

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

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

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 October 31, 2019, there were 564,733,867 shares of the registrant's common stock outstanding.

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PART I. FINANCIAL INFORMATION
FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, 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, risks related to 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 likely exit from the European Union; retaining and adding high quality merchants; our voucherless offerings; cybersecurity breaches; reliance on cloud-based computing platforms; competing successfully in our industry; changes to merchant payment terms; providing a strong mobile experience for our customers; maintaining and improving our information technology infrastructure; delivery and routing of our emails; 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 Part I, Item 1A, Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2018, and Part II, Item 1A, Risk Factors of our Quarterly report on Form 10-Q for the quarter ended March 31, 2019, as well as in our condensed consolidated financial statements, related notes, and the other financial information appearing elsewhere in this report and our other filings with the Securities and Exchange Commission ("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. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

	September 30, 2019	December 31, 2018
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 567,285	\$ 841,021
Accounts receivable, net	56,094	69,493
Prepaid expenses and other current assets	81,667	88,115
Total current assets	705,046	998,629
Property, equipment and software, net	133,071	143,117
Right-of-use assets - operating leases, net	112,133	—
Goodwill	319,557	325,491
Intangible assets, net	36,497	45,401
Investments	38,124	108,515
Other non-current assets	26,274	20,989
Total Assets	\$ 1,370,702	\$ 1,642,142
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 21,485	\$ 38,359
Accrued merchant and supplier payables	428,177	651,781
Accrued expenses and other current liabilities	239,104	267,034
Total current liabilities	688,766	957,174
Convertible senior notes, net	211,441	201,669
Operating lease obligations	118,408	—
Other non-current liabilities	50,961	100,688
Total Liabilities	1,069,576	1,259,531
Commitments and contingencies (see Note 7)		
Stockholders' Equity		
Common stock, par value \$0.0001 per share, 2,010,000,000 shares authorized; 769,175,284 shares issued and 563,292,929 shares outstanding at September 30, 2019; 760,939,440 shares issued and 569,084,312 shares outstanding at December 31, 2018	76	76
Additional paid-in capital	2,294,000	2,234,560
Treasury stock, at cost, 205,882,355 and 191,855,128 shares at September 30, 2019 and December 31, 2018	(922,666)	(877,491)
Accumulated deficit	(1,109,917)	(1,010,499)
Accumulated other comprehensive income (loss)	38,877	34,602
Total Groupon, Inc. Stockholders' Equity	300,370	381,248
Noncontrolling interests	756	1,363
Total Equity	301,126	382,611
Total Liabilities and Equity	\$ 1,370,702	\$ 1,642,142

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue:				
Service	\$ 268,080	\$ 289,214	\$ 831,510	\$ 886,663
Product	227,532	303,669	775,089	950,156
Total revenue	495,612	592,883	1,606,599	1,836,819
Cost of revenue:				
Service	28,947	29,792	86,169	91,167
Product	188,725	257,102	644,342	791,120
Total cost of revenue	217,672	286,894	730,511	882,287
Gross profit	277,940	305,989	876,088	954,532
Operating expenses:				
Marketing	74,976	92,717	257,296	286,051
Selling, general and administrative	198,327	160,249	619,099	676,318
Total operating expenses	273,303	252,966	876,395	962,369
Income (loss) from operations	4,637	53,023	(307)	(7,837)
Other income (expense), net	(17,253)	(4,860)	(92,602)	(39,832)
Income (loss) from continuing operations before provision (benefit) for income taxes	(12,616)	48,163	(92,909)	(47,669)
Provision (benefit) for income taxes	2,069	988	591	205
Income (loss) from continuing operations	(14,685)	47,175	(93,500)	(47,874)
Income (loss) from discontinued operations, net of tax	—	—	2,162	—
Net income (loss)	(14,685)	47,175	(91,338)	(47,874)
Net income attributable to noncontrolling interests	(2,000)	(2,560)	(8,080)	(9,433)
Net income (loss) attributable to Groupon, Inc.	<u>\$ (16,685)</u>	<u>\$ 44,615</u>	<u>\$ (99,418)</u>	<u>\$ (57,307)</u>
Basic and diluted net income (loss) per share:				
Continuing operations	\$ (0.03)	\$ 0.08	\$ (0.18)	\$ (0.10)
Discontinued operations	—	—	0.01	—
Basic and diluted net income (loss) per share	<u>\$ (0.03)</u>	<u>\$ 0.08</u>	<u>\$ (0.17)</u>	<u>\$ (0.10)</u>
Weighted average number of shares outstanding				
Basic	566,971,238	568,634,988	568,339,335	565,227,625
Diluted	566,971,238	576,379,421	568,339,335	565,227,625
Comprehensive income (loss):				
Net income (loss)	\$ (14,685)	\$ 47,175	\$ (91,338)	\$ (47,874)
Other comprehensive income (loss):				
Other comprehensive income (loss) from continuing operations:				
Net change in unrealized gain (loss) on foreign currency translation adjustments	4,439	(72)	4,426	1,166
Net change in unrealized gain (loss) on available-for-sale securities (net of tax effect of (\$16) and \$46 for the three months ended September 30, 2019 and 2018, and (\$51) and \$60 for the nine months ended September 30, 2019 and 2018)	(47)	94	(151)	(842)
Other comprehensive income (loss) from continuing operations	4,392	22	4,275	324
Other comprehensive income (loss) from discontinued operations	—	—	—	—
Other comprehensive income (loss)	4,392	22	4,275	324
Comprehensive income (loss)	(10,293)	47,197	(87,063)	(47,550)
Comprehensive income (loss) attributable to noncontrolling interest	(2,000)	(2,560)	(8,080)	(9,433)
Comprehensive income (loss) attributable to Groupon, Inc.	<u>\$ (12,293)</u>	<u>\$ 44,637</u>	<u>\$ (95,143)</u>	<u>\$ (56,983)</u>

See Notes to Condensed Consolidated Financial Statements.

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

	Groupon, Inc. Stockholders' Equity									
	Common Stock		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, 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)	—	—	—	—	—	(42,487)	3,313	(39,174)	3,479	(35,695)
Exercise of stock options	12,500	—	8	—	—	—	—	8	—	8
Vesting of restricted stock units and performance share units	4,160,415	—	—	—	—	—	—	—	—	—
Shares issued under employee stock purchase plan	719,297	—	1,998	—	—	—	—	1,998	—	1,998
Tax withholdings related to net share settlements of stock-based compensation awards	(1,585,728)	—	(5,681)	—	—	—	—	(5,681)	—	(5,681)
Repurchases of common stock	—	—	—	(4,407,995)	(15,055)	—	—	(15,055)	—	(15,055)
Stock-based compensation on equity-classified awards	—	—	17,731	—	—	—	—	17,731	—	17,731
Distributions to noncontrolling interest holders	—	—	—	—	—	—	—	—	(3,521)	(3,521)
Balance at March 31, 2019	764,245,924	76	2,248,616	(196,263,123)	(892,546)	(1,052,986)	37,915	341,075	1,321	342,396
Comprehensive income (loss)	—	—	—	—	—	(40,246)	(3,430)	(43,676)	2,601	(41,075)
Exercise of stock options	30,000	—	32	—	—	—	—	32	—	32
Vesting of restricted stock units and performance share units	4,404,213	—	—	—	—	—	—	—	—	—
Tax withholdings related to net share settlements of stock-based compensation awards	(1,524,402)	—	(5,387)	—	—	—	—	(5,387)	—	(5,387)
Repurchases of common stock	—	—	—	(4,228,148)	(15,053)	—	—	(15,053)	—	(15,053)
Stock-based compensation on equity-classified awards	—	—	28,339	—	—	—	—	28,339	—	28,339
Distributions to noncontrolling interest holders	—	—	—	—	—	—	—	—	(3,113)	(3,113)
Balance at June 30, 2019	767,155,735	76	2,271,600	(200,491,271)	(907,599)	(1,093,232)	34,485	305,330	809	306,139
Comprehensive income (loss)	—	—	—	—	—	(16,685)	4,392	(12,293)	2,000	(10,293)
Vesting of restricted stock units and performance share units	1,986,101	—	—	—	—	—	—	—	—	—
Shares issued under employee stock purchase plan	766,709	—	2,085	—	—	—	—	2,085	—	2,085
Tax withholdings related to net share settlements of stock-based compensation awards	(733,261)	—	(2,049)	—	—	—	—	(2,049)	—	(2,049)
Repurchases of common stock	—	—	—	(5,391,084)	(15,067)	—	—	(15,067)	—	(15,067)
Stock-based compensation on equity-classified awards	—	—	22,364	—	—	—	—	22,364	—	22,364
Distributions to noncontrolling interest holders	—	—	—	—	—	—	—	—	(2,053)	(2,053)
Balance at September 30, 2019	<u>769,175,284</u>	<u>\$ 76</u>	<u>\$ 2,294,000</u>	<u>(205,882,355)</u>	<u>\$ (922,666)</u>	<u>\$ (1,109,917)</u>	<u>\$ 38,877</u>	<u>\$ 300,370</u>	<u>\$ 756</u>	<u>\$ 301,126</u>

See Notes to Condensed Consolidated Financial Statements.

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

Groupon, Inc. Stockholders' Equity										
	Common Stock		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, 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)	—	—	—	—	—	(6,888)	(2,069)	(8,957)	4,093	(4,864)
Exercise of stock options	2,400	—	6	—	—	—	—	6	—	6
Vesting of restricted stock units and performance share units	4,157,462	—	—	—	—	—	—	—	—	—
Shares issued under employee stock purchase plan	746,773	—	2,434	—	—	—	—	2,434	—	2,434
Shares issues 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	(2,024,590)	—	(9,355)	—	—	—	—	(9,355)	—	(9,355)
Stock-based compensation on equity-classified awards	—	—	18,240	—	—	—	—	18,240	—	18,240
Distributions to noncontrolling interest holders	—	—	—	—	—	—	—	—	(3,315)	(3,315)
Balance at March 31, 2018	752,664,286	75	2,192,469	(188,602,242)	(867,450)	(1,006,308)	29,936	348,722	1,650	350,372
Comprehensive income (loss)	—	—	—	—	—	(95,034)	2,371	(92,663)	2,780	(89,883)
Exercise of stock options	665,343	—	64	—	—	—	—	64	—	64
Vesting of restricted stock units and performance share units	3,628,257	1	(1)	—	—	—	—	—	—	—
Tax withholdings related to net share settlements of stock-based compensation awards	(1,151,259)	—	(5,144)	—	—	—	—	(5,144)	—	(5,144)
Stock-based compensation on equity-classified awards	—	—	19,353	—	—	—	—	19,353	—	19,353
Distributions to noncontrolling interest holders	—	—	—	—	—	—	—	—	(3,625)	(3,625)
Balance at June 30, 2018	755,806,627	76	2,206,741	(188,602,242)	(867,450)	(1,101,342)	32,307	270,332	805	271,137
Comprehensive income (loss)	—	—	—	—	—	44,615	22	44,637	2,560	47,197
Exercise of stock options	2,650	—	6	—	—	—	—	6	—	6
Vesting of restricted stock units and performance share units	3,221,540	—	—	—	—	—	—	—	—	—
Shares issued under employee stock purchase plan	874,288	—	3,200	—	—	—	—	3,200	—	3,200
Tax withholdings related to net share settlements of stock-based compensation awards	(1,104,495)	—	(4,531)	—	—	—	—	(4,531)	—	(4,531)
Stock-based compensation on equity-classified awards	—	—	17,007	—	—	—	—	17,007	—	17,007
Distributions to noncontrolling interest holders	—	—	—	—	—	—	—	—	(2,376)	(2,376)
Balance at September 30, 2018	758,800,610	\$ 76	\$ 2,222,423	(188,602,242)	\$ (867,450)	\$ (1,056,727)	\$ 32,329	\$ 330,651	\$ 989	\$ 331,640

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2019	2018
Operating activities		
Net income (loss)	\$ (91,338)	\$ (47,874)
Less: Income (loss) from discontinued operations, net of tax	2,162	—
Income (loss) from continuing operations	(93,500)	(47,874)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization of property, equipment and software	69,986	76,984
Amortization of acquired intangible assets	11,419	10,316
Stock-based compensation	62,517	50,670
Impairments of investments	—	10,156
Deferred income taxes	816	(6,575)
(Gain) loss from changes in fair value of investments	68,971	8,312
Amortization of debt discount on convertible senior notes	9,772	8,822
Change in assets and liabilities, net of acquisitions and dispositions:		
Accounts receivable	12,581	20,217
Prepaid expenses and other current assets	2,591	(2,695)
Accounts payable	(16,892)	(16,034)
Accrued merchant and supplier payables	(216,127)	(214,748)
Accrued expenses and other current liabilities	(62,728)	(45,175)
Other, net	20,476	14,663
Net cash provided by (used in) operating activities from continuing operations	(130,118)	(132,961)
Net cash provided by (used in) operating activities from discontinued operations	—	—
Net cash provided by (used in) operating activities	(130,118)	(132,961)
Investing activities		
Purchases of property and equipment and capitalized software	(51,854)	(53,611)
Proceeds from sale of intangible assets	—	1,500
Proceeds from sale of investment	—	8,594
Acquisition of business, net of acquired cash	—	(57,821)
Acquisitions of intangible assets and other investing activities	(3,037)	(17,147)
Net cash provided by (used in) investing activities from continuing operations	(54,891)	(118,485)
Net cash provided by (used in) investing activities from discontinued operations	—	—
Net cash provided by (used in) investing activities	(54,891)	(118,485)
Financing activities		
Issuance costs for revolving credit agreement	(2,384)	—
Payments for repurchases of common stock	(44,162)	—
Taxes paid related to net share settlements of stock-based compensation awards	(13,975)	(18,638)
Proceeds from stock option exercises and employee stock purchase plan	4,123	5,710
Distributions to noncontrolling interest holders	(8,687)	(9,316)
Payments of finance lease obligations	(16,868)	(25,289)
Payments of contingent consideration related to acquisitions	—	(1,815)
Net cash provided by (used in) financing activities	(81,953)	(49,348)
Effect of exchange rate changes on cash, cash equivalents and restricted cash, including cash classified within current assets of discontinued operations	(9,153)	(9,287)
Net increase (decrease) in cash, cash equivalents and restricted cash, including cash classified within current assets of discontinued operations	(276,115)	(310,081)
Less: Net increase (decrease) in cash classified within current assets of discontinued operations	—	—
Net increase (decrease) in cash, cash equivalents and restricted cash	(276,115)	(310,081)
Cash, cash equivalents and restricted cash, beginning of period ⁽¹⁾	844,728	885,481
Cash, cash equivalents and restricted cash, end of period ⁽¹⁾	<u>\$ 568,613</u>	<u>\$ 575,400</u>
Non-cash investing and financing activities		
Continuing operations:		

Equipment acquired under capital lease arrangements ⁽²⁾	\$	3,865	\$	13,789
Leasehold improvements funded by lessor		—		557
Liability for repurchases of common stock		(1,469)		—
Increase (decrease) in liabilities related to purchases of property and equipment and capitalized software		(201)		699
Contingent consideration liabilities incurred in connection with acquisition of business		—		1,589
Financing obligation incurred in connection with acquisition of business		—		8,604

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

- (1) The following table provides a reconciliation of cash, cash equivalents and restricted cash shown above to amounts reported within the condensed consolidated balance sheets as of September 30, 2019, December 31, 2018, September 30, 2018 and December 31, 2017 and amounts previously reported within the condensed consolidated balance sheet in our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2018 (in thousands):

	September 30, 2019	December 31, 2018	September 30, 2018	December 31, 2017
Cash and cash equivalents	\$ 567,285	\$ 841,021	\$ 572,358	\$ 880,129
Restricted cash included in prepaid expenses and other current assets	1,101	3,320	2,649	4,932
Restricted cash included in other non-current assets	227	387	393	420
Cash, cash equivalents and restricted cash	<u>\$ 568,613</u>	<u>\$ 844,728</u>	<u>\$ 575,400</u>	<u>\$ 885,481</u>

- (2) Please refer to Note 6, *Leases*, for supplemental cash flow information on our leasing obligations, as required by our adoption of ASU 2016-02, *Leases* ("Topic 842"), on January 1, 2019.

See Notes to Condensed Consolidated Financial Statements.

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

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Company Information

Groupon, Inc. and its subsidiaries, which commenced operations in October 2008, operate 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 websites, primarily localized groupon.com sites in many countries, and our mobile applications.

Our operations are organized into two segments: North America and International. See Note 13, *Segment Information*.

Unaudited Interim Financial Information

We have prepared the accompanying condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial reporting. These condensed consolidated financial statements are unaudited and, in our opinion, include all adjustments, consisting of normal recurring adjustments and accruals, necessary for a fair presentation of the condensed consolidated balance sheets, statements of operations and comprehensive income (loss), cash flows and stockholders' equity for the periods presented. Operating results for the periods presented are not necessarily indicative of the results to be expected for the full year ending December 31, 2019. Certain information and disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") have been omitted in accordance with the rules and regulations of the SEC. These condensed consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on February 12, 2019.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Groupon, Inc. and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated financial statements were prepared in accordance with U.S. GAAP and include the assets, liabilities, revenue and expenses of all wholly-owned subsidiaries and majority-owned subsidiaries over which we exercise control and a variable interest entity for which we have determined that we are the primary beneficiary. In the first quarter of 2019, we extended our arrangement through July 2022 with the strategic partner in the variable interest entity that we consolidate. Outside stockholders' interests in subsidiaries are shown on the condensed consolidated financial statements as Noncontrolling interests. Investments in entities in which we do not have a controlling financial interest are accounted for under the equity method, the fair value option, 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 condensed consolidated balance sheets. See Note 6, *Leases*, for 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 condensed 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 \$2.4 million and \$5.2 million of implementation costs for the three and nine months ended September 30, 2019. Those capitalized costs are included within Other non-current assets on the condensed consolidated balance sheet as of September 30, 2019. We have not recognized any amortization related to these implementation costs. We will amortize the implementation costs 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 in Selling, general and administrative expense on the condensed consolidated statements of operations.

Reclassifications and Terminology Changes

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

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires estimates and assumptions that affect the reported amounts and classifications of assets and liabilities, revenue and expenses, and the related disclosures of contingent liabilities in

the condensed consolidated financial statements and accompanying notes. Estimates are used for, but not limited to, variable consideration from unredeemed vouchers, income taxes, 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.

2. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table summarizes goodwill activity by segment for the nine months ended September 30, 2019 (in thousands):

	North America	International	Consolidated
Balance as of December 31, 2018	\$ 178,685	\$ 146,806	\$ 325,491
Foreign currency translation	—	(5,934)	(5,934)
Balance as of September 30, 2019	<u>\$ 178,685</u>	<u>\$ 140,872</u>	<u>\$ 319,557</u>

The following table summarizes intangible assets as of September 30, 2019 and December 31, 2018 (in thousands):

Asset Category	September 30, 2019			December 31, 2018		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Customer relationships	\$ 16,200	\$ 15,750	\$ 450	\$ 16,200	\$ 11,700	\$ 4,500
Merchant relationships	20,913	7,047	13,866	21,554	4,105	17,449
Trade names	9,394	7,199	2,195	9,476	6,799	2,677
Developed technology	14,882	13,659	1,223	13,825	13,485	340
Patents	22,383	17,690	4,693	20,508	16,451	4,057
Other intangible assets	26,072	12,002	14,070	26,007	9,629	16,378
Total	<u>\$ 109,844</u>	<u>\$ 73,347</u>	<u>\$ 36,497</u>	<u>\$ 107,570</u>	<u>\$ 62,169</u>	<u>\$ 45,401</u>

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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 related to intangible assets was \$3.7 million and \$3.9 million for the three months ended September 30, 2019 and 2018, and \$11.4 million and \$10.3 million for the nine months ended September 30, 2019 and 2018. As of September 30, 2019, estimated future amortization expense related to intangible assets is as follows (in thousands):

Remaining amounts in 2019	\$	2,843
2020		8,445
2021		7,336
2022		6,750
2023		5,613
Thereafter		5,510
Total	<u>\$</u>	<u>36,497</u>

3. INVESTMENTS

The following table summarizes investments as of September 30, 2019 and December 31, 2018 (dollars in thousands):

	September 30, 2019	Percent Ownership of Voting Stock	December 31, 2018	Percent Ownership of Voting Stock
Available-for-sale securities - redeemable preferred shares	\$ 10,138	19% to 25%	\$ 10,340	19% to 25%
Fair value option investments	4,931	10% to 19%	73,902	10% to 19%
Other equity investments	23,055	1% to 19%	24,273	1% to 19%
Total investments	<u>\$ 38,124</u>		<u>\$ 108,515</u>	

Available-for-Sale Securities - Redeemable Preferred Shares

The following table summarizes amortized cost, gross unrealized gain (loss), and fair value of redeemable preferred shares as of September 30, 2019 and December 31, 2018 (in thousands):

	September 30, 2019	December 31, 2018
Amortized cost	\$ 9,961	\$ 9,961
Gross unrealized gain (loss)	177	379
Fair value	<u>\$ 10,138</u>	<u>\$ 10,340</u>

We recorded an other-than-temporary impairment of an available-for-sale security of \$5.5 million for the nine months ended September 30, 2018. That impairment is classified within Other income (expense), net on the condensed consolidated statements of operations. There were no impairments of available-for-sale securities for the three and nine months ended September 30, 2019.

Fair Value Option Investments

In connection with the dispositions of controlling stakes in TMON Inc. ("TMON"), an entity based in the Republic of Korea, in May 2015 and Groupon India in August 2015, we obtained minority investments in Monster Holdings LP ("Monster LP") and in Nearbuy Pte Ltd. ("Nearbuy"), respectively. 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, and 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.

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We determined that the fair value of our investments in Monster LP and Nearbuy was \$0.0 million and \$4.9 million as of September 30, 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 three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Monster LP	\$ —	\$ (474)	\$ (69,408)	\$ (8,759)
Nearbuy	14	230	437	447
Total	\$ 14	\$ (244)	\$ (68,971)	\$ (8,312)

During the first quarter 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 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 table summarizes the condensed financial information for Monster LP for the three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue	\$ 131,188	\$ 93,625	\$ 383,204	\$ 265,009
Gross profit	9,854	6,344	27,261	20,155
Loss before income taxes	(28,980)	(32,162)	(89,304)	(101,029)
Net loss	(28,980)	(32,162)	(89,304)	(101,029)

Other Equity Investments

Other equity investments represents equity investments without readily determinable fair values. We have elected to record equity investments without readily determinable fair values at cost adjusted for observable price changes and impairments. We recorded \$4.7 million of impairments of other equity method investments for the nine months ended September 30, 2018. Those impairments are classified within Other income (expense), net on the condensed consolidated statements of operations. There were no other adjustments for observable price changes related to these investments since our adoption of ASU 2016-01, *Financial Instruments (Topic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities*, on January 1, 2018.

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4. SUPPLEMENTAL CONDENSED CONSOLIDATED BALANCE SHEETS AND STATEMENTS OF OPERATIONS INFORMATION

The following table summarizes other income (expense), net for the three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest income	\$ 1,959	\$ 1,513	\$ 5,810	\$ 4,858
Interest expense	(6,029)	(5,713)	(17,162)	(16,434)
Changes in fair value of investments	14	(244)	(68,971)	(8,312)
Foreign currency gains (losses), net	(12,785)	(1,033)	(11,855)	(12,168)
Impairments of investments	—	(112)	—	(10,156)
Other	(412)	729	(424)	2,380
Other income (expense), net	<u>\$ (17,253)</u>	<u>\$ (4,860)</u>	<u>\$ (92,602)</u>	<u>\$ (39,832)</u>

The following table summarizes prepaid expenses and other current assets as of September 30, 2019 and December 31, 2018 (in thousands):

	September 30, 2019	December 31, 2018
Merchandise inventories	\$ 27,422	\$ 33,739
Prepaid expenses	31,865	28,209
Income taxes receivable	6,875	6,717
Other	15,505	19,450
Total prepaid expenses and other current assets	<u>\$ 81,667</u>	<u>\$ 88,115</u>

The following table summarizes accrued merchant and supplier payables as of September 30, 2019 and December 31, 2018 (in thousands):

	September 30, 2019	December 31, 2018
Accrued merchant payables	\$ 308,269	\$ 371,279
Accrued supplier payables ⁽¹⁾	119,908	280,502
Total accrued merchant and supplier payables	<u>\$ 428,177</u>	<u>\$ 651,781</u>

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

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The following table summarizes accrued expenses and other current liabilities as of September 30, 2019 and December 31, 2018 (in thousands):

	September 30, 2019	December 31, 2018
Refunds reserve	\$ 18,083	\$ 27,957
Compensation and benefits	62,664	56,173
Accrued marketing	22,450	39,094
Customer credits	16,362	15,118
Income taxes payable	4,337	8,987
Deferred revenue	15,993	25,452
Current portion of lease obligations ⁽¹⁾	40,399	17,207
Other	58,816	77,046
Total accrued expenses and other current liabilities	\$ 239,104	\$ 267,034

- (1) Current portion of lease obligations as of September 30, 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 6, *Leases*, for additional information.

The following table summarizes other non-current liabilities as of September 30, 2019 and December 31, 2018 (in thousands):

	September 30, 2019	December 31, 2018
Contingent income tax liabilities	\$ 32,440	\$ 39,858
Deferred rent ⁽¹⁾	—	32,186
Deferred income taxes	4,403	6,619
Other	14,118	22,025
Total other non-current liabilities	\$ 50,961	\$ 100,688

- (1) Non-current operating lease liabilities as of September 30, 2019 are included within Operating lease obligations on the condensed consolidated balance sheet as a result of the adoption of Topic 842 on January 1, 2019. Refer to Note 6, *Leases*, for additional information.

5. 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 \$2.66 as of September 30, 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 condensed 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 condensed 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 condensed consolidated balance sheet and are being amortized to interest expense over the term of the Notes. Transaction costs attributable to the equity component of \$2.0 million were recorded in stockholders' equity as a reduction of the equity component.

The carrying amount of the Notes consisted of the following as of September 30, 2019 and December 31, 2018 (in thousands):

	September 30, 2019	December 31, 2018
Liability component:		
Principal amount	\$ 250,000	\$ 250,000
Less: debt discount	(38,559)	(48,331)
Net carrying amount of liability component	\$ 211,441	\$ 201,669
Net carrying amount of equity component	\$ 67,014	\$ 67,014

The estimated fair value of the Notes as of September 30, 2019 and December 31, 2018 was \$259.0 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 September 30, 2019, the remaining term of the Notes is approximately 2 years and 6 months. During the three and nine months ended September 30, 2019 and 2018, we recognized interest costs on the Notes as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Contractual interest (3.25% of the principal amount per annum)	\$ 2,032	\$ 2,032	\$ 6,096	\$ 6,096
Amortization of debt discount	3,341	3,016	9,772	8,822
Total	\$ 5,373	\$ 5,048	\$ 15,868	\$ 14,918

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 condensed consolidated balance sheets as of September 30, 2019 and December 31, 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 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 condensed consolidated balance

sheet as of September 30, 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 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 September 30, 2019, we had no borrowings outstanding under the 2019 Credit Agreement and as of December 31, 2018, we had no borrowings outstanding under the 2016 Credit Agreement. As of September 30, 2019, we had outstanding letters of credit of \$18.0 million under the 2019 Credit Agreement and as of December 31, 2018, we had outstanding letters of credit of \$19.2 million under the 2016 Credit Agreement.

6. 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 condensed consolidated balance sheets. Beginning on January 1, 2019, our condensed 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.

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.

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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 and may receive renewal or expansion options, rent holidays and leasehold improvement or other incentives on certain lease agreements.

Our operating leases primarily consist of leases for real estate throughout the world with lease expirations between 2019 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 2019 and 2023.

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. The interest expense on operating leases is presented within Selling, general and administrative expense on the condensed 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 condensed consolidated balance sheets. The interest expense on finance leases is presented within Other income (expense), net on the condensed 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 condensed consolidated balance sheets.

We have also subleased certain office facilities under operating lease agreements, with expirations between 2023 and 2026. We recognize sublease rentals on a straight-line basis over their respective lease terms.

The following summarizes right-of-use assets as of September 30, 2019 (in thousands):

	September 30, 2019
Right-of-use assets - operating leases	\$ 130,757
Right-of-use assets - finance leases ⁽¹⁾	31,255
Total right-of-use assets, gross	162,012
Less: accumulated depreciation and amortization	(29,964)
Right-of-use assets, net	\$ 132,048

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

Related Party Sublease Agreement

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 the 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 \$0.5 million for both the three months ended September 30, 2019 and 2018, and \$1.7 million and \$1.5 million for the nine months ended September 30, 2019 and 2018.

Significant Assumptions and Judgments

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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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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. The discount rate used for our lease obligations as of September 30, 2019 and January 1, 2019 ranged from 1.5% to 6.9%. As of September 30, 2019, the weighted-average remaining lease term for our finance leases and operating leases was 2 years and 5 years. As of September 30, 2019, the weighted-average discount rate for our finance leases and operating leases was 5.1% and 5.6%.

The following table summarizes our lease cost and sublease income for the three and nine months ended September 30, 2019 (in thousands):

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Financing lease cost:		
Amortization of right-of-use assets	\$ 3,492	\$ 16,247
Interest on lease liabilities	243	816
Total finance lease cost	3,735	17,063
Operating lease cost	8,573	25,784
Variable lease cost	2,410	6,319
Short-term lease cost	52	262
Sublease income, gross	(1,248)	(3,872)
Total lease cost	<u>\$ 13,522</u>	<u>\$ 45,556</u>

As of September 30, 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
Remaining in 2019	\$ 2,056	\$ 10,003
2020	9,611	36,609
2021	5,261	34,416
2022	715	33,579
2023	12	25,130
Thereafter	—	33,103
Total minimum lease payments	17,655	172,840
Less: Amount representing interest	(863)	(22,972)
Present value of net minimum lease payments	16,792	149,868
Less: Current portion of lease obligations	(8,939)	(31,460)
Total long-term lease obligations	<u>\$ 7,853</u>	<u>\$ 118,408</u>

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As of September 30, 2019, the future amounts due under subleases for each of the next five years and thereafter are as follows (in thousands):

	Subleases
Remaining in 2019	\$ 1,246
2020	5,027
2021	5,065
2022	5,103
2023	4,385
Thereafter	4,891
Total future sublease income	\$ 25,717

The following table summarizes supplemental cash flow information on our leasing obligations for the nine months ended September 30, 2019 (in thousands):

	Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from finance leases	\$ (816)
Operating cash flows from operating leases	(25,121)
Financing cash flows from finance leases	(16,868)
Right-of-use assets obtained in exchange for lease liabilities:	
Finance leases	3,865
Operating leases	23,123

7. COMMITMENTS AND CONTINGENCIES

Our contractual obligations and commitments as of September 30, 2019 did not materially change from the amounts set forth in our 2018 Annual Report on Form 10-K, except as disclosed in Note 6, *Leases*.

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 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, condensed 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, 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. During the first quarter of 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 condensed consolidated statement of operations for the nine months ended September 30, 2019. Our remaining indemnification liabilities were \$3.2 million as of September 30, 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 September 30, 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 the operating results, financial position or cash flows.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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8. STOCKHOLDERS' EQUITY AND COMPENSATION ARRANGEMENTS

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 three and nine months ended September 30, 2019, we repurchased 5,391,084 and 14,027,227 shares for an aggregate purchase price of \$15.1 million and \$45.2 million (including fees and commissions) under our repurchase program. As of September 30, 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.

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 Incentive Plan, as amended (the "2011 Plan"), 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 (the "Plans") are administered by the Compensation Committee of the Board (the "Compensation Committee"). As of September 30, 2019, 71,768,289 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 condensed consolidated statements of operations for the three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Cost of revenue	\$ 405	\$ 419	\$ 1,163	\$ 1,103
Marketing	1,671	1,854	4,586	5,411
Selling, general and administrative	17,467	12,753	56,768	44,056
Other income (expense), net	—	—	—	100
Total stock-based compensation expense	\$ 19,543	\$ 15,026	\$ 62,517	\$ 50,670

We capitalized \$2.0 million and \$2.0 million of stock-based compensation for the three months ended September 30, 2019 and 2018, and \$5.5 million and \$5.7 million for the nine months ended September 30, 2019 and 2018 in connection with internally-developed software and cloud computing arrangements.

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Employee Stock Purchase Plan

The Groupon, Inc. 2012 Employee Stock Purchase Plan, as amended ("ESPP"), authorizes us to grant up to 20,000,000 shares of common stock under that plan. For the nine months ended September 30, 2019 and 2018, 1,486,006 and 1,621,061 shares of common stock were issued under the ESPP.

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. Additionally, we are required to issue restricted stock units to settle amounts that exceed targeted bonus amounts under our primary bonus plans. We account for those obligations, if any, as liability-classified awards with performance conditions.

The table below summarizes restricted stock unit activity under the Plans for the nine months ended September 30, 2019:

	Restricted Stock Units	Weighted-Average Grant Date Fair Value (per unit)
Unvested at December 31, 2018	26,623,432	\$ 4.47
Granted	25,446,060	3.52
Vested	(9,773,156)	4.37
Forfeited	(9,511,750)	4.17
Unvested at September 30, 2019	<u>32,784,586</u>	<u>3.84</u>

As of September 30, 2019, \$96.6 million of unrecognized compensation costs related to unvested restricted stock units are expected to be recognized over a remaining weighted-average period of 1.62 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"). During the nine months ended September 30, 2019, we also 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.

GROUPON, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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The table below summarizes Performance Share Unit activity under the Plans for the nine months ended September 30, 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	(3,124,591)	4.64	(1,666,667)	3.03
Unvested at September 30, 2019	<u>4,170,221</u>	<u>3.98</u>	<u>6,820,041</u>	<u>3.03</u>
Maximum shares issuable upon vesting at September 30, 2019	7,980,870		6,820,041	

As of September 30, 2019, \$8.9 million of unrecognized compensation costs related to unvested performance share units are expected to be recognized over a remaining weighted-average period of 1.94 years and \$8.1 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 0.41 years.

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 vest 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. We did not grant any stock options during the nine months ended September 30, 2019.

The table below summarizes stock option activity for the nine months ended September 30, 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	(42,500)	0.96		
Forfeited	(2,050)	1.68		
Outstanding and exercisable at September 30, 2019	<u>168,237</u>	<u>\$ 1.95</u>	<u>0.67</u>	<u>\$ 119</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 September 30, 2019 and December 31, 2018.

9. REVENUE RECOGNITION

Refer to Note 13, *Segment Information*, for revenue summarized by reportable segment and category for the three and nine months ended September 30, 2019 and 2018.

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 \$16.0 million and \$25.5 million as of September 30, 2019 and December 31, 2018. The amount of revenue recognized for the nine months ended September 30, 2019 that was included in the deferred revenue balance at the beginning of the period was \$25.0 million.

GROUPON, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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The following table summarizes the activity in the liability for customer credits for the nine months ended September 30, 2019 (in thousands):

	Customer Credits
Balance as of December 31, 2018	\$ 15,118
Credits issued	85,053
Credits redeemed ⁽¹⁾	(74,974)
Breakage revenue recognized	(8,617)
Foreign currency translation	(218)
Balance as of September 30, 2019	\$ 16,362

- (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 typically used within one year of issuance.

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. Deferred contract acquisition costs are presented within the following line items of the condensed consolidated balance sheets as of September 30, 2019 and December 31, 2018 (in thousands):

	September 30, 2019	December 31, 2018
Prepaid expenses and other current assets	\$ 2,185	\$ 2,923
Other non-current assets	10,449	11,285

The amortization of deferred contract acquisition costs is classified within Selling, general and administrative expense in the condensed consolidated statements of operations. We did not recognize any impairment losses in relation to the deferred costs. During the three and nine months ended September 30, 2019 and 2018, amortization expense related to deferred contract acquisition costs is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Amortization of deferred contract acquisition costs	\$ 5,010	\$ 6,151	\$ 15,549	\$ 19,450

Variable Consideration for Unredeemed Vouchers

In our International segment and, to a lesser extent, in our North America segment, our merchant agreements have redemption payment terms, under which 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 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 condensed consolidated financial statements. As of September 30, 2019 and December 31, 2018, we constrained \$16.5 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.

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10. INCOME TAXES

Our income tax provision for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items.

Provision (benefit) for income taxes and income (loss) from continuing operations before provision (benefit) for income taxes for the three and nine months ended September 30, 2019 and 2018 was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Provision (benefit) for income taxes	\$ 2,069	\$ 988	\$ 591	\$ 205
Income (loss) from continuing operations before provision (benefit) for income taxes	(12,616)	48,163	(92,909)	(47,669)

Our U.S. Federal income tax rate is 21%. The primary factor impacting the effective tax rate for the three and nine months ended September 30, 2019 and 2018 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. The effective tax rate for the nine months ended September 30, 2019 also reflected the reversal of reserves for uncertain tax positions due to the closure of a tax audit. The effective tax rate for the nine months ended September 30, 2018 also reflected a \$6.4 million income tax benefit resulting from the impact of Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* ("Topic 606") on intercompany activity in certain foreign jurisdictions.

We are currently undergoing income tax audits in multiple 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 are subject to claims for tax assessments by foreign jurisdictions, including a proposed assessment for \$105.6 million. 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 \$21.0 million in unrecognized tax benefits may occur within the 12 months following September 30, 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 September 30, 2019 and December 31, 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. We do not expect that the ruling will have a material impact on our provision for income taxes for the year ending December 31, 2019 due to the valuation allowances against our net deferred tax assets in the related jurisdictions.

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11. FAIR VALUE MEASUREMENTS

Fair value is defined under U.S. GAAP as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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. 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.

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 condensed 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.

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The following tables summarize assets that are measured at fair value on a recurring basis as of September 30, 2019 and December 31, 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)
	September 30, 2019			
Assets:				
Fair value option investments	\$ 4,931	\$ —	\$ —	\$ 4,931
Available-for-sale securities - redeemable preferred shares	10,138	—	—	10,138
Liabilities:				
Contingent consideration	1,207	—	—	1,207

		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, 2018			
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

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The following table provides a rollforward of the fair value of recurring Level 3 fair value measurements for the three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Assets				
Fair value option investments:				
Beginning Balance	\$ 4,917	\$ 74,898	\$ 73,902	\$ 82,966
Total gains (losses) included in earnings	14	(244)	(68,971)	(8,312)
Ending Balance	\$ 4,931	\$ 74,654	\$ 4,931	\$ 74,654
Unrealized gains (losses) still held ⁽¹⁾	\$ 14	\$ (244)	\$ (68,971)	\$ (8,312)
Available-for-sale securities				
Convertible debt securities:				
Beginning Balance	\$ —	\$ 10,236	\$ —	\$ 11,354
Proceeds from sale of convertible debt security	—	(8,594)	—	(8,594)
Transfer to other equity investment upon conversion of convertible debt security	—	(1,500)	—	(4,008)
Total gains (losses) included in other comprehensive income (loss)	—	(106)	—	(1,148)
Total gains (losses) included in earnings ⁽²⁾	—	(36)	—	2,396
Ending Balance	\$ —	\$ —	\$ —	\$ —
Unrealized gains (losses) still held ⁽¹⁾	\$ —	\$ —	\$ —	\$ —
Redeemable preferred shares:				
Beginning Balance	\$ 10,201	\$ 9,961	\$ 10,340	\$ 15,431
Total gains (losses) included in other comprehensive income (loss)	(63)	246	(202)	246
Impairments included in earnings	—	—	—	(5,470)
Ending Balance	\$ 10,138	\$ 10,207	\$ 10,138	\$ 10,207
Unrealized gains (losses) still held ⁽¹⁾	\$ (63)	\$ 246	\$ (202)	\$ (5,224)
Liabilities				
Contingent Consideration:				
Beginning Balance	\$ 1,239	\$ 1,542	\$ 1,529	\$ —
Issuance of contingent consideration in connection with acquisition	—	—	—	1,589
Settlements of contingent consideration liabilities	—	—	(312)	—
Total losses (gains) included in earnings	6	21	33	35
Foreign currency translation	(38)	(20)	(43)	(81)
Ending Balance	\$ 1,207	\$ 1,543	\$ 1,207	\$ 1,543
Unrealized gains (losses) still held ⁽¹⁾	\$ 6	\$ 21	\$ 33	\$ 35

(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. We did not record any significant nonrecurring fair value measurements after initial recognition for the three and nine months ended September 30, 2019. We recorded \$4.7 million of impairments of other equity investments for the nine months ended September 30, 2018. To determine the fair value of the investment, we considered the financial condition of the investee and applied a market approach. We classified the fair value measurement of that other equity investment as Level 3 because it involves significant

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

unobservable inputs. We did not record any other nonrecurring fair value measurements after initial recognition for the three and nine months ended September 30, 2018.

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 September 30, 2019 and December 31, 2018 due to their short-term nature.

12. 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, ESPP shares, warrants and convertible senior notes. If dilutive, those potentially dilutive securities are reflected in diluted net income (loss) per share by application of 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 three and nine months ended September 30, 2019 and 2018 (in thousands, except share and per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Basic and diluted net income (loss) per share:				
<i>Numerator</i>				
Net income (loss) - continuing operations	\$ (14,685)	\$ 47,175	\$ (93,500)	\$ (47,874)
Less: Net income (loss) attributable to noncontrolling interests	2,000	2,560	8,080	9,433
Net income (loss) attributable to common stockholders - continuing operations	(16,685)	44,615	(101,580)	(57,307)
Net income (loss) attributable to common stockholders - discontinued operations	—	—	2,162	—
Net income (loss) attributable to common stockholders	\$ (16,685)	\$ 44,615	\$ (99,418)	\$ (57,307)
<i>Denominator</i>				
Shares used in computation of basic net income (loss) per share	566,971,238	568,634,988	568,339,335	565,227,625
Weighted-average effect of dilutive securities:				
Stock options	—	171,662	—	—
Restricted stock units	—	7,344,425	—	—
Employee stock purchase plan	—	228,346	—	—
Shares used in computation of diluted net income (loss) per share	566,971,238	576,379,421	568,339,335	565,227,625
Basic and diluted net income (loss) per share:				
Continuing operations	\$ (0.03)	\$ 0.08	\$ (0.18)	\$ (0.10)
Discontinued operations	—	—	0.01	—
Basic and diluted net income (loss) per share	\$ (0.03)	\$ 0.08	\$ (0.17)	\$ (0.10)

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

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Restricted stock units	35,378,166	12,462,410	33,148,939	31,072,428
Other stock-based compensation awards	1,561,105	16,000	1,630,902	2,073,802
Convertible senior notes	46,296,300	46,296,300	46,296,300	46,296,300
Warrants	46,296,300	46,296,300	46,296,300	46,296,300
Total	129,531,871	105,071,010	127,372,441	125,738,830

We had outstanding performance share units as of September 30, 2019 and 2018 that were eligible to vest into shares of common stock subject to the achievement of specified performance 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. There were up to 14,441,345 and 5,326,725 shares of common stock issuable upon vesting of outstanding performance share units as of September 30, 2019 and 2018 that were excluded from the table above as the performance conditions were not satisfied as of the end of the respective periods.

GROUPON, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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13. 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 three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
North America				
Service revenue:				
Local	\$ 175,140	\$ 180,059	\$ 532,599	\$ 553,340
Goods	3,000	4,021	9,841	12,691
Travel	13,680	17,217	48,746	57,189
Total service revenue	191,820	201,297	591,186	623,220
Product revenue - Goods	111,776	159,854	394,235	511,451
Total North America revenue ⁽¹⁾	303,596	361,151	985,421	1,134,671
International				
Service revenue:				
Local	65,440	75,946	208,625	221,949
Goods	2,817	2,584	6,882	10,965
Travel	8,003	9,387	24,817	30,529
Total service revenue	76,260	87,917	240,324	263,443
Product revenue - Goods	115,756	143,815	380,854	438,705
Total International revenue ⁽¹⁾	\$ 192,016	\$ 231,732	\$ 621,178	\$ 702,148

- (1) North America includes revenue from the United States of \$297.9 million and \$352.3 million for the three months ended September 30, 2019 and 2018 and \$965.9 million and \$1,108.8 million for the nine months ended September 30, 2019 and 2018. International includes revenue from the United Kingdom of \$69.4 million and \$94.0 million for the three months ended September 30, 2019 and 2018 and \$221.8 million and \$268.5 million for the nine months ended September 30, 2019 and 2018. There were no other individual countries that represented more than 10% of consolidated total revenue for the three and nine months ended September 30, 2019 and 2018. Revenue is attributed to individual countries based on the location of the customer.

GROUPON, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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The following table summarizes gross profit by reportable segment and category for the three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
North America				
Service gross profit:				
Local	\$ 155,032	\$ 159,379	\$ 473,787	\$ 491,420
Goods	2,280	3,634	7,838	10,565
Travel	10,717	13,801	38,791	46,106
Total service gross profit	168,029	176,814	520,416	548,091
Product gross profit - Goods	24,046	27,234	80,045	95,008
Total North America gross profit	192,075	204,048	600,461	643,099
International				
Service gross profit:				
Local	61,183	71,639	195,941	209,214
Goods	2,589	2,320	6,241	9,972
Travel	7,332	8,649	22,743	28,219
Total service gross profit	71,104	82,608	224,925	247,405
Product gross profit - Goods	14,761	19,333	50,702	64,028
Total International gross profit	\$ 85,865	\$ 101,941	\$ 275,627	\$ 311,433

The following table summarizes income (loss) from operations by reportable segment for the three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Income (loss) from operations ⁽¹⁾ ⁽²⁾ ⁽³⁾:				
North America	\$ 15,691	\$ 51,004	\$ 20,655	\$ (19,380)
International	(11,054)	2,019	(20,962)	11,543
Total income (loss) from operations	\$ 4,637	\$ 53,023	\$ (307)	\$ (7,837)

- (1) Includes stock-based compensation of \$16.8 million and \$13.8 million for North America and \$2.7 million and \$1.2 million for International for the three months ended September 30, 2019 and 2018 and \$55.7 million and \$46.7 million for North America and \$6.8 million and \$3.9 million for International for the nine months ended September 30, 2019 and 2018.
- (2) Includes acquisition-related (benefit) expense, net of \$0.7 million for International for the nine months ended September 30, 2018.
- (3) The three months ended September 30, 2018 includes a \$40.4 million benefit for North America related to the settlement of the IBM patent litigation and the nine months ended September 30, 2018 includes a \$34.6 million charge for North America related to the IBM patent litigation.

GROUPON, INC.
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The following table summarizes total assets by reportable segment as of September 30, 2019 and December 31, 2018 (in thousands):

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Total assets:		
North America ⁽¹⁾	\$ 883,200	\$ 958,412
International ⁽¹⁾	487,502	683,730
Consolidated total assets	<u>\$ 1,370,702</u>	<u>\$ 1,642,142</u>

- (1) North America contains assets from the United States of \$861.2 million and \$940.5 million as of September 30, 2019 and December 31, 2018. International contains assets from Ireland of \$204.6 million as of December 31, 2018. Assets from Ireland were less than 10% of consolidated total assets as of September 30, 2019. There were no other individual countries that represented more than 10% of consolidated total assets as of September 30, 2019 and December 31, 2018.

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

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

Overview

Groupon operates online local commerce marketplaces in 15 countries that connect merchants to consumers by offering goods and services, generally at a discount. Consumers access those marketplaces through our websites, primarily localized groupon.com sites in many countries, and our mobile applications. Traditionally, local merchants have tried to reach consumers and generate sales through a variety of methods, including online advertising, paid telephone directories, direct mail, newspaper, radio, television and other promotions. By bringing the brick and mortar world of local commerce onto the Internet, Groupon is helping local merchants to attract customers and sell goods and services. We provide consumers with savings and help them discover what to do, eat, see, buy and where to travel.

Our operations are organized into two segments: North America and International. For the nine months ended September 30, 2019, we derived 61.3% of our revenue from our North America segment and 38.7% of our revenue from our International segment. See Item 1, Note 13, *Segment Information*, for additional information. We offer goods and services through our online marketplaces in three primary categories: Local, Goods and Travel.

We generate both product and service revenue from our business operations. Our product revenue from transactions in which we sell merchandise inventory in our Goods category is the purchase price received from the customer. Our service revenue from transactions in which we earn commissions by selling goods or services on behalf of third-party merchants is the purchase price collected from the customer less the portion of the purchase price paid to the merchant.

Our focus is on driving long-term gross profit growth by enhancing the customer experience, establishing Groupon as an open platform, continuing to realize our international potential and maintaining a culture of operational efficiency. We have developed and are testing a number of product enhancements intended to make our offerings easier to use for both customers and merchants and to improve purchase frequency, including cash back offers linked to customer credit cards, booking capabilities and a paid membership program in North America, Groupon Select, which offers greater discounts on our offerings and other benefits. We have also entered into commercial agreements with third parties that enable us to feature additional merchant offerings through our marketplaces and for our inventory to be distributed through other marketplaces. We maintain a long-term focus on driving International to achieve gross profit that is more comparable to that of North America. Our initiatives to grow International include leveraging enhanced marketing analytics, investing more technology resources toward expanding product and service offerings and growing our inventory of deal offerings. While we expect to invest in our key initiatives, we will continue to do so as disciplined operators and seek opportunities to improve our efficiency.

How We Measure Our Business

We use several financial and operating 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.

Financial Metrics

- **Revenue** is earned through product and service revenue transactions. 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. 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 and from voucherless merchant offerings in which customers earn cash back on their credit card statements when they transact with third-party merchants.
- **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 three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue	\$ 495,612	\$ 592,883	\$ 1,606,599	\$ 1,836,819
Gross profit	277,940	305,989	876,088	954,532
Adjusted EBITDA	49,997	56,369	143,473	165,207
Free cash flow	891	(73,483)	(181,972)	(186,572)

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 condensed 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 condensed 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, management is primarily focused on optimizing the business for 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.

Our active customer metric for the TTM ended September 30, 2019 has declined both on a year-over-year basis and sequentially from the TTM ended September 30, 2018. The decline is primarily attributable to a decline in traffic, including traffic from email and search engine optimization ("SEO"), as well as our efforts to improve the efficiency of our marketing spend, which have 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 2019 and, to some extent, into 2020 due to ongoing traffic declines.

- *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* is 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 unit growth to be an important indicator of the total volume of business conducted through our marketplaces.

Our total units sold declined by 9.4% and 11.1% for the three and nine months ended September 30, 2019 as compared with the prior year, primarily reflecting unit declines in our North America segment. The decline in total units sold in the current year was primarily attributable to fewer customers and lower customer traffic, including traffic from email and SEO. We expect sequential improvement in year-over-year unit trends in the remainder of 2019.

Our gross billings and units for the three and nine months ended September 30, 2019 and 2018 were as follows (in thousands, except gross billings per unit amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Gross billings	\$ 1,093,378	\$ 1,216,229	\$ 3,390,331	\$ 3,773,756
Units	35,754	39,450	108,270	121,824
Gross billings per unit	\$ 30.58	\$ 30.83	\$ 31.31	\$ 30.98

Our active customers, gross billings per active customer and gross profit per active customer for the TTM ended September 30, 2019 and 2018 were as follows:

	Trailing Twelve Months Ended September 30,	
	2019	2018
TTM Active customers (in thousands)	45,258	48,769
TTM Gross billings per active customer	\$ 106.49	\$ 109.82
TTM Gross profit per active customer	\$ 27.45	\$ 27.51

Factors Affecting Our Performance

Attracting and Retaining Local Merchants. As we seek to continue to build a more complete online local commerce marketplace platform, we depend on our ability to attract and retain merchants who are willing to offer discounted products and services through our marketplaces. Additionally, merchants can generally withdraw their offerings from our marketplaces at any time and their willingness to continue offering products and services through our platform depends on the effectiveness of our marketing and promotional services. We primarily source the deal offerings available on our marketplaces through our sales teams, which comprise a significant portion of our global

employee base. We have also entered into commercial agreements with third parties that enable us to feature additional merchant offerings through our marketplaces. We continue to focus much of our sales efforts on sourcing local deal offerings in subcategories that we believe provide us with the best opportunities for high frequency customer purchase behavior. In connection with our efforts to grow our offerings in those high frequency subcategories, which include health, beauty and wellness, events and activities, and food and drink, we may be willing to offer more attractive terms to local merchants that could reduce our deal margins in future periods.

Growing Customer Value. We are focused on increasing the long-term value of our customer base and increasing gross profit per customer in order to grow our business. We continue to improve the customer experience on our websites and mobile applications in order to attract and retain customers. Our efforts in these areas are focused on enhancing our products, deploying targeted marketing campaigns and expanding our supply. We expect our new products, such as voucherless offerings and Groupon Select, as well as other enhancements to the customer experience to improve engagement, promote increased purchase frequency and drive customer retention. Within marketing, we are deploying strategies that allow us to leverage data to better segment our customer base and personalize the overall Groupon experience. We use online marketing, such as search engine marketing ("SEM"), and offline campaigns to educate customers on our brand and offerings. Additionally, we consider order discounts and certain other initiatives to drive customer engagement and acquisition to be marketing-related activities, even though such activities may not be presented as marketing expense in our condensed consolidated statements of operations. 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 are focused on developing sources of traffic other than 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. Additionally, we are actively expanding and improving our supply in order to increase the rate at which visitors to our websites and mobile applications complete a purchase.

Investing in Growth. We have invested significantly in product and technology enhancements intended to support the growth of our online marketplaces and we intend to continue to do so in the future. We have also invested in business acquisitions to grow our merchant and customer base and advance our product and technology capabilities. We are currently developing and testing a number of product enhancements intended to make our offerings easier to use for both customers and merchants and to improve purchase frequency, including cash back offers linked to customer credit cards, booking capabilities and Groupon Select. We believe that those initiatives may be important drivers for increasing customer purchase frequency and growing our business over time. We are currently focusing our efforts on growing customer awareness of those products and scaling the related merchant base. As such, our gross profit and operating income may be adversely impacted in the near term as we focus more on driving our strategic initiatives. Additionally, many of our cash back offers linked to customer credit cards involve collecting a net fee from the merchant, rather than selling a voucher to the customer and then remitting a portion of the proceeds to the merchant. As we report sales of vouchers to customers as gross billings, the growth of voucherless cash back transactions with this merchant payment structure could adversely impact our gross billings trends in future periods. Mobile consumers, particularly those accessing our marketplaces through the mobile web, generally complete purchases at a lower rate and at lower average transaction prices than consumers accessing our marketplaces through desktop computers. As a substantial majority of our traffic comes from consumers on mobile devices, we are focused on improving the mobile experience in order to increase purchase rates. Our initiatives to improve the mobile experience include improving page speeds, enhancing our relevance algorithms, streamlining the checkout process and bringing our mobile web experience to parity with that of our mobile applications.

Managing Operating Efficiency. We are focused on effectively managing our cost structure as we seek to grow our profitability in future periods. Our prior restructuring actions and our continuing efforts to automate internal processes have allowed us to centralize many of our back office activities in lower cost shared service centers resulting in significant reductions in our selling, general and administrative expense in recent periods. We have primarily used those savings to invest in marketing, people and product enhancements intended to drive the long-term growth of our business. We intend to continue to focus on driving operating efficiency.

Results of Operations

Gross Billings

Three Months Ended September 30, 2019 and 2018:

Gross billings by category and segment for the three months ended September 30, 2019 and 2018 were as follows (dollars in thousands):

	Three Months Ended September 30,			
	2019	2018	\$ Change	% Change
North America				
Service gross billings:				
Local	\$ 511,173	\$ 534,246	\$ (23,073)	(4.3)%
Goods	21,300	24,503	(3,203)	(13.1)
Travel	71,144	83,991	(12,847)	(15.3)
Total service gross billings	603,617	642,740	(39,123)	(6.1)
Product gross billings - Goods	111,776	159,854	(48,078)	(30.1)
Total North America gross billings	715,393	802,594	(87,201)	(10.9)
International				
Service gross billings:				
Local	204,823	209,623	(4,800)	(2.3)
Goods	13,308	14,041	(733)	(5.2)
Travel	44,098	46,156	(2,058)	(4.5)
Total service gross billings	262,229	269,820	(7,591)	(2.8)
Product gross billings - Goods	115,756	143,815	(28,059)	(19.5)
Total International gross billings	377,985	413,635	(35,650)	(8.6)
Total gross billings	\$ 1,093,378	\$ 1,216,229	\$ (122,851)	(10.1)

The effect on our gross billings for the three months ended September 30, 2019 from changes in exchange rates versus the U.S. dollar was as follows (in thousands):

	Three Months Ended September 30, 2019		
	At Avg. Q3 2018 Rates ⁽¹⁾	Exchange Rate Effect ⁽²⁾	As Reported
Gross billings	\$ 1,110,431	\$ (17,053)	\$ 1,093,378

(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.

North America

North America gross billings were 65.4% and 66.0% of total gross billings for the three months ended September 30, 2019 and 2018. North America gross billings decreased for the three months ended September 30, 2019 compared with the prior year period due to fewer customers and lower customer traffic, including traffic from email and SEO. Those decreases were partially offset by higher gross billings per unit due to a shift in mix of offerings sold.

The above factors also resulted in a decline in total units sold, which decreased to 21.8 million units for the three months ended September 30, 2019, as compared with 25.3 million units in the prior year period.

International

International gross billings were 34.6% and 34.0% of total gross billings for the three months ended September 30, 2019 and 2018. International gross billings decreased \$35.7 million for the three months ended September 30, 2019 compared with the prior year period, primarily due to weak consumer sentiment in Europe, especially in the United Kingdom, intense competition in our Goods business, a \$17.0 million unfavorable impact from year-over-year changes in foreign currency rates and lower gross billings per unit due to a shift in mix of offerings sold.

Nine Months Ended September 30, 2019 and 2018:

Gross billings by category and segment for the nine months ended September 30, 2019 and 2018 were as follows (dollars in thousands):

	Nine Months Ended September 30,			
	2019	2018	\$ Change	% Change
North America				
Service gross billings:				
Local	\$ 1,517,312	\$ 1,625,323	\$ (108,011)	(6.6)%
Goods	60,833	78,883	(18,050)	(22.9)
Travel	247,256	280,299	(33,043)	(11.8)
Total service gross billings	1,825,401	1,984,505	(159,104)	(8.0)
Product gross billings - Goods	394,235	511,451	(117,216)	(22.9)
Total North America gross billings	2,219,636	2,495,956	(276,320)	(11.1)
International				
Service gross billings:				
Local	615,669	630,178	(14,509)	(2.3)
Goods	34,787	56,473	(21,686)	(38.4)
Travel	139,385	152,444	(13,059)	(8.6)
Total service gross billings	789,841	839,095	(49,254)	(5.9)
Product gross billings - Goods	380,854	438,705	(57,851)	(13.2)
Total International gross billings	1,170,695	1,277,800	(107,105)	(8.4)
Total gross billings	\$ 3,390,331	\$ 3,773,756	\$ (383,425)	(10.2)

The effect on our gross billings for the nine months ended September 30, 2019 from changes in exchange rates versus the U.S. dollar was as follows (in thousands):

	Nine Months Ended September 30, 2019		
	At Avg. Q3 2018 YTD Rates (1)	Exchange Rate Effect (2)	As Reported
Gross billings	\$ 3,462,952	\$ (72,621)	\$ 3,390,331

(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.

North America

North America gross billings were 65.5% and 66.1% of total gross billings for the nine months ended September 30, 2019 and 2018. North America gross billings decreased for the nine months ended September 30, 2019 compared with the prior year period due to fewer customers and lower customer traffic, including traffic from email and SEO. Those decreases were partially offset by higher gross billings per unit due to a shift in mix of offerings sold.

The above factors also resulted in a decline in total units sold, which decreased to 66.8 million units for the nine months ended September 30, 2019, as compared with 80.0 million units in the prior year period.

International

International gross billings were 34.5% and 33.9% of total gross billings for the nine months ended September 30, 2019 and 2018. International gross billings decreased \$107.1 million for the nine months ended September 30, 2019 compared with the prior year period, primarily due to weak consumer sentiment in Europe, especially in the United Kingdom, intense competition in our Goods business, a \$72.3 million unfavorable impact from year-over-year changes in foreign currency rates and lower gross billings per unit due to a shift in mix of offerings sold.

Revenue

Three Months Ended September 30, 2019 and 2018:

Revenue by category and segment for the three months ended September 30, 2019 and 2018 was as follows (dollars in thousands):

	Three Months Ended September 30,			
	2019	2018	\$ Change	% Change
North America				
Service revenue:				
Local	\$ 175,140	\$ 180,059	\$ (4,919)	(2.7)%
Goods	3,000	4,021	(1,021)	(25.4)
Travel	13,680	17,217	(3,537)	(20.5)
Total service revenue	191,820	201,297	(9,477)	(4.7)
Product revenue - Goods	111,776	159,854	(48,078)	(30.1)
Total North America revenue	303,596	361,151	(57,555)	(15.9)
International				
Service revenue:				
Local	65,440	75,946	(10,506)	(13.8)
Goods	2,817	2,584	233	9.0
Travel	8,003	9,387	(1,384)	(14.7)
Total service revenue	76,260	87,917	(11,657)	(13.3)
Product revenue - Goods	115,756	143,815	(28,059)	(19.5)
Total International revenue	192,016	231,732	(39,716)	(17.1)
Total revenue	\$ 495,612	\$ 592,883	\$ (97,271)	(16.4)

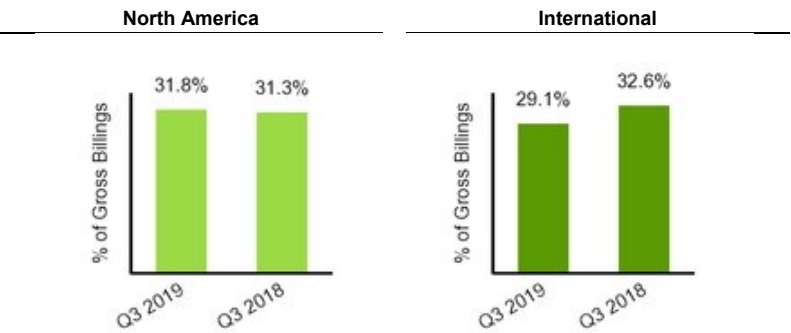
The effect on revenue for the three months ended September 30, 2019 from changes in exchange rates versus the U.S. dollar was as follows (in thousands):

	Three Months Ended September 30, 2019		
	At Avg. Q3 2018 Rates ⁽¹⁾	Exchange Rate Effect ⁽²⁾	As Reported
Revenue	\$ 504,315	\$ (8,703)	\$ 495,612

(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.

The percentage of service gross billings that we retained after deducting the merchant's share for the three months ended September 30, 2019 and 2018 was as follows:



North America

North America revenue was 61.3% and 60.9% of total revenue for the three months ended September 30, 2019 and 2018. North America revenue decreased \$57.6 million for the three months ended September 30, 2019 compared with the prior year period, primarily driven by the decline in transaction volume and gross billings as discussed above, and a shift in our category mix from product revenue transactions, which are reported on a gross basis, toward service revenue transactions, which are reported on a net basis.

International

International revenue was 38.7% and 39.1% of total revenue for the three months ended September 30, 2019 and 2018. International revenue decreased \$39.7 million for the three months ended September 30, 2019 compared with the prior year period, primarily driven by lower gross billings as discussed above, a customer shift toward lower margin offerings, a shift in our 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 an \$8.7 million unfavorable impact from year-over-year changes in foreign exchange rates.

Nine Months Ended September 30, 2019 and 2018:

Revenue by category and segment for the nine months ended September 30, 2019 and 2018 was as follows (dollars in thousands):

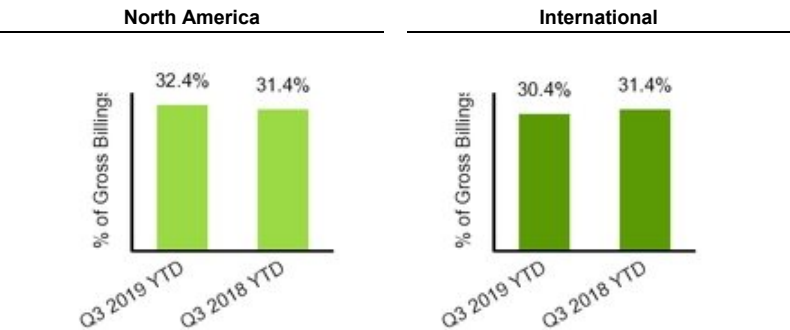
	Nine Months Ended September 30,			
	2019	2018	\$ Change	% Change
North America				
Service revenue:				
Local	\$ 532,599	\$ 553,340	\$ (20,741)	(3.7)%
Goods	9,841	12,691	(2,850)	(22.5)
Travel	48,746	57,189	(8,443)	(14.8)
Total service revenue	591,186	623,220	(32,034)	(5.1)
Product revenue - Goods	394,235	511,451	(117,216)	(22.9)
Total North America revenue	985,421	1,134,671	(149,250)	(13.2)
International				
Service revenue:				
Local	208,625	221,949	(13,324)	(6.0)
Goods	6,882	10,965	(4,083)	(37.2)
Travel	24,817	30,529	(5,712)	(18.7)
Total service revenue	240,324	263,443	(23,119)	(8.8)
Product revenue - Goods	380,854	438,705	(57,851)	(13.2)
Total International revenue	621,178	702,148	(80,970)	(11.5)
Total revenue	\$ 1,606,599	\$ 1,836,819	\$ (230,220)	(12.5)

The effect on revenue for the nine months ended September 30, 2019 from changes in exchange rates versus the U.S. dollar was as follows (in thousands):

	Nine Months Ended September 30, 2019		
	At Avg. Q3 2018 YTD Rates (1)	Exchange Rate Effect (2)	As Reported
Revenue	\$ 1,645,767	\$ (39,168)	\$ 1,606,599

- (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.

The percentage of service gross billings that we retained after deducting the merchant's share for the nine months ended September 30, 2019 and 2018 was as follows:



North America

North America revenue was 61.3% and 61.8% of total revenue for the nine months ended September 30, 2019 and 2018. North America revenue decreased \$149.3 million for the nine months ended September 30, 2019 compared with the prior year period, primarily driven by the decline in transaction volume and gross billings as discussed above, and a shift in our category mix from product revenue transactions, which are reported on a gross basis, toward service revenue transactions, which are reported on a net basis.

International

International revenue was 38.7% and 38.2% of total revenue for the nine months ended September 30, 2019 and 2018. International revenue decreased \$81.0 million for the nine months ended September 30, 2019 compared with the prior year period, primarily driven by lower gross billings as discussed above, a customer shift toward lower margin offerings, a shift in our category mix from product revenue transactions, which are reported on a net basis, toward service revenue transactions, which are reported on a gross basis, and a \$39.1 million unfavorable impact from year-over-year changes in foreign exchange rates.

Cost of Revenue

Cost of revenue is comprised of direct and certain indirect costs incurred to generate revenue including 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. 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.

Three Months Ended September 30, 2019 and 2018:

Cost of revenue by category and segment for the three months ended September 30, 2019 and 2018 was as follows (dollars in thousands):

	Three Months Ended September 30,			
	2019	2018	\$ Change	% Change
North America				
Service cost of revenue:				
Local	\$ 20,108	\$ 20,680	\$ (572)	(2.8)%
Goods	720	387	333	86.0
Travel	2,963	3,416	(453)	(13.3)
Total service cost of revenue	23,791	24,483	(692)	(2.8)
Product cost of revenue - Goods	87,730	132,620	(44,890)	(33.8)
Total North America cost of revenue	111,521	157,103	(45,582)	(29.0)
International				
Service cost of revenue:				
Local	4,257	4,307	(50)	(1.2)
Goods	228	264	(36)	(13.6)
Travel	671	738	(67)	(9.1)
Total service cost of revenue	5,156	5,309	(153)	(2.9)
Product cost of revenue - Goods	100,995	124,482	(23,487)	(18.9)
Total International cost of revenue	106,151	129,791	(23,640)	(18.2)
Total cost of revenue	\$ 217,672	\$ 286,894	\$ (69,222)	(24.1)

The effect on cost of revenue for the three months ended September 30, 2019 from changes in exchange rates versus the U.S. dollar was as follows (in thousands):

	Three Months Ended September 30, 2019		
	At Avg. Q3 2018 Rates ⁽¹⁾	Exchange Rate Effect ⁽²⁾	As Reported
Cost of revenue	\$ 222,461	\$ (4,789)	\$ 217,672

(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.

North America

North America cost of revenue was 51.2% and 54.8% of total cost of revenue for the three months ended September 30, 2019 and 2018. North America cost of revenue decreased \$45.6 million for the three months ended September 30, 2019 compared with the prior year period, primarily due to the decrease in transaction volume and gross billings as discussed above and a shift in our category mix from product revenue transactions, which are reported on a gross basis, toward service revenue transactions, which are reported on a net basis.

International

International cost of revenue was 48.8% and 45.2% of total cost of revenue for the three months ended September 30, 2019 and 2018. International cost of revenue decreased \$23.6 million for the three months ended September 30, 2019 compared with the prior year period, primarily due to the decrease in gross billings as discussed above, a shift in our 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 \$4.8 million favorable impact from year-over-year changes in foreign exchange rates.

Nine Months Ended September 30, 2019 and 2018:

Cost of revenue by category and segment for the nine months ended September 30, 2019 and 2018 was as follows (dollars in thousands):

	Nine Months Ended September 30,			
	2019	2018	\$ Change	% Change
North America				
Service cost of revenue:				
Local	\$ 58,812	\$ 61,920	\$ (3,108)	(5.0)%
Goods	2,003	2,126	(123)	(5.8)
Travel	9,955	11,083	(1,128)	(10.2)
Total service cost of revenue	70,770	75,129	(4,359)	(5.8)
Product cost of revenue - Goods	314,190	416,443	(102,253)	(24.6)
Total North America cost of revenue	384,960	491,572	(106,612)	(21.7)
International				
Service cost of revenue:				
Local	12,684	12,735	(51)	(0.4)
Goods	641	993	(352)	(35.4)
Travel	2,074	2,310	(236)	(10.2)
Total service cost of revenue	15,399	16,038	(639)	(4.0)
Product cost of revenue - Goods	330,152	374,677	(44,525)	(11.9)
Total International cost of revenue	345,551	390,715	(45,164)	(11.6)
Total cost of revenue	\$ 730,511	\$ 882,287	\$ (151,776)	(17.2)

The effect on cost of revenue for the nine months ended September 30, 2019 from changes in exchange rates versus the U.S. dollar was as follows (in thousands):

	Nine Months Ended September 30, 2019		
	At Avg. Q3 2018 YTD Rates (1)	Exchange Rate Effect (2)	As Reported
Cost of revenue	\$ 752,521	\$ (22,010)	\$ 730,511

(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.

North America

North America cost of revenue was 52.7% and 55.7% of total cost of revenue for the nine months ended September 30, 2019 and 2018. North America cost of revenue decreased \$106.6 million for the nine months ended September 30, 2019 compared with the prior year period, primarily due to the decrease in transaction volume and gross billings as discussed above and a shift in our category mix from product revenue transactions, which are reported on a gross basis, toward service revenue transactions, which are reported on a net basis.

International

International cost of revenue was 47.3% and 44.3% of total cost of revenue for the nine months ended September 30, 2019 and 2018. International cost of revenue decreased \$45.2 million for the nine months ended September 30, 2019 compared with the prior year period, primarily due to the decrease in gross billings as discussed above, a shift in our 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 \$22.0 million favorable impact from year-over-year changes in foreign exchange rates.

Gross Profit

Three Months Ended September 30, 2019 and 2018:

Gross profit by category and segment for the three months ended September 30, 2019 and 2018 was as follows (dollars in thousands):

	Three Months Ended September 30,			
	2019	2018	\$ Change	% Change
North America				
Service gross profit:				
Local	\$ 155,032	\$ 159,379	\$ (4,347)	(2.7)%
Goods	2,280	3,634	(1,354)	(37.3)
Travel	10,717	13,801	(3,084)	(22.3)
Total service gross profit	168,029	176,814	(8,785)	(5.0)
Product gross profit - Goods	24,046	27,234	(3,188)	(11.7)
Total North America gross profit	192,075	204,048	(11,973)	(5.9)
International				
Service gross profit:				
Local	61,183	71,639	(10,456)	(14.6)
Goods	2,589	2,320	269	11.6
Travel	7,332	8,649	(1,317)	(15.2)
Total service gross profit	71,104	82,608	(11,504)	(13.9)
Product gross profit - Goods	14,761	19,333	(4,572)	(23.6)
Total International gross profit	85,865	101,941	(16,076)	(15.8)
Total gross profit	\$ 277,940	\$ 305,989	\$ (28,049)	(9.2)

The effect on gross profit for the three months ended September 30, 2019 from changes in exchange rates versus the U.S. dollar was as follows (in thousands):

	Three Months Ended September 30, 2019		
	At Avg. Q3 2018 Rates ⁽¹⁾	Exchange Rate Effect ⁽²⁾	As Reported
Gross profit	\$ 281,854	\$ (3,914)	\$ 277,940

(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.

North America

North America gross profit was 69.1% and 66.7% of total gross profit for the three months ended September 30, 2019 and 2018. The decrease in North America gross profit for the three months ended September 30, 2019 compared with the prior year period reflects a decline in transaction volume and gross billings as discussed above.

International

International gross profit was 30.9% and 33.3% of total gross profit for the three months ended September 30, 2019 and 2018. The decrease in International gross profit for the three months ended September 30, 2019 compared with the prior year period was primarily attributable to lower gross billings as discussed above, a customer shift toward lower margin offerings and a \$3.9 million unfavorable impact from year-over-year changes in foreign exchange rates.

Nine Months Ended September 30, 2019 and 2018:

Gross profit by category and segment for the nine months ended September 30, 2019 and 2018 was as follows (dollars in thousands):

	Nine Months Ended September 30,			
	2019	2018	\$ Change	% Change
North America				
Service gross profit:				
Local	\$ 473,787	\$ 491,420	\$ (17,633)	(3.6)%
Goods	7,838	10,565	(2,727)	(25.8)
Travel	38,791	46,106	(7,315)	(15.9)
Total service gross profit	520,416	548,091	(27,675)	(5.0)
Product gross profit - Goods	80,045	95,008	(14,963)	(15.7)
Total North America gross profit	600,461	643,099	(42,638)	(6.6)
International				
Service gross profit:				
Local	195,941	209,214	(13,273)	(6.3)
Goods	6,241	9,972	(3,731)	(37.4)
Travel	22,743	28,219	(5,476)	(19.4)
Total service gross profit	224,925	247,405	(22,480)	(9.1)
Product gross profit - Goods	50,702	64,028	(13,326)	(20.8)
Total International gross profit	275,627	311,433	(35,806)	(11.5)
Total gross profit	\$ 876,088	\$ 954,532	\$ (78,444)	(8.2)

The effect on gross profit for the nine months ended September 30, 2019 from changes in exchange rates versus the U.S. dollar was as follows (in thousands):

	Nine Months Ended September 30, 2019		
	At Avg. Q3 2018 YTD Rates (1)	Exchange Rate Effect (2)	As Reported
Gross profit	\$ 893,246	\$ (17,158)	\$ 876,088

(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.

North America

North America gross profit was 68.5% and 67.4% of total gross profit for the nine months ended September 30, 2019 and 2018. The decrease in North America gross profit for the nine months ended September 30, 2019 compared with the prior year period reflects a decline in transaction volume and gross billings as discussed above.

International

International gross profit was 31.5% and 32.6% of total gross profit for the nine months ended September 30, 2019 and 2018. The decrease in International gross profit for the nine months ended September 30, 2019 compared with the prior year period was primarily attributable to lower gross billings as discussed above, a customer shift toward lower margin offerings and a \$17.1 million unfavorable impact from year-over-year changes in foreign exchange rates.

Marketing

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 condensed consolidated statements of operations when incurred. From time to time, we offer deals with 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.

Three Months Ended September 30, 2019 and 2018:

Marketing expense by segment as a percentage of gross profit for the three months ended September 30, 2019 and 2018 was as follows (dollars in thousands):

	Three Months Ended September 30,					
	2019	% of Gross Profit	2018	% of Gross Profit	\$ Change	% Change
Marketing:						
North America	\$ 45,223	23.5%	\$ 60,296	29.5%	\$ (15,073)	(25.0)%
International	29,753	34.7	32,421	31.8	(2,668)	(8.2)
Total marketing	\$ 74,976	27.0	\$ 92,717	30.3	\$ (17,741)	(19.1)

North America

North America segment marketing expense was 60.3% and 65.0% of total marketing expense for the three months ended September 30, 2019 and 2018. North America marketing expense and marketing expense as a percentage of gross profit for the three months ended September 30, 2019 decreased from the prior year period 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 as we are currently in the process of adapting our brand strategy to better support our evolving marketplace.

International

International segment marketing expense was 39.7% and 35.0% of total marketing expense for the three months ended September 30, 2019 and 2018. The decrease in International marketing expense for the three months ended September 30, 2019 compared with the prior year period was primarily attributable to a \$1.2 million favorable impact from year-over-year changes in foreign exchange rates.

Nine Months Ended September 30, 2019 and 2018:

Marketing expense by segment as a percentage of gross profit for the nine months ended September 30, 2019 and 2018 was as follows (dollars in thousands):

	Nine Months Ended September 30,					
	2019	% of Gross Profit	2018	% of Gross Profit	\$ Change	% Change
Marketing:						
North America	\$ 162,132	27.0%	\$ 198,149	30.8%	\$ (36,017)	(18.2)%
International	95,164	34.5	87,902	28.2	7,262	8.3
Total marketing	<u>\$ 257,296</u>	29.4	<u>\$ 286,051</u>	30.0	<u>\$ (28,755)</u>	(10.1)

North America

North America segment marketing expense was 63.0% and 69.3% of total marketing expense for the nine months ended September 30, 2019 and 2018. North America marketing expense and marketing expense as a percentage of gross profit for the nine months ended September 30, 2019 decreased from the prior year period 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 as we are currently in the process of adapting our brand strategy to better support our evolving marketplace.

International

International segment marketing expense was 37.0% and 30.7% of total marketing expense for the nine months ended September 30, 2019 and 2018. International marketing expense and marketing expense as a percentage of gross profit for the nine months ended September 30, 2019 increased from the prior year period as we continued to invest in the long-term potential of the International segment. The increase in marketing expense was partially offset by a \$5.5 million favorable impact from year-over-year changes in foreign exchange rates.

Selling, General, and Administrative

Selling expenses reported within Selling, general and administrative ("SG&A") on the condensed consolidated statements of operations consist of 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.

Three Months Ended September 30, 2019 and 2018:

SG&A as a percentage of gross profit for the three months ended September 30, 2019 and 2018 was as follows (dollars in thousands):

	Three Months Ended September 30,					
	2019	% of Gross Profit	2018	% of Gross Profit	\$ Change	% Change
Selling, general and administrative	\$ 198,327	71.4%	\$ 160,249	52.4%	\$ 38,078	23.8%

The increase in SG&A for the three months ended September 30, 2019 as compared with the prior year period was primarily attributable to a \$40.4 million benefit recorded in the three months ended September 30, 2018 related to the settlement of our patent litigation case with IBM, partially offset by the following:

- a \$3.9 million favorable impact from year-over-year changes in foreign currency exchange rates; and
- decreases in compensation-related costs, facilities costs and other general expenses.

Nine Months Ended September 30, 2019 and 2018:

SG&A as a percentage of gross profit for the nine months ended September 30, 2019 and 2018 was as follows (dollars in thousands):

	Nine Months Ended September 30,					
	2019	% of Gross Profit	2018	% of Gross Profit	\$ Change	% Change
Selling, general and administrative	\$ 619,099	70.7%	\$ 676,318	70.9%	\$ (57,219)	(8.5)%

The decrease in SG&A for the nine months ended September 30, 2019 as compared with the prior year period was attributable to the following:

- a \$75.0 million charge recorded in the second quarter 2018 as a result of a jury award related to a patent litigation case with IBM. That charge was subsequently reduced by \$40.4 million in the third quarter 2018 upon execution of settlement and license agreements with IBM;
- a \$15.1 million favorable impact from year-over-year changes in foreign currency exchange rates; and
- decreases in compensation-related costs, facilities costs, system costs and other general expenses.

Income (Loss) from Operations**Three Months Ended September 30, 2019 and 2018:**

Income (loss) from operations by segment for the three months ended September 30, 2019 and 2018 was as follows (dollars in thousands):

	Three Months Ended September 30,			
	2019	2018	\$ Change	% Change
Income (loss) from operations				
North America	\$ 15,691	\$ 51,004	\$ (35,313)	(69.2)%
International	(11,054)	2,019	(13,073)	(647.5)
Total income (loss) from operations	\$ 4,637	\$ 53,023	\$ (48,386)	(91.3)

North America

The decrease in our income from operations was primarily attributable to a \$38.4 million increase in SG&A and a \$12.0 million decrease in gross profit, partially offset by a \$15.1 million decrease in marketing expense.

International

The decrease in our income from operations was primarily attributable to a \$16.1 million decrease in gross profit, partially offset by a \$2.7 million decrease in marketing expense and a \$0.3 million decrease in SG&A.

Nine Months Ended September 30, 2019 and 2018:

Income (loss) from operations by segment for the nine months ended September 30, 2019 and 2018 was as follows (dollars in thousands):

	Nine Months Ended September 30,			
	2019	2018	\$ Change	% Change
Income (loss) from operations				
North America	\$ 20,655	\$ (19,380)	\$ 40,035	206.6 %
International	(20,962)	11,543	(32,505)	(281.6)
Total income (loss) from operations	\$ (307)	\$ (7,837)	\$ 7,530	96.1

North America

The increase in our income from operations was primarily attributable to a \$46.7 million decrease in SG&A and a \$36.0 million decrease in marketing expense, partially offset by a \$42.6 million decrease in gross profit.

International

The decrease in our income from operations was primarily attributable to a \$7.3 million increase in marketing expense and a \$35.8 million decrease in gross profit, partially offset by a \$10.6 million decrease in SG&A.

Other Income (Expense), Net

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

Three Months Ended September 30, 2019 and 2018:

Other income (expense), net for the three months ended September 30, 2019 and 2018 was as follows (dollars in thousands):

	Three Months Ended September 30,			
	2019	2018	\$ Change	% Change
Other income (expense), net	\$ (17,253)	\$ (4,860)	\$ (12,393)	(255.0)%

Other income (expense), net for the three months ended September 30, 2019 primarily consisted of the following:

- \$6.0 million of interest expense primarily related to interest on our convertible notes. See Item 1, Note 5, *Financing Arrangements*, for additional information; and
- \$12.8 million in foreign currency losses, which primarily resulted from intercompany balances with our subsidiaries that are denominated in foreign currencies.

Those items were partially offset by \$2.0 million in interest income.

Other income (expense), net for the three months ended September 30, 2018 primarily consisted of the following:

- \$5.7 million of interest expense primarily related to interest on our convertible notes. See Item 1, Note 5, *Financing Arrangements*, for additional information; and
- \$1.0 million in foreign currency losses, which primarily resulted from intercompany balances with our subsidiaries that are denominated in foreign currencies.

Those items were partially offset by \$1.5 million in interest income.

Nine Months Ended September 30, 2019 and 2018:

Other income (expense), net for the nine months ended September 30, 2019 and 2018 was as follows (dollars in thousands):

	Nine Months Ended September 30,			
	2019	2018	\$ Change	% Change
Other income (expense), net	\$ (92,602)	\$ (39,832)	\$ (52,770)	(132.5)%

Other income (expense), net for the nine months ended September 30, 2019 primarily consisted of the following:

- \$69.0 million of net losses on our fair value option investments. See Item 1, Note 3, *Investments*, for additional information;
- \$17.2 million of interest expense primarily related to interest on our convertible notes. See Item 1, Note 5, *Financing Arrangements*, for additional information; and
- \$11.9 million in foreign currency losses, which primarily resulted from intercompany balances with our subsidiaries that are denominated in foreign currencies.

Those items were partially offset by \$5.8 million in interest income.

Other income (expense), net for the nine months ended September 30, 2018 primarily consisted of the following:

- \$16.4 million of interest expense primarily related to interest on our convertible notes. See Item 1, Note 5, *Financing Arrangements*, for additional information;
- \$12.2 million in foreign currency losses, which primarily resulted from intercompany balances with our subsidiaries that are denominated in foreign currencies;
- \$10.2 million of impairments of minority investments. See Item 1, Note 3, *Investments*, for additional information; and
- \$8.3 million of losses on fair value option investments. See Item 1, Note 3, *Investments*, for additional information.

Those items were partially offset by \$4.9 million in interest income and a \$2.4 million gain on an embedded derivative related to an available-for-sale security.

Provision (Benefit) for Income Taxes

Three Months Ended September 30, 2019 and 2018:

Provision (benefit) for income taxes for the three months ended September 30, 2019 and 2018 was as follows (dollars in thousands):

	Three Months Ended September 30,			
	2019	2018	\$ Change	% Change
Provision (benefit) for income taxes	\$ 2,069	\$ 988	\$ 1,081	109.4%
Effective tax rate	(16.4)%	2.1%		

Our U.S. federal income tax rate is 21%. The primary factor impacting the effective tax rate for the three months ended September 30, 2019 and 2018 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 1, Note 10, *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.

Nine Months Ended September 30, 2019 and 2018:

Provision (benefit) for income taxes for the nine months ended September 30, 2019 and 2018 was as follows (dollars in thousands):

	Nine Months Ended September 30,			
	2019	2018	\$ Change	% Change
Provision (benefit) for income taxes	\$ 591	\$ 205	\$ 386	188.3%
Effective tax rate	(0.6)%	(0.4)%		

Our U.S. federal income tax rate is 21%. The primary factor impacting the effective tax rate for the nine months ended September 30, 2019 and 2018 was the pretax losses incurred in jurisdictions that have valuation allowances against their net deferred tax assets. The effective tax rate for the nine months ended September 30, 2019 also reflected the reversal of reserves for uncertain tax positions due to the closure of a tax audit. The effective tax rate for the nine months ended September 30, 2018 also reflected a \$6.4 million income tax benefit resulting from the impact of Topic 606 on intercompany activity in certain foreign jurisdictions. 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 1, Note 10, *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.

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 three and nine months ended September 30, 2019 and 2018, special charges and credits included charges related to our restructuring plan. For the three and nine months ended September 30, 2018, special charges and credits also included a \$40.4 million credit and a \$34.6 million charge related to our patent litigation with IBM. 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 three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Income (loss) from continuing operations	\$ (14,685)	\$ 47,175	\$ (93,500)	\$ (47,874)
Adjustments:				
Stock-based compensation ⁽¹⁾	19,543	15,026	62,517	50,570
Depreciation and amortization	25,873	28,685	81,405	87,300
Acquisition-related expense (benefit), net	5	—	33	655
Restructuring charges	(61)	35	(175)	(81)
IBM patent litigation	—	(40,400)	—	34,600
Other (income) expense, net	17,253	4,860	92,602	39,832
Provision (benefit) for income taxes	2,069	988	591	205
Total adjustments	64,682	9,194	236,973	213,081
Adjusted EBITDA	\$ 49,997	\$ 56,369	\$ 143,473	\$ 165,207

(1) Represents stock-based compensation expense recorded within Selling, general and administrative, Cost of revenue and Marketing.

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 condensed 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. For a reconciliation of foreign currency exchange rate neutral operating results to the most comparable U.S. GAAP financial measures, see *Results of Operations* above.

Liquidity and Capital Resources

Our principal sources of liquidity are cash flows from operations, cash balances, which totaled \$567.3 million as of September 30, 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 three and nine months ended September 30, 2019 and 2018 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Cash provided by (used in):				
Operating activities	\$ 18,584	\$ (57,389)	\$ (130,118)	\$ (132,961)
Investing activities	(19,541)	(22,389)	(54,891)	(118,485)
Financing activities	(22,595)	(9,720)	(81,953)	(49,348)

Our free cash flow for the three and nine months ended September 30, 2019 and 2018 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):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net cash provided by (used in) operating activities from continuing operations	\$ 18,584	\$ (57,389)	\$ (130,118)	\$ (132,961)
Purchases of property and equipment and capitalized software from continuing operations	(17,693)	(16,094)	(51,854)	(53,611)
Free cash flow	\$ 891	\$ (73,483)	\$ (181,972)	\$ (186,572)

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 2017, 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 typically generate 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. We are currently developing and testing voucherless offerings that typically result in cash back on customers' credit card statements for qualifying purchases. For many of those offerings, we fund the cash back to the customer within two weeks of purchase and collect our commission and reimbursement for the customer's cash back incentive from our merchants on a monthly basis. The working capital impact of card-linked offerings with this merchant payment structure is less favorable to us than voucher transactions, for which we collect payment from customers at the time of sale and remit payment to merchants at a later date.

For the nine months ended September 30, 2019, our net cash used in operating activities from continuing operations was \$130.1 million, as compared with a \$93.5 million net loss from continuing operations. That difference was primarily due to \$223.5 million of non-cash items, including depreciation and amortization, stock-based compensation and a \$69.4 million loss from changes in fair value of our investment in Monster LP, partially offset by a \$260.1 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 to a lesser extent a reduction in gross billings.

For the nine months ended September 30, 2018, our net cash used in operating activities from continuing operations was \$133.0 million, as compared with a \$47.9 million net loss from continuing operations. That difference was primarily due to a \$243.8 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 patent litigation. The difference between our net cash provided by operating activities and our net income from continuing operations due to changes in working capital was partially offset by \$158.7 million of non-cash items, including depreciation and amortization and stock-based compensation.

Our net cash used in investing activities from continuing operations was \$54.9 million and \$118.5 million for the nine months ended September 30, 2019 and 2018. Our net cash used in investing activities from continuing operations included purchases of property and equipment and capitalized software of \$51.9 million and \$53.6 million for the nine months ended September 30, 2019 and 2018. For the nine months ended September 30, 2018, net cash used in investing activities also included net cash paid of \$57.8 million related to the acquisition of Cloud Savings and net cash paid of \$17.1 million for acquisitions of intangible assets, including \$15.4 million related to the settlement of our IBM patent litigation.

Our net cash used in financing activities was \$82.0 million and \$49.3 million for the nine months ended September 30, 2019 and 2018. For the nine months ended September 30, 2019, net cash used in financing activities included \$44.2 million in repurchases of common stock under our share repurchase program, \$16.9 million in payments of finance lease obligations and \$14.0 million in taxes paid related to net share settlements of stock-based compensation awards. For the nine months ended September 30, 2018, net cash used in financing activities included \$25.3 million in payments of finance lease obligations and \$18.6 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 September 30, 2019, we had no borrowings outstanding under the 2019 Credit Agreement and were in compliance with all covenants. See Item 1, Note 5, *Financing Arrangements*, for additional information.

As of September 30, 2019, we had \$196.4 million in cash held by our international subsidiaries, which is primarily denominated in Euros, 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 authorized us to repurchase up to \$300.0 million of our common stock under our share repurchase program. During the three and nine months ended September 30, 2019, we repurchased 5,391,084 and 14,027,227 shares for an aggregate purchase price of \$15.1 million and \$45.2 million (including fees and commissions) under our repurchase program. As of September 30, 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. 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.

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. 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. 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

Our contractual obligations and commitments as of September 30, 2019 did not materially change from the amounts set forth in our 2018 Annual Report on Form 10-K, except as disclosed in Item 1, Note 6, *Leases*.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of September 30, 2019.

Critical Accounting Policies and Estimates

The preparation of condensed 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 these estimates under different assumptions or conditions.

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. Our significant accounting policies are discussed in Item 2, Note 2, *Summary of Significant Accounting Policies*, and in the notes to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2018. In addition, refer to the critical accounting policies and estimates under Part II, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* in our Annual Report on Form 10-K for the year ended December 31, 2018.

The changes to our lease recognition policies upon the adoption of Topic 842 on January 1, 2019 represent a material change to our critical accounting policies and estimates during the nine months ended September 30, 2019. See Item 1, Note 6, *Leases*, for additional information related to our new lease recognition policies.

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. Although we are still assessing the impact of ASU 2016-13, we believe the adoption of this guidance will not have a material impact on our condensed 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. We believe that the adoption of this guidance will not have a material impact on our condensed 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 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 are still assessing the impact of ASU 2018-13 on our condensed consolidated financial statements.

There are no other accounting standards that have been issued but not yet adopted that are expected to have a material impact on our condensed consolidated financial position or results of operations.

ITEM 3. 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 those 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 both the three and nine months ended September 30, 2019, we derived approximately 38.7% 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 those 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 September 30, 2019 and December 31, 2018.

As of September 30, 2019, our net working capital deficit (defined as current assets less current liabilities) from subsidiaries that are subject to foreign currency translation risk was \$3.6 million. The potential decrease in this working capital deficit from a hypothetical 10% adverse change in quoted foreign currency exchange rates would be \$0.4 million. This compares with a \$20.8 million working capital surplus 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 surplus of \$2.1 million.

Interest Rate Risk

Our cash balance as of September 30, 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 1, Note 5, *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 September 30, 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 \$166.7 million of lease obligations as of September 30, 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 three and nine months ended September 30, 2019.

ITEM 4. 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 Quarterly Report on Form 10-Q.

Based on this evaluation, our management concluded that, as of September 30, 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.

Changes in Internal Control over Financial Reporting

There were no changes 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 period covered by this Quarterly Report on Form 10-Q that have materially affected, or are 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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a description of our material pending legal proceedings, please see Item 1, Note 7, *Commitments and Contingencies*, to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in Part I, Item 1A, *Risk Factors* of our Annual Report on Form 10-K for the year ended December 31, 2018, and Quarterly Report on Form 10-Q for the quarter ended March 31, 2019.

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

Recent Sales of Unregistered Securities

During the three months ended September 30, 2019, we did not issue any unregistered equity securities.

Issuer Purchases of Equity Securities

On May 7, 2018, the Board authorized us to repurchase up to \$300.0 million of our common stock under our share repurchase program. During the three and nine months ended September 30, 2019, we repurchased 5,391,084 and 14,027,227 shares for an aggregate purchase price of \$15.1 million and \$45.2 million (including fees and commissions) under our repurchase program. As of September 30, 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. 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.

A summary of our common stock repurchases during the three months ended September 30, 2019 under our share repurchase program is set forth in the following table:

Date	Total Number of Shares Purchased	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
July 1-31, 2019	—	\$ —	—	\$ 260,000,005
August 1-31, 2019	—	—	—	260,000,005
September 1-30, 2019	5,391,084	2.79	5,391,084	245,000,007
Total	5,391,084	\$ 2.79	5,391,084	\$ 245,000,007

The following table provides information about purchases of shares of our common stock during the three months ended September 30, 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
July 1-31, 2019	158,105	\$ 2.99	—	—
August 1-31, 2019	78,698	2.41	—	—
September 1-30, 2019	496,458	2.79	—	—
Total	733,261	\$ 2.79	—	—

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

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description
10.1**	Form of Severance Benefit Agreement
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

** 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

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 4th day of November 2019.

GROUPON, INC.

By: /s/ Melissa Thomas

Name: Melissa Thomas

Title: Interim Chief Financial Officer

**FORM OF
GROUPON, INC. 2019 SEVERANCE BENEFIT AGREEMENT**

This SEVERANCE BENEFIT AGREEMENT (the “Agreement”) is entered into on the ____ day of _____, 20[19] (the “Effective Date”) between Groupon, Inc., a Delaware corporation, and [NAME] (the “Executive”).

WHEREAS, the Executive will continue to serve as a key employee of the Company and the Executive’s continued services and knowledge are valuable to the Company in connection with the management of one or more of the Company’s principal operating facilities, divisions, departments or subsidiaries;

WHEREAS, the Board has determined that it is in the best interests of the Company and its stockholders to enter into this Agreement; and

[*As applicable*: WHEREAS, the Executive and the Company were parties to a prior severance benefit agreement, which they agree is terminated and superseded in its entirety by the Agreement as of the Effective Date.]

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein contained, the Company and the Executive hereby agree as follows:

1. **Definitions.** As used in this Agreement, the following terms shall have the respective meanings set forth below:

A. “**Board**” means the Board of Directors of the Company.

B. “**Cause**” means:

- i. the Executive’s material failure to perform his or her reasonably assigned duties as an employee (other than a failure resulting from the Executive’s disability) after written notice of such failure from the Company describing the failure to perform such duties and a reasonable time to cure of at least thirty (30) days;
- ii. the Executive’s engaging in any intentional act of fraud, theft, dishonesty, or falsification with respect to the Company;
- iii. the Executive’s conviction (including a plea of guilty or nolo contendere) of (a) a felony, (b) a crime of moral turpitude, or (c) a criminal act that prevents the Executive from performing his or her duties with the Company;
- iv. the Executive engaging in gross misconduct or willfully violating the Company’s Code of Business Conduct or other material written policies of the Company, including without limitation policies relating to anti-harassment and hostile work environment, insider trading, conflicts of interest, or the treatment of confidential information where such conduct or violation is not cured, if able to be cured within the Company’s discretion, within ten (10) days of written notice thereof by the Company; or
- v. the Executive’s violation of any federal or state law or regulation applicable to the business of the Company.

Termination by the Company shall not be treated as for “Cause” unless the Company terminates the Executive’s employment within ninety (90) days following the Company becoming aware of the occurrence of the above conditions.

C. “**Change in Control**” means the occurrence of either of the following events:

- i. an Ownership Change Event or a series of related Ownership Change Events (collectively, a “Transaction”) in which the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding securities entitled to vote generally in the election of Board members or, in the case of an Ownership Change Event described in clause (iii) of the definition of Ownership Change Event, the entity

to which the assets of the Company were transferred (the “Transferee”), as the case may be; or

ii. approval by the stockholders of a plan of complete liquidation or dissolution of the Company; provided, however, that a Change in Control shall be deemed not to include a transaction in which a majority of the members of the board of directors of the continuing, surviving or successor entity, or parent thereof, immediately after such transaction is comprised of Incumbent Directors. For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other business entities which own the Company or the Transferee, as the case may be, either directly or through one or more subsidiary corporations or other business entities. The Board shall have the right to determine whether multiple sales or exchanges of the voting securities of the Company or multiple Ownership Change Events are related, and its determination shall be final, binding and conclusive.

- D. “**Change in Control Termination**” means an Eligible Termination that occurs during the 24 month period beginning on the date of a Change in Control. A Change in Control Termination also includes an Eligible Termination in circumstances where (i) a Change in Control occurs, and (ii) the Executive’s employment with the Company was terminated in an Eligible Termination without Cause within six (6) months prior to the date on which the Change in Control occurs.
- E. “**Code**” means the Internal Revenue Code of 1986, as amended.
- F. “**Company**” means Groupon, Inc., a Delaware corporation.
- G. “**Covered Equity-Based Award**” means a Stock Option, restricted stock unit, performance share unit, or other equity-based award granted under the Incentive Plan; provided, however, that “Covered Equity-Based Award” will not include [As applicable: the Special Stock Price PSUs] or any [other] awards made under award agreements that expressly state that they are not subject to this Agreement.
- H. “**Eligible Termination**” means the Executive’s “separation from service” (within the meaning of Section 409A) with the Company and its subsidiaries that is (i) an involuntary termination of employment by the Company without Cause, or (ii) a resignation for Good Reason. An Eligible Termination does not include a termination of employment (a) by the Company for Cause, (b) by the Executive other than for Good Reason, (c) as a result of the Executive’s death, or (d) by the Company due to the Executive’s absence from the Executive’s duties with the Company on a full-time basis for at least 180 consecutive days as a result of the Executive’s incapacity due to physical or mental illness. An Eligible Termination also does not include a termination of employment occurring upon a sale of all or part of the business in which the Executive is employed, a merger or other combination, spin-off, reorganization or liquidation, dissolution or other winding up or other similar transaction involving the Company, in any such case where an offer of comparable employment is made to the Executive by the purchaser, acquirer or successor or surviving entity (including a third-party vendor) concurrently with his or her termination.
- I. “**Good Reason**” means, without the Executive’s express written consent, the occurrence of any of the following events:
- i. [For the Interim Chief Financial Officer only: other than in connection with Executive’s voluntary or involuntary relinquishment of the role of interim chief financial officer and resuming the role in which she only serves as chief accounting officer of the Company in connection with the appointment of a permanent chief financial officer of the Company (other than the Executive),] a material adverse change in the nature or scope of the Executive’s authority, powers, functions, duties, responsibilities, or reporting relationship
[For the Chief Executive Officer only: (including Executive’s ceasing to directly report to the chief executive officer or board of directors of a publicly traded entity);]
- [For the Chief Financial Officer, General Counsel and Chief Operating Officer only: (including Executive’s ceasing to directly report to the chief executive officer[, president, executive vice president, chief financial officer, senior vice president] or board of directors of a publicly traded entity); provided, however, it shall not be Good Reason under this clause (i) if, following a Change in Control in which the Company is acquired and remains a separate
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business entity as part of another entity, Executive continues to (a) serve as [chief financial officer][general counsel] [chief operating officer] of the Company or its successor and (b) directly report to the [chief executive officer][chief financial officer] of the Company serving in such position immediately prior to such Change in Control;]

[For the Interim Chief Financial Officer only: (including Executive's ceasing to directly report to the chief executive officer, chief financial officer, or board of directors of a publicly traded entity); provided, however, it shall not be Good Reason under this clause (i) if, following a Change in Control in which the Company is acquired and remains a separate business entity as part of another entity, Executive continues to (a) serve as either or both of the chief financial officer or chief accounting officer of the Company or its successor and (b) directly report to the chief executive officer or chief financial officer of the Company serving in such position immediately prior to such Change in Control;]

- ii. a material reduction by the Company in the Executive's rate of annual base salary;
- iii. *[For the Interim Chief Financial Officer only:* other than the cessation of the monthly stipend awarded to the Executive upon her appointment as the interim chief financial officer of the Company in connection with the appointment of a permanent chief financial officer of the Company,] the failure of the Company to continue any material compensation plan in which the Executive is participating, unless the Executive is permitted to participate in other plans providing the Executive with substantially comparable compensation-related benefits, or the taking of any action by the Company which would adversely affect the Executive's participation in or materially reduce the Executive's compensation-related benefits under any such plan;
- iv. a change in the Executive's primary employment location to a location that is more than 50 miles from the primary location of the Executive's employment immediately before such change; or
- v. the failure of the Company to obtain from any successor or transferee of the Company an express written and unconditional assumption of the Company's obligations under this Agreement, as further described in Section 5.C(ii) of this Agreement.

The Executive's employment may be terminated by the Executive for Good Reason only if (a) an event or circumstance set forth in this Section 1.I shall have occurred and the Executive provides the Company with written notice thereof within ninety (90) days after the Executive has knowledge of the occurrence or existence of such event or circumstance, which notice shall specifically identify the event or circumstance that the Executive believes constitutes Good Reason, (b) the Company fails to correct the circumstance or event so identified within thirty (30) days after the receipt of such notice, and (c) the Executive resigns within sixty (60) days following the expiration of the cure period referenced in the preceding clause (b).

- J. **"Incentive Plan"** means the Groupon, Inc. 2011 Incentive Plan, as amended from time to time.
 - K. **"Incumbent Director"** means a director who either (i) is a member of the Board as of the Effective Date or (ii) is elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but excluding a director who was elected or nominated in connection with an actual or threatened proxy contest relating to the election of directors of the Company).
 - L. **"Multi-Year PSUs"** means Covered Equity-Based Awards that are performance based awards granted with a one-year performance period and subsequent service requirements.
 - M. **"Ownership Change Event"** means the occurrence of any of the following with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of securities of the Company representing more than fifty percent (50%) of the total combined voting power of the Company's then-outstanding securities entitled to vote generally in the election of Board members; (ii) a merger or consolidation in which the Company is a party; or (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company (other than a sale, exchange or transfer to one or more subsidiaries).
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- N. **“Section 409A”** means Section 409A of the Code and the regulations thereunder.
- O. **“Single-Year PSUs”** means Covered Equity-Based Awards that are performance based awards granted with a one-year performance period and no subsequent service requirement.
- P. **“Special Stock Price PSU Agreement”** means an agreement pursuant to which Special Stock Price PSUs are granted, substantially the form attached hereto as Attachment B.]
- Q. **“Special Stock Price PSUs”** means the 2019 Supplemental PSU Awards granted by the Company for which the relevant performance condition consists of achievement of a specified average closing price per share for any period of 30 consecutive trading days, which shall not be subject to this Agreement other than (i) with respect to certain defined terms as incorporated into the Special Stock Price PSU Agreement and (ii) Section 2.D(iii) of this Agreement.]
- R. **“Stock Option”** means a stock option granted under the Incentive Plan.
- S. **“Termination Date”** means the date on which an Executive experiences an Eligible Termination.
- T. **“Time-Based Awards”** means Covered Equity-Based Awards whose vesting is based solely on continued service over time (e.g., restricted stock units).

2. **Severance Benefits.**

- A. **Eligibility.** The provisions of this Section 2 apply only if (i) the Executive experiences an Eligible Termination, (ii) the Executive executes and remains in compliance with the Confidentiality, Intellectual Property and Restrictive Covenants Agreement (the “CIPRA”) or an equivalent agreement that includes Non-Compete (excluding California Executives), Nonsolicitation and No-Hire clauses and (iii) the Executive executes a standard mutual separation agreement containing, among other provisions, a release of claims in substantially the form attached hereto as Attachment A (a “Release”) within the time period required under such standard mutual separation agreement not to exceed forty-five (45) days following the Termination Date, and such Release becomes effective and no longer subject to revocation within 60 days of the Termination Date.
 - B. **Basic Cash Severance Payment.** Upon an Eligible Termination, the Company shall pay the Executive in a lump sum on the 60th day after the Termination Date (the “Payment Date”) an amount equal to twelve (12) months of the Executive’s annual base salary from the Company and its subsidiaries to the extent not theretofore paid [*For the Interim Chief Financial Officer only*]; as well as an amount equal to twelve (12) months of the monthly stipend awarded to the Executive upon her appointment as interim chief financial officer of the Company, to the extent such monthly stipend is still in effect on the Termination Date.] Upon a Change in Control Termination, the Company shall pay the Executive, in addition to the payment provided for in the preceding sentence, in a lump sum on the Payment Date, or, if later, on the 20th day after the date on which a Change in Control occurs, an amount equal to the Executive’s target annual cash incentive award for the year of such Change in Control Termination (to the extent not theretofore paid) multiplied by a fraction, the numerator of which is the number of days of Executive’s employment during the calendar year of such Change in Control Termination, and the denominator of which is the number of days in the calendar year in which the Change in Control Termination occurs.
 - C. **Additional Cash Severance Payment.** If on the Payment Date the Executive is enrolled in continuation coverage under Part 6 of Subtitle B of Title I of the Employee Retirement Income Security Act of 1974, as amended (“COBRA”) under the Company’s group health plan, the Company shall pay the Executive in a lump sum on the Payment Date an amount equal to the monthly COBRA premium applicable to the Executive as of the Payment Date multiplied by the number of months for which the Executive is entitled to payment under Section 2.B above. Notwithstanding the foregoing, this Section 2.C shall cease to apply as of the effective date of any regulation or other guidance under which payment of such component would be deemed to violate any nondiscrimination requirements under the Patient Protection and Affordable Care Act.
 - D. **Equity Award Vesting Acceleration.**
 - i. Upon an Eligible Termination that is not a Change in Control Termination, the vesting and exercisability of the Executive’s Covered Equity-Based Awards shall be accelerated to the extent provided in Exhibit 1.
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- ii. Upon a Change in Control Termination, the vesting and exercisability of the Executive's Covered Equity-Based Awards shall be accelerated to the extent provided in Exhibit 2.
- iii. [If the Executive is entitled to vesting of Special Stock Price PSUs following certain qualifying terminations of employment as set forth in Sections 7 and 8(d) of the Special Stock Price PSU Agreement, then the terms of the Special Stock Price PSU Agreement shall exclusively govern the treatment thereof; provided, however, that, notwithstanding anything in the Special Stock Price PSU Agreement to the contrary, the Executive must execute a standard mutual separation agreement containing, among other provisions, a Release, within the time period required under such standard mutual separation agreement not to exceed forty-five (45) days following the applicable Vesting Date (as defined in the Special Stock Price PSU Agreement), and such Release must become effective and no longer subject to revocation within 60 days of such Vesting Date in order for the Executive to receive any settlement in respect of such Special Stock Price PSUs under the Special Stock Price PSU Agreement.]

3. **Additional Change in Control Provisions.**

- A. **Obligations of the Executive.** The Executive agrees that in the event any person or group attempts a Change in Control, the Executive shall not voluntarily leave the employ of the Company without Good Reason (i) until such attempted Change in Control terminates or (ii) if a Change in Control shall occur, until ninety (90) days following such Change in Control.
 - B. **Section 4999 Excise Tax.**
 - i. Anything in this Agreement to the contrary notwithstanding, in the event it is determined that (a) any payment, award, benefit or distribution (or any acceleration of any payment, award, benefit or distribution) by the Company (or any of its subsidiaries) or any entity that effectuates a Change in Control (or any of its affiliated entities) to or for the benefit of the Executive (whether pursuant to this Agreement or otherwise) (the "Payments") would be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), and (b) the reduction of the amounts payable to the Executive under this Agreement to the maximum amount that could be paid to the Executive without giving rise to the Excise Tax (the "Safe Harbor Cap") would provide the Executive with a greater after-tax amount than if such amounts were not reduced, then the amounts payable to the Executive under this Agreement shall be reduced (but not below zero) to the Safe Harbor Cap. The reduction of the amounts payable hereunder, if applicable, shall be made to the extent necessary in the following order: (1) the acceleration of vesting of stock options with an exercise price that exceeds the then fair market value of the stock subject to the award and of other equity awards, provided that such the value of such acceleration is not permitted to be determined under Treasury Regulation Section 1.280G-1, Q/A-24(c); (2) the payment under Sections 2.B and 2.C; (3) any equity awards accelerated pursuant to Section 2.D or otherwise valued at full value, provided that the value of such acceleration is not permitted to be determined under Treasury Regulation Section 1.280G-1, Q/A-24(c); (4) the acceleration of vesting of stock options with an exercise price that exceeds the then fair market value of the stock subject to the award and other equity awards, provided that the value of such acceleration is permitted to be determined under Treasury Regulation Section 1.280G-1, Q/A-24(c); and (5) the acceleration of vesting of all other stock options and equity awards on a basis resulting in the highest amount retained by the Executive. For purposes of reducing the Payments to the Safe Harbor Cap, only amounts payable under this Agreement (and no other Payments) shall be reduced. If the reduction of the amounts payable hereunder would not result in a greater after-tax result to the Executive, no amounts payable under this Agreement shall be reduced pursuant to this provision.
 - ii. All determinations required to be made under this Section 3.B shall be made by the public accounting firm that is retained by the Company as of the date immediately prior to the Change in Control (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and the Executive within fifteen (15) business days of the receipt of notice from the Company or the Executive that there has been a Payment, or such earlier time as is requested by the Company. Notwithstanding the foregoing, in the event (a) the Board shall determine prior to the Change in Control that the Accounting Firm is precluded from
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performing such services under applicable auditor independence rules or (b) the Audit Committee of the Board determines that it does not want the Accounting Firm to perform such services because of auditor independence concerns or (c) the Accounting Firm is serving as accountant or auditor for the person(s) effecting the Change in Control, the Board shall appoint another nationally recognized public accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees, costs and expenses (including, but not limited to, the costs of retaining experts) of the Accounting Firm shall be borne by the Company. If Payments are reduced to the Safe Harbor Cap or the Accounting Firm determines that no Excise Tax is payable by the Executive without a reduction in Payments, the Accounting Firm shall provide a written opinion to the Executive to the effect that the Executive is not required to report any Excise Tax on the Executive's federal income tax return, and that the failure to report the Excise Tax, if any, on the Executive's applicable federal income tax return will not result in the imposition of a negligence or similar penalty. The determination by the Accounting Firm shall be binding upon the Company and the Executive (except as provided in Section 5.C below).

- iii. If it is established pursuant to a final determination of a court or an Internal Revenue Service (the "IRS") proceeding which has been finally and conclusively resolved, that Payments have been made to, or provided for the benefit of, the Executive by the Company which are in excess of the limitations provided in this Section (referred to hereinafter as an "Excess Payment"), the Executive shall repay the Excess Payment to the Company on demand, together with interest on the Excess Payment at the applicable federal rate (as defined in Section 1274(d) of the Code) from the date of the Executive's receipt of such Excess Payment until the date of such repayment. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the determination, it is possible that Payments which will not have been made by the Company should have been made (an "Underpayment"), consistent with the calculations required to be made under this Section. In the event that it is determined (a) by the Accounting Firm, the Company (which shall include the position taken by the Company, or together with its consolidated group, on its federal income tax return) or the IRS or (b) pursuant to a determination by a court, that an Underpayment has occurred, the Company shall pay an amount equal to such Underpayment to the Executive within ten (10) days of such determination together with interest on such amount at the applicable federal rate from the date such amount would have been paid to the Executive until the date of payment. The Executive shall cooperate, to the extent the Executive's expenses are reimbursed by the Company, with any reasonable requests by the Company in connection with any contests or disputes with the IRS in connection with the Excise Tax or the determination of the Excess Payment. Notwithstanding the foregoing, in the event that amounts payable under this Agreement were reduced pursuant to Section 3.B(i) and the present value of any Payment is subsequently re-determined by the Accounting Firm within the context of Treasury Regulation Section 1.280G-1 Q/A 33 that reduces the value of the Payment, the Company shall promptly pay to Executive any amounts payable under this Agreement that were not previously paid solely as a result of Section 5.A, subject to the Safe Harbor Cap.
 - iv. A payment or reimbursement of expenses described in this Section 3 shall be made promptly and in no event later than December 31 of the year following the year in which such expenses were incurred, any reimbursement of expenses incurred due to a tax audit or litigation shall be made no later than the end of the calendar year immediately following the calendar year in which the taxes that are the subject of the audit or litigation are remitted to the taxing authority, or, if no taxes are to be remitted, the end of the calendar year following the calendar year in which the audit or litigation is completed, and the amount of such expenses eligible for payment or reimbursement in any year shall not affect the amount of such expenses eligible for payment or reimbursement in any other year nor shall such right to payment or reimbursement be subject to liquidation or exchange for another benefit.
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4. **Section 409A.**

- A. **In General.** The parties intend that this Agreement and the benefits provided hereunder be interpreted and construed to comply with Section 409A to the extent applicable thereto. Notwithstanding any provision of this Agreement to the contrary, this Agreement shall be interpreted and construed consistent with this intent, provided that the Company shall not be required to assume any increased economic burden in connection therewith. Although the Company intends to administer this Agreement so that it will comply with the requirements of Section 409A, the Company does not represent or warrant that this Agreement will comply with Section 409A or any other provision of federal, state, local or non-United States law.
- B. **Prohibition on Acceleration of Payments.** The time or schedule of any payment or amount scheduled to be paid pursuant to the terms of this Agreement, or pursuant to the terms of any other employment agreement or compensation arrangement entered into between the Executive and the Company or any of its subsidiaries, may not be accelerated hereunder, or under any such other employment agreement or other compensation arrangement, except as permitted under Section 409A.
- C. **Delay Period.** In the event that any payment or distribution or portion of any payment or distribution to be made to the Executive hereunder cannot be characterized as a “short-term deferral” for purposes of Section 409A and is not otherwise exempt from the provisions of Section 409A, and the Executive is determined to be a “specified employee” under Section 409A, such portion of the payment shall be delayed until the earlier to occur of the Executive’s death or the date that is six (6) months after the Executive’s termination of employment with the Company and its subsidiaries (the “Delay Period”). Upon the expiration of the Delay Period, the payments delayed pursuant to this Section 4.C shall be paid to the Executive in a lump sum, and any remaining payments due under this Agreement shall be payable in accordance with their original payment schedule.

5. **Miscellaneous.**

- A. **Withholding Taxes.** The Company may withhold from all payments due to the Executive hereunder all taxes which, by applicable federal, state, local or other law, the Company is required to withhold therefrom.
- B. **Scope of Agreement.** Nothing in this Agreement shall be deemed to entitle the Executive to continued employment with the Company or its subsidiaries.
- C. **Successors; Binding Agreement.**
- i. This Agreement shall not be terminated by any merger or consolidation of the Company whereby the Company is or is not the surviving or resulting corporation or as a result of any transfer of all or substantially all of the assets of the Company. In the event of any such merger, consolidation or transfer of assets, the provisions of this Agreement shall be binding upon the surviving or resulting corporation or the person or entity to which such assets are transferred.
 - ii. The Company agrees that concurrently with any merger, consolidation or transfer of assets referred to in Section 5.C(i), it will cause any successor or transferee unconditionally to assume, by written instrument delivered to the Executive, all of the obligations of the Company hereunder.
 - iii. This Agreement shall inure to the benefit of and be enforceable by the Executive’s personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive shall die while any amounts would be payable to the Executive hereunder had the Executive continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to such person or persons appointed in writing by the Executive to receive such amounts or, if no person is so appointed, to the Executive’s estate.
- D. **Notices.**
- i. For purposes of this Agreement, all notices and other communications required or permitted hereunder shall be in writing and shall be deemed to have been duly given when delivered or five (5) days after deposit in the United States mail, certified and return receipt requested, postage prepaid, addressed (a) if to the Executive, to the last known residential address on file for the Executive with the Company, and if to the Company, [*For the applicable executives:* attention General Counsel, with a copy to the Secretary] [*For the General Counsel only:*
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attention Chief Executive Officer], or (b) to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

- ii. A written notice of the Executive's Termination Date by the Company or the Executive, as the case may be, to the other, shall (a) indicate the specific termination provision in this Agreement relied upon, (b) to the extent applicable, set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated and (c) specify the Termination Date (which date shall be not less than fifteen (15) days after the giving of such notice). The failure by the Executive or the Company to set forth in such notice any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company hereunder or preclude the Executive or the Company from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

E. **Governing Law; Validity.** The interpretation, construction and performance of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of Illinois without regard to the principle of conflicts of laws. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provisions of this Agreement, which other provisions shall remain in full force and effect.

F. **Counterparts.** This Agreement may be executed in two counterparts, each of which shall be deemed to be an original and both of which together shall constitute one and the same instrument.

G. **Entire Agreement.** Except to the extent expressly provided herein, this Agreement constitutes the entire understanding between the parties with respect to the Executive's severance pay and benefits in the event of a termination of the Executive's employment with the Company and supersedes any other agreement, whether written or unwritten, with respect thereto.

6. **Full Settlement; Resolution of Disputes.**

A. The Company's obligation to make any payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others.

B. If there shall be any dispute between the Company and the Executive in the event of any termination of the Executive's employment, then unless and until there is a final, nonappealable judgment by a court of competent jurisdiction declaring that such termination was for Cause or that the Company is not otherwise obligated to pay any amount or provide any benefit to the Executive under Section 2, the Company shall pay all amounts, and provide all benefits, to the Executive that the Company would be required to pay or provide pursuant to Section 2 as though such termination were by the Company without Cause or by the Executive with Good Reason; provided, however, that the Company shall not be required to pay any disputed amounts pursuant to this Section 6.B except upon receipt of an undertaking by or on behalf of the Executive to repay all such amounts to which the Executive is ultimately adjudged by such court not to be entitled.

C. If any contest or dispute shall arise under this Agreement involving termination of the Executive's employment with the Company or involving the failure or refusal of the Company to perform fully in accordance with the terms hereof, the Company shall reimburse the Executive, on a current basis, for all legal fees and expenses, if any, incurred by the Executive in connection with such contest or dispute; provided, however, that in the event the resolution of any such contest or dispute includes a finding denying, in total, the Executive's claims in such contest or dispute, the Executive shall be required to reimburse the Company, over a period of twelve (12) months from the date of such resolution, for all sums advanced to the Executive pursuant to this Section 6.C. Payment or reimbursement of expenses described in this Section 6.C shall be made promptly and in no event later than December 31 of the year following the year in which such expenses were incurred, and the amount of such expenses eligible for payment or reimbursement in any year shall not affect the amount of such expenses eligible for payment or reimbursement in any other year nor shall the right to payment or reimbursement be subject to liquidation or exchange for another benefit.

7. **Agreement Modification, Waiver, or Termination.**

- A. Subject to Section 7.B, no provision of this Agreement may be modified or waived unless such modification or waiver is agreed to in writing and signed by the Executive and by a duly authorized officer of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. Failure by the Executive or the Company to insist upon strict compliance with any provision of this Agreement or to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.
- B. The Company shall have the right prior to a Change in Control, in its sole discretion, pursuant to action by the Board, to approve the termination of this Agreement, which termination shall not become effective until the date fixed by the Board for such termination, which date shall be at least 120 days after notice thereof is given by the Company to the Executive in accordance with Section 5.D; provided, however, that no such action shall be taken by the Board during any period of time when the Board has knowledge that any person has taken steps reasonably calculated to effect a Change in Control until, in the opinion of the Board, such person has abandoned or terminated its efforts to effect a Change in Control; and provided, further, that in no event shall this Agreement be terminated during the 24-month period commencing on the date of a Change in Control.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by a duly authorized officer of the Company and the Executive has executed this Agreement as of the Effective Date.

Groupon, Inc.

By: _____

Executive

NAME

NAI-1509731351v2

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Vesting Acceleration Upon an Eligible Termination (Non-Change in Control Termination)

The effect on the Executive's Covered Equity-Based Awards of an Eligible Termination that is not a Change in Control Termination is as follows (subject to the terms of the Agreement, including but not limited to Section 2.A thereof):

1.

(a) Immediately upon the Executive's Termination Date, the portion of the Executive's unvested Time-Based Awards that is scheduled to vest during the twelve (12) month period beginning on the Termination Date shall immediately vest and, for such Time-Based Awards other than Stock Options, be paid on the Payment Date. In addition, if an Eligible Termination occurs after the first vesting date of any outstanding Multi-Year PSUs, then any portions of such Multi-Year PSUs earned thereunder that are subject to continued service following the first vesting date shall be considered "Time-Based Awards" for purposes of this paragraph 1(a) and treated accordingly.

(b) With respect to outstanding Single-Year PSUs, immediately upon the Executive's Termination Date, Executive shall be eligible to earn the amount of any such Single-Year PSUs for the annual performance period in which the Termination Date occurs equal to the full number of shares for such Single-Year PSUs, with the actual amount earned under such award, if any, to be based on and subject to actual performance results as certified by the Committee following such performance period and paid within thirty (30) days of the Committee's certification. In addition, if an Eligible Termination occurs prior to the first vesting date of any Multi-Year PSUs, then such Multi-Year PSUs will be governed by the pro-rata vesting provision of this paragraph 1(b) but only with respect to the portion of the award scheduled to vest on that first vesting date and the remainder of such award will be forfeited (e.g., if a total of 1,000 PSUs were earned for the full award based on the Company's performance and 250 PSUs were scheduled to vest on the first vesting date, the maximum amount of additional vesting the Participant could receive in this termination scenario would be up to these 250 PSUs, and the remaining 750 PSUs would be forfeited).

2. Each of the Executive's vested Stock Options shall remain exercisable following the Termination Date until the expiration of the term of the Stock Option (as set forth in the Stock Option agreement).
3. Notwithstanding anything to the contrary in this Exhibit 1, the timing of payment of any Covered Equity-Based Award that provides for the "deferral of compensation" (as such term is defined under Section 409A) may not be accelerated except as otherwise permitted under Section 409A.

Vesting Acceleration Upon a Change in Control Termination

The effect on the Executive's Covered Equity-Based Awards of a Change in Control Termination are as follows (subject to the terms of the Agreement, including but not limited to Section 2.A thereof):

1. Immediately upon the Executive's Termination Date, or, if later, the Change in Control date, one-hundred percent (100%) of the Executive's outstanding Covered Equity-Based Awards (or equity awards granted in substitution therefor by an acquirer of, or successor to, the Company) that are not otherwise vested shall become immediately vested, with any performance based conditions for such awards (with respect to the performance period in which the Termination Date occurs) deemed satisfied at the target level and, for such Covered Equity-Based Awards other than Stock Options, be paid on the Payment Date or, if later, on the 20th day after the date on which the Change in Control occurs. In the event the Executive's employment is terminated in a Change in Control Termination on a date that precedes the Change in Control date, any Covered Equity-Based Awards that were accelerated by application of Exhibit 1 shall count toward satisfying the accelerated vesting described in the preceding sentence.
 2. Each of the Executive's vested Stock Options shall remain exercisable following the Termination Date until the expiration of the term of the Stock Option (as set forth in the Stock Option agreement).
 3. Notwithstanding anything to the contrary in this Exhibit 2, the timing of payment of any Covered Equity-Based Award that provides for the "deferral of compensation" (as such term is defined under Section 409A) may not be accelerated except as otherwise permitted under Section 409A.
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Release of Claims

Waiver and General Release of Claims. (a) In exchange for the promises made by the Company in this Agreement, Employee unconditionally waives and releases all known and unknown, suspected and unsuspected, accrued and unaccrued, fixed and contingent claims and causes of action of any kind that he/she has or may have against the Company, its parents, subsidiaries, affiliates, predecessors, successors, divisions, affiliates, and its/their respective officers, directors, agents, attorneys, employees, employee benefit plans, plan administrators, insurers, assignees, fiduciaries, administrators, trustees, and legal representatives, both past and present (collectively the "Released Parties") from any and all known or unknown actions, causes of action, claims or liabilities of any kind which have been or could be asserted against the Released Parties arising out of or related to his/her employment with and/or termination from employment with any of the Released Parties and/or any other occurrence up to and including the date on which he/she signs this Waiver and Release (the "Effective Date").

(b) The claims and causes of action Employee is releasing and waiving include, but are not limited to, any and all claims and causes of action that the Released Parties or any of them:

(i) have violated any type of written or unwritten contract, agreement, understanding, policy, benefit, retirement and/or pension plan, promise and/or covenant of any kind, including any covenant of good faith and fair dealing;

(ii) have discriminated against Employee on the basis of any characteristic or trait protected under any law, including but not limited to race, color, sex, sexual orientation, national origin, ancestry, disability, religion, marital or parental status, citizenship, age, source of income, or entitlement to benefits, in violation of any of the following statutes, as amended, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Age Discrimination in Employment Act ("ADEA"), the Employee Retirement Income Security Act, the Americans With Disabilities Act, the Family and Medical Leave Act, the Fair Labor Standards Act, the National Labor Relations Act or any other federal, state or local human rights, civil rights, wage and hour, pension or labor law, rule and/or regulation;

(iii) have violated public policy or common law, including but not limited to claims for personal injury, invasion of privacy, retaliatory discharge, negligent hiring, retention or supervision, defamation, intentional or negligent infliction of emotional distress and/or mental anguish, intentional interference with contract, negligence, detrimental reliance, loss of consortium to Employee or any member of his/her family, promissory estoppel; and/or

(iv) are in any way obligated for any reason to pay Employee damages, expenses, litigation costs (including attorney's fees), wages, bonuses, severance pay, separation pay, termination pay, any type of payments or benefits based on Employee's separation from employment, incentive pay, commissions, disability benefits or sick pay, compensatory damages, punitive damages, and/or interest.

Nothing in this Agreement shall preclude Employee from asserting any claim that cannot be waived by law, or from exercising his/her rights to receive: (1) any sums to be paid or provided under this Agreement, or (2) any vested, accrued benefits to which he/she is (or becomes) otherwise entitled pursuant to the terms of the employee benefit plans in which he/she is a participant immediately prior to the Separation Date (collectively the "Exempted Claims").

EMPLOYEE UNDERSTANDS AND AGREES THAT, OTHER THAN THE EXEMPTED CLAIMS AND CLAIMS THAT CANNOT BE WAIVED BY LAW, HE/SHE IS WAIVING AND RELEASING ANY AND ALL CLAIMS AGAINST THE RELEASED PARTIES (INCLUDING, BUT NOT LIMITED TO, CLAIMS UNDER THE AGE DISCRIMINATION IN EMPLOYMENT ACT) TO THE EFFECTIVE DATE OF THIS AGREEMENT IN EXCHANGE FOR CONSIDERATION TO WHICH HE/SHE IS NOT OTHERWISE ENTITLED.

(c) Employee acknowledges that nothing in this Agreement (including the Confidentiality, Non-Disclosure and Non-Disparagement clauses herein) shall be construed to prevent or limit him/her from communicating with, filing a charge with, or participating in any investigation conducted by, the U.S. Equal Employment Opportunity Commission

("EEOC") or applicable state agency, the U.S. Securities and Exchange Commission ("SEC"), or any other federal, state or local government body or agency, without notice to or prior authorization from the Company, or to prevent any challenge by him/her to the waiver and release of any claim under the ADEA. This provision does not authorize Employee to disclose attorney-client privileged information of the Company.

(d) Employee agrees that he/she waives any and all entitlement to relief, including, but not limited to, any monetary damages and equitable relief, with respect to any claim or cause of action released in this Agreement. This provision does not limit Employee's right to receive an award for information provided to the SEC.

(e) Employee further agrees that, to his/her knowledge, the Company has been in compliance with all laws up to and including the date on which Employee signed this Agreement.

(f) Employee further waives and gives up any right to become, and promises not to consent to become, a member of any class or collective action in a case in which claims are asserted against the Company that are related in any way to Employee's employment or the termination of Employee's employment with the Company. If, without Employee's prior knowledge and consent, Employee is made a member of a class in any proceeding, Employee agrees to opt out of the class at the first opportunity.

(g) Employee agrees that his/her waiver and release of rights under this Agreement is knowing and voluntary and in compliance with the Older Workers Benefit Protection Act of 1990 and he/she covenants and agrees that: (i) he/she has been given at least twenty-one (21) days in which to consider, sign and return this Agreement to the Company; (ii) he/she is hereby being advised in writing to consult with an attorney concerning this Agreement; and (iii) he/she will have seven (7) days from the date of signing to revoke this Agreement if he/she so desires. Any revocation must be in writing, signed by him/her and must be received by Human Resources _____ via email at _____, within the revocation period to be deemed effective.

This Agreement shall be void and of no force and effect if Employee revokes it, but if he/she signs and does not revoke it, then it shall then become effective and enforceable. Employee understands that if he/she revokes this Agreement, he/she will not receive the Consideration provided under Paragraph 3 of this Agreement.

[Special Stock Price PSU Agreement

(see attached)]

CERTIFICATION

I, Rich Williams, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Groupon, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2019

/s/ Rich Williams

Rich Williams
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Melissa Thomas, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Groupon, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2019

/s/ Melissa Thomas

Melissa Thomas
Interim Chief Financial Officer
(Principal Financial Officer)

**Certifications Pursuant to
18 U.S.C. Section 1350
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Groupon, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Rich Williams, Chief Executive Officer of the Company, and Melissa Thomas, Interim Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to our knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Rich Williams
Rich Williams
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Melissa Thomas
Melissa Thomas
Interim Chief Financial Officer
(Principal Financial Officer)

Date: November 4, 2019