

**GROUPON, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. DESCRIPTION OF BUSINESS**

Groupon, Inc., together with the subsidiaries through which it conducts business (the "Company"), is a local e-commerce marketplace ([www.groupon.com](http://www.groupon.com)) that connects merchants to consumers by offering goods and services at a discount. The Company, which commenced operations in October 2008, creates a new way for local merchants to attract customers, while providing consumers with savings and helping them discover what to do, eat, see and buy in the places they live and work. Each day, the Company emails its subscribers with discounted offers for goods and services that are targeted by location and personal preferences. Consumers also access deals directly through the Company's website and mobile application.

The Company, based in Chicago, Illinois, was founded by Andrew D. Mason, the Company's CEO, and Eric P. Lefkofsky, the Company's Executive Chairman, and evolved from a business they founded called The Point ([www.thepoint.com](http://www.thepoint.com)), which is a web platform that enables users to promote collective action in support of social, educational and other causes. The Point originally was established as a limited liability company ("ThePoint"). Effective January 15, 2008, The Point converted its legal form to a corporation organized and existing under the General Corporation Law of the State of Delaware, and merged with and into ThePoint.com, a newly-established corporation ("ThePoint.com"). ThePoint.com subsequently changed its legal name to Groupon, Inc.

The Company has organized its operations into two principal segments: North America and International. See Note 14 "*Segment Information*."

**2. RESTATEMENT**

The Company has restated its previously issued Consolidated Statements of Operations for the years ended December 31, 2008, 2009 and 2010 to correct for an error in its presentation of revenue.

Most significantly, the Company restated its reporting of revenues from Groupons to be net of the amounts related to merchant fees. Historically, the Company has reported the gross amounts billed to its subscribers as revenue. All prior periods have been restated to show the net amount the Company retains after paying the merchant fees. The effect of the correction resulted in a reduction of previously reported revenues and corresponding reductions in cost of revenue in those periods. The change in presentation had no effect on pre-tax loss, net loss or any per share amounts for any period presented.

The Company has also changed the presentation of certain other income statement expenses to be consistent with reporting revenue on a net basis. These changes include presenting loyalty programs as a component of marketing rather than as an offset to revenue. The Company believes that this classification is most appropriate as it is acting as an agent on behalf of the merchant in driving traffic to generate revenue. In addition, refunds made to subscribers under the Groupon Promise are presented as a component of cost of revenue, rather than as an offset to revenue, as these amounts are not paid directly to the merchants.

Credit card and other processing expenses have been reclassified to cost of revenue from selling, general and administrative for all periods presented. The Company has concluded the amounts could alternatively be viewed as a cost of the service the Company is providing.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. RESTATEMENT (Continued)**

The following tables summarize the corrections on each of the affected financial statement line items for each period presented (in thousands).

	<u>As Previously Reported<sup>(1)</sup></u>	<u>Restatement Adjustment</u>	<u>As Restated</u>
<b>For the year ended December 31, 2008</b>			
Revenue	\$ 94	\$ (89)	\$ 5
Cost of revenue	89	(83)	6
Marketing	163	—	163
Selling, general and administrative	1,474	(6)	1,468
<b>For the year ended December 31, 2009</b>			
Revenue	\$ 30,471	\$ (15,931)	\$ 14,540
Cost of revenue	19,542	(15,187)	4,355
Marketing	4,548	325	4,873
Selling, general and administrative	7,458	(1,069)	6,389
<b>For the year ended December 31, 2010</b>			
Revenue	\$ 713,365	\$ (400,424)	\$ 312,941
Cost of revenue	433,411	(400,917)	32,494
Marketing	263,202	21,146	284,348
Selling, general and administrative	233,913	(20,653)	213,260

<sup>(1)</sup> Includes certain reclassifications to conform to the current presentation

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The 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 United States generally accepted accounting principles ("U.S. GAAP") and include the assets, liabilities, revenues and expenses of all wholly-owned subsidiaries and majority-owned subsidiaries over which the Company exercises control. Outside stockholders' interests in subsidiaries are shown in the consolidated financial statements as "Noncontrolling interests." The consolidated statements of operations include the results of entities acquired from the date of the acquisition for accounting purposes.

***Stock Splits***

In May 2010, the Company's Board of Directors (the "Board") approved a resolution to effect a three-for-one stock split of the Company's common stock with no corresponding change to the par value. The stock split became effective in August 2010. The Board also approved a two-for-one stock split of the Company's common stock in December 2010 with no corresponding change in par value, which became effective in January 2011. All common share numbers and per share amounts for all periods presented have been adjusted retroactively to reflect both the three-for-one and the two-for-one stock splits.