Groupon, Inc.
Form 10-Q
August 06, 2014

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

FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________________ to ________________
Commission file number: 1-35335
Groupon, Inc.
(Exact name of registrant as specified in its charter)

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

312-334-1579
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No x
As of August 1, 2014, there were 666,933,836 shares of the registrant's Class A Common Stock outstanding and 2,399,976 shares of the registrant's Class B Common Stock outstanding.

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PART I. Financial Information

FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements regarding our future results of operations and financial position, business strategy and plans and our objectives for future operations. The words "may," "will," "should," "could," "expect," "anticipate," "believe," "estimate," "intend," "continue" and other similar expressions are intended to identify forward-looking statements. We have based these forward looking statements largely on current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, among others, those discussed in "Item 1A. Risk Factors" of our 2013 Annual Report on Form 10-K and Part II, "Item 1A. Risk Factors" of this Quarterly Report on Form 10-Q, as well as in our condensed consolidated financial statements, related notes, and the other financial information appearing elsewhere in this report and our other filings with the Securities and Exchange Commission. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. We do not intend, and undertake no obligation, to update any of our forward-looking statements after the date of this report to reflect actual results or future events or circumstances. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

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

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2014 (unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$868,088	$1,240,472
Accounts receivable, net	134,127	83,673
Deferred income taxes	30,033	27,938
Prepaid expenses and other current assets	237,092	210,415
Total current assets	1,269,340	1,562,498
Property, equipment and software, net	173,403	134,423
Goodwill	460,972	220,827
Intangible assets, net	136,182	28,443
Investments	23,588	20,652
Deferred income taxes, non-current	45,062	35,941
Other non-current assets	28,892	39,226
Total Assets	$2,137,439	$2,042,010
Liabilities and Equity		
Current liabilities:		
Accounts payable	$31,002	$27,573
Accrued merchant and supplier payables	803,374	752,943
Accrued expenses	234,355	226,986
Deferred income taxes	48,915	47,558
Other current liabilities	127,434	132,718
Total current liabilities	1,245,080	1,187,778
Deferred income taxes, non-current	12,871	10,853
Other non-current liabilities	148,552	131,697
Total Liabilities	1,406,503	1,330,328
Commitments and contingencies (see Note 6)		
Stockholders' Equity		
Class A common stock, par value $0.0001 per share, 2,000,000,000 shares authorized, 690,335,467 shares issued and 665,598,175 shares outstanding at June 30, 2014 and 670,149,976 shares issued and 665,717,176 shares outstanding at December 31, 2013	69	67
Class B common stock, par value $0.0001 per share, 10,000,000 shares authorized, 2,399,976 shares issued and outstanding at June 30, 2014 and December 31, 2013	—	—
Common stock, par value $0.0001 per share, 2,010,000,000 shares authorized, no shares issued and outstanding at June 30, 2014 and December 31, 2013	—	—
Additional paid-in capital	1,791,896	1,584,211
Treasury stock, at cost, 24,737,292 shares at June 30, 2014 and 4,432,800 shares at December 31, 2013	(182,046)	(46,587)
Accumulated deficit	(909,540)	(848,870)
Accumulated other comprehensive income	32,712	24,830

Total Groupon, Inc. Stockholders' Equity	733,091	713,651
Noncontrolling interests	(2,155)	(1,969)
Total Equity	730,936	711,682
Total Liabilities and Equity	$2,137,439	$2,042,010

See Notes to unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue:				
Third party and other	$405,941	$418,871	$832,370	$857,979
Direct	345,635	189,876	676,843	352,170
Total revenue	751,576	608,747	1,509,213	1,210,149
Cost of revenue:				
Third party and other	58,378	55,507	120,729	125,523
Direct	303,336	168,546	612,901	320,923
Total cost of revenue	361,714	224,053	733,630	446,446
Gross profit	389,862	384,694	775,583	763,703
Operating expenses:				
Marketing	64,275	55,497	143,199	105,054
Selling, general and administrative	332,844	302,600	657,809	610,806
Acquisition-related expense (benefit), net	597	(815)	2,382	(747)
Total operating expenses	397,716	357,282	803,390	715,113
(Loss) income from operations	(7,854)	27,412	(27,807)	48,590
Other expense, net	(1,023)	(5,579)	(1,863)	(10,662)
(Loss) income before provision for income taxes	(8,877)	21,833	(29,670)	37,928
Provision for income taxes	12,045	27,384	26,615	46,721
Net loss	(20,922)	(5,551)	(56,285)	(8,793)
Net income attributable to noncontrolling interests	(1,953)	(2,023)	(4,385)	(2,773)
Net loss attributable to Groupon, Inc.	$(22,875)	$(7,574)	$(60,670)	$(11,566)
Net loss per share				
Basic	$(0.03)	$(0.01)	$(0.09)	$(0.02)
Diluted	$(0.03)	$(0.01)	$(0.09)	$(0.02)
Weighted average number of shares outstanding				
Basic	675,538,392	662,361,436	678,958,541	660,580,927
Diluted	675,538,392	662,361,436	678,958,541	660,580,927

See Notes to unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net loss	$(20,922)	$(5,551)	$(56,285)	$(8,793)
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	12,684	10,345	8,072	12,488
Unrealized (loss) gain on available-for-sale debt securities	(73)	(67)	(374)	90
Other comprehensive income	12,611	10,278	7,698	12,578
Comprehensive (loss) income	(8,311)	4,727	(48,587)	3,785
Comprehensive income attributable to noncontrolling interests	(1,872)	(2,314)	(4,201)	(3,023)
Comprehensive (loss) income attributable to Groupon, Inc.	$(10,183)	$2,413	$(52,788)	$762

See Notes to unaudited Condensed Consolidated Financial Statements.

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

	Groupon, Inc. Stockholders' Equity									
	Common Stock			Treasury Stock						
	Shares	Amount	Additional Paid-In Capital	Shares	Amount	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Groupon Inc. Stockholders' Equity	Non-controlling Interests	Total Equ
Balance at December 31, 2013	672,549,952	$67	$1,584,211	(4,432,800)	$(46,587)	$(848,870)	$24,830	$713,651	$(1,969)	$71
Net loss	—	—	—	—	—	(60,670)	—	(60,670)	4,385	(56
Foreign currency translation	—	—	—	—	—		8,256	8,256	(184)	8,0
Unrealized loss on available-for-sale debt securities, net of tax	—	—	—	—	—	—	(374)	(374)	—	(37
Common stock issued in connection with acquisition of business, net of issuance costs	13,825,283	1	162,704	—	—	—	—	162,705	—	162
Shares issued to settle liability-classified awards and contingent consideration	102,180	—	1,041	—	—	—	—	1,041	—	1,0
Exercise of stock options	569,374		626	—	—	—	—	626	—	626
Vesting of restricted stock units	8,107,006	1	(1)	—	—	—	—	—	—	—
Shares issued under employee stock purchase plan	333,824	—	2,450	—	—	—	—	2,450	—	2,4
Tax withholdings related to net share settlements of stock-based compensation awards	(2,752,176)	—	(24,070)	—	—	—	—	(24,070)	—	(24
Stock-based compensation on equity-classified	—	—	60,498	—	—	—	—	60,498	—	60,

awards										
Excess tax benefits, net of shortfalls, on stock-based compensation awards	—	—	4,437	—	—	—	—	4,437	—	4,4
Purchases of treasury stock	—	—	—	(20,304,492)	(135,459)	—	—	(135,459)	—	(13
Partnership distributions to noncontrolling interest holders	—	—	—	—	—	—	—	—	(4,387)	(4,3
Balance at June 30, 2014	692,735,443	$69	$1,791,896	(24,737,292)	$(182,046)	$(909,540)	$32,712	$733,091	$(2,155)	$73

See Notes to unaudited Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2014	2013
Operating activities		
Net loss	$(56,285)	$(8,793)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization of property, equipment and software	45,159	31,369
Amortization of acquired intangible assets	24,239	10,799
Stock-based compensation	55,384	62,353
Deferred income taxes	516	(566)
Excess tax benefits on stock-based compensation	(9,932)	(3,768)
Loss on equity method investments	368	33
Net gain from changes in fair value of contingent consideration	(39)	(747)
Impairment of cost method investments	588	—
Change in assets and liabilities, net of acquisitions:		
Restricted cash	921	3,267
Accounts receivable	(27,265)	(2,941)
Prepaid expenses and other current assets	(5,898)	15,992
Accounts payable	(5,153)	(22,831)
Accrued merchant and supplier payables	(41,945)	(37,975)
Accrued expenses and other current liabilities	(36,881)	(7,237)
Other, net	12,759	13,107
Net cash (used in) provided by operating activities	(43,464)	52,062
Investing activities		
Purchases of property and equipment and capitalized software	(47,408)	(28,510)
Acquisitions of businesses, net of acquired cash	(120,749)	(1,469)
Purchases of investments	(4,599)	(13,083)
Settlement of liabilities related to purchase of additional interest in consolidated subsidiary	—	(1,959)
Purchases of intangible assets	(350)	(1,520)
Net cash used in investing activities	(173,106)	(46,541)
Financing activities		
Payments for purchases of treasury stock	(135,474)	—
Excess tax benefits on stock-based compensation	9,932	3,768
Taxes paid related to net share settlements of stock-based compensation awards	(24,306)	(16,016)
Common stock issuance costs in connection with acquisition of business	(158)	—
Payments of contingent consideration from acquisitions	—	(30)
Settlements of purchase price obligations related to acquisitions	(3,136)	(5,000)
Proceeds from stock option exercises and employee stock purchase plan	3,076	3,015
Partnership distribution payments to noncontrolling interest holders	(4,093)	(2,815)
Payments of capital lease obligations	(2,086)	(205)
Net cash used in financing activities	(156,245)	(17,283)
Effect of exchange rate changes on cash and cash equivalents	431	(15,516)
Net decrease in cash and cash equivalents	(372,384)	(27,278)
Cash and cash equivalents, beginning of period	1,240,472	1,209,289
Cash and cash equivalents, end of period	$868,088	$1,182,011

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Non-cash investing and financing activities		
Issuance of common stock in connection with acquisition of business	$162,862	$—
Contingent consideration liabilities incurred in connection with acquisitions	$4,006	$30
Receivable from seller for working capital adjustment in connection with acquisitions	$3,446	$—
Equipment acquired under capital lease obligations	$7,933	$6,482
Shares issued to settle liability-classified awards and contingent consideration	$1,041	$2,263
Liability for purchases of treasury stock	$1,732	$—
Liability for purchase consideration	$359	$—
Accounts payable and accrued expenses related to purchases of property and equipment and capitalized software	$12,228	$1,660

See Notes to unaudited Condensed Consolidated Financial Statements.

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

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Company Information

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

The Company's operations are organized into three principal segments: North America, EMEA, which is comprised of Europe, Middle East and Africa, and the remainder of the Company's international operations ("Rest of World"). See Note 11 "Segment Information."

Unaudited Interim Financial Information

The Company has prepared the accompanying condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial reporting. These condensed consolidated financial statements are unaudited and, in the Company's opinion, include all adjustments, consisting of normal recurring adjustments and accruals, necessary for a fair presentation of the Company's condensed consolidated balance sheets, statements of operations, comprehensive income (loss), cash flows and stockholders' equity for the periods presented. Operating results for the periods presented are not necessarily indicative of the results to be expected for the full year ending December 31, 2014. Certain information and disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") have been omitted in accordance with the rules and regulations of the SEC. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the SEC on February 20, 2014.

Principles of Consolidation

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

Reclassifications

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

Use of Estimates

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

Actual results could differ materially from those estimates.

2. BUSINESS COMBINATIONS

The Company acquired four businesses during the six months ended June 30, 2014. These business combinations were accounted for using the acquisition method, and the results of each of those acquired businesses have been included in the condensed consolidated financial statements beginning on the respective acquisition dates. The fair value of consideration transferred in business combinations is allocated to the tangible and intangible assets acquired and liabilities assumed at the acquisition date, with the remaining unallocated amount recorded as goodwill. The allocations of the acquisition price for recent acquisitions have been prepared on a preliminary basis, and changes to those allocations may occur as a result of final working capital adjustments and 2013 tax return filings. Acquired goodwill represents the premium the Company paid over the fair value of the net tangible and intangible assets acquired. The Company paid this premium for a number of reasons, including growing the Company's merchant and customer base, acquiring assembled workforces, expanding its presence in international markets, expanding and advancing its product offerings and enhancing technology capabilities. The goodwill from these business combinations is generally not deductible for tax purposes.

For the three and six months ended June 30, 2014, $0.6 million and $2.4 million, respectively, of external transaction costs related to business combinations, primarily consisting of legal and advisory fees, are classified within "Acquisition-related expense, net" on the condensed consolidated statements of operations.

LivingSocial Korea, Inc.

On January 2, 2014, the Company acquired all of the outstanding equity interests of LivingSocial Korea, Inc., a Korean corporation and holding company of Ticket Monster Inc. ("Ticket Monster"). Ticket Monster is an e-commerce company based in the Republic of Korea that connects merchants to consumers by offering goods and services at a discount. The primary purpose of this acquisition was to grow the Company's merchant and customer base and expand its presence in the Korean e-commerce market. The aggregate acquisition-date fair value of the consideration transferred for the Ticket Monster acquisition totaled $259.4 million, which consisted of the following (in thousands):

Cash	$99,942	
Issuance of 13,825,283 shares of Class A common stock	162,862	
Receivable from seller for final working capital adjustment	(3,446	)
Total	$259,358	

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

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

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

Cash and cash equivalents	$24,768
Accounts receivable	15,832
Deferred income taxes	1,264
Prepaid expenses and other current assets	829
Property, equipment and software	5,944
Goodwill	220,592
Intangible assets:(1)	
Subscriber relationships	57,022
Merchant relationships	32,176
Developed technology	571
Trade name	19,325
Other non-current assets	3,033
Total assets acquired	$381,356
Accounts payable	$5,951
Accrued merchant and supplier payables	82,934
Accrued expenses	22,700
Other current liabilities	3,482
Deferred income taxes, non-current	1,264
Other non-current liabilities	5,667
Total liabilities assumed	$121,998
Total acquisition price	$259,358

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

Ideeli, Inc.

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

Cash	$42,339
Liability for purchase consideration	359
Total	$42,698

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

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

Cash and cash equivalents	$79
Accounts receivable	988
Deferred income taxes	572
Prepaid expenses and other current assets	22,081
Property, equipment and software	8,173
Goodwill	5,379
Intangible assets:(1)	
Subscriber relationships	5,490
Brand relationships	7,100
Trade name	4,500
Deferred income taxes, non-current	7,753
Total assets acquired	$62,115
Accounts payable	$1,640
Accrued supplier payables	4,092
Accrued expenses	9,118
Other current liabilities	482
Deferred income taxes, non-current	332
Other non-current liabilities	3,753
Total liabilities assumed	$19,417
Total acquisition price	$42,698

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

Other Acquisitions

The Company acquired two other businesses during the six months ended June 30, 2014. The primary purpose of these acquisitions was to acquire an experienced workforce, expand and advance product offerings and enhance technology capabilities. The aggregate acquisition-date fair value of the consideration transferred for these acquisitions totaled $7.5 million, which consisted of the following (in thousands):

Cash	$3,477
Contingent consideration	4,006
Total	$7,483

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

The following table summarizes the allocation of the aggregate purchase price of these other acquisitions (in thousands):

Net working capital (including acquired cash of $0.2 million)	$(52)
Goodwill	6,261
Intangible assets: (1)	
Subscriber relationships	560
Merchant relationships	579
Developed technology	568
Deferred income taxes, non-current	(433)
Total acquisition price	$7,483

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

Pro forma results of operations presented below do not include the results of these other acquisitions because the effects of these acquisitions, individually and in the aggregate, were not material to the Company's condensed consolidated results of operations.

Pro Forma Financial Information

The following unaudited pro forma information presents the combined operating results of the Company for the three and six months ended June 30, 2013, as if the Company had acquired Ticket Monster and Ideeli as of January 1, 2013 (in thousands). Pro forma results of operations have not been presented for the six months ended June 30, 2014, because the operating results of Ticket Monster and Ideeli from January 1, 2014 through their respective acquisition dates were not material to the Company's consolidated results of operations for the six months ended June 30, 2014. The underlying pro forma results include the historical financial results of the Company and these two acquired businesses adjusted for depreciation and amortization expense associated with the assets acquired. The unaudited pro forma results do not reflect any operating efficiencies or potential cost savings which may result from the consolidation of the operations of the Company and the acquired entities. Accordingly, these unaudited pro forma results are not necessarily indicative of what the actual results of operations of the combined company would have been if the acquisitions had occurred as of January 1, 2013, nor are they indicative of future results of operations.

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Revenue	$654,661	$1,306,761
Net loss	(28,508)	(56,932)

The revenue and net loss of Ticket Monster included in our condensed consolidated statements of operations were $35.4 million and $10.2 million for the three months ended June 30, 2014, respectively, and $64.6 million and $23.8 million for the six months ended June 30, 2014, respectively. The revenue and net loss of Ideeli included in our condensed consolidated statements of operations were $21.6 million and $0.7 million for the three months ended June 30, 2014, respectively, and $37.5 million and $3.2 million for the six months ended June 30, 2014, respectively.

3. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table summarizes the Company's goodwill activity by segment for the six months ended June 30, 2014 (in thousands):

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

	North America	EMEA	Rest of World	Consolidated
Balance as of December 31, 2013	$85,457	$115,669	$19,701	$220,827
Goodwill related to acquisitions	11,640	—	220,592	232,232
Other adjustments[1]	115	(881)	8,679	7,913
Balance as of June 30, 2014	$97,212	$114,788	$248,972	$460,972

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

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

	June 30, 2014		
Asset Category	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Subscriber relationships	$110,648	$42,068	$68,580
Merchant relationships	42,551	14,253	28,298
Trade names	31,265	9,155	22,110
Developed technology	24,227	21,577	2,650
Brand relationships	7,690	701	6,989
Other intangible assets	17,162	9,607	7,555
Total	$233,543	$97,361	$136,182

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

Amortization of intangible assets is computed using the straight-line method over their estimated useful lives, which range from 1 to 5 years. Amortization expense related to intangible assets was $11.6 million and $5.2 million for the three months ended June 30, 2014 and 2013, respectively, and $24.2 million and $10.8 million for the six months ended June 30, 2014 and 2013, respectively. As of June 30, 2014, the Company's estimated future amortization expense related to intangible assets is as follows (in thousands):

Remaining amounts in 2014	$23,256
2015	40,691
2016	34,170
2017	19,252
2018	18,741
Thereafter	72
Total	$136,182

GROUPON, INC.
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4. INVESTMENTS

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

	June 30, 2014	Percent Ownership of Voting Stock	December 31, 2013	Percent Ownership of Voting Stock
Cost and equity method investments:				
Cost method investments	$15,092	6 % to 19 %	$15,788	6 % to 19 %
Equity method investments	1,322	21 % to 50 %	1,690	21 % to 50 %
Total cost and equity method investments	16,414		17,478	
Available-for-sale securities:				
Convertible debt securities	2,630		3,174	
Redeemable preferred shares	4,544	19 % to 23 %	—	19 %
Total available-for-sale securities	7,174		3,174	
Total investments	$23,588		$20,652	

In February 2014, the Company acquired redeemable preferred shares in an online home services company for $4.6 million. The shares are accounted for as available-for-sale securities.

The following table summarizes the amortized cost, gross unrealized loss and fair value of the Company's available-for-sale securities as of June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014			December 31, 2013		
	Amortized Cost	Gross Unrealized Loss	Fair Value	Amortized Cost	Gross Unrealized Loss	Fair Value
Available-for-sale securities:						
Convertible debt securities	$3,370	$(740)	$2,630	$3,370	$(196)	$3,174
Redeemable preferred shares	4,599	(55)	4,544	—	—	—
Total available-for-sale securities	$7,969	$(795)	$7,174	$3,370	$(196)	$3,174

The Company's investments in available-for-sale securities have been in an unrealized loss position for less than one year as of June 30, 2014.

Other-Than-Temporary Impairment

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

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tuan"), an entity with operations based in China, was written down to zero through an other-than-temporary impairment charge as of December 31, 2013, and continues to have an estimated fair value of zero as of June 30, 2014.

5. SUPPLEMENTAL CONSOLIDATED BALANCE SHEETS AND STATEMENTS OF OPERATIONS INFORMATION

The following table summarizes the Company's other expense, net for the three and six months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest income	$418	$441	$796	$870
Interest expense	(134)	(101)	(221)	(158)
Impairment of investments	(191)	—	(588)	—
Loss on equity method investments	(420)	(14)	(368)	(33)
Foreign exchange and other	(696)	(5,905)	(1,482)	(11,341)
Other expense, net	$(1,023)	$(5,579)	$(1,863)	$(10,662)

The following table summarizes the Company's prepaid expenses and other current assets as of June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014	December 31, 2013
Current portion of unamortized tax effects on intercompany transactions	$26,819	$28,502
Finished goods inventories	55,452	57,097
Prepaid expenses	48,094	29,404
Restricted cash	21,702	14,579
VAT and income taxes receivable	60,757	52,960
Prepaid marketing	14,444	17,301
Other	9,824	10,572
Total prepaid expenses and other current assets	$237,092	$210,415

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The following table summarizes the Company's accrued merchant and supplier payables as of June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014	December 31, 2013
Accrued merchant payables	$623,204	$518,233
Accrued supplier payables[1]	180,170	234,710
Total accrued merchant and supplier payables	$803,374	$752,943

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

The following table summarizes the Company's accrued expenses as of June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014	December 31, 2013
Marketing	$12,609	$12,001
Refunds reserve	32,279	38,597
Payroll and benefits	67,526	64,966
Customer credits	48,666	44,728
Professional fees	22,204	24,670
Other	51,071	42,024
Total accrued expenses	$234,355	$226,986

The following table summarizes the Company's other current liabilities as of June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014	December 31, 2013
Income taxes payable	$20,082	$21,994
VAT payable	33,999	37,627
Sales taxes payable	5,535	10,412
Deferred revenue	49,534	47,259
Other	18,284	15,426
Total other current liabilities	$127,434	$132,718

The following table summarizes the Company's other non-current liabilities as of June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014	December 31, 2013
Long-term tax liabilities	$110,300	$109,286
Deferred rent	12,532	9,148
Other	25,720	13,263
Total other non-current liabilities	$148,552	$131,697

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The following table summarizes the components of accumulated other comprehensive income as of June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014	December 31, 2013
Foreign currency translation adjustments	$33,208	$24,952
Unrealized loss on available-for-sale securities, net of tax	(496)	(122)
Accumulated other comprehensive income	$32,712	$24,830

6. COMMITMENTS AND CONTINGENCIES

Except for commitments under operating leases that were assumed in connection with the Ticket Monster and Ideeli acquisitions, as described in Note 2, "Business Combinations," the Company's commitments as of June 30, 2014 did not materially change from the amounts set forth in its 2013 Annual Report on Form 10-K. As of June 30, 2014, estimated future payments under operating leases assumed in connection with the Ticket Monster and Ideeli acquisitions for each of the next five years and thereafter are as follows (in thousands):

	Operating leases
2014	$2,735
2015	5,243
2016	5,034
2017	4,418
2018	2,631
Thereafter	11,110
Total minimum lease payments	$31,171

Legal Matters

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

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

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

ending December 31, 2011 and by failing to disclose information about the Company's financial controls in the registration statement and prospectus for the Company's initial public offering of Class A common stock and in the Company's subsequently-issued earnings release dated February 8, 2012. The putative class action lawsuit seeks an unspecified amount of monetary damages, reimbursement for fees and costs incurred in connection with the actions, including attorneys' fees, and various other forms of monetary and non-monetary relief. The plaintiff filed an amended motion for class certification on December 4, 2013. On March 18, 2014, the court entered a scheduling order setting deadlines for fact discovery by March 13, 2015, expert discovery by August 31, 2015, and dispositive motions by October 30, 2015. On May 2, 2014, defendants filed a motion requesting exclusion of the opinions of plaintiff’s proposed market efficiency expert in resolving the motion for class certification. The hearing on the motion to exclude plaintiff’s expert is scheduled for September 11, 2014.

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

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

In 2010, the Company was named as a defendant in a series of class actions that came to be consolidated into a single case in the U.S. District Court for the Southern District of California. The consolidated case is referred to as In re Groupon Marketing and Sales Practices Litigation. The Company denies liability, but the parties agreed to settle the litigation for $8.5 million before any determination had been made on the merits or with respect to class certification. Because the case had been filed as a class action, the parties were required to provide proper notice and obtain court approval for the settlement. During that process, certain individuals asserted various objections to the settlement. The parties to the case opposed the objections and on December 14, 2012, the district court approved the settlement over the various objections.

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

In addition, third parties have from time to time claimed, and others may claim in the future, that the Company has infringed their intellectual property rights. The Company is subject to intellectual property disputes, and expects that it will

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

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

The Company establishes an accrued liability for loss contingencies related to legal and regulatory matters when the loss is both probable and estimable. This accrual represents management's best estimate of probable loss and in such cases, there may be an exposure to loss in excess of the amounts accrued. For each matter described above, there is 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. In addition, for some matters for which a loss is probable or reasonably possible, an estimate of the amount of loss or range of loss is not possible, and we may be unable to estimate the possible loss or range of losses that could potentially result from the application of non-monetary remedies. Currently, the Company is unable to reasonably estimate the amount of reasonably possible losses in excess of the amounts accrued for the securities and stockholder derivative lawsuits. For the remaining matters described above, the Company believes that the amount of reasonably possible losses in excess of the amounts accrued would not have a material adverse effect on its business, consolidated financial position, results of operations or cash flows. The Company's accrued liabilities for loss contingencies related to legal and regulatory matters may change in the future 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 of favorable rulings, newly discovered facts relevant to the matter, or changes in the strategy for the matter. Regardless of the outcome, litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources and other factors.

Indemnifications

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

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

7. STOCKHOLDERS' EQUITY AND STOCK-BASED COMPENSATION

Common Stock

The Company's Certification of Incorporations authorizes three classes of common stock: Class A common stock, Class B common stock and common stock. No shares of common stock will be issued or outstanding until October 31, 2016, at which time all outstanding shares of Class A common stock and Class B common stock will automatically convert into shares of common stock. In addition, the Company's Certification of Incorporation authorizes shares of undesignated preferred stock, the rights, preferences and privileges of which may be designated from time to time by the Board.

Share Repurchase Programs

The Board has authorized the Company to purchase up to $300 million of its outstanding Class A common stock through August 2015. The timing and amount of any share repurchases is determined based on market conditions, share price and other factors, and the program may be discontinued or suspended at any time. During the three and six months ended June 30, 2014, the Company purchased 17,228,792 shares and 20,304,492 shares, respectively, of Class A common stock for an aggregate purchase price of $106.0 million and $135.5 million (including fees and commissions), respectively, under the share repurchase program. As of June 30, 2014, up to $118.0 million of Class A common stock remains available for repurchase under the share repurchase program.

Groupon, Inc. Stock Plans

The Groupon, Inc. Stock Plans (the "Plans") are administered by the Compensation Committee of the Board, which determines the number of awards to be issued, the corresponding vesting schedule and the exercise price for options. As of June 30, 2014, 46,569,481 shares were available for future issuance under the Plans.

The Company recognized stock-based compensation expense of $31.7 million and $32.4 million for the three months ended June 30, 2014 and 2013, respectively, and $55.4 million and $62.4 million for the six months ended June 30, 2014 and 2013, respectively, related to stock awards issued under the Plans, acquisition-related awards and subsidiary awards. The Company also capitalized $2.8 million and $2.1 million of stock-based compensation for the three months ended June 30, 2014 and 2013, respectively, and $5.1 million and $4.7 million of stock-based compensation for the six months ended June 30, 2014 and 2013, respectively, in connection with internally-developed software.

As of June 30, 2014, a total of $240.5 million of unrecognized compensation costs related to unvested stock awards and unvested acquisition-related awards are expected to be recognized over a remaining weighted average period of 1.4 years.

Employee Stock Purchase Plan

The Company is authorized to grant up to 10,000,000 shares of common stock under its employee stock purchase plan ("ESPP"). For the six months ended June 30, 2014 and 2013, 333,824 and 271,402 shares of common stock were issued under the ESPP, respectively.

Stock Options

The table below summarizes the stock option activity for the six months ended June 30, 2014:

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	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands) [(1)]
Outstanding at December 31, 2013	3,355,054	$1.11	6.04	$35,742
Exercised	(569,374)	$1.10		
Forfeited	(11,710)	$2.27		
Outstanding at June 30, 2014	2,773,970	$1.10	5.53	$15,320
Exercisable at June 30, 2014	2,686,103	$1.05	5.51	$14,971

(1) The aggregate intrinsic value of options outstanding and exercisable represents the total pretax intrinsic value (the difference between the fair value of the Company's stock on the last day of each period and the exercise price, multiplied by the number of options where the fair value exceeds the exercise price) that would have been received by the option holders had all option holders exercised their options as of June 30, 2014 and December 31, 2013, respectively.

Restricted Stock Units

The table below summarizes activity regarding unvested restricted stock units under the Plans for the six months ended June 30, 2014:

	Restricted Stock Units	Weighted- Average Grant Date Fair Value (per share)
Unvested at December 31, 2013	41,648,055	$8.06
Granted	18,257,977	$8.17
Vested	(8,107,006)	$7.71
Forfeited	(7,556,342)	$8.21
Unvested at June 30, 2014	44,242,684	$8.17

Performance Share Units

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

Restricted Stock Awards

The Company has granted restricted stock awards in connection with prior period business combinations. Compensation expense on these awards is recognized on a straight-line basis over the requisite service periods.
The table below summarizes activity regarding unvested restricted stock for the six months ended June 30, 2014:

	Restricted Stock	Weighted- Average Grant Date Fair Value (per share)
Unvested at December 31, 2013	97,677	$14.00
Vested	(47,299)	$14.37
Forfeited	(7,693)	$17.07
Unvested at June 30, 2014	42,685	$15.84

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8. INCOME TAXES
The Company's tax provision for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items.
For the three months ended June 30, 2014, the Company recorded income tax expense of $12.0 million on pre-tax losses of $8.9 million, for an effective tax rate of (135.7)%. For the three months ended June 30, 2013, the Company recorded income tax expense of $27.4 million on pre-tax income of $21.8 million, for an effective tax rate of 125.4%. For the six months ended June 30, 2014, the Company recorded income tax expense of $26.6 million on pre-tax losses of $29.7 million, for an effective tax rate of (89.7)%. For the six months ended June 30, 2013, the Company recorded income tax expense of $46.7 million on pre-tax income of $37.9 million, for an effective tax rate of 123.2%.
The Company's U.S. statutory rate is 35%. The most significant factors impacting the effective tax rate for the three and six months ended June 30, 2014 and 2013 were losses in jurisdictions that the Company is not able to benefit due to uncertainty as to the realization of those losses, amortization of the tax effects of intercompany sales of intellectual property and nondeductible stock-based compensation expense.
The Company is subject to income tax audits in multiple jurisdictions. There are many factors, including factors outside of the Company's control, which influence the progress and completion of these audits. As of June 30, 2014, the Company believes that it is reasonably possible that a change of up to $48.0 million in unrecognized tax benefits may occur within the next 12 months upon closing of income tax audits or the expiration of applicable statutes of limitations.
As of June 30, 2014, the unamortized tax effects of intercompany transactions of $26.8 million and $6.8 million are included within "Prepaid expenses and other current assets" and "Other non-current assets," respectively, on the condensed consolidated balance sheet. As of December 31, 2013, unamortized tax effects of intercompany transactions of $28.5 million and $20.4 million are included within "Prepaid expenses and other current assets" and "Other non-current assets," respectively, on the condensed consolidated balance sheet. As of June 30, 2014, the estimated future amortization of the tax effects of intercompany transactions to income tax expense is $13.4 million for the remainder of 2014 and $20.2 million for 2015. These amounts exclude the benefits, if any, for tax deductions in other jurisdictions that the Company may be entitled to as a result of the related intercompany transactions.
9. FAIR VALUE MEASUREMENTS
Fair value is defined under U.S. GAAP as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or a liability.
To increase the comparability of fair value measures, the following hierarchy prioritizes the inputs in valuation methodologies used to measure fair value:
Level 1-Measurements that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
Level 2-Measurements that include other inputs that are directly or indirectly observable in the marketplace.
Level 3-Measurements derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. These fair value measurements require significant judgment.
In determining fair value, the Company uses various valuation approaches within the fair value measurement framework. The valuation methodologies used for the Company's assets and liabilities measured at fair value and their classification in the valuation hierarchy are summarized below:
Cash equivalents - Cash equivalents primarily consist of AAA-rated money market funds with overnight liquidity and no stated maturities. The Company classified cash equivalents as Level 1 due to the short-term nature of these instruments

and measured the fair value based on quoted prices in active markets for identical assets.

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

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

Contingent consideration - The Company has contingent obligations to transfer cash payments to the former owners in conjunction with certain acquisitions if specified financial results are met over future reporting periods. Liabilities for contingent consideration (i.e., earn-outs) are measured at fair value each reporting period, with the acquisition-date fair value included as part of the consideration transferred and subsequent changes in fair value are recorded in earnings within "Acquisition-related expense (benefit), net" on the condensed consolidated statements of operations. The Company uses an income approach to value contingent consideration liabilities, which is determined based on the present value of probability-weighted future cash flows. The Company has generally classified the contingent consideration liabilities as Level 3 due to the lack of relevant observable market data over fair value inputs such as probability-weighting of payment outcomes. Increases in the assessed likelihood of a higher payout under a contingent consideration arrangement contribute to increases in the fair value of the related liability. Conversely, decreases in the assessed likelihood of a higher payout under a contingent consideration arrangement contribute to decreases in the fair value of the related liability. Changes in assumptions could have an impact on the payout of contingent consideration arrangements with a maximum cash payout of $7.3 million as of June 30, 2014.

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

		Fair Value Measurement at Reporting Date Using		
Description	June 30, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$500,558	$500,558	$—	$—
Available-for-sale securities:				
Convertible debt securities	$2,630	$—	$—	$2,630
Redeemable preferred shares	$4,544	$—	$—	$4,544
Liabilities:				
Contingent consideration	$4,006	$—	$—	$4,006

		Fair Value Measurement at Reporting Date Using		
Description	December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$585,514	$585,514	$—	$—
Available-for-sale securities:				
Convertible debt securities	$3,174	$—	$—	$3,174
Redeemable preferred shares	$—	$—	$—	$—
Liabilities:				
Contingent consideration	$606	$—	$—	$606

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The following table provides a roll-forward of the fair value of recurring Level 3 fair value measurements for the three and six months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Assets				
Available-for-sale securities				
Convertible debt securities:				
Beginning Balance	$2,693	$3,341	$3,174	$3,087
Total (losses) gains included in other comprehensive (loss) income	(63)	(108)	(544)	146
Ending Balance	$2,630	$3,233	$2,630	$3,233
Unrealized (losses) gains still held[1]	$(63)	$(108)	$(544)	$146
Redeemable preferred shares[2]:				
Beginning Balance	$4,599	$42,539	$—	$42,539
Purchase of redeemable preferred shares	—	—	4,599	—
Total (losses) gains included in other comprehensive (loss) income	(55)	—	(55)	—
Ending Balance	$4,544	$42,539	$4,544	$42,539
Unrealized (losses) gains still held[1]	$(55)	$—	$(55)	$—
Liabilities				
Contingent Consideration:				
Beginning Balance	$—	$7,699	$606	$7,601
Issuance of contingent consideration in connection with acquisitions	4,006	—	4,006	30
Settlements of contingent consideration liabilities	—	(30)	(424)	(30)
Reclass to non-fair value liabilities when no longer contingent	—	—	(143)	—
Total (gains) losses included in earnings[3]	—	(815)	(39)	(747)
Ending Balance	$4,006	$6,854	$4,006	$6,854
Unrealized (gains) losses still held[1]	$—	$(815)	$—	$(747)

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

(2) For the three and six months ending June 30, 2013, the Company's investments in Life Media Limited (F-tuan) preferred shares were previously classified as cost method investments and have been reclassified to the available-for-sale category in this table. The balance as of June 30, 2013 represents the Company's investments in F-tuan preferred shares, which were written down to zero through an other-than-temporary impairment charge as of December 31, 2013 and continue to have an estimated fair value of zero as of June 30, 2014. The $4.5 million balance as of June 30, 2014 represents the Company's investment in the preferred shares of an online home services company during the current period, as described in Note 4 "Investments."

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

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis, including assets that are written down to fair value as a result of an impairment. The Company did not record any significant nonrecurring fair value measurements after initial recognition during the three and six months ended June 30, 2014 and 2013.

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

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

	June 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cost method investments	$15,092	$17,593	$15,788	$15,573

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

The Company's other financial instruments not carried at fair value consist primarily of short term certificates of deposit, accounts receivable, restricted cash, accounts payable, accrued merchant and supplier payables and accrued expenses. The carrying values of these assets and liabilities approximate their respective fair values as of June 30, 2014 and December 31, 2013 due to their short term nature.

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

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

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

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The following table sets forth the computation of basic and diluted loss per share of Class A and Class B common stock for the three and six months ended June 30, 2014 and 2013 (in thousands, except share amounts and per share amounts):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014		2013		2014		2013	
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
Basic loss per share:								
Numerator								
Allocation of net loss	$(20,847)	$(75)	$(5,530)	$(21)	$(56,085)	$(200)	$(8,761)	$(32)
Less: Allocation of net income attributable to noncontrolling interests	1,946	7	2,016	7	4,369	16	2,763	10
Allocation of net loss attributable to common stockholders	$(22,793)	$(82)	$(7,546)	$(28)	$(60,454)	$(216)	$(11,524)	$(42)
Denominator								
Weighted-average common shares outstanding	673,138,416	2,399,976	659,961,460	2,399,976	676,558,565	2,399,976	658,180,951	2,399,976
Basic loss per share	$(0.03)	$(0.03)	$(0.01)	$(0.01)	$(0.09)	$(0.09)	$(0.02)	$(0.02)
Diluted loss per share:								
Numerator								
Allocation of net loss attributable to common stockholders	$(22,793)	$(82)	$(7,546)	$(28)	$(60,454)	$(216)	$(11,524)	$(42)
Reallocation of net income attributable to common stockholders as a result of conversion of Class B(1)	—	—	—	—	—	—	—	—
Allocation of net loss attributable to common stockholders	$(22,793)	$(82)	$(7,546)	$(28)	$(60,454)	$(216)	$(11,524)	$(42)
Denominator								
Weighted-average common shares outstanding used in	673,138,416	2,399,976	659,961,460	2,399,976	676,558,565	2,399,976	658,180,951	2,399,976

basic computation								
Conversion of Class B(1)	—	—	—	—	—	—	—	—
Employee stock options(1)	—	—	—	—	—	—	—	—
Restricted shares and RSUs(1)	—	—	—	—	—	—	—	—
Weighted-average diluted shares outstanding(1)	673,138,416	2,399,976	659,961,460	2,399,976	676,558,565	2,399,976	658,180,951	2,399,976
Diluted loss per share	$(0.03)	$(0.03)	$(0.01)	$(0.01)	$(0.09)	$(0.09)	$(0.02)	$(0.02)

(1) Conversion of Class B shares into Class A shares and outstanding equity awards have not been reflected in the diluted loss per share calculation for the three and six months ended June 30, 2014 and 2013 because the effect would be antidilutive.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Stock options	2,871,939	6,268,708	3,052,703	6,851,765
Restricted stock units	43,983,986	42,601,423	42,075,003	37,075,549
Restricted stock	62,158	302,715	69,583	427,506
ESPP shares	697,244	550,165	560,058	559,170
Total	47,615,327	49,723,011	45,757,347	44,913,990

In addition to the antidilutive awards as set forth in the table above, the Company also granted approximately 2,000,000 performance share units in connection with its acquisition of Ticket Monster during the six months ended June 30, 2014. Contingently issuable shares are excluded from the computation of diluted EPS if, based on current period results, the shares would not be issuable if the end of the reporting period were the end of the contingency period. These outstanding performance share units have been excluded from the table above for the six months ended June 30, 2014 as the performance conditions would not have been satisfied as of the end of the period.

11. SEGMENT INFORMATION

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

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Revenue and profit or loss information by reportable segment reconciled to consolidated net loss for the three and six months ended June 30, 2014 and 2013 were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
North America				
Revenue(1)	$423,931	$377,182	$854,993	$716,736
Segment cost of revenue and operating expenses(2)	409,386	328,674	829,063	626,862
Segment operating income(2)	14,545	48,508	25,930	89,874
EMEA				
Revenue(3)	227,690	159,962	458,583	343,760
Segment cost of revenue and operating expenses(2)	199,981	135,254	411,951	284,876
Segment operating income(2)	27,709	24,708	46,632	58,884
Rest of World				
Revenue	99,955	71,603	195,637	149,653
Segment cost of revenue and operating expenses(2)	117,811	85,776	238,240	188,215
Segment operating loss(2)	(17,856)	(14,173)	(42,603)	(38,562)
Consolidated				
Revenue	751,576	608,747	1,509,213	1,210,149
Segment cost of revenue and operating expenses(2)	727,178	549,704	1,479,254	1,099,953
Segment operating income(2)	24,398	59,043	29,959	110,196
Stock-based compensation	31,655	32,446	55,384	62,353
Acquisition-related expense (benefit), net	597	(815)	2,382	(747)
(Loss) income from operations	(7,854)	27,412	(27,807)	48,590
Other expense, net	(1,023)	(5,579)	(1,863)	(10,662)
(Loss) income before provision for income taxes	(8,877)	21,833	(29,670)	37,928
Provision for income taxes	12,045	27,384	26,615	46,721
Net loss	$(20,922)	$(5,551)	$(56,285)	$(8,793)

(1) North America includes revenue from the United States of $413.2 million and $363.8 million for the three months ended June 30, 2014 and 2013, respectively, and $833.1 million and $690.6 million for the six months ended June 30, 2014 and 2013, respectively.

(2) Segment cost of revenue and operating expenses and segment operating income (loss) exclude stock-based compensation and acquisition-related expense (benefit), net. This presentation corresponds to the measure of segment profit or loss that the Company's chief operating decision-maker uses in assessing segment performance and making resource allocation decisions. The following table summarizes the Company's stock-based compensation expense and acquisition-related expense (benefit), net by reportable segment for the three and six months ended June 30, 2014 and 2013 (in thousands):

Three Months Ended June 30,				Six Months Ended June 30,			
2014		2013		2014		2013	
Stock-based compensation	Acquisition-related	Stock-based compensation	Acquisition-related	Stock-based compensation	Acquisition-related	Stock-based compensation	Acquisition-related
$26,206	$ 597	$25,610	$ (523)	$45,686	$ 2,238	$48,412	$ (380)

North America								
EMEA	2,227	—	3,331	(292)	4,500	144	6,466	(367)
Rest of World	3,222	—	3,505	—	5,198	—	7,475	—
Consolidated	$31,655	$ 597	$32,446	$ (815)	$55,384	$ 2,382	$62,353	$ (747)

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

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(3) Beginning in September 2013, direct revenue transactions in the EMEA Goods category have been transacted through a Switzerland-based subsidiary. As a result, EMEA includes revenue from Switzerland of $102.4 million and $194.3 million for the three and six months ended June 30, 2014, respectively.

The following table summarizes the Company's total assets by reportable segment as of June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014	December 31, 2013
North America [(1)]	$1,011,970	$1,267,158
EMEA	574,850	616,126
Rest of World [(1)]	550,619	158,726
Consolidated total assets	$2,137,439	$2,042,010

(1) North America contains assets from the United States of $977.4 million and $1,231.3 million as of June 30, 2014 and December 31, 2013, respectively. Rest of World contains assets from the Republic of Korea, including those assets acquired as a part of our acquisition of Ticket Monster described in Note 2 "Business Combinations," of $399.4 million as of June 30, 2014. There were no other individual countries that represented more than 10% of consolidated total assets as of June 30, 2014 and December 31, 2013, respectively.

Category Information

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

The following table summarizes the Company's third party and other and direct revenue by category for its three reportable segments for the three months ended June 30, 2014 and 2013 (in thousands):

	North America Three Months Ended June 30,		EMEA Three Months Ended June 30,		Rest of World Three Months Ended June 30,		Consolidated Three Months Ended June 30,	
	2014	2013	2014	2013	2014	2013	2014	2013
Local [(1)]:								
Third party and other	$164,500	$176,684	$96,485	$110,229	$42,711	$43,849	$303,696	$330,762
Direct	—	693	—	—	—	—	—	693
Total	164,500	177,377	96,485	110,229	42,711	43,849	303,696	331,455
Goods:								
Third party	1,399	4,651	16,845	32,938	38,697	14,985	56,941	52,574
Direct	240,227	181,377	98,568	2,181	6,840	5,625	345,635	189,183
Total	241,626	186,028	115,413	35,119	45,537	20,610	402,576	241,757
Travel:								
Third party	17,805	13,777	15,792	14,614	11,707	7,144	45,304	35,535
Total revenue	$423,931	$377,182	$227,690	$159,962	$99,955	$71,603	$751,576	$608,747

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

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The following table summarizes the Company's third party and other and direct revenue by category for its three reportable segments for the six months ended June 30, 2014 and 2013 (in thousands):

	North America Six Months Ended June 30,		EMEA Six Months Ended June 30,		Rest of World Six Months Ended June 30,		Consolidated Six Months Ended June 30,	
	2014	2013	2014	2013	2014	2013	2014	2013
Local [(1)]:								
Third party and other	$341,747	$348,978	$205,605	$221,818	$86,525	$89,263	$633,877	$660,059
Direct	—	693	—	—	—	—	—	693
Total	341,747	349,671	205,605	221,818	86,525	89,263	633,877	660,752
Goods:								
Third party	2,720	7,795	34,320	78,813	74,872	33,047	111,912	119,655
Direct	476,341	329,442	187,982	9,632	12,520	12,403	676,843	351,477
Total	479,061	337,237	222,302	88,445	87,392	45,450	788,755	471,132
Travel:								
Third party	34,185	29,828	30,676	33,497	21,720	14,940	86,581	78,265
Total revenue	$854,993	$716,736	$458,583	$343,760	$195,637	$149,653	$1,509,213	$1,210,149

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

The following table summarizes the Company's gross profit by category for its three reportable segments for the three months ended June 30, 2014 and 2013 (in thousands):

	North America Three Months Ended June 30,		EMEA Three Months Ended June 30,		Rest of World Three Months Ended June 30,		Consolidated Three Months Ended June 30,	
	2014	2013	2014	2013	2014	2013	2014	2013
Local [(1)]:								
Third party and other	$142,674	$155,671	$90,373	$99,318	$35,618	$35,885	$268,665	$290,874
Direct	—	57	—	—	—	—	—	57
Total	142,674	155,728	90,373	99,318	35,618	35,885	268,665	290,931
Goods:								
Third party	1,128	4,129	14,990	28,233	24,599	9,416	40,717	41,778
Direct	21,833	22,848	20,442	(1,125)	24	(450)	42,299	21,273
Total	22,961	26,977	35,432	27,108	24,623	8,966	83,016	63,051
Travel:								
Third party	14,365							