$ 25,694
Operating lease obligation	22,557	—
Stock-based compensation	7,657	5,167
Net operating loss and tax credit carryforwards ⁽¹⁾	157,202	194,773
Intangible assets, net	21,002	16,482
Investments	23,012	5,916
Unrealized foreign currency exchange losses	3,765	1,882
Other	1,017	1,021
Total deferred tax assets	271,777	250,935
Less: Valuation allowances ⁽¹⁾	(206,394)	(216,468)
Deferred tax assets, net of valuation allowance	65,383	34,467
Deferred tax liabilities:		
Prepaid expenses and other assets	(16,343)	(12,737)
Property, equipment and software, net	(11,994)	(12,576)
Right-of-use asset	(20,172)	—
Convertible senior notes	(1,883)	(2,457)
Deferred revenue	(14,064)	(7,255)
Total deferred tax liabilities	(64,456)	(35,025)
Net deferred tax asset (liability)	\$ 927	\$ (558)

(1) During the year ended December 31, 2019, we updated our net operating losses to remove deferred tax assets that could never be utilized due to IRC Section 382 limitations. The amount of Net operating loss and tax credit carryforwards and Valuation allowances for the year ended December 31, 2018 have been updated from \$206.3 million and \$228.0 million previously reported to reflect that change.

We have incurred significant losses in recent periods and had an accumulated deficit of \$1,032.9 million as of December 31, 2019. As a result, we maintained valuation allowances against our domestic deferred tax assets and substantially all of our foreign deferred tax assets as of December 31, 2019 and 2018 to reduce their carrying values to amounts that are realizable either through future reversals of existing taxable temporary differences or through taxable income in carryback years for the applicable jurisdictions.

We had \$48.1 million of federal net operating loss carryforwards as of December 31, 2019 which will begin expiring in 2027. We had \$214.7 million of state net operating loss carryforwards as of December 31, 2019, which began expiring in the current period. As of December 31, 2019, we had \$343.0 million of foreign net operating loss carryforwards, a significant portion of which carry forward for an indefinite period.

We are subject to taxation in the United States, state jurisdictions and foreign jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes and recording the related income tax assets and liabilities. We recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not criterion, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes activity related to our gross unrecognized tax benefits, excluding interest and penalties, for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Beginning Balance	\$ 87,637	\$ 87,359	\$ 80,081
Increases related to prior year tax positions	3,754	1,500	960
Decreases related to prior year tax positions	(28,767)	(21)	(1,196)
Increases related to current year tax positions	6,086	7,533	9,571
Decreases based on settlements with taxing authorities	—	—	—
Decreases due to lapse of statute limitations	(3,875)	(9,447)	(3,777)
Foreign currency translation	(474)	713	1,720
Ending Balance	\$ 64,361	\$ 87,637	\$ 87,359

The total amount of unrecognized tax benefits as of December 31, 2019, 2018 and 2017 that, if recognized, would affect the effective tax rate are \$25.1 million, \$33.3 million and \$37.6 million.

We recognized \$1.4 million, \$1.6 million and \$0.2 million of interest and penalties within Provision (benefit) for income taxes on our consolidated statements of operations for the years ended December 31, 2019, 2018 and 2017. Total accrued interest and penalties as of December 31, 2019 and 2018 were \$4.9 million and \$5.4 million, and are included within Other non-current liabilities in our consolidated balance sheets.

We are currently under IRS audit for the 2015, 2016 and 2017 tax years. Additionally, we are currently under audit by several foreign jurisdictions. It is likely that the examination phase of some of those audits will conclude in the next 12 months. There are many factors, including factors outside of our control, which influence the progress and completion of those audits. We recognized income tax benefits of \$12.3 million, \$7.9 million and \$3.0 million for the years ended December 31, 2019, 2018 and 2017, as a result of new information that impacted our estimates of the amounts that are more-likely-than-not of being realized upon settlement of the related tax positions and due to expirations of the applicable statutes of limitations. We are subject to claims for tax assessments by foreign jurisdictions, including a proposed assessment for \$113.3 million, inclusive of estimated incremental interest from the original assessment. We believe that the assessment, which primarily relates to transfer pricing on transactions occurring in 2011, is without merit and we intend to vigorously defend ourselves in that matter. In addition to any potential increases in our liabilities for uncertain tax positions from the ultimate resolution of that assessment, we believe that it is reasonably possible that reductions of up to \$20.4 million in unrecognized tax benefits may occur within the 12 months following December 31, 2019 upon closing of income tax audits or the expiration of applicable statutes of limitations.

In general, it is our practice and intention to reinvest the earnings of our non-U.S. subsidiaries in those operations. Additionally, while we did not incur the deemed repatriation tax, an actual repatriation from our non-U.S. subsidiaries could be subject to foreign and U.S. state income taxes. Aside from limited exceptions for which the related deferred tax liabilities recognized as of December 31, 2019 and 2018 are immaterial, we do not intend to distribute earnings of foreign subsidiaries for which we have an excess of the financial reporting basis over the tax basis of our investments and therefore have not recorded any deferred taxes related to such amounts. The actual tax cost resulting from a distribution would depend on income tax laws and circumstances at the time of distribution. Determination of the amount of unrecognized deferred tax liability related to the excess of the financial reporting basis over the tax basis of our foreign subsidiaries is not practical due to the complexities associated with the calculation.

Groupon uses a cost-sharing arrangement under which controlled members agree to share the costs and risks of developing intangible properties in accordance with their reasonably anticipated share of benefits from the intangibles. On July 24, 2018, the Ninth Circuit Court of Appeals issued an opinion in *Altera Corp. v. Commissioner* requiring related parties in an intercompany cost-sharing arrangement to share expenses related to stock-based compensation. This opinion reversed an earlier decision of the United States Tax Court. On August 7, 2018, the Ninth Circuit Court of Appeals withdrew its July 24, 2018 opinion. On June 7, 2019, the United States Court of Appeals for the Ninth Circuit reversed the Tax Court decision and ruled that stock-based compensation must be included in the shared pool of expenses. The ruling, which was outside the Circuit Court of Appeals for Groupon, did not have a material impact on our provision for income taxes for the year ended December 31, 2019.

17. VARIABLE INTEREST ENTITY

Variable interest entities ("VIEs") are entities that have either a total equity investment that is insufficient to permit the entity to finance its activities without additional subordinated financial support, or whose equity investors lack the characteristics of a controlling financial interest (i.e., the ability to make significant decisions through voting rights and the right to receive the expected residual returns of the entity or the obligation to absorb the expected losses of the entity). A variable interest holder that has both (a) the power to direct the activities of the VIE that most significantly impact its economic performance and (b) either an obligation to absorb losses or a right to receive benefits that could potentially be significant to the VIE is referred to as the primary beneficiary and must consolidate the VIE.

We have an arrangement with a strategic partner to offer deals related to live events, and a limited liability company ("LLC") has been established to administer that arrangement. Groupon and the strategic partner each own 50% of the outstanding LLC interests and income and cash flows of the LLC are allocated based on agreed upon percentages specified in the related LLC agreement.

Our obligations associated with our interests in the LLC are primarily administering transactions, contributing intellectual property, identifying deals and promoting the sale of deal offerings, coordinating the distribution of deal offerings and providing the record keeping.

Under the LLC agreement, as amended, the LLC shall be dissolved upon the occurrence of any of the following events: (1) either party becoming a majority owner; (2) July 2022; (3) certain elections of Groupon or the strategic partner based on the operational performance of the LLC or other changes to certain terms in the agreement; (4) election of either Groupon or the strategic partner in the event of bankruptcy by the other party; (5) sale of the LLC; or (6) a court's dissolution of the LLC.

We have determined that the LLC is a VIE and that we are its primary beneficiary. We consolidate the LLC because we have the power to direct the activities of the LLC that most significantly impact the LLC's economic performance. In particular, we identify and promote the deal offerings, provide all of the operational and back office support, present the LLC's deal offerings via our websites and mobile applications and provide the editorial resources that create the verbiage for the related deal offers.

18. 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. 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, we use various valuation approaches within the fair value measurement framework. The valuation methodologies used for our assets and liabilities measured at fair value and their classification in the valuation hierarchy are summarized below:

Fair value option investments and available-for-sale securities. To determine the fair value of our fair value option investments each period, we first estimate the fair value of each entity in its entirety. We primarily use the discounted cash flow method, which is an income approach, to estimate the fair value of the entities. The key inputs to determining fair values under that approach are cash flow forecasts and discount rates. We also use a market approach valuation technique, which is based on market multiples of guideline companies, to determine the fair value of each entity. The discounted cash flow and market multiple valuations are then evaluated and weighted to determine the amount that is most representative of the fair value of each entity.

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

Once we determine the fair value of each entity, we then determine the fair value of our specific investments in those entities. The entities have complex capital structures, so we apply an option-pricing model that considers the liquidation preferences of each entity's respective classes of ownership interests to determine the fair value of our investment in each entity.

We also have investments in redeemable preferred shares and had investments in convertible debt securities issued by nonpublic entities. We measure the fair value of those available-for-sale securities using the discounted cash flow method.

We have classified our fair value option investments and our 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. We are subject to a contingent consideration arrangement to transfer a maximum payout in cash of \$2.5 million to the former owners of a business acquired on April 30, 2018. See Note 4, *Business Combinations*, for further discussion of that acquisition. Additionally, we had contingent obligations in prior periods to transfer cash to the former owners of a previous business acquisition if specified financial results were met (i.e. an earnout).

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 in the related business combination and subsequent changes in fair value recorded in earnings within Selling, general and administrative expense on the consolidated statements of operations.

We use an income approach to value contingent consideration obligations based on the present value of probability-weighted future cash flows. We classify 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.

The following tables summarize assets that are measured at fair value on a recurring basis as of December 31, 2019 and 2018 (in thousands):

		Fair Value Measurement at Reporting Date Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	December 31, 2019				
Assets:					
Fair value option investments	\$ 1,405	\$ —	\$ —	\$ 1,405	
Available-for-sale securities - redeemable preferred shares	—	—	—	—	
Liabilities:					
Contingent consideration	1,298	—	—	1,298	

	December 31, 2018	Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Fair value option investments	\$ 73,902	\$ —	\$ —	\$ 73,902
Available-for-sale securities - redeemable preferred shares	10,340	—	—	10,340
Liabilities:				
Contingent consideration	1,529	—	—	1,529

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

The following table provides a roll-forward of the fair value of recurring Level 3 fair value measurements for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Assets			
Fair value option investments:			
Beginning Balance	\$ 73,902	\$ 82,966	\$ 82,584
Total gains (losses) included in earnings	(72,497)	(9,064)	382
Ending Balance	\$ 1,405	\$ 73,902	\$ 82,966
Unrealized (losses) gains still held ⁽¹⁾	\$ (72,497)	\$ (9,064)	\$ 382
Available-for-sale securities			
Convertible debt securities:			
Beginning Balance	\$ —	\$ 11,354	\$ 10,038
Purchases and acquisition of convertible debt securities	—	—	1,612
Proceeds from sales and maturities of convertible debt securities	—	(8,594)	(1,843)
Transfer to other equity method investment upon conversion of convertible debt security	—	(4,008)	—
Total gains (losses) included in other comprehensive income (loss)	—	(1,148)	(437)
Total gains (losses) included in earnings ⁽²⁾	—	2,396	1,984
Ending Balance	\$ —	\$ —	\$ 11,354
Unrealized gains (losses) still held ⁽¹⁾	\$ —	\$ —	\$ 1,303
Redeemable preferred shares:			
Beginning Balance	\$ 10,340	\$ 15,431	\$ 17,444
Total gains (losses) included in other comprehensive income (loss)	(379)	379	931
Impairments included in earnings	(9,961)	(5,470)	(2,944)
Ending Balance	\$ —	\$ 10,340	\$ 15,431
Unrealized gains (losses) still held ⁽¹⁾	\$ (10,340)	\$ (5,091)	\$ (2,013)
Liabilities			
Contingent Consideration:			
Beginning Balance	\$ 1,529	\$ —	\$ 14,588
Issuance of contingent consideration in connection with acquisitions	—	1,589	—
Settlements of contingent consideration liabilities	(312)	—	(7,858)
Reclass to non-fair value liabilities when no longer contingent	—	—	(6,778)
Total losses (gains) included in earnings	39	56	48
Foreign currency translation	42	(116)	—
Ending Balance	\$ 1,298	\$ 1,529	\$ —
Unrealized losses (gains) still held ⁽¹⁾	\$ 39	\$ 56	\$ —

(1) Represents the unrealized gains or losses 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 a gain at maturity of a previously impaired convertible debt security, accretion of interest income and changes in the fair value of an embedded derivative.

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 or increased due to an observable price change in an orderly transaction. For the year ended December 31, 2019, we adjusted the carrying value of an other equity investment for observable price changes in an orderly transaction, which resulted in an unrealized gain of \$51.4 million.

For the year ended December 31, 2018, we recorded a \$4.6 million impairment of an other equity investment. To determine the fair value of the investment, we considered the financial condition of the investee and applied a market approach. We have classified the fair value measurement of that other equity investment as Level 3 because it involves significant unobservable inputs. Refer to Note 7, *Investments*, for additional information.

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

We did not record any significant nonrecurring fair value measurements after initial recognition for the year ended December 31, 2017.

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

Our 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 those assets and liabilities approximate their respective fair values as of December 31, 2019 and 2018 due to their short-term nature.

19. INCOME (LOSS) PER SHARE

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 include stock options, restricted stock units, performance share units, performance bonus awards, ESPP shares, warrants and convertible senior notes. If dilutive, those potentially dilutive securities are reflected in diluted net income (loss) per share using the treasury stock method, except for the convertible senior notes, which are subject to the if-converted method.

The following table sets forth the computation of basic and diluted net income (loss) per share of common stock for the years ended December 31, 2019, 2018 and 2017 (in thousands, except share amounts and per share amounts):

	Year Ended December 31,		
	2019	2018	2017
Basic and diluted net income (loss) per share:			
<i>Numerator</i>			
Net income (loss) - continuing operations	\$ (14,292)	\$ 1,988	\$ 28,601
Less: Net income (loss) attributable to noncontrolling interests	10,682	13,067	12,587
Net income (loss) attributable to common stockholders - continuing operations	\$ (24,974)	\$ (11,079)	\$ 16,014
Net income (loss) attributable to common stockholders - discontinued operations	2,597	—	(1,974)
Net income (loss) attributable to common stockholders	\$ (22,377)	\$ (11,079)	\$ 14,040
<i>Denominator</i>			
Shares used in computation of basic net income (loss) per share	567,408,340	566,511,108	559,367,075
Weighted-average effect of diluted securities:			
Stock Options	—	—	842,047
Restricted Stock	—	—	488,773
Restricted Stock Units	—	—	7,153,674
Employee Stock Purchase Plan	—	—	201,504
Performance Share Units and Performance Bonus Awards	—	—	365,298
Shares used in computation of diluted net income (loss) per share	567,408,340	566,511,108	568,418,371
Basic net income (loss) per share:			
Continuing operations	\$ (0.04)	\$ (0.02)	\$ 0.03
Discontinued operations	0.00	—	(0.00)
Basic net income (loss) per share	<u>\$ (0.04)</u>	<u>\$ (0.02)</u>	<u>\$ 0.03</u>
Diluted net income (loss) per share:			
Continuing operations	\$ (0.04)	\$ (0.02)	\$ 0.03
Discontinued operations	0.00	—	(0.01)
Diluted net income (loss) per share	<u>\$ (0.04)</u>	<u>\$ (0.02)</u>	<u>\$ 0.02</u>

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

The following weighted-average potentially dilutive instruments 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:

	Year Ended December 31,		
	2019	2018	2017
Restricted stock units	33,040,043	30,552,028	8,087,545
Other stock-based compensation awards	2,511,249	2,041,099	13,000
Convertible senior notes	46,296,300	46,296,300	46,296,300
Warrants	46,296,300	46,296,300	46,296,300
Total	<u>128,143,892</u>	<u>125,185,727</u>	<u>100,693,145</u>

We had outstanding Market-based Performance Share Units as of December 31, 2019 that were eligible to vest into shares of common stock subject to the achievement of specified performance or market conditions. 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. As of December 31, 2019, there were up to 6,820,041 shares of common stock issuable upon vesting of outstanding Market-based Performance Share Units that were excluded from the table above as the performance or market conditions were not satisfied as of the end of the period.

20. SEGMENT INFORMATION

The segment information reported in the tables below reflects the operating results that are regularly reviewed by our chief operating decision maker to assess performance and make resource allocation decisions. Our operations are organized into two segments: North America and International.

The following table summarizes revenue by reportable segment and category for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	Year Ended December 31,		
	2019	2018	2017
North America			
Service revenue:			
Local	\$ 721,038	\$ 752,863	\$ 825,579
Goods	16,236	18,283	16,768
Travel	57,939	71,856	78,495
Total service revenue	795,213	843,002	920,842
Product revenue - Goods	563,694	796,393	993,326
Total North America revenue ⁽¹⁾	<u>1,358,907</u>	<u>1,639,395</u>	<u>1,914,168</u>
International			
Service revenue:			
Local	287,611	306,700	281,466
Goods	9,441	14,602	20,358
Travel	34,092	41,183	43,786
Total service revenue	331,144	362,485	345,610
Product revenue - Goods	528,864	634,866	584,099
Total International revenue ⁽¹⁾	<u>\$ 860,008</u>	<u>\$ 997,351</u>	<u>\$ 929,709</u>

- (1) North America includes revenue from the United States of \$1,333.9 million, \$1,600.2 million and \$1,884.7 million for the years ended December 31, 2019, 2018 and 2017. International includes revenue from the United Kingdom of \$314.3 million, \$390.4 million and \$343.9 million for the years ended December 31, 2019, 2018 and 2017. There were no other individual countries that represented more than 10% of consolidated total revenue for the years ended December 31, 2019, 2018 and 2017. Revenue is attributed to individual countries based on the location of the customer.

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

The following table summarizes gross profit by reportable segment and category for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	Year Ended December 31,		
	2019	2018	2017
North America			
Service gross profit:			
Local	\$ 643,499	\$ 671,352	\$ 708,573
Goods	13,165	15,302	12,929
Travel	45,739	57,945	60,594
Total service gross profit	702,403	744,599	782,096
Product gross profit - Goods	105,342	146,085	145,582
Total North America gross profit	807,745	890,684	927,678
International			
Service gross profit:			
Local	269,666	289,427	265,348
Goods	8,509	13,252	17,910
Travel	31,317	38,132	40,288
Total service gross profit	309,492	340,811	323,546
Product gross profit - Goods	68,892	89,106	82,637
Total International gross profit	\$ 378,384	\$ 429,917	\$ 406,183

The following table summarizes operating income by reportable segment for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Operating income (loss) ^{(1) (2) (3) (4)} :			
North America	\$ 65,728	\$ 19,909	\$ (45)
International	(25,930)	34,130	29,480
Total operating income (loss)	\$ 39,798	\$ 54,039	\$ 29,435

- (1) Includes stock-based compensation of \$72.8 million, \$59.7 million and \$76.1 million for North America and \$8.8 million, \$5.0 million and \$5.7 million for International for the years ended December 31, 2019, 2018 and 2017, respectively.
- (2) Includes acquisition-related (benefit) expense, net of \$0.7 million for International for the year ended December 31, 2018.
- (3) Includes restructuring charges for North America and International. See Note 15, *Restructuring*, for restructuring charges by segment.
- (4) Includes a \$34.6 million charge related to the IBM patent litigation matter for North America for the year ended December 31, 2018.

The following table summarizes total assets by reportable segment as of December 31, 2019 and 2018 (in thousands):

	December 31,	
	2019	2018
Total assets:		
North America ⁽¹⁾	\$ 1,045,500	\$ 958,412
International ⁽¹⁾	541,243	683,730
Consolidated total assets	\$ 1,586,743	\$ 1,642,142

- (1) North America contains assets from the United States of \$1,020.0 million and \$940.5 million as of December 31, 2019 and 2018. International contains assets from Ireland of \$204.6 million as of December 31, 2018 and from Switzerland of \$175.2 million as of December 31, 2019. Assets from Ireland were less than 10% of consolidated total assets as of December 31, 2019. There were no other individual countries that represented more than 10% of consolidated total assets as of December 31, 2019 and 2018.

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

The following table summarizes tangible property and equipment, net of accumulated depreciation and amortization, by reportable segment as of December 31, 2019 and 2018 (in thousands):

	December 31,	
	2019	2018
North America ⁽¹⁾	\$ 35,798	\$ 51,032
International ⁽¹⁾	17,719	20,773
Consolidated total	<u>\$ 53,517</u>	<u>\$ 71,805</u>

(1) Substantially all tangible property and equipment within North America is located in the United States. There were no other individual countries located outside of the United States that represented more than 10% of consolidated tangible property and equipment, net as of December 31, 2019 and 2018.

The following table summarizes depreciation and amortization of property, equipment and software and intangible assets by reportable segment for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	Year Ended December 31,		
	2019	2018	2017
North America	\$ 89,083	\$ 101,419	\$ 121,616
International	16,682	14,409	16,211
Consolidated total	<u>\$ 105,765</u>	<u>\$ 115,828</u>	<u>\$ 137,827</u>

The following table summarizes expenditures for additions to tangible long-lived assets by reportable segment for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	Year Ended December 31,		
	2019	2018	2017
North America	\$ 6,791	\$ 6,194	\$ 5,917
International	6,103	10,393	5,106
Consolidated total	<u>\$ 12,894</u>	<u>\$ 16,587</u>	<u>\$ 11,023</u>

21. RELATED PARTY TRANSACTION

On December 28, 2016, we entered into a sublease for portions of our office space at 600 West Chicago to Uptake, Inc. ("Uptake"), a Lightbank LLC ("Lightbank") portfolio company. Eric Lefkofsky, our co-founder and Chairman of the Board, is a co-founder and owns a significant equity interest in Lightbank. The sublease was a market rate transaction on terms that we believe are no less favorable than would have been reached with an unrelated third party. The sublease extends through January 31, 2026 and sublease rentals over the entire term total approximately \$18.2 million. Pursuant to our related party transaction policy, our Audit Committee approved the sublease. We recognized income from the sublease of \$2.1 million, \$2.1 million and \$1.9 million for the years ended December 31, 2019, 2018 and 2017.

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

22. QUARTERLY RESULTS (UNAUDITED)

The following table represents data from our unaudited consolidated statements of operations for the most recent eight quarters. This quarterly information has been prepared on the same basis as the consolidated financial statements and includes all normal recurring adjustments necessary to fairly state the information for the periods presented. The results of operations of any quarter are not necessarily indicative of the results that may be expected for any future period (in thousands, except share and per share amounts).

	Quarter Ended							
	Dec. 31, 2019	Sept. 30, 2019	June 30, 2019	Mar. 31, 2019	Dec. 31, 2018	Sept. 30, 2018 ⁽¹⁾	June 30, 2018 ⁽¹⁾	Mar. 31, 2018
Consolidated Statements of Operations Data:								
Revenue	\$ 612,316	\$ 495,612	\$ 532,577	\$ 578,410	\$ 799,927	\$ 592,883	\$ 617,396	\$ 626,540
Cost of revenue	302,275	217,672	240,445	272,394	433,858	286,894	293,738	301,655
Gross profit	310,041	277,940	292,132	306,016	366,069	305,989	323,658	324,885
Income (loss) from operations	40,105	4,637	(7,139)	2,195	61,876	53,023	(64,245)	3,385
Income (loss) from continuing operations	79,208	(14,685)	(37,645)	(41,170)	49,862	47,175	(92,254)	(2,795)
Income (loss) from discontinued operations, net of tax	435	—	—	2,162	—	—	—	—
Net income (loss) attributable to Groupon, Inc.	77,041	(16,685)	(40,246)	(42,487)	46,228	44,615	(95,034)	(6,888)
Basic net income (loss) per share ⁽²⁾:								
Continuing operations	\$ 0.14	\$ (0.03)	\$ (0.07)	\$ (0.08)	\$ 0.08	\$ 0.08	\$ (0.17)	\$ (0.01)
Discontinued operations	0.00	—	—	0.01	—	—	—	—
Basic net income (loss) per share	<u>\$ 0.14</u>	<u>\$ (0.03)</u>	<u>\$ (0.07)</u>	<u>\$ (0.07)</u>	<u>\$ 0.08</u>	<u>\$ 0.08</u>	<u>\$ (0.17)</u>	<u>\$ (0.01)</u>
Diluted net income (loss) per share ⁽²⁾:								
Continuing operations	\$ 0.13	\$ (0.03)	\$ (0.07)	\$ (0.08)	\$ 0.08	\$ 0.08	\$ (0.17)	\$ (0.01)
Discontinued operations	0.00	—	—	0.01	—	—	—	—
Diluted net income (loss) per share	<u>\$ 0.13</u>	<u>\$ (0.03)</u>	<u>\$ (0.07)</u>	<u>\$ (0.07)</u>	<u>\$ 0.08</u>	<u>\$ 0.08</u>	<u>\$ (0.17)</u>	<u>\$ (0.01)</u>

(1) Income (loss) from continuing operations includes a \$40.4 million benefit and \$75.0 million charge for the three months ended September 30, 2018 and June 30, 2018 related to our patent litigation with IBM.

(2) The sum of per share amounts for quarterly periods may not equal year-to-date amounts due to rounding.

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

23. SUBSEQUENT EVENTS

In January 2020, we sold 50% of our shares in an other equity investment for total cash consideration of \$34.0 million, which approximated cost adjusted for observable price changes as of December 31, 2019. Refer to Note 7, *Investments*, for additional information.

In February 2020, we announced that we plan to exit our Goods category. After we exit the Goods category, we will no longer generate product revenue or service revenue from goods offerings and no longer incur the related costs of revenue. We are currently evaluating the accounting impacts of this announcement.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this Annual Report on Form 10-K.

Based on this evaluation, our management concluded that, as of December 31, 2019, our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act. Our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Our internal control over financial reporting includes policies and procedures that provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2019. Management reviewed the results of its assessment with our Audit Committee. The effectiveness of our internal control over financial reporting as of December 31, 2019 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in its report which is included below.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended December 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Groupon, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Groupon, Inc. and subsidiaries (the "Company") as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2019, of the Company and our report dated February 18, 2020, expressed an unqualified opinion on those financial statements and included explanatory paragraphs regarding the Company's adoption of ASC Topic 842, *Leases*, and ASC Topic 606, *Revenue from Contracts with Customers*.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Chicago, Illinois
February 18, 2020

ITEM 9B. OTHER INFORMATION

Election of Directors

On February 18, 2020, the Board of Directors (the “Board”) of Groupon, Inc. (the “Company”) announced that it has increased the size of the Board to ten directors and elected Valerie Mosley and Helen Vaid to the Board, effective as of April 6, 2020.

There are no arrangements or understandings pursuant to which Ms. Mosley and Vaid were elected to the Board. Since the beginning of the last fiscal year, there have been no related party transactions between the Company and either of Ms. Mosley or Ms. Vaid that would be reportable under Item 404(a) of Regulation S-K.

Ms. Mosley and Vaid will participate in the Company’s standard compensation program for non-employee directors.

Appointment of Chief Financial Officer

On February 18, 2020, the Company announced that Melissa Thomas has been appointed as the Company’s Chief Financial Officer, effective immediately. Ms. Thomas also will continue to serve as the Company’s Chief Accounting Officer and Treasurer.

Ms. Thomas, age 40, has served as the Company’s Interim Chief Financial Officer, Chief Accounting Officer and Treasurer since August 2019. She previously served as the Company’s Chief Accounting Officer and Treasurer since November 2018 and Vice President of Commercial Finance from May 2017 to November 2018. Prior to joining Groupon, Ms. Thomas served as Vice President of Finance at Surgical Care Affiliates from June 2016 to May 2017. From August 2007 to May 2016, Ms. Thomas served in a variety of finance and accounting leadership roles at Orbitz Worldwide (NYSE: OWW), most recently as Vice President of Finance. Prior to Orbitz, Ms. Thomas held accounting positions at Equity Office Properties and began her career at PricewaterhouseCoopers.

There are no family relationships between Ms. Thomas and any of the directors or executive officers of the Company, and there are no transactions in which Ms. Thomas has an interest requiring disclosure under Item 404(a) of Regulation S-K. There is no arrangement or understanding between Ms. Thomas and any other person pursuant to which Ms. Thomas was appointed as an officer of the Company.

Named Executive Officer Compensation

On February 17, 2020, the Compensation Committee (the “Compensation Committee”) of the Board in connection with its annual compensation review process approved equity awards of restricted stock units (“RSUs”) and performance stock units (“PSUs”) under the Groupon, Inc. 2011 Incentive Plan, as amended, for named executive officers in amounts and on terms consistent with prior practice (except as described below with respect to the Chief Financial Officer). Other than as set forth below, there are no changes to the base salaries and target bonus amounts of the Company’s named executive officers for 2020.

In connection with her appointment as Chief Financial Officer, Ms. Thomas will receive an annual base salary of \$550,000, and she will be eligible for an annual performance bonus with a target amount of \$300,000. In addition, Ms. Thomas will receive (i) RSUs with a value equal to \$1,440,000, which will vest in varying amounts beginning in December 2020 until May 2022 and (ii) PSUs with a value equal to \$960,000, which will vest over a three year period. These PSUs may be earned, if at all, in an amount ranging from 0% to 200% of the target award depending on the achievement of performance measures in 2020.

The equity awards described above will be granted to the named executive officers on a future date in connection with the Company’s regular annual compensation process.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding our Directors is incorporated by reference from the information under the captions "Board of Directors" and "Corporate Governance at Groupon" in our Proxy Statement for our 2020 Annual Meeting of Stockholders, which will be filed with the SEC within 120 days of December 31, 2019 ("2020 Proxy Statement"). Information regarding our Audit Committee and its Financial Experts is incorporated by reference from the information under the captions "Board Committees" and "Audit Committee Report" in our 2020 Proxy Statement. Information regarding our Executive Officers can be found in Part I of this Annual Report on Form 10-K.

Code of Ethics

We have adopted a Code of Conduct, which is applicable to our chief executive officer, chief financial officer and other principal executive and senior financial officers. Our Code of Conduct is available through our website (www.groupon.com). Information about the Code of Conduct is incorporated by reference from the information under the caption "Corporate Governance at Groupon" in our 2020 Proxy Statement. We will post any amendment to or waiver from the provisions of the Code of Conduct that applies to the above executive officers on our investor relations website (investor.groupon.com) under the caption "Corporate Governance."

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from the information under the captions "Named Executive Officer Compensation," "Director Compensation," "Compensation Discussion and Analysis," "Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report" in our 2020 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated by reference from the information under the captions "Information Regarding Beneficial Ownership of Principal Stockholders, Directors and Management" and "Equity Compensation Plan Information" in our 2020 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Incorporated by reference from the information under the captions "Corporate Governance at Groupon," "Board Independence and Expertise" and "Certain Relationships and Related Party Transactions" in our 2020 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Incorporated by reference from the information under the caption "Independent Registered Public Accounting Firm" in our 2020 Proxy Statement.

PART IV

ITEM 15: EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(1) We have filed the following documents as part of the Annual Report on Form 10-K

Groupon, Inc.
Consolidated Financial Statements
As of December 31, 2019 and 2018 and for the Years Ended December 31, 2019, 2018 and 2017

[Report of Independent Registered Public Accounting Firm](#)

[Consolidated Balance Sheets](#)

[Consolidated Statements of Operations](#)

[Consolidated Statements of Comprehensive Income \(Loss\)](#)

[Consolidated Statements of Stockholders' Equity](#)

[Consolidated Statements of Cash Flows](#)

[Notes to Consolidated Financial Statements](#)

(2) *Financial Statement Schedules - Groupon, Inc.*

Schedule II-Valuation and Qualifying Accounts

	Balance at Beginning of Year	Net Increase (Decrease) to Expense ⁽¹⁾	Acquisitions and Other	Balance at End of Year
	(in thousands)			
TAX VALUATION ALLOWANCE:				
Year ended December 31, 2019	216,468	(10,074)	—	206,394
Year ended December 31, 2018 ⁽²⁾	238,703	(7,727)	(14,508)	216,468
Year ended December 31, 2017	220,611	10,477	7,615	238,703

- (1) The amount charged to expense related to the income tax valuation allowance for the year ended December 31, 2017 reflects a \$46.5 million expense from discontinued operations, partially offset by a \$36.1 million benefit from continuing operations. The \$46.5 million discontinued operations expense reflects the valuation allowance recognized against loss carryforwards relating to tax losses on the stock of subsidiaries that were divested in 2017.
- (2) During the year ended December 31, 2019, we updated our net operating losses to remove deferred tax assets that could never be utilized due to IRC Section 382 limitations. The amount of Net Increase (Decrease) to Expense, Acquisitions and Other and Balance at End of Year for the year ended December 31, 2018 have been updated from \$3.8 million, \$14.5 million and \$228.0 million previously reported to reflect that change.

All other schedules have been omitted because they are either inapplicable or the required information has been provided in the consolidated financial statements or in the notes thereto.

(3) Exhibits

Exhibit Number	Description
2.1	Investment Agreement, dated as of April 19, 2015, among Groupon Trailblazer, Inc., Monster Partners LP and Monster Holdings LP (incorporated by reference to the Company's Current Report on Form 8-K filed April 20, 2015).
3.1	Restated Certificate of Incorporation of the Company (incorporated by reference to the Company's Registration Statement on Form 8-A/A filed on October 31, 2016).
3.2*	Amended and Restated By-Laws.
3.3	Amendment to the Amended and Restated By-Laws of the Company, dated as of June 10, 2016 (incorporated by reference to the Company's Current Report on Form 8-K filed on June 14, 2016).
4.1	Specimen Stock Certificate of Common Stock (incorporated by reference to the Company's Registration Statement on Form 8-A/A filed on October 31, 2016).
4.2	Indenture, dated as of April 4, 2016, between the Company and U.S Bank, National Association, as trustee (incorporated by reference to the Company's Current Report on Form 8-K filed on April 4, 2016).
4.3	Description of the Company's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.
10.1*	2008 Stock Option Plan.**
10.2*	Form of Notice of Grant of Stock Option under 2008 Stock Option Plan.**
10.3*	2010 Stock Plan.**
10.4*	Form of Notice of Grant of Stock Option under 2010 Stock Plan.**
10.5*	Form of Notice of Restricted Stock Unit Award under 2010 Stock Plan.**
10.6*	Form of Indemnification Agreement.**
10.7	Form of Severance Benefit Agreement (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019).**
10.8	2011 Incentive Plan, as amended and restated effective as of October 31, 2016 (incorporated by reference to the Company's Current Report on Form 8-K filed on October 31, 2016).**
10.9	Non-Employee Directors' Compensation Plan **[1]
10.10	Form of Notice of Restricted Stock Award under 2011 Incentive Plan (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2012).**
10.11	Form of Notice of Performance Share Unit Award and Form of Performance Share Unit Award Agreement under 2011 Incentive Plan (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2015).
10.12	Form of Notice of Performance Share Unit Award and Form of performance Share Unit Award Agreement under 2011 Incentive Plan (incorporate by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018)
10.13	Form of Notice and Performance Share Unit Award Agreement under the Groupon, Inc. 2011 Incentive Plan, as Amended (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019).**
10.14	Investment Agreement, dated as of April 3, 2016, between the Company and A-G Holdings, L.P. (incorporated by reference to the Company's Current Report on Form 8-K filed on April 4, 2016).
10.15	Voting Agreement, dated as of April 4, 2016, among the Company, A-G Holdings, L.P. and the stockholders party thereto (incorporated by reference to the Company's Current Report on Form 8-K filed on April 4, 2016).
10.16	Amendment No. 1 to Voting Agreement, dated as of February 13, 2018, by and among Eric Lefkofsky, Green Media, LLC, Bradley Keywell, Rugger Ventures LLC, A-G Holdings, L.P., and Groupon, Inc. (incorporated by reference to the Company's Annual Report on Form 10-K filed on February 14, 2018).
10.17	Form of Note Hedge Confirmation, dated as of May 9, 2016, between the Company and each of the counterparties thereto (incorporated by reference to the Company's Current Report on Form 8-K filed on May 9, 2016).
10.18	Form of Warrant Confirmation, dated as of May 9, 2016, between the Company and each of the counterparties thereto (incorporated by reference to the Company's Current Report on Form 8-K filed on May 9, 2016).
10.19	Second Amended and Restated Credit Agreement, dated as of May 14, 2019, among the Company, JPMorgan Chase Bank, N.A., as Administrative Agent, and the lenders party thereto (incorporated by reference to the Company's Current Report on Form 8-K filed on May 20, 2019).
21.1	Subsidiaries of Groupon, Inc.
23.1	Consent of Deloitte & Touche LLP
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document

101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104***	Cover Page Interactive Data File

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- * Incorporated by reference to the Company's registration statement on Form S-1 (registration number 333-174661)
- ** Management contract or compensatory plan or arrangement.
- *** The XBRL Instance Document and Cover Page Interactive Data File do not appear in the Interactive Data File because their XBRL tags are embedded within the Inline XBRL document

Item 16. Form 10-K Summary (optional)

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 18th day of February 2020.

GROUPON, INC.

By: /s/ RICH WILLIAMS
Name: Rich Williams
Title: Chief Executive Officer

POWER OF ATTORNEY

KNOWN BY ALL PERSONS BY THESE PRESENTS, that the individuals whose signatures appear below hereby constitute and appoint Rich Williams and Melissa Thomas, and each of them severally, as his or her true and lawful attorneys-in-fact and agents with full power of substitution and resubstitution for him or her and in his or her name, place and stead in any and all capacities to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, full power and authority to do or perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or of his substitute or substitutes, may lawfully do to cause to be done by virtue hereof. Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of February 18, 2020.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 18th day of February 2020.

<u>Signature</u>	<u>Title</u>
_____ /s/ Rich Williams Rich Williams	Chief Executive Officer and Director (Principal Executive Officer)
_____ /s/ Melissa Thomas Melissa Thomas	Chief Financial Officer, Chief Accounting Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)
_____ /s/ Eric Lefkofsky Eric Lefkofsky	Director
_____ /s/ Michael Angelakis Michael Angelakis	Director
_____ /s/ Peter J. Barris Peter J. Barris	Director
_____ /s/ Robert J. Bass Robert J. Bass	Director
_____ /s/ Theodore J. Leonsis Theodore J. Leonsis	Director
_____ /s/ Deborah Wahl Deborah Wahl	Director
_____ /s/ Ann E. Ziegler Ann E. Ziegler	Director