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 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 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 x 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 x	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 x

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

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PART I. FINANCIAL INFORMATION

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding our future results of operations and financial position, business strategy and plans and our objectives for future operations. The words "may," "will," "should," "could," "expect," "anticipate," "believe," "estimate," "intend," "continue" and other similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, but are not limited to, risks related to volatility in our operating results; execution of our business and marketing strategies; retaining existing customers and adding new customers; challenges arising from our international operations, including fluctuations in currency exchange rates, legal and regulatory developments and any potential adverse impact from the United Kingdom's likely exit from the European Union; retaining and adding high quality merchants; our voucherless offerings; cybersecurity breaches; reliance on cloud-based computing platforms; competing successfully in our industry; changes to merchant payment terms; providing a strong mobile experience for our customers; maintaining and improving our information technology infrastructure; delivery and routing of our emails; claims related to product and service offerings; managing inventory and order fulfillment risks; litigation; managing refund risks; retaining and attracting members of our executive team; completing and realizing the anticipated benefits from acquisitions, dispositions, joint ventures and strategic investments; lack of control over minority investments; compliance with domestic and foreign laws and regulations, including the CARD Act, GDPR and regulation of the Internet and e-commerce; classification of our independent contractors or employees; tax liabilities; tax legislation; protecting our intellectual property; maintaining a strong brand; customer and merchant fraud; payment-related risks; our ability to raise capital if necessary and our outstanding indebtedness, 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.

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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)

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.

GROUPON, INC.
CONDENSED CONSOLIDATED STATEMENTS 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 (Loss)	Total Groupon, Inc. Stockholders' Equity	Non-contro Interests	To Eq
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
Net income (loss)	—	—	—	—	—	(42,487)	—	(42,487)	3,479	(39
Foreign currency translation	—	—	—	—	—	—	3,272	3,272	—	3,2
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	—	1,9
Tax withholdings related to net share settlements of stock-based compensation awards	(1,585,728)	—	(5,681)	—	—	—	—	(5,681)	—	(5,
Purchases of treasury stock	—	—	—	(4,407,995)	(15,055)	—	—	(15,055)	—	(1
Stock-based compensation on equity-classified awards	—	—	17,731	—	—	—	—	17,731	—	17
Distributions to noncontrolling interest holders	—	—	—	—	—	—	—	—	(3,521)	(3,
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

See Notes to Condensed Consolidated Financial Statements.

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

	Groupon, Inc. Stockholders' Equity									
	Common Stock			Treasury Stock						
	Shares	Amount	Additional Paid-In Capital	Shares	Amount	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Groupon, Inc. Stockholders' Equity	Non-cont Interests	T E
Balance at December 31, 2017	748,541,862	$75	$2,174,708	(188,602,242)	$(867,450)	$(1,088,204)	$31,844	$250,973	$872	$
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

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

See Notes to Condensed Consolidated Financial Statements.

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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)	(3,315)
Payments of finance lease obligations	(6,756)	(9,024)
Payments of contingent consideration related to acquisitions	—	(1,815)
Net cash provided by (used in) financing activities	(27,777)	(20,899)
Effect of exchange rate changes on cash, cash equivalents and restricted cash, including cash classified within current assets	(3,381)	6,191
Net increase (decrease) in cash, cash equivalents and restricted cash, including cash classified within current assets	(196,756)	(154,837)
Less: Net increase (decrease) in cash classified within current assets of discontinued operations	—	—
Net increase (decrease) in cash, cash equivalents and restricted cash	(196,756)	(154,837)
Cash, cash equivalents and restricted cash, beginning of period	844,728	885,481

Cash, cash equivalents and restricted cash, end of period [1]	$647,972	$730,644
Non-cash investing and financing activities		
Continuing operations:		
Equipment acquired under finance lease obligations	$ —	$1,470
Liability for purchases of treasury stock	(1,095)	—
Increase (decrease) in liabilities related to purchases of property and equipment and capitalized software	(355)	(1,022)

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

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

	March 31, 2019	March 31, 2018
Cash and cash equivalents	$645,610	$725,909
Restricted cash included in prepaid expenses and other current assets	1,973	4,332
Restricted cash included in other non-current assets	389	403
Cash, cash equivalents and restricted cash	$647,972	$730,644

See Notes to Condensed Consolidated Financial Statements.

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

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Company Information

Groupon, Inc. and its subsidiaries, which commenced operations in October 2008, operate online local commerce marketplaces throughout the world that connect merchants to consumers by offering goods and services, generally at a discount. Customers access those marketplaces through our websites, primarily localized groupon.com sites in many countries, and our mobile applications.

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

Unaudited Interim Financial Information

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

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Groupon, Inc. and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated financial statements were prepared in accordance with U.S. GAAP and include the assets, liabilities, revenue and expenses of all wholly-owned subsidiaries and majority-owned subsidiaries over which we exercise control and a variable interest entity for which we have determined that we are the primary beneficiary. In the first quarter of 2019, we extended our arrangement through July 2022 with the strategic partner in the variable interest entity that we consolidate. Outside stockholders' interests in subsidiaries are shown on the condensed consolidated financial statements as Noncontrolling interests. Investments in entities in which we do not have a controlling financial interest are accounted for under the equity method, the fair value option, as available-for-sale securities or at cost adjusted for observable price changes and impairments, as appropriate.

Adoption of New Accounting Standards

We adopted the guidance in ASU 2016-02, Leases (Topic 842) on January 1, 2019. This ASU requires the recognition of lease assets and liabilities for operating leases, in addition to the finance lease assets and liabilities historically recorded on our condensed consolidated balance sheets. See Note 6, Leases, for information on the impact of adopting Topic 842 on our accounting policies.

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

We adopted the guidance in ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) - Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. This ASU requires entities in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40, Internal Use Software, to determine which costs to implement the service contract would be capitalized as an asset related to the service contract and which costs would be expensed. The requirements of ASU 2018-15 have been applied on a prospective basis to implementation costs incurred on or after January 1, 2019. As a result of the adoption of ASU 2018-15, we capitalized $0.9 million of implementation costs for the three months ended March 31, 2019. Those capitalized costs are included within Other non-current assets on the condensed consolidated balance sheet as of March 31, 2019. We have not recognized any amortization related to these implementation costs. We will amortize the implementation costs on a straight-line basis over the term of the associated hosting arrangement for each module or component of the related hosting arrangement when it is ready for its intended use. Amortization costs will be recorded in Selling, general and administrative expense on the condensed consolidated statements of operations.

Reclassifications and Terminology Changes

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

Use of Estimates

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

2. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table summarizes goodwill activity by segment for the three months ended March 31, 2019 (in thousands):

	North America	International	Consolidated
Balance as of December 31, 2018	$178,685	$ 146,806	$ 325,491
Foreign currency translation	—	(912)	(912)
Balance as of March 31, 2019	$178,685	$ 145,894	$ 324,579

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

	March 31, 2019			December 31, 2018		
Asset Category	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Customer relationships	$16,200	$ 13,050	$3,150	$16,200	$ 11,700	$4,500
Merchant relationships	22,004	5,208	16,796	21,554	4,105	17,449
Trade names	9,533	6,943	2,590	9,476	6,799	2,677
Developed technology	13,810	13,527	283	13,825	13,485	340
Patents	21,112	16,844	4,268	20,508	16,451	4,057
Other intangible assets	26,109	10,537	15,572	26,007	9,629	16,378
Total	$108,768	$ 66,109	$42,659	$107,570	$ 62,169	$45,401

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

Amortization of intangible assets is computed using the straight-line method over their estimated useful lives, which range from 1 to 10 years. Amortization expense related to intangible assets was $3.9 million and $2.9 million for the three months ended March 31, 2019 and 2018. As of March 31, 2019, estimated future amortization expense related to intangible assets is as follows (in thousands):

Remaining amounts in 2019	$10,179
2020	7,754
2021	7,017
2022	6,701
2023	5,543
Thereafter	5,465
Total	$42,659

3. INVESTMENTS

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

	March 31, 2019	Percent Ownership of Voting Stock	December 31, 2018	Percent Ownership of Voting Stock
Available-for-sale securities - redeemable preferred shares	$10,394	19% to 25%	$ 10,340	19% to 25%
Fair value option investments	32,494	10% to 19%	73,902	10% to 19%
Other equity investments (1)	24,025	1% to 19%	24,273	1% to 19%
Total investments	$66,913		$ 108,515	

(1) Represents equity investments without readily determinable fair values. We have elected to record equity investments without readily determinable fair values at cost adjusted for observable price changes and impairments. There were no adjustments for observable price changes related to these investments since our adoption of ASU 2016-01, Financial Instruments (Topic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities, on January 1, 2018.

Available-for-Sale Securities - Redeemable Preferred Shares

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

	March 31, 2019	December 31, 2018
Amortized cost	$9,961	$ 9,961
Gross unrealized gain	433	379
Gross unrealized loss	—	—
Fair value	$10,394	$ 10,340

Fair Value Option Investments

In connection with the dispositions of controlling stakes in TMON Inc. ("TMON"), an entity based in the Republic of Korea, in May 2015 and Groupon India in August 2015, we obtained minority investments in Monster Holdings LP ("Monster LP") and in Nearbuy Pte Ltd. ("Nearbuy"), respectively. We have made an irrevocable election to account for both of those investments at fair value with changes in fair value reported in earnings. We elected to apply fair value accounting to those investments because we believe that fair value is the most relevant measurement attribute for those investments, and to reduce operational and accounting complexity. Our election to apply fair value accounting to those investments has and may continue to cause fluctuations in our earnings from period to period. We determined that the fair value of our investments in Monster LP and Nearbuy were $27.9 million and $4.6 million, respectively, as of March 31, 2019 and $69.4 million and $4.5 million, respectively, as of December 31, 2018.

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

Based on a discounted cash flow valuation, we recognized a $41.5 million loss due to changes in the fair value of our investment in Monster LP for the three months ended March 31, 2019 due to the revised cash flow projections provided by TMON in March 2019 and an increase in the discount rate applied to those forecasts. As of March 31, 2019 and December 31, 2018, we applied discount rates of 26.0% and 21.0% in our discounted cash flow valuation. The increase in the discount rate applied as of March 31, 2019 was due to changes in the financial condition of TMON and the competitive environment in the Korean e-commerce industry which resulted in an increase to financial projection risk.

The following table summarizes gains and losses due to changes in fair value of those investments for the three months ended March 31, 2019 and 2018 (in thousands):

	Three Months Ended March 31, 2019	2018
Monster LP	$(41,459)	$(5,231)
Nearbuy	51	198
Total	$(41,408)	$(5,033)

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

The following table summarizes other income (expense), net for the three months ended March 31, 2019 and 2018 (in thousands):

	Three Months Ended March 31, 2019	2018
Interest income	$1,936	$1,509
Interest expense	(5,691)	(5,493)
Changes in fair value of investments	(41,408)	(5,033)
Foreign currency gains (losses), net	(1,679)	1,398
Other	(13)	(896)
Other income (expense), net	$(46,855)	$(8,515)

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

	March 31, 2019	December 31, 2018
Merchandise inventories	$30,652	$ 33,739
Prepaid expenses	27,517	28,209
Income taxes receivable	5,495	6,717
Other	19,022	19,450
Total prepaid expenses and other current assets	$82,686	$ 88,115

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

	March 31, 2019	December 31, 2018
Accrued merchant payables	$361,735	$371,279
Accrued supplier payables [(1)]	150,993	280,502
Total accrued merchant and supplier payables	$512,728	$651,781

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

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

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

	March 31, 2019	December 31, 2018
Refunds reserve	$21,350	$27,957
Compensation and benefits	47,521	56,173
Accrued marketing	35,070	39,094
Customer credits	15,403	15,118
Income taxes payable	8,685	8,987
Deferred revenue	21,161	25,452
Current portion of lease obligations [1]	42,806	17,207
Other	64,064	77,046
Total accrued expenses and other current liabilities	$256,060	$267,034

(1) Current portion of lease obligations as of March 31, 2019 includes $25.0 million of additional lease obligations that were recognized as a result of the adoption of Topic 842 on January 1, 2019. Refer to Note 6, Leases, for additional information.

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

	March 31, 2019	December 31, 2018
Contingent income tax liabilities	$31,751	$39,858
Deferred rent [1]	—	32,186
Deferred income taxes	3,880	6,619
Other	18,042	22,025
Total other non-current liabilities	$53,673	$100,688

(1) Non-current operating lease liabilities as of March 31, 2019 are included within Operating lease obligations on the condensed consolidated balance sheet as a result of the adoption of Topic 842 on January 1, 2019. Refer to Note 6, Leases, for additional information.

5. FINANCING ARRANGEMENTS

Convertible Senior Notes

On April 4, 2016, we issued $250.0 million in aggregate principal amount of convertible senior notes (the "Notes") in a private placement to A-G Holdings, L.P. ("AGH"). Michael Angelakis, the chairman and chief executive officer of Atairos Group, Inc. ("Atairos"), joined our Board of Directors in connection with the issuance of the Notes. Atairos controls the voting power of AGH. The net proceeds from this offering were $243.2 million after deducting issuance costs. The Notes bear interest at a rate of 3.25% per annum, payable annually in arrears on April 1 of each year, beginning on April 1, 2017. The Notes will mature on April 1, 2022, subject to earlier conversion or redemption. Each $1,000 of principal amount of the Notes initially is convertible into 185.1852 shares of common stock, which is equivalent to an initial conversion price of $5.40 per share, subject to adjustment upon the occurrence of specified events. Upon conversion, we can elect to settle the conversion value in cash, shares of our common stock, or any combination of cash and shares of our common stock. Holders of the Notes may convert their Notes at their option at any time until the close of business on the scheduled trading day immediately preceding the maturity date. In addition, if specified corporate events occur prior to the maturity date, we may be required to increase the conversion rate for holders who elect to convert based on the effective date of such event and the applicable stock price attributable to the event, as set forth in a table contained in the indenture governing the Notes (the "Indenture"). Based on the closing price of the common stock of $3.55 as of March 31, 2019, the if-converted value of the Notes was less than the principal amount.

With certain exceptions, upon a fundamental change (as defined in the Indenture), the holders of the Notes may require us to repurchase all or a portion of their Notes for cash at a purchase price equal to the principal amount plus accrued and unpaid interest. In addition, we may redeem the Notes, at our option, at a purchase price equal to the principal amount plus accrued and unpaid interest on or after April 1, 2020, if the closing sale price of the common stock exceeds 150% of the then-current conversion price for 20 or more trading days in the 30 consecutive trading-day period preceding the exercise of this redemption right.

The Notes are senior unsecured obligations that rank equal in right of payment to all senior unsecured indebtedness and rank senior in right of payment to any indebtedness that is contractually subordinated to the Notes.

The Indenture includes customary events of default. If an event of default, as defined in the Indenture, occurs and is continuing, the principal amount of the Notes and any accrued and unpaid interest may be declared immediately due and payable. In the case of bankruptcy or insolvency, the principal amount of the Notes and any accrued and unpaid interest would automatically become immediately due and payable.

We have separated the Notes into their liability and equity components in the accompanying condensed consolidated balance sheets. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated conversion feature. The carrying amount of the equity component, representing the conversion option, was determined by deducting the fair value of the liability component from the principal amount of the Notes. The difference between the principal amount of the Notes and the liability component (the "debt discount") is amortized to interest expense at an effective interest rate of 9.75% over the term of the Notes. The equity component of the Notes is included in additional paid-in capital in the condensed consolidated balance sheets and is not remeasured as long as it continues to meet the conditions for equity classification.

We incurred transaction costs of approximately $6.8 million related to the issuance of the Notes. Those transaction costs were allocated to the liability and equity components in the same manner as the allocation of the proceeds from the Notes. Transaction costs attributable to the liability component of $4.8 million were recorded as a debt discount in the condensed consolidated balance sheet and are being amortized to interest expense over the term of the Notes. Transaction costs attributable to the equity component of $2.0 million were recorded in stockholders' equity as a reduction of the equity component.

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

	March 31, 2019	December 31, 2018
Liability component:		
Principal amount	$250,000	$250,000
Less: debt discount	(45,156)	(48,331)
Net carrying amount of liability component	$204,844	$201,669
Net carrying amount of equity component	$67,014	$67,014

The estimated fair value of the Notes as of March 31, 2019 and December 31, 2018 was $274.1 million and $257.1 million, and was determined using a lattice model. We classified the fair value of the Notes as a Level 3 measurement due to the lack of observable market data over fair value inputs such as our stock price volatility over the term of the Notes and our cost of debt.

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

	Three Months Ended March 31,	
	2019	2018
Contractual interest (3.25% of the principal amount per annum)	$2,032	$2,032
Amortization of debt discount	3,175	2,866
Total	$5,207	$4,898

Note Hedges and Warrants

In May 2016, we purchased convertible note hedges with respect to our common stock for a cost of $59.1 million from certain bank counterparties. The convertible note hedges provide us with the right to purchase up to 46.3 million shares of our common stock at an initial strike price of $5.40 per share, which corresponds to the initial conversion price of the Notes, and are exercisable upon conversion of the Notes. The convertible note hedges are intended to reduce the potential economic dilution upon conversion of the Notes. The convertible note hedges are separate transactions and are not part of the terms of the Notes. Holders of the Notes do not have any rights with respect to the convertible note hedges.

In May 2016, we also sold warrants for total cash proceeds of $35.5 million to certain bank counterparties. The warrants provide the counterparties with the right to purchase up to 46.3 million shares of our common stock at a strike price of $8.50 per share. The warrants expire on various dates between July 1, 2022 and August 26, 2022 and are exercisable on their expiration dates. The warrants are separate transactions and are not part of the terms of the Notes or convertible note hedges. Holders of the Notes and convertible note hedges do not have any rights with respect to the warrants.

The amounts paid and received for the convertible note hedges and warrants were recorded in additional paid-in capital in the condensed consolidated balance sheets as of March 31, 2019 and December 31, 2018. The convertible note hedges and warrants are not remeasured as long as they continue to meet the conditions for equity classification. The amounts paid for the convertible note hedges are tax deductible over the term of the Notes, while the proceeds received from the warrants are not taxable.

Under the if-converted method, the shares of common stock underlying the conversion option in the Notes are included in the diluted earnings per share denominator and the interest expense on the Notes, net of tax, is added to the numerator. However, upon conversion, there will be no economic dilution from the Notes, as exercise of the convertible note hedges eliminates any dilution from the Notes that would have otherwise occurred when the price of our common stock exceeds the conversion price. Taken together, the purchase of the convertible note hedges and sale of warrants are intended to offset any actual dilution from the conversion of the Notes and to effectively increase the overall conversion price from $5.40 to $8.50 per share.

Revolving Credit Agreement

The amended and restated senior secured revolving credit agreement entered into in June 2016 (the "Amended and Restated Credit Agreement") provides for aggregate principal borrowings of up to $250.0 million and matures in June 2019. Borrowings under the Amended and Restated Credit Agreement bear interest, at our option, at a rate per annum equal to the Alternate Base Rate or Adjusted LIBO Rate (each as defined in the Amended and Restated Credit Agreement) plus an additional margin ranging between 0.50% and 2.25%. We are required to pay quarterly commitment fees ranging from 0.25% to 0.40% per annum of the average daily amount of unused commitments available under the Amended and Restated Credit Agreement. The Amended and Restated Credit Agreement also provides for the issuance of up to $45.0 million in letters of credit, provided that the sum of outstanding borrowings and letters of credit do not exceed the maximum funding commitment of $250.0 million.

The Amended and Restated Credit Agreement is secured by substantially all of our tangible and intangible assets, including a pledge of 100% of the outstanding capital stock of substantially all of our direct and indirect domestic subsidiaries and 65% of the shares or equity interests of first-tier foreign subsidiaries and each U.S. entity whose assets substantially consist of capital stock and/or intercompany debt of one or more foreign subsidiaries, subject to certain exceptions. Certain of our domestic subsidiaries are guarantors under the Amended and Restated Credit Agreement.

The Amended and Restated Credit Agreement contains various customary restrictive covenants that limit our ability to, among other things: incur additional indebtedness; make dividend and other restricted payments, including share repurchases; enter into sale and leaseback transactions; make investments, loans or advances; grant or incur liens on assets; sell assets; engage in mergers, consolidations, liquidations or dissolutions; and engage in transactions with affiliates. The Amended and Restated Credit Agreement requires us to maintain compliance with specified financial covenants, comprised of a minimum fixed charge coverage ratio, a maximum leverage ratio, a maximum senior secured indebtedness ratio and a minimum liquidity ratio, each as set forth in the Amended and Restated Credit Agreement. We are also required to maintain, as of the last day of each fiscal quarter, unrestricted cash of at least $400.0 million, including $200.0 million in accounts held with lenders under the Amended and Restated Credit Agreement or their affiliates. Non-compliance with these covenants may result in termination of the commitments

under the Amended and Restated Credit Agreement and any then outstanding borrowings may be declared due and payable immediately. We have the right to terminate the Amended and Restated Credit Agreement or reduce the available commitments at any time.
As of March 31, 2019 and December 31, 2018, we have no borrowings and have outstanding letters of credit of $17.5 million and $19.2 million, under the Amended and Restated Credit Agreement.

6. LEASES

Adoption of ASC Topic 842, Leases

On January 1, 2019, we adopted ASC Topic 842 using the modified retrospective transition method. Topic 842 requires the recognition of lease assets and liabilities for operating leases, in addition to the finance lease assets and liabilities previously recorded on our condensed consolidated balance sheets. Beginning on January 1, 2019, our condensed consolidated financial statements are presented in accordance with the revised policies, while prior period amounts are not adjusted and continue to be reported in accordance with our historical policies. The modified retrospective transition method required the cumulative effect, if any, of initially applying the guidance to be recognized as an adjustment to our accumulated deficit as of our adoption date. As a result of adopting Topic 842, we recognized additional lease assets and liabilities of $109.6 million as of January 1, 2019. The discount rate used to calculate that adjustment was the rate implicit in the lease, unless that rate was not readily determinable. For leases for which the rate was not readily determinable, the discount rate used was our incremental borrowing rate as of the adoption date, January 1, 2019. There was no cumulative effect adjustment to our accumulated deficit as a result of initially applying the guidance.
We elected the package of practical expedients permitted under the transition guidance within Topic 842, which allowed us to carry forward prior conclusions about lease identification, classification and initial direct costs for leases entered into prior to adoption of Topic 842. Additionally, we elected to not separate lease and non-lease components for all of our leases. For leases with a term of 12 months or less, we elected the short-term lease exemption, which allowed us to not recognize right-of-use assets or lease liabilities for qualifying leases existing at transition and new leases we may enter into in the future.

General Description of Leases

We have entered into various non-cancelable operating lease agreements for our offices and data centers and non-cancelable finance lease agreements for property and equipment. We classify leases at their commencement as either operating or finance leases and may receive renewal or expansion options, rent holidays and leasehold improvement or other incentives on certain lease agreements.
Our operating leases primarily consist of leases for real estate throughout the world with lease expirations between 2019 and 2026. These arrangements typically do not transfer ownership of the underlying asset as we do not assume, nor do we intend to assume, the risks and rewards of ownership. Our finance leases are related to purchases of property and equipment, primarily computer hardware, with expirations between 2019 and 2023.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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We recognize a right-of-use asset and lease liability for all of our leases at the commencement of the lease. Lease liabilities are measured based on the present value of the minimum lease payments discounted by a rate determined as of the date of commencement. Right-of-use assets are measured based on the lease liability adjusted for any initial direct costs, prepaid rent, or lease incentives. Minimum lease payments made under operating and finance leases are apportioned between interest expense and a reduction of the related operating and finance lease obligations. The interest expense on operating leases is presented within Selling, general and administrative expense on the condensed consolidated statements of operations and the related operating lease obligation is presented within Accrued expenses and other current liabilities and Operating lease obligations on the condensed consolidated balance sheets. The interest expense on finance leases is presented within Other income (expense), net on the condensed consolidated statements of operations and the related finance lease obligation is presented within Accrued expenses and other current liabilities and Other non-current liabilities on the condensed consolidated balance sheets.

We have also subleased certain office facilities under operating lease agreements, with expirations between 2019 and 2026. We recognize sublease rentals on a straight-line basis over their respective lease terms.

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

	March 31, 2019
Right-of-use assets - operating leases	$109,555
Right-of-use assets - finance leases [(1)]	32,196
Total right-of-use assets, gross	141,751
Less: accumulated depreciation and amortization	(13,197)
Right-of-use assets, net	$128,554

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

Related Party Sublease Agreement

On December 28, 2016, we entered into a sublease for portions of our office space at 600 West Chicago to Uptake, Inc. ("Uptake"), a Lightbank LLC ("Lightbank") portfolio company. Eric Lefkofsky, our co-founder and Chairman of the Board, is a co-founder and owns a significant equity interest in Lightbank. The sublease was negotiated on an arm’s-length basis and is a market rate transaction on terms that we believe are no less favorable than would have been reached with an unrelated third party. The sublease extends through January 31, 2026 and the sublease rentals over that term total approximately $18.2 million. Pursuant to our related party transaction policy, our Audit Committee approved the sublease. During the three months ended March 31, 2019 and 2018, we recognized $0.7 million and $0.5 million, in income from the sublease.

Significant Assumptions and Judgments

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

As discussed above, the present value of minimum lease payments is used in determining the value of our operating and finance leases. The discount rate used to calculate the present value for lease payments is the rate implicit in the lease, unless that rate cannot be readily determined. For leases in which the rate implicit in the lease is not readily determinable, the discount rate is our incremental borrowing rate, which is determined based on information available at lease commencement and is equal to the rate of interest that we would have to pay to borrow on a collateralized basis over a similar term in an amount equal to the lease payments in a similar economic environment. The discount rate used for our lease obligations as of March 31, 2019 and January 1, 2019 ranged from 1.5% to 6.9%. As of March 31, 2019, the weighted-average remaining lease term for our finance leases and operating leases was 2.04 years and 5.41 years. As of March 31, 2019, the weighted-average discount rate for our finance leases and operating leases was 5.0% and 5.8%.

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GROUPON, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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The following table summarizes our lease cost and sublease income for the three months ended March 31, 2019 (in thousands):

	Three Months Ended March 31, 2019
Financing lease cost:	
Amortization of right-of-use assets	$6,756
Interest on lease liabilities	307
Total finance lease cost	7,063
Operating lease cost	8,474
Variable lease cost	892
Short-term lease cost	41
Sublease income, gross	(1,312)
Total lease cost	$15,158

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

	Finance Leases	Operating Leases
Remaining in 2019	$11,373	$26,612
2020	7,654	31,932
2021	4,806	26,998
2022	715	26,114
2023	12	21,917
Thereafter	—	32,600
Total minimum lease payments	24,560	166,173
Less: Amount representing interest	(1,272)	(24,964)
Present value of net minimum lease payments	23,288	141,209
Less: Current portion of lease obligations	(12,596)	(30,210)
Total long-term lease obligations	$10,692	$110,999

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

	Subleases
Remaining in 2019	$ 3,905
2020	5,027
2021	5,065
2022	5,103
2023	4,385
Thereafter	4,891
Total future sublease income	$ 28,376

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

	Three Months Ended March

	31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from finance leases	$ 307
Operating cash flows from operating leases	(6,481)
Financing cash flows from finance leases	(6,756)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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7. COMMITMENTS AND CONTINGENCIES

Our purchase obligations as of March 31, 2019 did not materially change from the amounts set forth in our 2018 Annual Report on Form 10-K.

Legal Matters and Other Contingencies

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

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

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

We are also subject to, or in the future may become subject to, a variety of regulatory inquiries, audits, and investigations across the jurisdictions where we conduct our business, including, for example, inquiries related to consumer protection, employment matters and/or hiring practices, marketing practices, tax, unclaimed property and privacy rules and regulations. Any regulatory actions against us, whether meritorious or not, could be time consuming, result in costly litigation, damage awards, fines and penalties, injunctive relief or increased costs of doing business through adverse judgment or settlement, require us to change our business practices in expensive ways, require significant amounts of management time, result in the diversion of significant operational resources or otherwise harm our business.

We establish an accrued liability for loss contingencies related to legal and regulatory matters when the loss is both probable and reasonably estimable. Those accruals represent management's best estimate of probable losses and, in such cases, there may be an exposure to loss in excess of the amounts accrued. For certain of the matters described above, there are inherent and significant uncertainties based on, among other factors, the stage of the proceedings, developments in the applicable facts of law, or the lack of a specific damage claim. However, we believe that the amount of reasonably possible losses in excess of the amounts accrued for those matters would not have a material adverse effect on our business, condensed consolidated financial position, results of operations or cash flows. Our accrued liabilities for loss contingencies related to legal and regulatory matters may change in the future as a result of new developments, including, but not limited to, the occurrence of new legal matters, changes in the law or regulatory environment, adverse or favorable rulings, newly discovered facts relevant to the matter, or changes in the strategy for the matter. Regardless of the outcome, litigation and other regulatory matters can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Indemnifications

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

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

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

8. STOCKHOLDERS' EQUITY AND COMPENSATION ARRANGEMENTS

Common Stock

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

Share Repurchase Program

In May 2018, the Board authorized us to repurchase up to $300.0 million of our common stock under our share repurchase program. During the three months ended March 31, 2019, we repurchased 4,407,995 shares for an aggregate purchase price of $15.1 million (including fees and commissions) under our repurchase program. No amounts were repurchased under the prior share repurchase program during the three months ended March 31, 2018. As of March 31, 2019, up to $275.0 million of common stock remained available for purchase under our program. The timing and amount of share repurchases, if any, will be determined based on market conditions, limitations under the Amended and Restated Credit Agreement, share price and other factors, and the share repurchase program may be terminated at any time.

Groupon, Inc. Stock Plans

The Groupon, Inc. Stock Plans (the "Plans") are administered by the Compensation Committee of the Board (the "Compensation Committee"). As of March 31, 2019, 42,997,198 shares of common stock were available for future issuance under the Plans.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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The stock-based compensation expense related to stock awards issued under the Plans and acquisition-related awards are presented within the following line items of the condensed consolidated statements of operations for the three months ended March 31, 2019 and 2018 (in thousands):

	Three Months Ended March 31,	
	2019	2018
Cost of revenue	$378	$396
Marketing	1,425	1,794
Selling, general and administrative	14,608	17,088
Other income (expense), net	—	48
Total stock-based compensation expense	$16,411	$19,326

We capitalized $1.3 million and $1.7 million of stock-based compensation for the three months ended March 31, 2019 and 2018, in connection with internally-developed software.

As of March 31, 2019, $129.7 million of unrecognized compensation costs related to unvested stock-based compensation awards are expected to be recognized over a remaining weighted-average period of 1.5 years.

Employee Stock Purchase Plan

We are authorized to grant up to 10,000,000 shares of common stock under our employee stock purchase plan ("ESPP"). For the three months ended March 31, 2019 and 2018, 719,297 and 746,773 shares of common stock were issued under the ESPP.

Restricted Stock Units

The restricted stock units granted under the Plans generally have vesting periods between one and four years and are amortized on a straight-line basis over their requisite service period. Additionally, we are required to issue restricted stock units to settle amounts that exceed targeted bonus amounts under our primary bonus plans. We account for those obligations, if any, as liability-classified awards with performance conditions.

The table below summarizes restricted stock unit activity under the Plans for the three months ended March 31, 2019:

	Restricted Stock Units	Weighted-Average Grant Date Fair Value (per unit)
Unvested at December 31, 2018	26,623,432	$ 4.47
Granted	5,759,900	3.89
Vested	(3,382,842)	4.43
Forfeited	(2,828,751)	4.39
Unvested at March 31, 2019	26,171,739	4.35

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Performance Share Units

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

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

The table below summarizes Performance Share Unit activity under the Plans for the three months ended March 31, 2019:

	Performance Share Units	Weighted-Average Grant Date Fair Value (per unit)	Market-based Performance Share Units	Weighted-Average Grant Date Fair Value (per unit)
Unvested at December 31, 2018	3,431,918	$ 4.90	—	$ —
Granted	4,013,126	3.96	8,486,708	3.03
Vested	(777,573)	4.88	—	—
Forfeited	(2,191,878)	4.90	—	—
Unvested at March 31, 2019	4,475,593	4.06	8,486,708	3.03

The maximum number of common shares issuable upon vesting of the Performance Share Units and Market-based Performance Share Units granted in 2019 was 8,026,252 and 8,486,708 shares, respectively, as of March 31, 2019.

Stock Options

The exercise price of stock options granted is equal to the fair value of the underlying stock on the date of grant. The contractual term for stock options expires ten years from the grant date. Stock options generally vest over a three- or four-year period, with 25% of the awards vesting after one year and the remainder of the awards vesting on a monthly or quarterly basis thereafter. We did not grant any stock options during the three months ended March 31, 2019.

The table below summarizes stock option activity for the three months ended March 31, 2019:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands) (1)
Outstanding and exercisable at December 31, 2018	212,787	$ 1.80	1.37	$ 298
Exercised	(12,500)	0.68		
Outstanding and exercisable at March 31, 2019	200,287	$ 1.85	1.14	$ 340

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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9. REVENUE RECOGNITION

Refer to Note 13, Segment Information, for revenue summarized by reportable segment and category for the three months ended March 31, 2019 and 2018.

Contract Balances

A substantial majority of our deferred revenue relates to product sales for which revenue will be recognized as the products are delivered to customers, generally within one week following the balance sheet date. Our deferred revenue was $21.2 million and $25.5 million as of March 31, 2019 and December 31, 2018. The amount of revenue recognized for the three months ended March 31, 2019 that was included in the deferred revenue balance at the beginning of the period was $25.3 million.

The following table summarizes the activity in the liability for customer credits for the three months ended March 31, 2019 (in thousands):

	Customer Credits
Balance as of December 31, 2018	$ 15,118
Credits issued	27,803
Credits redeemed [1]	(25,020)
Breakage revenue recognized	(2,560)
Foreign currency translation	62
Balance as of March 31, 2019	$ 15,403

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

Costs of Obtaining Contracts

Incremental costs to obtain contracts with third-party merchants, such as sales commissions, are deferred and recognized over the expected period of the merchant arrangement, generally from 12 to 18 months. Those costs are classified within Selling, general and administrative expense in the condensed consolidated statements of operations. As of March 31, 2019 and December 31, 2018, we had deferred contract acquisition costs of $2.8 million and $2.9 million, respectively, recorded within Prepaid expenses and other current assets, and $10.5 million and $11.3 million, respectively, recorded within Other non-current assets. During the three months ended March 31, 2019 and 2018, we amortized $5.4 million and $6.8 million of deferred contract acquisition costs and did not recognize any impairment losses in relation to the deferred costs.

Variable Consideration for Unredeemed Vouchers

In our International segment and, to a lesser extent, in our North America segment, our merchant agreements have redemption payment terms, under which the merchant is not paid its share of the sale price for a voucher sold through one of our online marketplaces until the customer redeems the related voucher. If the customer does not redeem a voucher with such merchant payment terms, we retain all of the gross billings for that voucher, rather than retaining only our net commission. We estimate the variable consideration from vouchers that will not ultimately be redeemed using our historical voucher redemption experience and recognize that amount as revenue at the time of sale. We only recognize amounts in variable consideration when we believe it is probable that a significant reversal of revenue will not occur in future periods, which requires us to make significant estimates of future redemptions. If actual redemptions differ from our estimates, the effects could be material to the condensed consolidated financial statements. As of March 31, 2019 and December 31, 2018, we constrained $13.3 million and $13.7 million in revenue from unredeemed vouchers that we may recognize in future periods when we determine it is probable that a significant amount of that revenue will not be subsequently reversed.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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10. INCOME TAXES

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

For the three months ended March 31, 2019, we recorded an income tax benefit from continuing operations of $3.5 million on a pretax loss from continuing operations of $44.7 million. For the three months ended March 31, 2018, we recorded an income tax benefit from continuing operations of $2.3 million on a pretax loss from continuing operations of $5.1 million.

Our U.S. Federal income tax rate is 21%. The primary factor impacting the effective tax rate for the three months ended March 31, 2019 was the pretax losses incurred in jurisdictions that have valuation allowances against their net deferred tax assets and the reversal of reserves for uncertain tax positions due to the closure of a tax audit. We expect that our consolidated effective tax rate in future periods will continue to differ significantly from the U.S. federal income tax rate as a result of our tax obligations in jurisdictions with profits and valuation allowances in jurisdictions with losses. The effective tax rate for the three months ended March 31, 2018 reflected a $6.4 million income tax benefit resulting from the impact of Topic 606 on intercompany activity in certain foreign jurisdictions, partially offset by pretax losses incurred in jurisdictions that have valuation allowances against their net deferred tax assets.

We are currently undergoing income tax audits in multiple jurisdictions. It is likely that the examination phase of some of those audits will conclude in the next 12 months. There are many factors, including factors outside of our control, which influence the progress and completion of those audits. We are subject to claims for tax assessments by foreign jurisdictions, including a proposed assessment for $108.5 million. We believe that the assessment, which primarily relates to transfer pricing on transactions occurring in 2011, is without merit and we intend to vigorously defend ourselves in that matter. In addition to any potential increases in our liabilities for uncertain tax positions from the ultimate resolution of that assessment, we believe that it is reasonably possible that reductions of up to $24.3 million in unrecognized tax benefits may occur within the 12 months following March 31, 2019 upon closing of income tax audits or the expiration of applicable statutes of limitations.

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

On July 24, 2018, the Ninth Circuit Court of Appeals issued an opinion in Altera Corp. v. Commissioner requiring related parties in an intercompany cost-sharing arrangement to share expenses related to stock-based compensation. This opinion reversed an earlier decision of the United States Tax Court. On August 7, 2018, the Ninth Circuit Court of Appeals withdrew its July 24, 2018 opinion. We are continuing to monitor the status of this case; however, we currently do not expect that it will have a material impact on our provision for income taxes for the year ending December 31, 2019 due to the valuation allowances against our net deferred tax assets in the related jurisdictions.

11. FAIR VALUE MEASUREMENTS

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

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To increase the comparability of fair value measures, the following hierarchy prioritizes the inputs in valuation methodologies used to measure fair value:
Level 1 - Measurements that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
Level 2 - Measurements that include other inputs that are directly or indirectly observable in the marketplace.
Level 3 - Measurements derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. These fair value measurements require significant judgment.
In determining fair value, we use various valuation approaches within the fair value measurement framework. The valuation methodologies used for our assets and liabilities measured at fair value and their classification in the valuation hierarchy are summarized below:
Fair value option investments and available-for-sale securities. To determine the fair value of our fair value option investments each period, we first estimate the fair value of each entity in its entirety. We primarily use the discounted cash flow method, which is an income approach, to estimate the fair value of the entities. The key inputs to determining fair values under that approach are cash flow forecasts and discount rates. We also use a market approach valuation technique, which is based on market multiples of guideline companies, to determine the fair value of each entity. The discounted cash flow and market multiple valuations are then evaluated and weighted to determine the amount that is most representative of the fair value of each entity. Once we determine the fair value of each entity, we then determine the fair value of our specific investments in those entities. The entities have complex capital structures, so we apply an option-pricing model that considers the liquidation preferences of each entity's respective classes of ownership interests to determine the fair value of our investment in each entity.
We also have investments in redeemable preferred shares and had investments in convertible debt securities issued by nonpublic entities. We measure the fair value of those available-for-sale securities using the discounted cash flow method.
We have classified our fair value option investments and our investments in available-for-sale securities as Level 3 due to the lack of observable market data over fair value inputs such as cash flow projections and discount rates. Increases in projected cash flows and decreases in discount rates contribute to increases in the estimated fair values of the fair value option investments and available-for-sale securities, whereas decreases in projected cash flows and increases in discount rates contribute to decreases in their fair values.
Contingent consideration. We are subject to a contingent consideration arrangement to transfer a maximum payout in cash of $2.5 million to the former owners of a business acquired on April 30, 2018.
Liabilities for contingent consideration are measured at fair value each reporting period, with the acquisition-date fair value included as part of the consideration transferred in the related business combination and subsequent changes in fair value recorded in earnings within Selling, general and administrative expense on the condensed consolidated statements of operations.
We use an income approach to value contingent consideration obligations based on the present value of probability-weighted future cash flows. We classify the contingent consideration liabilities as Level 3 due to the lack of relevant observable market data over fair value inputs such as probability-weighting of payment outcomes.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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The following tables summarize assets that are measured at fair value on a recurring basis as of March 31, 2019 and December 31, 2018 (in thousands):

		Fair Value Measurement at Reporting Date Using		
	March 31, 2019	Quoted Prices in Significant Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Fair value option investments	$32,494	$—	$—	$ 32,494
Available-for-sale securities - redeemable preferred shares	10,394	—	—	10,394
Liabilities:				
Contingent consideration	1,586	—	—	1,586

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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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 months ended March 31, 2019 and 2018 (in thousands):

	Three Months Ended March 31,	
	2019	2018
Assets		
Fair value option investments:		
Beginning Balance	$73,902	$82,966
Total gains (losses) included in earnings	(41,408)	(5,033)
Ending Balance	$32,494	$77,933
Unrealized gains (losses) still held [1]	$(41,408)	$(5,033)
Available-for-sale securities		
Convertible debt securities:		
Beginning Balance	$—	$11,354
Total gains (losses) included in other comprehensive income (loss)	—	(501)
Total gains (losses) included in earnings [2]	—	217
Ending Balance	$—	$11,070
Unrealized gains (losses) still held [1]	$—	$(284)
Redeemable preferred shares:		
Beginning Balance	$10,340	$15,431
Total gains (losses) included in other comprehensive income (loss)	54	—
Impairment included in earnings	—	(855)
Ending Balance	$10,394	$14,576
Unrealized gains (losses) still held [1]	$54	$(855)
Liabilities		
Contingent Consideration:		
Beginning Balance	$1,529	$—
Total losses (gains) included in earnings	22	—
Foreign currency translation	35	—
Ending Balance	$1,586	$—
Unrealized gains (losses) still held [1]	$22	$—

(1) Represents the unrealized gains or losses recorded in earnings and/or other comprehensive income (loss) during the period for assets and liabilities classified as Level 3 that are still held (or outstanding) at the end of the period.
(2) Represents a gain at maturity of a previously impaired convertible debt security, accretion of interest income and changes in the fair value of an embedded derivative.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis, including assets that are written down to fair value as a result of an impairment. We did not record any significant nonrecurring fair value measurements after initial recognition for the three months ended March 31, 2019 and 2018.

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

Our financial instruments not carried at fair value consist primarily of accounts receivable, restricted cash, accounts payable, accrued merchant and supplier payables and accrued expenses. The carrying values of those assets and liabilities approximate their respective fair values as of March 31, 2019 and December 31, 2018 due to their short-term nature.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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12. INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share is computed using the weighted-average number of common shares and the effect of potentially dilutive securities outstanding during the period. Potentially dilutive securities include stock options, restricted stock units, performance share units, ESPP shares, warrants and convertible senior notes. If dilutive, those potentially dilutive securities are reflected in diluted net income (loss) per share by application of the treasury stock method, except for the convertible senior notes, which are subject to the if-converted method.

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

	Three Months Ended March 31,	
	2019	2018
Basic and diluted net income (loss) per share:		
Numerator		
Net income (loss) - continuing operations	$(41,170)	$ (2,795)
Less: Net income (loss) attributable to noncontrolling interests	3,479	4,093
Net income (loss) attributable to common stockholders - continuing operations	(44,649)	(6,888)
Net income (loss) attributable to common stockholders - discontinued operations	2,162	—
Net income (loss) attributable to common stockholders	$(42,487)	$ (6,888)
Denominator		
Weighted-average common shares outstanding	570,095,128	561,735,937
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)

The following weighted-average potentially dilutive instruments are not included in the diluted net income (loss) per share calculations above because they would have had an antidilutive effect on the net income (loss) per share from continuing operations:

	Three Months Ended March 31,	
	2019	2018
Restricted stock units	27,088,851	28,033,489
Other stock-based compensation awards	1,752,744	3,212,026
Convertible senior notes	46,296,300	46,296,300
Warrants	46,296,300	46,296,300
Total	121,434,195	123,838,115

We had outstanding performance share units as of March 31, 2019 and 2018 that were eligible to vest into shares of common stock subject to the achievement of specified performance conditions. Contingently issuable shares are excluded from the computation of diluted earnings per share if, based on current period results, the shares would not be issuable if the end of the reporting period were the end of the contingency period. There were up to 16,512,960 and 3,283,114 shares of common stock issuable upon vesting of outstanding performance share units as of March 31, 2019 and 2018 that were excluded from the table above as the performance conditions were not satisfied as of the end of the respective periods.

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13. SEGMENT INFORMATION

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

The following table summarizes revenue by reportable segment and category for the three months ended March 31, 2019 and 2018 (in thousands):

	Three Months Ended March 31,	
	2019	2018
North America		
Service revenue:		
Local	$180,377	$187,411
Goods	3,127	4,874
Travel	18,941	20,084
Product revenue - Goods	154,720	180,887
Total North America revenue (1)	357,165	393,256
International		
Service revenue:		
Local	73,190	74,578
Goods	1,455	3,414
Travel	8,737	11,436
Product revenue - Goods	137,863	143,856
Total International revenue (1)	$221,245	$233,284

(1) North America includes revenue from the United States of $348.8 million and $385.4 million for the three months ended March 31, 2019 and 2018. International includes revenue from the United Kingdom of $81.1 million and $83.0 million for the three months ended March 31, 2019 and 2018. There were no other individual countries that represented more than 10% of consolidated total revenue for the three months ended March 31, 2019 and 2018. Revenue is attributed to individual countries based on the location of the customer.

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The following table summarizes gross profit by reportable segment and category for the three months ended March 31, 2019 and 2018 (in thousands):

	Three Months Ended March 31,	
	2019	2018
North America		
Service gross profit:		
Local	$161,082	$166,756
Goods	2,563	3,941
Travel	15,268	16,002
Product gross profit - Goods	30,889	32,981
Total North America gross profit	209,802	219,680
International		
Service gross profit:		
Local	68,978	70,215
Goods	1,268	3,087
Travel	8,041	10,651
Product gross profit - Goods	17,927	21,252
Total International gross profit	$96,214	$105,205

The following table summarizes operating income (loss) by reportable segment for the three months ended March 31, 2019 and 2018 (in thousands):

	Three Months Ended March 31,	
	2019	2018
Operating income (loss) [(1)] :		
North America	$5,336	$(1,860)
International	(3,141)	5,245
Total operating income (loss)	$2,195	$3,385

(1) Includes stock-based compensation of $14.8 million and $17.9 million for North America and $1.6 million and $1.4 million for International for the three months ended March 31, 2019 and 2018.

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

	March 31, 2019	December 31, 2018
Total assets:		
North America [(1)]	$918,502	$958,412
International [(1)]	587,510	683,730
Consolidated total assets	$1,506,012	$1,642,142

(1) North America contains assets from the United States of $899.5 million and $940.5 million as of March 31, 2019 and December 31, 2018. International contains assets from Ireland of $204.6 million as of December 31, 2018. Assets from Ireland were less than 10% of consolidated total assets as of March 31, 2019. There were no other individual countries that represented more than 10% of consolidated total assets as of March 31, 2019 and December 31, 2018.

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

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

Overview

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

Our operations are organized into two segments: North America and International. For the three months ended March 31, 2019, we derived 61.7% of our revenue from our North America segment and 38.3% of our revenue from our International segment. See Item 1, Note 13, Segment Information, for additional information. We offer goods and services through our online marketplaces in three primary categories: Local, Goods and Travel.

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

Our focus is on driving long-term gross profit growth. As part of our growth strategy, we are focused on enhancing the customer experience, establishing Groupon as an open platform, continuing to realize our international potential and maintaining a culture of operational efficiency. We have developed and are testing a number of product enhancements to make our offerings easier to use for both customers and merchants, including cash back offers linked to customer credit cards and booking capabilities. We have also entered into commercial agreements with third parties that enable us to feature additional merchant offerings through our marketplaces. We maintain a long-term focus on driving International to achieve gross profit that is more comparable to that of North America. Our initiatives to grow International include increasing our marketing spending and leveraging enhanced marketing analytics, prioritizing more technology resources in order to expand and advance its product and service offerings, growing our inventory of deal offerings and other initiatives. While we expect to invest in our key initiatives, we will continue to do so as disciplined operators and seek out opportunities to improve our efficiency.

How We Measure Our Business

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

Financial Metrics

- Revenue is earned through product and service revenue transactions. We earn product revenue from direct sales of merchandise inventory in our Goods category and report product revenue on a gross basis as the purchase price received from the customer. We earn service revenue from transactions in which we generate commissions by selling goods or services on behalf of third-party merchants, primarily through sales of vouchers and similar transactions in which we collect the transaction price from the customer and remit a portion of that transaction price to the third-party merchant who will provide the related goods or services. We report service revenue from those transactions on a net basis as the purchase price collected from the customer less the portion of the purchase price that is payable to the third-party merchant. Service revenue also includes commissions we earn when customers make purchases with retailers using digital coupons accessed through our websites and mobile applications and from voucherless merchant offerings in which customers earn cash back on their credit card statements when they transact with third-party merchants.
- Gross profit reflects the net margin we earn after deducting our cost of revenue from our revenue. Due to the lack of comparability between product revenue, which is reported on a gross basis, and service revenue, which primarily consists of transactions reported on a net basis, we believe that gross profit is an important measure for evaluating our performance.
- Adjusted EBITDA is a non-GAAP financial measure that we define as net income (loss) from continuing operations excluding income taxes, interest and other non-operating items, depreciation and amortization, stock-based compensation, acquisition-related expense (benefit), net and other special charges and credits, including items that are unusual in nature or infrequently occurring. For further information and a reconciliation to Income (loss) from continuing operations, refer to our discussion under Non-GAAP Financial Measures in the Results of Operations section.
- Free cash flow is a non-GAAP financial measure that comprises net cash provided by (used in) operating activities from continuing operations less purchases of property and equipment and capitalized software. For further information and a reconciliation to Net cash provided by (used in) operating activities from continuing operations, refer to our discussion in the Liquidity and Capital Resources section.

The following table presents the above financial metrics for the three months ended March 31, 2019 and 2018 (in thousands):

	Three Months Ended March 31,	
	2019	2018
Revenue	$578,410	$626,540
Gross profit	306,016	324,885
Adjusted EBITDA	46,955	52,607
Free cash flow	(164,960)	(139,891)

Operating Metrics

- Gross billings is the total dollar value of customer purchases of goods and services. Gross billings is presented net of customer refunds, order discounts and sales and related taxes. The substantial majority of our service revenue transactions are comprised of sales of vouchers and similar transactions in which we collect the transaction price from the customer and remit a portion of the transaction price to the third-party merchant who will provide the related goods or services. For these transactions, gross billings differs from revenue reported in our condensed consolidated statements of operations, which is presented net of the merchant's share of the transaction price. For product revenue transactions, gross billings are equivalent to product revenue reported in our condensed consolidated statements of operations. Gross billings is an indicator of our growth and business performance as it measures the dollar volume of transactions generated through our marketplaces. Tracking gross billings on service revenue transactions also allows us to monitor the percentage of gross billings that we are able to retain after payments to merchants. However, management is primarily focused on optimizing the business for long-term gross profit and adjusted EBITDA growth.
- Active customers are unique user accounts that have made a purchase during the trailing twelve months ("TTM") either through one of our online marketplaces or directly with a merchant for which we earned a commission. We

consider this metric to be an important indicator of our business performance as it helps us to understand how the number of customers actively purchasing our offerings is trending. Some customers could establish and make purchases from more than one account, so it is possible that our active customer metric may count certain customers more than once in a given period. For entities that we have acquired in a business combination, this metric includes active customers of the acquired entity, including customers who made purchases prior to the acquisition. We do not include consumers who solely make purchases with retailers using digital coupons accessed through our websites and mobile applications in our active customer metric, and accordingly, the acquisition of Cloud Savings in April 2018 did not impact that metric.

Our active customer metric for the trailing twelve months ended March 31, 2019 has declined both on a year-over-year basis and sequentially from the trailing twelve months ended December 31, 2018. The decline in the current year is primarily attributable to a decline in traffic, particularly from email and search engine optimization ("SEO"), as well as our efforts to improve the efficiency of our marketing spend by focusing that spend on customers who we believe will have higher long-term value. That strategy has resulted in lower marketing spend on less valuable customers, particularly in North America, which has adversely impacted our active customer metric. We expect the trend of declining active customers in North America to continue in 2019 and, to some extent, into 2020 due to ongoing traffic declines and our continued focus on attracting and retaining high-quality customers.

- Gross billings and gross profit per active customer are the TTM gross billings and gross profit generated per active customer. We use these metrics to evaluate trends in customer spend and in the average contribution to gross billings and gross profit on a per-customer basis.
- Units is the number of purchases during the reporting period, before refunds and cancellations, made either through one of our online marketplaces or directly with a merchant for which we earn a commission. We do not include purchases with retailers using digital coupons accessed through our websites and mobile applications in our units metric. We consider unit growth to be an important indicator of the total volume of business conducted through our marketplaces.

For the three months ended March 31, 2019, our total units sold declined by 12.3%, as compared with the prior year, primarily reflecting unit declines in our North America segment. The decline in total units sold in the current year was attributable to fewer active customers and lower frequency of purchases by these customers. We expect that trend to continue in 2019.

Our gross billings and units for the three months ended March 31, 2019 and 2018 were as follows (in thousands):

	Three Months Ended March 31, 2019	2018
Gross billings	$1,176,008	$1,293,264
Units	37,193	42,424

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

	Trailing Twelve Months Ended March 31, 2019	2018
TTM Active customers (in thousands)	47,177	49,680
TTM Gross billings per active customer	$107.80	$112.34
TTM Gross profit per active customer	$27.59	$27.16

Factors Affecting Our Performance

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

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

Growing our Active Customer Base and Customer Value. We must acquire and retain customers that we expect to have long-term value, and increase gross profit per customer in order to grow our business. Our marketing spending is intended to attract and retain active customers and to promote increased purchase frequency. We have made enhancements to our customer segmentation in recent periods that are intended to better focus our marketing efforts on customers that we believe have a greater potential for long-term gross profit generation. In addition to online marketing, such as search engine marketing ("SEM"), our marketing spending includes investments in offline campaigns intended to increase customer awareness and understanding of the Groupon brand and our product and service offerings. Additionally, we consider order discounts and certain other initiatives to drive customer acquisition and activation to be marketing-related activities, even though such activities may not be presented as marketing expenses in our condensed consolidated statements of operations. The organic traffic to our websites and mobile applications from consumers responding to our emails has declined in recent years, such that an increasing proportion of our traffic is generated from SEM and other paid marketing channels. We have also experienced declines from other sources of organic traffic, such as SEO. As such, we are focused on developing sources of organic traffic other than email and optimizing the efficiency of our marketing spending, which is primarily guided by return on investment thresholds that are currently based on expected months-to-payback targets ranging from 12 to 18 months. Additionally, our product and supply initiatives are intended to increase the rates at which visitors to our websites and mobile applications complete a purchase.

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

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

Results of Operations

Gross Billings

Gross billings by category and segment for the three months ended March 31, 2019 and 2018 were as follows (dollars in thousands):

	Three Months Ended March 31,			
	2019	2018	$ Change	% Change
North America				
Service gross billings:				
Local	$502,309	$543,021	$(40,712)	(7.5)%
Goods	19,918	28,589	(8,671)	(30.3)
Travel	92,083	102,499	(10,416)	(10.2)
Total service gross billings	614,310	674,109	(59,799)	(8.9)
Product gross billings - Goods	154,720	180,887	(26,167)	(14.5)
Total North America gross billings	769,030	854,996	(85,966)	(10.1)
International				
Service gross billings:				
Local	207,396	217,307	(9,911)	(4.6)
Goods	9,780	19,583	(9,803)	(50.1)
Travel	51,939	57,522	(5,583)	(9.7)
Total service gross billings	269,115	294,412	(25,297)	(8.6)
Product gross billings - Goods	137,863	143,856	(5,993)	(4.2)
Total International gross billings	406,978	438,268	(31,290)	(7.1)
Total gross billings	$1,176,008	$1,293,264	$(117,256)	(9.1)

The effect on our gross billings for the three months ended March 31, 2019 from changes in exchange rates versus the U.S. dollar was as follows (in thousands):

	Three Months Ended March 31, 2019		
	At Avg. Q1 2018 Rates (1)	Exchange Rate Effect (2)	As Reported
Gross billings	$1,208,276	$(32,268)	$1,176,008

(1) Represents the financial statement balances that would have resulted had exchange rates in the reporting period been the same as those in effect in the prior year period.

(2) Represents the increase or decrease in the reported amount resulting from changes in exchange rates from those in effect in the prior year period.

North America

North America gross billings were 65.4% and 66.1% of total gross billings for the three months ended March 31, 2019 and 2018. North America gross billings decreased for the three months ended March 31, 2019 compared with the prior year period due to lower customer traffic, primarily from email and SEO, partially offset by higher gross billings per unit.

Lower customer traffic also adversely impacted gross billings per active customer, which was $112.62 for the trailing twelve months ended March 31, 2019, as compared with $116.95 in the corresponding prior year period and total units sold, which decreased to 23.2 million units for the three months ended March 31, 2019, as compared with 28.1 million units in the prior year period.

International

International gross billings were 34.6% and 33.9% of total gross billings for the three months ended March 31, 2019 and 2018. International gross billings decreased $31.3 million for the three months ended March 31, 2019 compared with the prior year period, primarily due to a $32.1 million unfavorable impact from year-over-year changes in foreign currency rates.

Revenue

Revenue by category and segment for the three months ended March 31, 2019 and 2018 was as follows (dollars in thousands):

	Three Months Ended March 31,			
	2019	2018	$ Change	% Change
North America				
Service revenue:				
Local	$180,377	$187,411	$(7,034)	(3.8)%
Goods	3,127	4,874	(1,747)	(35.8)
Travel	18,941	20,084	(1,143)	(5.7)
Total service revenue	202,445	212,369	(9,924)	(4.7)
Product revenue - Goods	154,720	180,887	(26,167)	(14.5)
Total North America revenue	357,165	393,256	(36,091)	(9.2)
International				
Service revenue:				
Local	73,190	74,578	(1,388)	(1.9)
Goods	1,455	3,414	(1,959)	(57.4)
Travel	8,737	11,436	(2,699)	(23.6)
Total service revenue	83,382	89,428	(6,046)	(6.8)
Product revenue - Goods	137,863	143,856	(5,993)	(4.2)
Total International revenue	221,245	233,284	(12,039)	(5.2)
Total revenue	$578,410	$626,540	$(48,130)	(7.7)

The effect on revenue for the three months ended March 31, 2019 from changes in exchange rates versus the U.S. dollar was as follows (in thousands):

	Three Months Ended March 31, 2019		
	At Avg. Q1 2018 Rates [(1)]	Exchange Rate Effect [(2)]	As Reported
Revenue	$596,123	$(17,713)	$578,410

(1) Represents the financial statement balances that would have resulted had exchange rates in the reporting period been the same as those in effect in the prior year period.

(2) Represents the increase or decrease in the reported amount resulting from changes in exchange rates from those in effect in the prior year period.

The percentages of service gross billings that we retained after deducting the merchant's share for the three months ended March 31, 2019 and 2018 were as follows:
North America International

North America
North America revenue was 61.7% and 62.8% of total revenue for the three months ended March 31, 2019 and 2018. North America revenue decreased $36.1 million for the three months ended March 31, 2019 compared with the prior year period primarily driven by the decline in transaction volume and gross billings, as discussed above.
International
International revenue was 38.3% and 37.2% of total revenue for the three months ended March 31, 2019 and 2018. International revenue decreased $12.0 million for the three months ended March 31, 2019 compared with the prior year period primarily driven by a $17.7 million unfavorable impact from year-over-year changes in foreign exchange rates and pricing and promotion strategies to stimulate demand in light of weakening consumer sentiment in Europe, particularly in the United Kingdom. These declines were partially offset by the expansion of our digital coupons offerings and a shift in our Goods category mix from service revenue transactions, which are reported on a net basis, toward product revenue transactions, which are reported on a gross basis.
Cost of Revenue
Cost of revenue is comprised of direct and certain indirect costs incurred to generate revenue. Costs incurred to generate revenue, which include credit card processing fees, editorial costs, compensation expense for technology support personnel who are responsible for maintaining the infrastructure of our websites, amortization of internal-use software relating to customer-facing applications, web hosting and other processing fees are attributed to the cost of product and service revenue in proportion to gross billings during the period. For product revenue transactions, cost of revenue also includes the cost of inventory, shipping and fulfillment costs and inventory markdowns. Fulfillment costs are comprised of third-party logistics provider costs, as well as rent, depreciation, personnel costs and other costs of operating our fulfillment center.

Cost of revenue by category and segment for the three months ended March 31, 2019 and 2018 was as follows (dollars in thousands):

	Three Months Ended March 31,			
	2019	2018	$ Change	% Change
North America				
Service cost of revenue:				
Local	$19,295	$20,655	$(1,360)	(6.6)%
Goods	564	933		