

Groupon, Inc.
Form 10-Q
April 30, 2019

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 March 31, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number: 1-35335

Groupon, Inc.
(Exact name of registrant as specified in its charter)
Delaware 27-0903295
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

600 West Chicago Avenue, Suite 400 60654
Chicago, Illinois
(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 No

Indicate by check mark whether the registrant has submitted electronically 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 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

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As of April 26, 2019, there were 568,198,215 shares of the registrant's common stock outstanding.

TABLE OF CONTENTS

PART I. Financial Information	Page
Forward-Looking Statements	<u>3</u>
Item 1. Financial Statements and Supplementary Data	<u>4</u>
Condensed Consolidated Balance Sheets as of March 31, 2019 (unaudited) and December 31, 2018	<u>4</u>
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three months ended March 31, 2019 and 2018 (unaudited)	<u>5</u>
Condensed Consolidated Statements of Stockholders' Equity for the three months ended March 31, 2019 and 2018 (unaudited)	<u>6</u>
Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2019 and 2018 (unaudited)	<u>8</u>
Notes to Condensed Consolidated Financial Statements (unaudited)	<u>10</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>27</u>
Item 3. Quantitative and Qualitative Disclosures about Market Risk	<u>43</u>
Item 4. Controls and Procedures	<u>44</u>
PART II. Other Information	
Item 1. Legal Proceedings	<u>45</u>
Item 1A. Risk Factors	<u>45</u>
Item 2. Unregistered sales of equity securities and use of proceeds	<u>47</u>
Item 5. Other Information	<u>48</u>
Item 6. Exhibits	<u>48</u>
Signatures	<u>49</u>

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, including refinancing our credit facility; 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, 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)

	March 31, 2019 (unaudited)	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$645,610	\$841,021
Accounts receivable, net	83,658	69,493
Prepaid expenses and other current assets	82,686	88,115
Total current assets	811,954	998,629
Property, equipment and software, net	136,570	143,117
Right-of-use assets - operating leases, net	103,101	—
Goodwill	324,579	325,491
Intangible assets, net	42,659	45,401
Investments (including \$42,888 and \$84,242 at March 31, 2019 and December 31, 2018, at fair value)	66,913	108,515
Other non-current assets	20,236	20,989
Total Assets	\$1,506,012	\$1,642,142
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$25,312	\$38,359
Accrued merchant and supplier payables	512,728	651,781
Accrued expenses and other current liabilities	256,060	267,034
Total current liabilities	794,100	957,174
Convertible senior notes, net	204,844	201,669
Operating lease obligations	110,999	—
Other non-current liabilities	53,673	100,688
Total Liabilities	1,163,616	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; 764,245,924 shares issued and 567,982,801 shares outstanding at March 31, 2019; 760,939,440 shares issued and 569,084,312 shares outstanding at December 31, 2018	76	76
Additional paid-in capital	2,248,616	2,234,560
Treasury stock, at cost, 196,263,123 and 191,855,128 shares at March 31, 2019 and December 31, 2018	(892,546)	(877,491)
Accumulated deficit	(1,052,986)	(1,010,499)
Accumulated other comprehensive income (loss)	37,915	34,602
Total Groupon, Inc. Stockholders' Equity	341,075	381,248
Noncontrolling interests	1,321	1,363
Total Equity	342,396	382,611
Total Liabilities and Equity	\$1,506,012	\$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 March 31,	
	2019	2018
Revenue:		
Service	\$285,827	\$ 301,797
Product	292,583	324,743
Total revenue	578,410	626,540
Cost of revenue:		
Service	28,627	31,145
Product	243,767	270,510
Total cost of revenue	272,394	301,655
Gross profit	306,016	324,885
Operating expenses:		
Marketing	93,397	99,156
Selling, general and administrative	210,424	222,344
Total operating expenses	303,821	321,500
Income (loss) from operations	2,195	3,385
Other income (expense), net	(46,855)	(8,515)
Income (loss) from continuing operations before provision (benefit) for income taxes	(44,660)	(5,130)
Provision (benefit) for income taxes	(3,490)	(2,335)
Income (loss) from continuing operations	(41,170)	(2,795)
Income (loss) from discontinued operations, net of tax	2,162	—
Net income (loss)	(39,008)	(2,795)
Net income attributable to noncontrolling interests	(3,479)	(4,093)
Net income (loss) attributable to Groupon, Inc.	\$(42,487)	\$(6,888)
Basic and diluted net income (loss) per share:		
Continuing operations	\$(0.08)	\$(0.01)
Discontinued operations	0.01	0.00
Basic and diluted net income (loss) per share	\$(0.07)	\$(0.01)
Weighted average number of shares outstanding		
Basic	570,095,128	561,735,937
Diluted	570,095,128	561,735,937
Comprehensive income (loss):		
Net income (loss)	\$(39,008)	\$(2,795)
Other comprehensive income (loss):		
Other comprehensive income (loss) from continuing operations:		
Net change in unrealized gain (loss) on foreign currency translation adjustments	3,272	(1,568)
Net change in unrealized gain (loss) on available-for-sale securities (net of tax effect of \$13 and \$0 for the three months ended March 31, 2019 and 2018)	41	(501)
Other comprehensive income (loss) from continuing operations	3,313	(2,069)
Other comprehensive income (loss) from discontinued operations	—	—
Other comprehensive income (loss)	3,313	(2,069)

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Comprehensive income (loss)	(35,695)	(4,864)
Comprehensive income (loss) attributable to noncontrolling interest	(3,479)	(4,093)
Comprehensive income (loss) attributable to Groupon, Inc.	\$(39,174)	\$(8,957)

See Notes to Condensed Consolidated Financial Statements.

5

GROUPON, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share amounts)

(unaudited)

	Groupon, Inc. Stockholders' Equity									
	Common Stock			Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Groupon, Comprehensive Income Stockholders' Equity	Non-controlling Interests	Total Equity
Shares	Amount	Additional Paid-In Capital	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	\$3,272
Net income (loss)	—	—	—	—	—	(42,487)	—	(42,487)	3,479	(3,479)
Foreign currency translation	—	—	—	—	—	—	3,272	3,272	—	3,272
Unrealized gain (loss) on available-for-sale securities, net of tax	—	—	—	—	—	—	41	41	—	41
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)
Purchases of treasury 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	\$3,272

See Notes to Condensed Consolidated Financial Statements.

6

GROUPON, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share amounts)

(unaudited)

	Groupon, Inc. Stockholders' Equity		Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Groupon, Inc. Stockholders' Equity	Non-controlling Interests	
	Common Stock	Additional Paid-In Capital	Shares	Amount					
	Shares	Amount	Shares	Amount					
Balance at December 31, 2017	748,541,862	\$75,217,708	(188,602,242)	\$(867,450)	\$(1,088,204)	\$31,844	\$250,973	\$872	\$
Cumulative effect of change in accounting principle, net of tax	—	—	—	—	88,945	—	88,945	—	8
Reclassification for impact of U.S. tax rate change	—	—	—	—	(161)	161	—	—	—
Net income (loss)	—	—	—	—	(6,888)	—	(6,888)	4,093	(
Foreign currency translation	—	—	—	—	—	(1,568)	(1,568)	—	(
Unrealized gain (loss) on available-for-sale securities, net of tax	—	—	—	—	—	(501)	(501)	—	(
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
Tax withholdings related to net share settlements of stock-based compensation awards	(2,024,590)	(9,355)	—	—	—	—	(9,355)	—	(
Stock-based compensation on equity-classified	—	18,240	—	—	—	—	18,240	—	1

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awards										
Shares issued to										
settle										
liability-classified	1,240,379	—	6,436	—	—	—	—	6,436	—	6
awards										
Distributions to										
noncontrolling	—	—	—	—	—	—	—	—	(3,315)	(
interest holders										
Balance at March	752,664,286	\$75	\$2,192,469	(188,602,242)	\$(867,450)	\$(1,006,308)	\$29,936	\$348,722	\$1,650	\$
31, 2018										

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2019	2018
Operating activities		
Net income (loss)	\$(39,008)	\$(2,795)
Less: Income (loss) from discontinued operations, net of tax	2,162	—
Income (loss) from continuing operations	(41,170)	(2,795)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization of property, equipment and software	24,522	26,721
Amortization of acquired intangible assets	3,894	2,940
Stock-based compensation	16,411	19,326
Deferred income taxes	—	(6,575)
(Gain) loss from changes in fair value of investments	41,408	5,033
Amortization of debt discount on convertible senior notes	3,175	2,866
Change in assets and liabilities, net of acquisitions and dispositions:		
Accounts receivable	(14,200)	17,623
Prepaid expenses and other current assets	3,461	9,601
Accounts payable	(12,914)	(8,341)
Accrued merchant and supplier payables	(136,572)	(143,330)
Accrued expenses and other current liabilities	(40,405)	(41,564)
Other, net	4,907	(1,252)
Net cash provided by (used in) operating activities from continuing operations	(147,483)	(119,747)
Net cash provided by (used in) operating activities from discontinued operations	—	—
Net cash provided by (used in) operating activities	(147,483)	(119,747)
Investing activities		
Purchases of property and equipment and capitalized software	(17,477)	(20,144)
Acquisitions of intangible assets and other investing activities	(638)	(238)
Net cash provided by (used in) investing activities from continuing operations	(18,115)	(20,382)
Net cash provided by (used in) investing activities from discontinued operations	—	—
Net cash provided by (used in) investing activities	(18,115)	(20,382)
Financing activities		
Payments for purchases of treasury stock	(14,416)	—
Taxes paid related to net share settlements of stock-based compensation awards	(5,090)	(9,179)
Proceeds from stock option exercises and employee stock purchase plan	2,006	2,434
Distributions to noncontrolling interest holders	(3,521)	