Groupon, Inc.
Form 10-K
February 21, 2014

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

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013

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: 1-353335

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock, par value $0.0001	Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No x

As of June 30, 2013, the aggregate market value of shares held by non-affiliates of the registrant was $3,972,482,199 based on the number of shares of Class A common stock held by non-affiliates as of June 30, 2013 and based on the last reported sale price of the registrant's Class A common stock on June 30, 2013.

As of February 18, 2014, there were 680,837,504 shares of the registrant's Class A Common Stock outstanding and 2,399,976 shares of the registrant's Class B Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Report, to the extent not set forth herein, is incorporated herein by reference from the registrant's definitive proxy statement relating to the Annual Meeting of Stockholders to be held in 2014, which definitive proxy statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Report relates.

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PART I

FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements regarding our future results of operations and financial position, business strategy and plans and our objectives for future operations. The words "may," "will," "should," "could," "expect," "anticipate," "believe," "estimate," "intend," "continue" and other similar expressions are intended to identify forward-looking statements. We have based these forward looking statements largely on current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, among others, those discussed in "Item 1A: Risk Factors" of this Annual Report on Form 10-K, as well as in our 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, or the 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," "we," "our," and similar terms include Groupon, Inc. and its subsidiaries, unless the context indicates otherwise.

ITEM 1: BUSINESS

Overview

Groupon is a global leader in local commerce, making it easy for people around the world to search and discover great businesses and merchandise. Our vision is to become the starting point for mobile commerce, with the world's largest marketplace of unbeatable deals. We want Groupon to be the destination that our customers check first when they are out and about; the place they start when they are looking to buy just about anything, anywhere, anytime. By leveraging our global relationships and scale, we offer consumers deals on things to eat, see, do and buy in 48 countries.

We operate online local marketplaces throughout the world that connect merchants to consumers by offering goods and services at a discount. Our operations are organized into three principal segments: North America, which represents the United States and Canada, EMEA, which is comprised of Europe, the Middle East and Africa, and the remainder of our international operations ("Rest of World"). We offer deals on goods and services in three primary categories: Local Deals ("Local"), Groupon Goods ("Goods") and Groupon Getaways ("Travel"). We act as a third party marketing agent by selling vouchers ("Groupons") that can be redeemed for products or services with a merchant. We also sell merchandise directly to customers in transactions for which we are the merchant of record. Customers access our deal offerings through our mobile platform, our websites and email.

Our results from 2013 include the following:

- Gross billings increased to $5.8 billion in 2013, as compared to $5.4 billion in 2012. In 2013, 49.5%, 34.5% and 16.0% of our gross billings was generated in North America, EMEA and Rest of World, respectively, as compared to 44.1%, 35.8% and 20.1% in 2012. Gross billings represent the total dollar value of customer purchases of goods and services, excluding applicable taxes and net of estimated refunds. Gross billings differs from our revenue, which is presented net of the merchant's share of the transaction price for transactions in which we act as a third party marketing agent. Gross billings and revenue are the same for transactions in which we sell merchandise directly to customers as the merchant of record.
- Revenue increased to $2.6 billion in 2013, as compared to $2.3 billion in 2012. In 2013, 59.1%, 28.9% and 12.0% of our revenue was generated in North America, EMEA and Rest of World, respectively, as compared to 49.9%, 34.5% and 15.6% in 2012.
- Income from operations decreased to $75.8 million in 2013 from $98.7 million in 2012. Lower margins on our deals in 2013 contributed to this decrease, as we have been willing to accept lower margins to improve the quality and increase the number of deals offered to customers and to expand our online marketplaces.
- The number of active customers, which is defined as customers who have made a purchase on our platform within the last twelve months, increased to 44.9 million as of December 31, 2013 from 41.0 million as of December 31, 2012.
- As of December 31, 2013, we have featured more than 650,000 merchants since our inception.

We are a Delaware corporation, incorporated on January 15, 2008 under the name "ThePoint.com, Inc." We started Groupon in October 2008 and officially changed our name to Groupon, Inc. by filing an amended certificate of incorporation on June 16, 2009. Our principal executive offices are located at 600 West Chicago Avenue, Suite 400, Chicago, Illinois 60654, and our telephone number at this address is (312) 334-1579. Our website is www.groupon.com. Information contained on our website is not a part of this Annual Report on Form 10-K. We completed our initial public offering in November 2011, and our Class A common stock is listed on the Nasdaq Global Select Market under the symbol "GRPN."

GROUPON, the GROUPON logo and other GROUPON-formative marks are trademarks of Groupon, Inc. in the United States or other countries. This Annual Report on Form 10-K also includes other trademarks of Groupon and trademarks of other persons.

Our Strategy

Our primary objective is to become an essential part of everyday local commerce for consumers and merchants. Key elements of our strategy include the following:

Become the starting point for mobile commerce. We believe that Groupon is well positioned to be a leader in the world of mobile commerce. During 2013, we continued to invest in our mobile technology in order to attempt to capitalize on the growing trend of consumers making purchases through smartphones and tablets. In December 2013, nearly 50% of our global transactions were completed on mobile devices, and nearly 70 million people have now downloaded our mobile applications worldwide. We intend to continue making investments in mobile technology and marketing to help grow our mobile transaction volume and help increase customer awareness of their ability to access our offerings on mobile devices.

Redefine local commerce. Groupon seeks to bring the power of the Internet to local commerce, serving as an important source of subscriber acquisition for local merchants. To accomplish this, we are focused on growing our base of active customers by offering a variety of quality deals and focusing on customer satisfaction. We believe that one of the primary causes of customer dissatisfaction is when the promotional value of a voucher expires before the customer has been able to redeem it. Our efforts to reduce expirations include building our online commerce marketplaces, where merchants generally have a continuous presence for an extended period of time, and customers can wait until they are ready to use a voucher before making a purchase, rather than making a purchase decision in response to a limited-time offer when they may not intend to use the voucher in the near term. We are also in the process of developing functionality to improve the redemption process for customers.

Grow our local commerce marketplaces. We are in the process of transforming our business from a "push" model that primarily generates demand by emailing offers to customers to more of a demand fulfillment, or "pull," model that enables customers to search for goods and services through online local marketplaces that they can access through our websites and mobile applications. By continuing to develop and expand these marketplaces, we are seeking to provide customers in each of our markets with a single place where they can go to search for and discover great deals on offerings from local merchants, merchandise and travel. We have increased our active deal counts from approximately 1,000 deals available worldwide at the time of our initial public offering in the fourth quarter of 2011 to more than 140,000 deals available worldwide as of the end of the fourth quarter of 2013.

Enhance the email experience. While an increasing percentage of transactions on our platform are occurring on mobile devices and our websites, email generates a significant proportion of our transaction volume, and we expect that it will continue to do so in the future. We continue to refine our use of targeting technology that enables us to distribute deals to current and potential customers based on their location and personal preferences. Our targeting technology is also used to inform our search engine marketing and other transactional marketing spending that may attract potential customers who have not yet subscribed to our emails, downloaded our mobile applications or purchased a Groupon. In addition to email, we also use this targeting technology for push notifications on mobile devices.

Continue to build out our categories. Although Groupon began by offering only daily deals from local merchants, our platform has evolved over time into three primary categories: Local, Goods and Travel. Within those primary deal categories are a variety of subcategories, such as food and drink, events and activities, beauty and spa, home improvement, electronics and apparel. We intend to continue to build out our categories and subcategories by actively pursuing opportunities that would enable us to expand our deal offerings. See the "Categories" section below for additional information.

Globalize our platforms and processes. Because our international expansion was accomplished primarily through acquisitions, we inherited different technology platforms and business processes. We have launched a company-wide program that is aimed at streamlining our technology platforms and processes. We are also continuing to roll out a number of internal tools aimed at increasing our efficiency, including, for example, internal tools used by our salespeople to support their efforts in obtaining quality deal offerings for our marketplaces. In addition, we are increasingly automating our support functions in order to improve the overall efficiency of our business operations.

Our Business

Groupon operates online local commerce marketplaces throughout the world that connect merchants to consumers by offering goods and services at a discount. 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.

We earn revenue from deals where we act as a third party marketing agent by selling vouchers that can be redeemed for goods or services with a merchant. Our third party revenue from those transactions is the purchase price paid by the customer for the voucher less an agreed upon portion of the purchase price paid to the featured merchants, excluding applicable taxes and net of estimated refunds for which the merchant's share is recoverable. We also earn revenue by selling merchandise directly to customers in transactions for which we are the merchant of record. Our direct revenue from those transactions is the purchase price paid by the customer, excluding applicable taxes and net of estimated refunds.

Our business model continues to evolve from primarily an email-based "push" model with a limited number of deals offered at any given time to also include more extensive online "pull" marketplaces, particularly in North America, where customers can come to Groupon and search for deals on goods and services. These marketplaces are accessible through our websites and mobile applications, including through localized groupon.com sites in many countries.

On January 2, 2014, we acquired LivingSocial Korea, Inc. ("LS Korea"), a Korean corporation and holding company of Ticket Monster Inc. ("Ticket Monster"), for total consideration of $100.0 million cash and 13,825,283 shares of Class A common stock with an acquisition date fair value of $162.9 million. Ticket Monster, which has approximately 1,000 employees, is an e-commerce company based in the Republic of Korea that connects merchants to consumers by offering goods and services at a discount. The operations of Ticket Monster will be reported within our Rest of World segment beginning in 2014. For the nine months ended September 30, 2013, LS Korea, excluding a Malaysian subsidiary that we did not acquire, had gross billings of $572.7 million, revenue of $78.5 million and an operating loss of $38.7 million.

On January 13, 2014, we acquired Ideeli, Inc. ("Ideeli"), a fashion flash site based in the United States. Ideeli is focused on women's fashion apparel, accessories and home décor, and the operations of Ideeli will be reported within our North America segment beginning in 2014.

Categories

Local Deals. Our Local category includes deals with local merchants, deals with national merchants and local events. We offer deals for local merchants across multiple subcategories, including food and drink, events and activities, beauty and spa, health and fitness, home and garden and automotive. In the United States, customers can book reservations at selected restaurants through our website and mobile applications. National merchants also have used our marketplaces as an alternative to traditional marketing and brand advertising. Although our business today is weighted toward deals from local merchants, we are increasingly using national deals to build our brand awareness, acquire new customers and generate additional revenue. In 2013, we featured deals from a number of well-known national merchants across our North American markets, including Starbucks, Gap, Target, Saks and Sam's Club. In addition to national deals, Freebies, our coupon offering that was launched in 2013, gives customers the ability to access coupons from thousands of retailers. GrouponLive is a partnership with LiveNation whereby Groupon serves as a local resource for LiveNation events and clients of its global ticketing business, Ticketmaster.

Groupon Goods. Our Goods category offers customers the ability to find deals on merchandise across multiple product lines, including electronics, sporting goods, jewelry, toys, home and apparel. As the Goods category continues to grow, we expect that we will continue to add new brands to our platform in order to expand our offerings.

In our Goods category, we earn direct revenue from transactions in which we sell products directly to customers and serve as the merchant of record, as well as third party revenue from transactions in which we act as a third party marketing agent and sell vouchers that can be redeemed for products with a merchant. Our Goods transactions in North America are primarily direct revenue deals and, beginning in September 2013, a significant portion of our Goods transactions in EMEA were direct revenue deals as well. Goods transactions in EMEA prior to September 2013 and in our Rest of World segment have primarily been third party revenue deals.

In order to attempt to reduce costs and improve the customer experience, we are focused on streamlining our order fulfillment process for Goods. For example, we entered into a lease for a fulfillment center in August 2013 and began processing inventory through that facility on a limited basis during the fourth quarter. While we intend to open additional fulfillment centers in future periods, a majority of our fulfillment operations continue to be outsourced through third party logistics providers at the present time.

Groupon Getaways. Through our Getaways category, we feature travel offers, including hotels, airfare and package deals covering both domestic and international travel. For many of our travel deals, the customer must contact the merchant directly to make their travel reservation after purchasing the travel voucher from us. However, for some of our hotel deals, we take room reservations directly through our websites. During 2013, we began featuring market-rate hotel offers within some of our local commerce marketplaces that customers can reserve at regular room rates if they are unable to find a discounted hotel offer that meets their travel needs.

Other. We also offer tools that merchants can use to operate their businesses more efficiently, which we refer to as our "merchant operating system." These tools include Payments, our credit card payment processing service, and Breadcrumb, our point-of-sale solution.

Distribution

We distribute our deals to customers primarily through three channels: our mobile platform, our websites and email. Our mobile platform consists of apps and mobile websites, which we currently offer on iPhones, iPads, Android, Blackberry and Windows devices. Our emails deliver deals to our subscribers based on their location and personal preferences.

Mobile Applications. Consumers are increasingly accessing our deals through our mobile applications, as well as through mobile browsers. These applications enable consumers to browse, purchase, manage and redeem deals on their mobile devices. In addition, in our North American markets, consumers have a "Nearby" tab, which shows the deals that are closest to the consumer's location. In December 2013, nearly 50% of our global transactions were completed on mobile devices, and nearly 70 million people have now downloaded our mobile applications worldwide.

Websites. In 2013, we redesigned our North American website and enhanced its search capabilities as part of our efforts to improve the overall customer experience. We also introduced a new home page in North America that presents personalized offerings each day, based on the user's preferences and the deals that we have available. In 2014, we plan to roll out these website enhancements to many of our international markets.

Email. In North America and most of our international markets, we use targeting technology to distribute deals to current and potential customers based on their locations and personal preferences. A subscriber who clicks on a deal within an email is directed to our website or mobile application to learn more about the deal and make a purchase.

Other. We have established an affiliate program that utilizes third parties to promote our deals online. Affiliates earn commissions when customers access our deals through links on their websites and make purchases. We expect to continue to leverage affiliate relationships to extend the distribution of our deals to a broad base of potential customers. We also publish our deals through various social networks, and our notifications are adapted to the particular format of each of these social networking platforms. Our website and mobile application interfaces enable our consumers to push notifications of our deals to their personal social networks.

Marketing

Marketing is the primary method by which we acquire customers. While our marketing spend has decreased, both in absolute dollars and as a percentage of revenue, during the year ended December 31, 2013, as compared to the prior year, marketing remains an important element of our business operations. Online marketing consists of search engine marketing, display advertisements, referral programs and affiliate marketing. Our offline marketing programs have included traditional television, billboard and radio advertisements, public relations and sponsored events to increase our visibility and build our brand. Our marketing activities also include elements that are not presented as "Marketing" on our consolidated statements of operations, such as order discounts, free shipping on merchandise sales and accepting lower margins on our deals.

Sales and Operations

Our sales force includes over 4,800 merchant sales representatives and sales support staff, who build merchant relationships and provide local expertise. Our North American merchant sales representatives and support staff are primarily based in our offices in Chicago, and our international merchant sales representatives and support staff work from our international offices. Our quarterly global sales and sales support headcount from March 31, 2012 through December 31, 2013 was as follows:

	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	Mar. 31, 2013	Dec. 31, 2012	Sept. 30, 2012	June 30, 2012	Mar. 31, 2012
North America	1,421	1,357	1,209	1,287	1,151	1,230	1,139	1,194
EMEA	1,777	1,760	1,807	1,740	1,983	2,178	2,538	2,704
Rest of World	1,636	1,684	1,663	1,539	1,543	1,679	1,910	1,837
Total	4,834	4,801	4,679	4,566	4,677	5,087	5,587	5,735

The number of sales representatives is higher as a percentage of revenue in our EMEA and Rest of World segments due to the need to have separate sales organizations for most of the different countries in which we operate. Due to local economic conditions, however, the average cost of each sales representative is lower in most countries in our EMEA and Rest of World segments as compared to the costs in our North America segment.

Other key operational functions include city planners, editorial, merchant services, customer service, technology and logistics. City planners work with sales teams to optimize deal structure and pricing and manage the category, discount and geographic mix, as well as the cadence of deals in their respective markets. Our editorial department is responsible for creating the written and visual content on the deals we offer. Merchant services representatives work with merchants to plan for increased customer traffic before a deal is offered and serve as an ongoing point of contact for the merchant over the term of a deal. Our customer service department is responsible for answering questions received via phone, email and on public discussion boards regarding purchases, shipping status, returns and other areas of customer inquiry. Our technology team is focused on the design and development of new features and products, maintenance of our websites and development and maintenance of our internal operations systems. Logistics personnel are responsible for managing the flow of merchandise inventory from suppliers to our customers.

Our websites are hosted at a U.S. data center in Santa Clara, California and international data centers in Asia and Europe. Our data centers host our public-facing websites and applications, as well as our back-end business intelligence systems. We employ industry standard security practices to protect and maintain the systems located at our data centers. We have invested in intrusion and anomaly detection tools to try to recognize intrusions to our websites. We engage independent third-party Internet security firms to regularly test the security of our websites and identify vulnerabilities. In financial transactions between our websites and our customers, we use industry standard (SSL) Secure Socket Layer to provide encryption in transferring data.

Competition

Since our inception, a substantial number of competitors have emerged around the world attempting to replicate our business model, from very small startups to some of the largest companies in the world. Some of our competitors offer deals as an add-on to their core business, and others have adopted a business model similar to ours. As we expand our business into additional categories and subcategories, we compete with online and offline merchants offering similar products and services. We also compete with businesses that focus on our payment processing and point-of-sale merchant offerings. In addition, we compete with traditional offline coupon and discount services, as well as newspapers, magazines and other traditional media companies that provide coupons and discounts on products and services. We believe the principal competitive factors in our market include the following:

- size of active customer base and breadth merchant relationships;
- mobile penetration;
- understanding of local business trends;
- ability to structure deals to generate positive return on investment for merchants; and
- strength and recognition of brand.

Although we believe that we compete favorably on the factors described above, we anticipate that larger, more established companies may directly compete with us over time. Many of our current and potential competitors have longer operating histories, significantly greater financial, technical, marketing and other resources and larger customer bases than we do. These factors may allow our competitors to benefit from their existing customer base with lower acquisition costs or to respond more quickly than we can to new or emerging technologies and changes in customer requirements. These competitors may engage in more extensive research and development efforts, undertake more far-reaching marketing campaigns and adopt more aggressive pricing policies, which may allow them to build a larger subscriber base or to monetize that subscriber base more effectively than we do. Our competitors may develop products or services that are similar to our products and services or that achieve greater market acceptance than our products and services.

Seasonality

We believe that some of our offerings experience seasonal buying patterns mirroring that of the larger consumer and e-commerce markets, where demand declines during customary summer vacation periods and increases during the fourth quarter holiday season. We believe that this seasonality pattern has affected, and we expect will continue to affect, our business and

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quarterly sequential revenue growth rates. We recognized 29.9%, 27.3%, and 30.6% of our annual revenue during the fourth quarter of 2013, 2012 and 2011, respectively.

Regulation

We are subject to a number of foreign and domestic laws and regulations that affect companies conducting business on the Internet. As a company in a new and rapidly innovating industry, we are exposed to the risk that many of these laws may evolve or be interpreted by regulators or in the courts in ways that could materially affect our business. These laws and regulations may involve taxation, unclaimed property, intellectual property, product liability, travel, distribution, electronic contracts and other communications, competition, consumer protection, the provision of various online payment and point of sale services, employee, merchant and customer privacy and data security or other areas.

The Credit Card Accountability Responsibility and Disclosure Act of 2009 (the "CARD Act"), as well as the laws of most states, contain provisions governing gift cards, gift certificates, stored value or pre-paid cards or coupons ("gift cards"). Groupon vouchers may be included within the definition of "gift cards" under many laws. In addition, certain foreign jurisdictions have laws that govern disclosure and certain product terms and conditions, including restrictions on expiration dates and fees that may apply to Groupon vouchers as well as warranty requirements. There are also a number of legislative proposals pending before the U.S. Congress, various state legislative bodies and foreign governments that could affect us, and our global operations may be constrained by regulatory regimes and laws in Europe and other jurisdictions outside the United States that may be more restrictive and adversely impact our business.

Various U.S. laws and regulations, such as the Bank Secrecy Act, the Dodd-Frank Act, the USA PATRIOT Act and the CARD Act impose certain anti-money laundering requirements on companies that are financial institutions or that provide financial products and services. These laws and regulations broadly define financial institutions to include money services businesses such as money transmitters, check cashers and sellers or issuers of stored value. Requirements imposed on financial institutions under these laws include customer identification and verification programs, record retention policies and procedures and transaction reporting. We do not believe that we are a financial institution subject to these laws and regulations.

Intellectual Property

We protect our intellectual property rights by relying on federal, state and common law rights, as well as contractual restrictions. We control access to our proprietary technology by entering into confidentiality and invention assignment agreements with our employees and contractors, and confidentiality agreements with third parties.

In addition to these contractual arrangements, we also rely on a combination of trade secrets, copyrights, trademarks, service marks, trade dress, domain names and patents to protect our intellectual property. As of December 31, 2013, Groupon and its related entities owned a number of trademarks and servicemarks registered or pending in the United States and internationally. In addition, as of December 31, 2013, we owned a number of issued U.S. patents, had additional pending patent applications, and owned copyright registrations.

Circumstances outside our control could pose a threat to our intellectual property rights. For example, effective intellectual property protection may not be available in the United States or other countries in which we operate. Also, the efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. Also, protecting our intellectual property rights is costly and time-consuming. Any unauthorized disclosure or use of our intellectual property could make it more expensive to do business and harm our operating results.

Companies in the Internet, social media technology and other industries may own large numbers of patents, copyrights and trademarks or other intellectual property rights and may request license agreements, threaten litigation or file suit against us based on allegations of infringement or other violations of intellectual property rights. We are currently subject to, and expect to face in the future, lawsuits and allegations that we have infringed the intellectual property rights of third parties, including our competitors and non-practicing entities. As we face increasing competition and as our business grows, we will likely face more claims of infringement, and may experience an adverse result which could impact our business and/or our operating results.

Employees

As of December 31, 2013, there were 3,362 employees in our North America segment, consisting of 1,421 sales representatives and 1,941 corporate, operational and customer service representatives, 3,695 employees in our EMEA segment, consisting of 1,777 sales representatives and 1,918 corporate, operational and customer service representatives, and 4,226 employees in our Rest of World segment, consisting of 1,636 sales representatives and 2,590 corporate, operational and customer service representatives. On January 2, 2014, we acquired Ticket Monster, with approximately 1,000 employees who will be included within our Rest of World segment beginning in 2014.

Officers

The following table sets forth information about our executive officers as of December 31, 2013:

Name	Age	Position
Eric Lefkofsky	44	Co-Founder, Chief Executive Officer and Director
Jason Child	45	Chief Financial Officer
Jeffrey Holden	45	Senior Vice President-Product Management
Kal Raman	45	Chief Operating Officer
David Schellhase	50	General Counsel
Brian Stevens	39	Chief Accounting Officer

Eric Lefkofsky is a co-founder of the Company, has served as the Company's Executive Chairman since its inception until August 5, 2013, and served in the Office of the Chief Executive from February 28, 2013 until his appointment to Chief Executive Officer on August 5, 2013. Mr. Lefkofsky is a co-founder of Echo Global Logistics, Inc. (NASDAQ: ECHO) and served on its board of directors from February 2005 to December 2012. Mr. Lefkofsky is the co-founder of InnerWorkings, Inc. (NASDAQ: INWK) and served on its board of directors from August 2008 to October 2012. In 2008, Mr. Lefkofsky co-founded Lightbank LLC, a private investment firm specializing in information technology companies, and has served as a manager since that time. In April 2006, Mr. Lefkofsky co-founded MediaBank, LLC (now Media Ocean), an electronic exchange and database that automates the procurement and administration of advertising media, and has served as a director or manager since that time. Mr. Lefkofsky also serves on the board of directors of Children's Memorial Hospital, the board of trustees of the Steppenwolf Theatre, the board of trustees of the Art Institute of Chicago and the board of trustees of the Museum of Science and Industry. Mr. Lefkofsky also serves on the board of directors of World Business Chicago. Mr. Lefkofsky is an Adjunct Professor at the University of Chicago Booth School of Business. Mr. Lefkofsky holds a bachelor's degree from the University of Michigan and a Juris Doctor degree from the University of Michigan Law School.

Jason Child has served as our Chief Financial Officer since December 2010. From March 1999 through December 2010, Mr. Child held several positions with Amazon.com, Inc. (NASDAQ: AMZN), including Vice President of Finance, International from April 2007 to December 2010, Vice President of Finance, Asia from July 2006 to July 2007, Director of Finance, Amazon Germany from April 2004 to July 2006, Director of Investor Relations from April 2003 to April 2004, Director of Finance, Worldwide Application Software from November 2001 to April 2003, Director of Finance, Marketing and Business Development from November 2000 to November 2001 and Global Controller from October 1999 to November 2000. Prior to joining Amazon.com, Mr. Child spent more than seven years as a C.P.A. and a consulting manager at Arthur Andersen. Mr. Child received his Bachelor of Arts from the Foster School of Business at the University of Washington.

Jeffrey Holden has served as our Senior Vice President-Product Management since April 2011 and has resigned from that position effective March 18, 2014. In 2006, Mr. Holden co-founded Pelago, Inc. and served as its Chief Executive Officer until Groupon acquired Pelago in April 2011. Prior to co-founding Pelago, Mr. Holden held several positions at Amazon.com, Inc. (NASDAQ: AMZN), including Senior Vice President, Worldwide Discovery, from March 2005 to January 2006, Senior Vice President, Consumer Applications, from April 2004 to March 2005, Vice President, Consumer Applications, from April 2002 to April 2004, and Director, Automated Merchandising and Discovery from February 2000 to April 2002. Mr. Holden joined Amazon.com in May 1997 as Director, Supply Chain Optimization Systems. Mr. Holden received his Bachelor of Science and Master of Science degrees in Computer Science from the University of Illinois at Urbana Champaign.

Kal Raman (also known as Kalyanaraman Srinivasan) joined the Company in May 2012 as its Senior Vice President, Americas, in August 2012 was promoted to Senior Vice President, Global Operations, and then subsequently had his title changed to Chief Operating Officer. Mr. Raman previously worked for eBay Inc., first as a consultant from December 2011 to March 2012 and then as Vice President, Global Fulfillment during April 2012. Prior to that, Mr. Raman was the Chief Executive Officer of KUE Digital, a company that was wholly owned by

Knowledge Universe Education LLC, from October 2006 to February 2007, and then KUE Digital was subsequently renamed and incorporated as Global Scholar, an enterprise education software company, in February 2007 and Mr. Raman served as the Chief Executive Officer of Global Scholar from its inception until September 2011.

Mr. Raman then served as a consultant to Global Scholar from September 2011 until February 2012. Mr. Raman has also served as Chief Executive Officer of Drugstore.com and as an executive at Amazon.com, Inc. earlier in his career.

David Schellhase has served as our General Counsel since June 2011. From March 2010 to May 2011, Mr. Schellhase served as Executive Vice President, Legal of salesforce.com, inc. (NYSE: CRM). From December 2004 to March 2010, Mr. Schellhase served as the Senior Vice President and General Counsel of salesforce.com, and he served as Vice President and General Counsel of salesforce.com from July 2002 to December 2004. From December 2000 to June 2002, Mr. Schellhase was an independent legal consultant and authored a treatise entitled Corporate Law Department Handbook. Previously, he served as General Counsel at Linuxcare, Inc., The Vantive Corporation and Premenos Technology Corp. Mr. Schellhase received a Bachelor of Arts from Columbia University and a Juris Doctor from Cornell University.

Brian Stevens has served as our Chief Accounting Officer since September 2012. Mr. Stevens spent 16 years with KPMG LLP, most recently as an audit partner from October 2007 through August 2012. Mr. Stevens spent five years in KPMG's Department of Professional Practice (April 2003 to June 2006 and July 2008 to June 2010) and was a practice fellow at the Financial Accounting Standards Board from July 2006 through June 2008. Mr. Stevens is a member of the American Institute of Certified Public Accountants and serves on its Financial Reporting Executive Committee (FinREC). Mr. Stevens received his Bachelor of Science from the University of Illinois at Urbana-Champaign.

Available Information

The Company electronically files reports with the SEC. The public may read and copy any materials the Company has filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. Copies of the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are also available free of charge through the Company's website (www.groupon.com), as soon as reasonably practicable after electronically filing with or otherwise furnishing such information to the SEC, and are available in print to any stockholder who requests it. The Company's Code of Conduct, Corporate Governance Guidelines and committee charters are also posted on the site.

ITEM 1A: RISK FACTORS

Our business, prospects, financial condition, operating results and the trading price of our Class A common stock could be materially adversely affected by any of these risks, as well as other risks not currently known to us or that we currently consider immaterial. In assessing the risks described below, you should also refer to the other information contained in this Annual Report on Form 10-K, including Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and the consolidated financial statements and the related notes in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

Risks Related to Our Business

Our revenue and operating results may continue to be volatile.

Our revenue and operating results will continue to vary from quarter to quarter due to the rapidly evolving nature of our business. We believe that our revenue growth and ability to achieve and maintain profitability will depend, among other factors, on our ability to:

- acquire new customers and retain existing customers;
- attract new merchants and retain existing merchants who wish to offer deals through the sale of Groupons;
- effectively address and respond to challenges in international markets;
- expand the number, variety and relevance of products and deals we offer, particularly as we attempt to build a more complete local marketplace;
- increase the awareness of our brand domestically and internationally;

- successfully achieve the anticipated benefits of business combinations or acquisitions, including our acquisitions of Ticket Monster and Ideeli;
- provide a superior customer service experience for our customers and merchants;
- respond to changes in consumer and merchant access to and use of the Internet and mobile devices;
- react to challenges from existing and new competitors; and
- respond to seasonal changes in supply and demand.

In addition, our margins and profitability may depend on our product sales mix, our geographic revenue mix and merchant pricing terms. For example, sales in our Goods category, which typically carry lower margins than sales in our Local category, have grown faster in some recent periods, which has resulted in lower margins and profitability during those periods. Accordingly, our profitability may vary significantly from quarter to quarter.

Our strategy to become a complete local commerce marketplace may not be successful and may expose us to additional risks.

One of our key objectives is to expand upon our traditional daily deals business by building out a more extensive local commerce marketplace. This strategy has required us to devote significant resources to attracting and retaining merchants who are willing to run deals on a continuous basis with us in order to build a significant inventory for our customers, as well as continuing management focus and attention. We have accepted, and expect to continue to accept, a lower percentage of the gross billings from some of our merchants as we expand our marketplace. In addition, we are continuously refining our process for presenting the most relevant deals to our customers based on their personal preferences. If we are not successful in pursuing these objectives, our business, financial position and results of operations could be harmed.

If we are unable to successfully respond to changes in the market, our business could be harmed.

Our business grew rapidly in prior periods as merchants and consumers have increasingly used our marketplace. However, this is a new market which we created in late 2008 and which has operated at a substantial scale for only a limited period of time. Given the limited history, we are constantly evolving our strategy and may not always be successful in doing so. For example, we experienced a decline in revenue from our EMEA and Rest of World segments during the year ended December 31, 2013, as compared to the year ended December 31, 2012. We expect that the market will evolve in ways which may be difficult to predict. For example, we believe that in some of our markets, including North America, investments in new subscriber acquisition are less productive and the continued growth of our revenue will require more focus on increasing or maintaining the rate at which our existing customers purchase Groupons and our ability to expand the number and variety of deals that we offer. It is also possible that merchants or customers could broadly determine that they no longer believe in the value of our current services or marketplace. In the event of these or any other changes to the market, our continued success will depend on our ability to successfully adjust our strategy to meet the changing market dynamics. If we are unable to successfully adapt to changes in our markets, our business, financial condition and results of operations could suffer a material negative impact.

Our international operations are subject to increased challenges, and our inability to adapt to the varied commercial and regulatory landscapes of our international markets may adversely affect our business.

Our ability to grow our business in our international markets requires management attention and resources and requires us to localize our services to conform to a wide variety of local cultures, business practices, laws and policies. The different commercial and Internet infrastructure in other countries may make it more difficult for us to replicate our business model. In many countries, we compete with local companies that understand the local market better than we do, and we may not benefit from first-to-market advantages. We are subject to risks of doing business internationally, including the following:

- our ability to maintain merchant and customer satisfaction such that our marketplace will continue to attract high quality merchants;
- our ability to successfully respond to macroeconomic challenges, including by optimizing our deal mix to take into account consumer preferences at a particular point in time;
- strong local competitors, many of whom have been in the market longer than us;
- different regulatory requirements, including regulation of gift cards and coupon terms, Internet services, professional

selling, distance selling, bulk emailing, privacy and data protection, banking and money transmitting, that may limit or prevent the offering of our services in some jurisdictions, cause unanticipated compliance expenses or limit our ability to enforce contractual obligations;

- difficulties in integrating with local payment providers, including banks, credit and debit card networks and electronic funds transfer systems;
- different employee/employer relationships and the existence of workers' councils and labor unions;
- shorter payment cycles, different accounting practices and greater problems in collecting accounts receivable;
- higher Internet service provider costs;
- seasonal reductions in business activity;
- expenses associated with localizing our products, including offering customers the ability to transact business in the local currency; and
- differing intellectual property laws.

We are subject to complex foreign and U.S. laws and regulations that apply to our international operations, including data privacy and protection requirements, the Foreign Corrupt Practices Act, the UK Anti-Bribery Act and similar local laws prohibiting certain payments to government officials, banking and payment processing regulations, and anti-competition regulations, among others. The cost of complying with these various and sometimes conflicting laws and regulations is substantial. We have implemented policies and procedures to ensure compliance with these laws and regulations, however, we cannot assure you that our employees, contractors, or agents will not violate our policies. Changing laws, regulations and enforcement actions in the U.S. and the rest of the world could harm our business.

If, as we continue to expand internationally, we are unable to successfully replicate our business model due to these and other commercial and regulatory constraints in our international markets, our business may be adversely affected.

Our financial results will be adversely affected if we are unable to execute on our marketing strategy.

We historically focused our marketing spend on subscriber acquisition, but have shifted our focus to customer activation and mobile application downloads. While our marketing expense declined during the year ended December 31, 2013, as compared to the year ended December 31, 2012, we expect to increase our marketing spend in future periods as we attempt to continue to grow our active customer base and increase mobile application downloads. If our assumptions regarding our marketing efforts and strategies prove incorrect, our ability to generate profits from our investments may be less than we have assumed. In such case, we may need to increase expenses or otherwise alter our strategy and our results of operations could be negatively impacted.

If we fail to retain our existing customers or acquire new customers, our revenue and business will be harmed.

We must continue to retain and acquire customers that make purchases on our platform in order to increase revenue and achieve consistent profitability. As our customer base continues to evolve, it is possible that the composition of our customers may change in a manner that makes it more difficult to generate revenue to offset the loss of existing customers and the costs associated with acquiring and retaining customers. If customers do not perceive our offerings to be attractive or if we fail to introduce new and more relevant deals, we may not be able to retain or acquire customers at levels necessary to grow our business and profitability. If we are unable to acquire new customers in numbers sufficient to grow our business and offset the number of existing active customers that cease to make purchases, the revenue we generate may decrease and our operating results will be adversely affected.

Our future success depends upon our ability to retain and add high quality merchants.

We depend on our ability to attract and retain merchants that are prepared to offer products or services on compelling terms through our marketplace and provide our customers with a good experience. We do not have long-term arrangements to guarantee the availability of deals that offer attractive quality, value and variety to customers or favorable payment terms to us. In addition, if we are unsuccessful in our efforts to introduce services to merchants as part of our local commerce operating system, we will not experience a corresponding growth in our merchant pool sufficient to offset the cost of these initiatives. We must continue to attract and retain merchants in order to increase revenue and profitability. If new merchants do not find our marketing

and promotional services effective, or if existing merchants do not believe that utilizing our services provides them with a long-term increase in customers, revenue or profits, they may stop making offers through our marketplace. In addition, we may experience attrition in our merchants in the ordinary course of business resulting from several factors, including losses to competitors and merchant closures or bankruptcies. If we are unable to attract new merchants in numbers sufficient to grow our business, or if too many merchants are unwilling to offer products or services with compelling terms through our marketplace or offer favorable payment terms to us, our operating results will be adversely affected.

If our efforts to market, advertise and promote products and services from our existing merchants are not successful, or if our existing merchants do not believe that utilizing our services provides them with a long-term increase in customers, revenue or profits, we may not be able to retain or attract merchants in sufficient numbers to grow our business or we may be required to incur significantly higher marketing expenses or reduce margins in order to attract new merchants. A significant increase in merchant attrition or decrease in merchant growth would have an adverse effect on our business, financial condition and results of operations.

We may be subject to breaches of our information technology systems, which could harm our relationships with our customers and merchants, subject us to negative publicity and litigation, and cause substantial harm to our business.

In operating a global online business, we and our third party service providers maintain significant proprietary information and manage large amounts of personal data and confidential information about our employees, customers and merchants. Because of our high profile and the number of customer records we maintain, we and the third party providers are at an increased risk of attacks on our systems.

Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, our prominent size and scale, our plans to implement our entrance into the mobile payments space, our expanded geographic footprint and international presence, the outsourcing of some of our business operations and threats of cyber-attacks. Although cybersecurity and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access are a high priority for us, this may not successfully protect our systems against all vulnerabilities, including technologies developed to bypass our security measures. In addition, outside parties may attempt to fraudulently induce employees, merchants or customers to disclose sensitive information in order to gain access to our secure systems and networks. For example, in May 2013, a hacker accessed a database of our Taiwan subscribers containing usernames and passwords.

As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. Further, because the techniques used to gain access to, or sabotage, systems often are not recognized until launched against a target, we may be unable to anticipate the correct methods necessary to defend against these types of attacks. Any actual breach, the perceived threat of a breach or a perceived breach, could cause our customers and merchants to cease doing business with us, subject us to lawsuits, regulatory fines or other action or liability, which would harm our business, financial condition and results of operations.

We may incur losses in the future as we expand our business.

We had an accumulated deficit of $848.9 million as of December 31, 2013. We anticipate that our financial results will be impacted as we continue to invest in our growth, through increased spending in some areas and through accepting a lower percentage of the proceeds from our deals, as we attempt to add more merchants to our marketplace. These efforts may prove more difficult than we currently anticipate, and we may not succeed in realizing the benefits of these efforts in a short time frame, or at all. Many of our efforts to generate revenue from our business are new and unproven, and any failure to increase our revenue, as well as any changes in our mix of sales between our higher and lower margin categories, could prevent us from attaining or increasing, or could reduce, our profitability. We cannot be certain that we will be able to attain or increase profitability on a quarterly or annual basis. If we are unable to effectively manage these risks and difficulties as we encounter them, our business, financial condition and results of operations may suffer.

We operate in a highly competitive industry with relatively low barriers to entry, and must compete successfully in order to grow our business.

We expect competition in e-commerce generally, and group buying in particular, to continue to increase. A substantial number of group buying sites that attempt to replicate our business model have emerged around the world. In addition to such competitors, we expect to increasingly compete against other large businesses who offer deals similar to ours as an add-on to their core business. We also expect to compete against other Internet sites that serve niche markets and interests. In some of our categories, such as goods, travel and entertainment, we compete against much larger companies who have more resources and significantly

larger scale. In addition, we compete with traditional offline coupon and discount services, as well as newspapers, magazines and other traditional media companies who provide coupons and discounts on products and services.
We believe that our ability to compete successfully depends upon many factors both within and beyond our control, including the following:

- the size and composition of our customer base and the number of merchants we feature;
- the timing and market acceptance of deals we offer, including the developments and enhancements to those deals offered by us or our competitors;
- customer and merchant service and support efforts;
- selling and marketing efforts;
- ease of use, performance, price and reliability of services offered either by us or our competitors;
- our ability to generate large volumes of sales, particularly with respect to goods and travel deals;
- our ability to cost-effectively manage our operations; and
- our reputation and brand strength relative to our competitors.

Many of our current and potential competitors have longer operating histories, significantly greater financial, marketing and other resources and larger customer bases than we do. These factors may allow our competitors to benefit from their existing customer base with lower customer acquisition costs or to respond more quickly than we can to new or emerging technologies and changes in consumer habits. These competitors may engage in more extensive research and development efforts, undertake more far-reaching marketing campaigns and adopt more aggressive pricing policies, which may allow them to build larger customer bases or generate revenue from their customer bases more effectively than we do. Our competitors may offer deals that are similar to the deals we offer or that achieve greater market acceptance than the deals we offer. This could attract customers away from our websites and applications, reduce our market share and adversely impact our gross margin. We also have seen that some competitors will accept lower margins, or negative margins, to attract attention and acquire new customers. If competitors engage in group buying initiatives in which merchants receive a higher percentage of the revenue than we currently offer, we may be forced to pay a higher percentage of the gross proceeds from each Groupon sold than we currently offer, which may reduce our revenue. In addition, we are dependent on some of our existing or potential competitors for banner advertisements and other marketing initiatives to acquire new customers. Our ability to utilize their platforms to acquire new customers may be adversely affected if they choose to compete more directly with us or prevent us from using their services.
If we are unable to maintain favorable terms with our merchants, our revenue may be adversely affected.
The success of our business depends in part on our ability to retain and increase the number of merchants who use our service, particularly as we continue to grow our marketplace. Currently, when a merchant works with us to offer a deal for its products or services, it receives an agreed-upon percentage of the total proceeds from each Groupon sold, and we retain the rest. If merchants decide that utilizing our services no longer provides an effective means of attracting new customers or selling their goods and services, they may require a higher percentage of the total proceeds from each Groupon sold. In addition, as part of our strategy to grow our merchant base, we have been accepting a lower percentage of the total proceeds from each Groupon sold in some instances. This could adversely affect our revenue and gross profit.
In addition, we expect to face increased competition from other Internet and technology-based businesses. We also have seen that some competitors will accept lower margins, or negative margins, to attract attention and acquire new customers. If competitors engage in group buying initiatives in which merchants receive a higher percentage of the revenue than we currently offer, or if we target merchants who will only agree to run deals if they receive a higher percentage of the proceeds, we may be forced to take a lower percentage of the gross billings.

Our operating cash flow and results of operations could be adversely impacted if we change our merchant payment terms or our revenue does not grow.

Our merchant payment terms and revenue growth have historically provided us with operating cash flow to fund our working capital needs. Our merchant arrangements are generally structured such that we collect cash up front when our customers purchase Groupons and make payments to our merchants at a subsequent date, either on a fixed schedule or upon redemption by customers. We currently pay our merchants upon redemption in many deals in our International markets, but we may continue to move toward offering payments on a fixed schedule in those markets. Additionally, payment arrangements in our Goods category generally result in us paying merchants on a more accelerated basis than payment arrangements in our Local category.

Our accrued merchant and supplier payable balance increased from $671.3 million as of December 31, 2012 to $752.9 million as of December 31, 2013, due primarily to our seasonally strong Goods business in the fourth quarter of 2013. Our operating cash flows have been adversely impacted by lower growth or declines in our Local category in recent periods. We have used the operating cash flow provided by our merchant payment terms and revenue growth to fund our working capital needs. If we offer our merchants more favorable or accelerated payment terms or our revenue does not grow in the future, our operating cash flow and results of operations could be adversely impacted and we may have to seek alternative financing to fund our working capital needs.

Our success is dependent upon our ability to provide a superior mobile experience for our customers, and our customers' continued ability to access our offerings through mobile devices.

In December 2013, nearly 50% of our global transactions were completed on mobile devices and nearly 70 million people have now downloaded our mobile applications worldwide. In order to continue to grow our mobile transactions, it is critical that our applications work well with a range of mobile technologies, systems, networks and standards. Our business may be adversely affected if our customers choose not to access our offerings on their mobile devices or use mobile devices that do not offer access to our mobile applications.

Our business depends on our ability to maintain and scale the network infrastructure necessary to send our emails and operate our websites, mobile applications and transaction processing systems, and any significant disruption in service on our email infrastructure, websites, mobile applications or transaction processing systems could result in a loss of subscribers, customers or merchants.

Customers access our deals through our websites and mobile applications, as well as via emails that are often targeted by location, purchase history and personal preferences. Our reputation and ability to acquire, retain and serve our current customers and potential customers are dependent upon the reliable performance of our websites, mobile applications, email delivery and transaction processing systems and the underlying network infrastructure. As our customer base and the amount of information shared on our websites and applications continue to grow, we will need an increasing amount of network capacity and computing power. We have spent and expect to continue to spend substantial amounts on data centers and equipment and related network infrastructure to handle the traffic on our websites and applications. The operation of these systems is expensive and complex and could result in operational failures. In the event that our subscriber base or the amount of traffic and transactions on our websites and applications grows more quickly than anticipated, we may be required to incur significant additional costs.

Interruptions in these systems, whether due to system failures, computer viruses, physical or electronic break-ins or otherwise (including spam filters preventing emails from reaching current and potential customers), could affect the security or availability of our websites and applications, and prevent our customers from accessing our services. If we do not maintain or expand our network infrastructure successfully or if we experience operational failures, we could lose current and potential customers and merchants, which could harm our operating results and financial condition.

In addition, a substantial portion of our network infrastructure is hosted by third party providers. Any failure of these providers to handle existing or increased traffic and transactions could significantly harm our business. Any financial or other difficulties these providers face may adversely affect our business, and we exercise little control over these providers, which increases our vulnerability to problems with the services they provide.

If our emails are not delivered and accepted, or are routed by email providers in a less favorable way than other emails, our business may be substantially harmed.

If email providers implement new or more restrictive email delivery policies it may become more difficult to deliver emails to customers. For example, certain email providers, including Google, have started to categorize our emails as "promotional," and these emails are directed to an alternate, and less readily accessible, section of a customer’s inbox. If email providers materially limit or halt the delivery of our emails, or if we fail to deliver emails to customers in a manner compatible with email providers’ email handling or authentication technologies, our operating results and financial condition could be substantially harmed. In addition, if we are placed on "spam" lists or lists of entities that have been involved in sending unwanted, unsolicited emails, our ability to contact customers through email could be significantly restricted.

We purchase and sell some products from indirect suppliers, which increases our risk of litigation and other losses.

We source merchandise both directly from brand owners and indirectly from retailers and third party distributors, and we often take title to the goods before we offer them for sale to our customers. Further, some brand owners, retailers and third party distributors may be unwilling to offer products for sale on the Internet or through Groupon in particular, which could have an adverse impact on our ability to source and offer popular products. By selling merchandise sourced from parties other than the brand owners, we are subject to an increased risk that the merchandise may be damaged or non-authentic, which could result in potential liability under applicable laws, regulations, agreements and orders, and increase the amount of returned merchandise. In addition, brand owners may take legal action against us, which even if we prevail could result in costly litigation, generate adverse publicity for us, and have a material adverse impact on our business, financial condition and results of operations.

We are subject to inventory management and order fulfillment risks as a result of our Goods category.

We purchase much of the merchandise that we offer for sale to our customers, and we expect to increase the percentage of merchandise that we offer directly for sale as compared to merchandise that our customers purchase directly from third parties. The demand for products can change for a variety of reasons, including customer preference, quality, seasonality, and the perceived value from customers of purchasing the product through us. In addition, this is a relatively new business for us, and therefore we have a limited historical basis upon which to predict customer demand for the products. If we are unable to adequately predict customer demand and efficiently manage our inventory, we could either have an excess or a shortage of inventory, either of which would have a material adverse effect on our business.

Purchasing the goods ourselves prior to the sale also means that we will be required to fulfill orders on a timely, efficient and cost-effective basis. Many other online retailers have significantly larger inventory balances and therefore are able to rely on past experience and economies of scale to optimize their order fulfillment. Because we rely primarily on third party logistics providers for order fulfillment and delivery, many parts of our supply chain are outside our control. Delays or inefficiencies in our processes, or those of our third party logistics providers, could subject us to additional costs, as well as customer dissatisfaction, which would adversely affect our business.

Additionally, we assume the risks of inventory damage, theft and obsolescence, as well as risks of price erosion for these products. These risks are especially significant because some of the merchandise we sell is characterized by seasonal trends, fashion trends, obsolescence and price erosion and because we sometimes make large purchases of particular types of inventory. Our success will depend on our ability to sell our inventory rapidly, the ability of our buying staff to purchase inventory at attractive prices relative to its resale value and our ability to manage customer returns and other costs. If we are unsuccessful in any of these areas, we may be forced to sell our inventory at a discount or loss.

The integration of our international operations with our North American technology platform may result in business interruptions.

We currently use a common technology platform in our North America segment to operate our business and are in the process of migrating our operations in our EMEA and Rest of World segments to the same platform. Such changes to our technology platform and related software carry risks such as cost overruns, project delays and business interruptions and delays. If we experience a material business interruption as a result of this process, it could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our Class A common stock to decline.

We are involved in pending litigation and an adverse resolution of such litigation may adversely affect our business, financial condition, results of operations and cash flows.

We are involved in litigation regarding, among other matters, patent, consumer, securities and employment issues. Litigation can be expensive, time-consuming and disruptive to normal business operations. The results of complex legal proceedings are often uncertain and difficult to predict. An unfavorable outcome with respect to any of these lawsuits could have a material adverse effect on our business, financial condition, results of operations or cash flows. For additional information regarding these and other lawsuits in which we are involved, see Note 8 "Commitments and Contingencies" to the consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2013.

An increase in our refund rates could reduce our liquidity and profitability.

Customers have the ability to receive a refund of their purchase price upon the occurrence of specified events. As we increase our revenue and expand our product offerings, our refund rates may exceed our historical levels. For example, as a result of a shift in our deal mix and higher price point offers that began in the fourth quarter of 2011, our refund rates became higher than historical levels. A downturn in general economic conditions may also increase our refund rates. An increase in our refund rates could significantly reduce our liquidity and profitability.

Because we do not have control over our merchants and the quality of products or services they deliver, we rely on a statistical model that incorporates the following data inputs and factors to estimate future refunds: historical refund experience developed from millions of deals featured on our website, the relative risk of refunds based on expiration date, deal value, deal category and other qualitative factors that could impact the level of future refunds, such as introductions of new deals, discontinuations of legacy deals and expected changes, if any, in our practices in response to refund experience or economic trends that might impact customer demand. Our actual level of refund claims could prove to be greater than the level of refund claims we estimate. If our refund reserves are not adequate to cover future refund claims, this inadequacy could have a material adverse effect on our liquidity and profitability.

Our standard agreements with our merchants generally limit the time period during which we may seek reimbursement for customer refunds or claims. Our customers may make claims for refunds with respect to which we are unable to seek reimbursement from our merchants. Our inability to seek reimbursement from our merchants for refund claims could have an adverse effect on our liquidity and profitability.

The loss of one or more key members of our management team, or our failure to attract, integrate and retain other highly qualified personnel in the future could harm our business.

In order to be successful, we must attract, retain and motivate executives and other key employees, including those in managerial, technical and sales positions. Hiring and retaining qualified executives, engineers and qualified sales representatives are critical to our success, and competition for experienced and well qualified employees can be intense. In order to attract and retain executives and other key employees in a competitive marketplace, we must provide a competitive compensation package, including cash and share-based compensation. Our primary form of share-based incentive award is restricted stock units. If the anticipated value of such share-based incentive awards does not materialize, if our share-based compensation otherwise ceases to be viewed as a valuable benefit, or if our total compensation package is not viewed as being competitive, our ability to attract, retain, and motivate executives and key employees could be weakened. The failure to successfully hire executives and key employees or the loss of any executives and key employees could have a significant impact on our operations.

An increase in the costs associated with maintaining our international operations could adversely affect our results of operations.

Certain factors may cause our international costs of doing business to exceed our comparable costs in North America. For example, in some countries, expansion of our business may require a close commercial relationship with one or more local banks, a shared ownership interest with a local entity or registration as a bank under local law. Such requirements may reduce our revenue, increase our costs or limit the scope of our activities in particular countries. Further, because our international revenue is denominated in foreign currencies, we could become subject to increased difficulties in repatriating money without adverse tax consequences and increased risks relating to foreign currency exchange rate fluctuations. Further, we could be subject to the application of U.S. tax rules to acquired international operations and local taxation of our fees or of transactions on our websites.

We conduct portions of certain functions, including product development, customer support and other operations, in regions outside of North America. Any factors which reduce the anticipated benefits, including cost efficiencies and productivity improvements, associated with providing these functions outside of North America, including increased regulatory costs associated with our international operations, could adversely affect our business.

We may be subject to additional unexpected regulation which could increase our costs or otherwise harm our business.

The application of certain laws and regulations to Groupons, as a new product category, is uncertain. These include laws and regulations such as the CARD Act, and, in certain instances, potentially unclaimed and abandoned property laws. In addition, from time to time, we may be notified of additional laws and regulations which governmental organizations or others may claim should be applicable to our business. If we are required to alter our business practices as a result of any laws and regulations, our revenue could decrease, our costs could increase and our business could otherwise be harmed. In addition, the costs and expenses associated with defending any actions related to such additional laws and regulations and any payments of related penalties, judgments or settlements could adversely impact our profitability. As we expand into new lines of business and new geographies, we will become subject to additional laws and regulations.

We may have exposure to greater than anticipated tax liabilities.
Our income tax obligations are based on our corporate operating structure, including the manner in which we develop, value and use our intellectual property and the scope of our international operations. The tax laws applicable to our international business activities, including the laws of the United States and other jurisdictions, are subject to interpretation. The taxing authorities of the jurisdictions in which we operate may challenge our methodologies for valuing developed technology or intercompany arrangements, which could increase our worldwide effective tax rate and harm our financial position and results of operations. In addition, our future income taxes could be adversely affected by greater earnings in jurisdictions that have higher statutory tax rates, by changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws, regulations or accounting principles. We are subject to regular review and audit by both U.S. federal and state and foreign tax authorities. Any adverse outcome of such a review or audit could have a negative effect on our financial position and results of operations. In addition, the determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment by management, and there are many transactions where the ultimate tax determination is uncertain. Although we believe that our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.
The enactment of legislation implementing changes in the U.S. taxation of international business activities or the adoption of other tax reform policies could materially affect our financial position and results of operations.
The current administration has made public statements indicating that it has made international tax reform a priority, and key members of the U.S. Congress have conducted hearings and proposed a wide variety of potential changes. Certain changes to U.S. tax laws, including limitations on the ability to defer U.S. taxation on earnings outside of the United States until those earnings are repatriated to the United States, could affect the tax treatment of our foreign earnings, as well as cash and cash equivalent balances we currently maintain outside of the United States. Due to the large and expanding scale of our international business activities, any changes in the U.S. taxation of such activities may increase our worldwide effective tax rate and harm our financial position and results of operations.
The implementation of the CARD Act and similar state and foreign laws may harm our business and results of operations.
It is not clear at this time, but Groupons may be considered gift cards, gift certificates, stored value cards or prepaid cards and therefore governed by, among other laws, the CARD Act, and state laws governing gift cards, stored value cards and coupons. Other foreign jurisdictions have similar laws in place, in particular European jurisdictions where the European E-Money Directive regulates the business of electronic money institutions. Many of these laws contain provisions governing the use of gift cards, gift certificates, stored value cards or prepaid cards, including specific disclosure requirements and prohibitions or limitations on the use of expiration dates and the imposition of certain fees. For example, if Groupons are subject to the CARD Act and are not included in the exemption for promotional programs, it is possible that the purchase value, which is the amount equal to the price paid for the Groupon, or the promotional value, which is the add-on value of the Groupon in excess of the price paid, or both, may not expire before the later of (i) five years after the date on which the Groupon was issued or the date on which the customer last loaded funds on the Groupon if the Groupon has a reloadable feature; (ii) the Groupon's stated expiration date (if any); or (iii) a later date provided by applicable state law. We and several merchants are currently defendants in purported class action litigation that has been filed in federal and state court claiming that Groupons are subject to the CARD Act and various state laws governing gift cards and that the defendants have violated these laws by issuing Groupons with expiration dates and other restrictions. In the event that it is determined that Groupons are subject to the CARD Act or any similar state or foreign law or regulation, and are not within various exemptions that may be available to Groupon under the CARD Act or under some of the various state or foreign jurisdictions, our liabilities with respect to unredeemed Groupons may be materially higher than the amounts shown in our financial statements and we may be subject to additional fines and penalties. In addition, if federal or state laws require that the face value of Groupons have a minimum expiration period beyond the period desired by a merchant for its promotional program, or no expiration period, this may affect the willingness of merchants to issue Groupons in jurisdictions where these laws apply.

If we are required to materially increase the estimated liability recorded in our financial statements with respect to unredeemed Groupons, our results from operations could be materially and adversely affected.

In certain states and foreign jurisdictions, Groupons may be considered a gift card. Some of these states and foreign jurisdictions include gift cards under their unclaimed and abandoned property laws which require companies to remit to the government the value of the unredeemed balance on the gift cards after a specified period of time (generally between one and five years) and impose certain reporting and record-keeping obligations. We do not remit any amounts relating to unredeemed Groupons based on our assessment of applicable laws. The analysis of the potential application of the unclaimed and abandoned property laws to Groupons is complex, involving an analysis of constitutional and statutory provisions and factual issues, including our relationship with customers and merchants and our role as it relates to the issuance and delivery of a Groupon. In the event that one or more states or foreign jurisdictions successfully challenges our position on the application of its unclaimed and abandoned property laws to Groupons, or if the estimates that we use in projecting the likelihood of Groupons being redeemed prove to be inaccurate, our liabilities with respect to unredeemed Groupons may be materially higher than the amounts shown in our financial statements. If we are required to materially increase the estimated liability recorded in our financial statements with respect to unredeemed gift cards, our net income could be materially and adversely affected. Moreover, a successful challenge to our position could subject us to penalties or interest on unreported and unremitted sums, and any such penalties or interest would have a further material adverse impact on our net income.

Government regulation of the Internet and e-commerce is evolving, and unfavorable changes or failure by us to comply with these regulations could substantially harm our business and results of operations.

We are subject to general business regulations and laws as well as regulations and laws specifically governing the Internet and e-commerce. Existing and future regulations and laws could impede the growth of the Internet or other online services. These regulations and laws may involve taxation, tariffs, subscriber privacy, anti-spam, data protection, content, copyrights, distribution, electronic contracts and other communications, consumer protection, the provision of online payment services and the characteristics and quality of services. It is not clear how existing laws governing issues such as property ownership, sales and other taxes, libel and personal privacy apply to the Internet as the vast majority of these laws were adopted prior to the advent of the Internet and do not contemplate or address the unique issues raised by the Internet or e-commerce. In addition, it is possible that governments of one or more countries may seek to censor content available on our websites and applications or may even attempt to completely block our emails or access to our websites. Adverse legal or regulatory developments could substantially harm our business. In particular, in the event that we are restricted, in whole or in part, from operating in one or more countries, our ability to retain or increase our customer base may be adversely affected and we may not be able to maintain or grow our revenue as anticipated.

New tax treatment of companies engaged in Internet commerce may adversely affect the commercial use of our services and our financial results.

Due to the global nature of the Internet, it is possible that various states or foreign countries might attempt to regulate our transmissions or levy sales, income or other taxes relating to our activities. Tax authorities at the international, federal, state and local levels are currently reviewing the appropriate treatment of companies engaged in Internet commerce. New or revised international, federal, state or local tax regulations may subject us or our customers to additional sales, income and other taxes. We cannot predict the effect of current attempts to impose sales, income or other taxes on commerce over the Internet. New or revised taxes and, in particular, sales taxes, VAT and similar taxes would likely increase the cost of doing business online and decrease the attractiveness of advertising and selling goods and services over the Internet. New taxes could also create significant increases in internal costs necessary to capture data, and collect and remit taxes. Any of these events could have an adverse effect on our business and results of operations.

Failure to comply with federal, state and international privacy laws and regulations, or the expansion of current or the enactment of new privacy laws or regulations, could adversely affect our business.

A variety of federal, state and international laws and regulations govern the collection, use, retention, sharing and security of consumer data. The existing privacy-related laws and regulations are evolving and subject to potentially differing interpretations. In addition, various federal, state and foreign legislative and regulatory bodies may expand current or enact new laws regarding privacy matters. For example, recently there have been Congressional hearings and increased attention to the capture and use of location-based information relating to users of smartphones and other mobile devices. We have posted privacy policies and practices concerning the collection, use and disclosure of subscriber data on our websites and applications. Several Internet companies have incurred substantial penalties for failing to abide by the representations made in their privacy policies and practices. In addition, several states have adopted legislation that requires businesses to implement and maintain reasonable security procedures and practices to protect sensitive personal information and to provide notice to consumers in the event of a security breach. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any data-related consent orders, Federal Trade Commission requirements or orders or other federal, state or international privacy or consumer protection-related laws, regulations or industry self-regulatory principles could result in claims, proceedings or actions against us by governmental entities or others or other liabilities, which could adversely affect our business. In addition, a failure or perceived failure to comply with industry standards or with our own privacy policies and practices could result in a loss of subscribers or merchants and adversely affect our business. Federal, state and international governmental authorities continue to evaluate the privacy implications inherent in the use of third party web "cookies" for behavioral advertising. The regulation of these cookies and other current online advertising practices could adversely affect our business.

We may suffer liability as a result of information retrieved from or transmitted over the Internet and claims related to our service offerings.

We may be, and in certain cases have been, sued for defamation, civil rights infringement, negligence, patent, copyright or trademark infringement, invasion of privacy, personal injury, product liability, breach of contract, unfair competition, discrimination, antitrust or other legal claims relating to information that is published or made available on our websites or service offerings we make available (including provision of an application programming interface platform for third parties to access our website, mobile device services and geolocation applications). This risk is enhanced in certain jurisdictions outside the United States, where our liability for such third party actions may be less clear and we may be less protected. In addition, we could incur significant costs in investigating and defending such claims, even if we ultimately are not found liable. If any of these events occurs, our net income could be materially and adversely affected.

We are subject to risks associated with information disseminated through our websites and applications, including consumer data, content that is produced by our editorial staff and errors or omissions related to our product offerings. Such information, whether accurate or inaccurate, may result in our being sued by our merchants, subscribers or third parties and as a result our revenue and goodwill could be materially and adversely affected.

We may not be able to adequately protect our intellectual property rights or may be accused of infringing intellectual property rights of third parties.

We regard our trademarks, service marks, copyrights, patents, trade dress, trade secrets, proprietary technology, merchant lists, subscriber lists, sales methodology and similar intellectual property as critical to our success, and we rely on trademark, copyright and patent law, trade secret protection and confidentiality and/or license agreements with our employees and others to protect our proprietary rights. Effective intellectual property protection may not be available in every country in which our deals are made available. We also may not be able to acquire or maintain appropriate domain names or trademarks in all countries in which we do business. Furthermore, regulations governing domain names may not protect our trademarks and similar proprietary rights. We may be unable to prevent third parties from acquiring and using domain names that are similar to, infringe upon or diminish the value of our trademarks and other proprietary rights. We may be unable to prevent third parties from using and registering our trademarks, or trademarks that are similar to, or diminish the value of, our trademarks in some countries.

We may not be able to discover or determine the extent of any unauthorized use of our proprietary rights. Third parties that license our intellectual property rights also may take actions that diminish the value of our proprietary rights or reputation. The protection of our intellectual property may require the expenditure of significant financial and managerial resources. Moreover, the steps we take to protect our intellectual property may not adequately protect our rights or prevent third parties from infringing or misappropriating our proprietary rights. We are currently subject to multiple lawsuits and disputes related to our intellectual property and service offerings. We may in the future be subject to additional litigation and disputes. The costs of engaging in such litigation and disputes are considerable, and there can be no assurances that favorable outcomes will be obtained.

We are currently subject to third party claims that we infringe their proprietary rights or trademarks and expect to be subject to additional claims in the future. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, injunctions against us or the payment of damages by us. We may need to obtain licenses from third parties who allege that we have infringed their rights, but such licenses may not be available on terms acceptable to us or at all. These risks have been amplified by the increase in third parties whose sole or primary business is to assert such claims.

Our business depends on a strong brand, and if we are not able to maintain and enhance our brand, or if we receive unfavorable media coverage, our ability to expand our base of customers and merchants will be impaired and our business and operating results will be harmed.

We believe that the brand identity that we have developed has significantly contributed to the success of our business. We also believe that maintaining and enhancing the "Groupon" brand is critical to expanding our base of customers and merchants. Maintaining and enhancing our brand may require us to make substantial investments and these investments may not be successful. If we fail to promote and maintain the "Groupon" brand, or if we incur excessive expenses in this effort, our business, operating results and financial condition will be materially and adversely affected. We anticipate that, as our market becomes increasingly competitive, maintaining and enhancing our brand may become increasingly difficult and expensive. Maintaining and enhancing our brand will depend largely on our ability to be a group buying leader and to continue to provide reliable, trustworthy and high quality deals, which we may not do successfully.

We receive a high degree of media coverage around the world. Unfavorable publicity or consumer perception of our websites, applications, practices or service offerings, or the offerings of our merchants, could adversely affect our reputation, resulting in difficulties in recruiting, decreased revenue and a negative impact on the number of merchants we feature and the size of our customer base, the loyalty of our customers and the number and variety of deals we offer each day. As a result, our business, financial condition and results of operations could be materially and adversely affected.

Acquisitions, joint ventures and strategic investments could result in operating difficulties, dilution and other consequences.

We have in the past acquired a number of companies, including Ticket Monster, which we acquired on January 2, 2014 for total consideration of $100.0 million cash and 13,825,283 shares of Class A common stock with an acquisition date fair value of $162.9 million, and Ideeli, which we acquired on January 13, 2014 for total cash consideration of $43.0 million. We expect to continue to evaluate, consider and potentially consummate a wide array of potential strategic transactions, including acquisitions and dispositions of businesses, joint ventures, technologies, services, products and other assets and minority investments. However, we may be unable to successfully complete potential acquisitions. Acquisitions involve significant risks and uncertainties, including uncertainties as to the future financial performance of the acquired business, difficulties integrating acquired personnel into our business, the potential loss of key employees, customers or suppliers, difficulties in integrating different computer and accounting systems and exposure to unknown or unforeseen liabilities of acquired companies. We may not realize the anticipated benefits of any or all of our acquisitions and investments, or we may not realize them in the time frame expected. In addition, the integration of an acquisition could divert management's time and the company's resources. If we pay for an acquisition or a minority investment in cash, it would reduce our cash available for operations or cause us to incur debt, and if we pay with our stock it could be dilutive to our stockholders. Additionally, we do not have the ability to exert control over our joint ventures and minority investments, and therefore we are dependent on others in order to realize their potential benefits.

Our business may be subject to seasonal sales fluctuations which could result in volatility or have an adverse effect on the market price of our Class A common stock.

Our business has been and may continue to be subject to sales seasonality. This seasonality may cause our working capital cash flow requirements to vary from quarter to quarter depending on the variability in the volume and timing of sales. For example, we experienced an $88.5 million increase in operating cash flow during the year ended December 31, 2013 as the result of an increase in accrued merchant and supplier payables, primarily due to the timing of payments to suppliers of merchandise and the seasonally high levels of Goods transactions in the fourth quarter of 2013. These factors, among other things, make forecasting more difficult and may adversely affect our ability to manage working capital and to predict financial results accurately, which could adversely affect the market price of our Class A common stock.

Failure to deal effectively with fraudulent transactions and customer disputes would increase our loss rate and harm our business.

Groupons are issued in the form of redeemable coupons with unique identifiers. It is possible that consumers or other third parties will seek to create counterfeit Groupons in order to fraudulently purchase discounted goods and services from our merchants. While we use advanced anti-fraud technologies, it is possible that criminals will attempt to circumvent our anti-fraud systems using increasingly sophisticated methods. In addition, our service could be subject to employee fraud or other internal security breaches, and we may be required to reimburse customers and/or merchants for any funds stolen or revenue lost as a result of such breaches. Our merchants could also request reimbursement, or stop using Groupon, if they are affected by buyer fraud or other types of fraud.

We may incur significant losses from fraud and counterfeit Groupons. We may incur losses from claims that the customer did not authorize the purchase, from merchant fraud, from erroneous transmissions, and from customers who have closed bank accounts or have insufficient funds in them to satisfy payments. In addition to the direct costs of such losses, if they are related to credit card transactions and become excessive, they could potentially result in our losing the right to accept credit cards for payment. If we were unable to accept credit cards for payment, we would suffer substantial reductions in revenue, which would cause our business to suffer. While we have taken measures to detect and reduce the risk of fraud, these measures need to be continually improved and may not be effective against new and continually evolving forms of fraud or in connection with new product offerings. If these measures do not succeed, our business will suffer.

We are subject to payments-related risks.

We accept payments using a variety of methods, including credit card, debit card and gift certificates. As we offer new payment options to customers, we may be subject to additional regulations, compliance requirements and fraud. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower profitability. We rely on third parties to provide payment processing services, including the processing of credit cards and debit cards and it could disrupt our business if these companies become unwilling or unable to provide these services to us. We are also subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from customers or facilitate other types of online payments, and our business and operating results could be adversely affected.

We are also subject to or voluntarily comply with a number of other laws and regulations relating to money laundering, international money transfers, privacy and information security and electronic fund transfers. If we were found to be in violation of applicable laws or regulations, we could be subject to civil and criminal penalties or forced to cease our payments services business. In addition, events affecting our third party payment processors, including cyber-attacks, Internet or other infrastructure or communications impairment or other events that could interrupt the normal operation of our payment processors, could have a material adverse effect on our business.

Federal laws and regulations, such as the Bank Secrecy Act and the USA PATRIOT Act and similar foreign laws, could be expanded to include Groupons.

Various federal laws, such as the Bank Secrecy Act and the USA PATRIOT Act and foreign laws and regulations, such as the European Directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing, impose certain anti-money laundering requirements on companies that are financial institutions or that provide financial products and services. For these purposes, financial institutions are broadly defined to include money services businesses such as money transmitters, check cashers and sellers or issuers of stored value cards. Examples of anti-money laundering requirements imposed on financial institutions include subscriber identification and verification programs, record retention policies and procedures and transaction reporting. We do not believe that we are a financial institution subject to these laws and regulations based, in part, upon the characteristics of Groupons and our role with respect to the distribution of Groupons to subscribers. However, the Financial Crimes Enforcement Network, a division of the U.S. Treasury Department tasked with implementing the requirements of the Bank Secrecy Act, recently proposed amendments to the scope and requirements for parties involved in stored value or prepaid access cards, including a proposed expansion of financial institutions to include sellers or issuers of prepaid access cards. In the event that this proposal is adopted as proposed, it is possible that a Groupon could be considered a financial product and that we could be a financial institution. In the event that we become subject to the requirements of the Bank Secrecy Act or any other anti-money laundering law or regulation imposing obligations on us as a money services business, our regulatory compliance costs to meet these obligations would likely increase which could reduce our net income.

State and foreign laws regulating money transmission could be expanded to include Groupons.

Many states and certain foreign jurisdictions impose license and registration obligations on those companies engaged in the business of money transmission, with varying definitions of what constitutes money transmission. We do not currently believe we are a money transmitter given our role and the product terms of Groupons. However, a successful challenge to our position or expansion of state or foreign laws could subject us to increased compliance costs and delay our ability to offer Groupons in certain jurisdictions pending receipt of any necessary licenses or registrations.

We will continue to incur significant costs as a result of being a public company.

We face increased legal, accounting, administrative and other costs and expenses as a public company that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, including the requirements of Section 404, as well as new rules and regulations subsequently implemented by the Securities and Exchange Commission, or the SEC, the Public Company Accounting Oversight Board and the marketplace rules of the NASDAQ stock market, impose additional reporting and other obligations on public companies. Compliance with these public company requirements has increased our costs and made some activities more time-consuming. In connection with the preparation of our financial statements for the year ended December 31, 2011, our independent registered public accounting firm identified a material weakness in the design and operating effectiveness of our internal control over financial reporting, and as a result we incurred additional costs remediating this material weakness. In addition, the existence of this issue could adversely affect us, our reputation or investor perceptions of us. It also may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers. Advocacy efforts by stockholders and third-parties may also prompt changes in corporate governance and reporting requirements. The additional reporting and other obligations imposed on us by these rules and regulations has increased our legal and financial compliance costs and the costs of our related legal, accounting and administrative activities significantly. These increased costs require us to divert a significant amount of money that we could otherwise use to expand our business and achieve our strategic objectives.

Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from growing.

We may in the future be required to raise capital through public or private financing or other arrangements. Such financing may not be available on acceptable terms, or at all, and our failure to raise capital when needed could harm our business. Additional equity financing may dilute the interests of our common stockholders, and debt financing, if available, may involve restrictive covenants and could reduce our profitability. If we cannot raise funds on acceptable terms, we may not be able to grow our business or respond to competitive pressures.

Risks Related to Ownership of Our Class A Common Stock

The trading price of our Class A common stock is highly volatile

Our Class A common stock began trading on the NASDAQ Global Select Market on November 4, 2011 and since that date has fluctuated from a high of $31.14 per share to a low of $2.60 per share. We expect that the trading price of our stock will continue to be volatile due to variations in our operating results and also may change in response to other factors, including factors specific to technology and Internet commerce companies, many of which are beyond our control. Among the factors that could affect our stock price are:

- our financial results;
- any financial projections that we may choose to provide to the public, any changes in these projections or our failure for any reason to meet these projections or projections made by research analysts;
- the amount of shares of our Class A common stock that are available for sale;
- the relative success of competitive products or services;
- the public's response to press releases or other public announcements by us or others, including our filings with the SEC and announcements relating to litigation;
- speculation about our business in the press or the investment community;
- future sales of our Class A common stock by our significant stockholders, officers and directors;
- announcements about our share repurchase program and sales under the program;
- changes in our capital structure, such as future issuances of debt or equity securities;
- our entry into new markets;
- regulatory developments in the United States or foreign countries;
- strategic actions by us or our competitors, such as acquisitions, joint ventures or restructuring; and
- changes in accounting principles.

We expect the stock price volatility to continue for the foreseeable future as a result of these and other factors.

Purchases of shares of our Class A common stock pursuant to our stock repurchase program may affect the value of our Class A common stock.

Pursuant to our publicly announced share repurchase program, we are authorized to repurchase up to $300 million of our outstanding Class A common stock through August 2015. The timing and amount of any share repurchases will be determined based on market conditions, share price and other factors. This activity could increase (or reduce the size of any decrease in) the market price of our Class A common stock at that time.

The concentration of our capital stock ownership with our founders, executive officers, employees and directors and their affiliates will limit stockholders' ability to influence corporate matters.

Our Class B common stock has 150 votes per share and our Class A common stock has one vote per share. As of February 18, 2014, our founders, Eric Lefkofsky, Bradley Keywell and Andrew Mason control 100% of our outstanding Class B common stock and, based on information available to us, approximately 24.3% of our outstanding Class A common stock, representing approximately 50.3% of the voting power of our outstanding capital stock. Messrs. Lefkofsky, Keywell and Mason will therefore have significant influence over management and affairs and over all matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets, for the foreseeable future. This concentrated control will limit stockholders' ability to influence corporate matters and, as a result, we may take actions that our stockholders do not view as beneficial. As a result, the market price of our Class A common stock could be adversely affected.

We do not intend to pay dividends for the foreseeable future.

We intend to retain all of our earnings for the foreseeable future to finance the operation and expansion of our business and do not anticipate paying cash dividends. As a result, stockholders can expect to receive a return on their investment in our Class A common stock only if the market price of the stock increases.

Provisions in our charter documents and under Delaware law could discourage a takeover that stockholders may consider favorable.

Provisions in our certificate of incorporation and bylaws, as amended and restated upon the closing of this offering, may have the effect of delaying or preventing a change of control or changes in our management. These provisions include the following:

- Our certificate of incorporation provides for a dual class common stock structure. As a result of this structure, our founders will have significant influence over all matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets. This concentrated control could discourage others from initiating any potential merger, takeover or other change of control transaction that other stockholders may view as beneficial.
- Our board of directors has the right to elect directors to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors.
- Special meetings of our stockholders may be called only by our Executive Chairman of the Board, our Chief Executive Officer, our board of directors or holders of not less than the majority of our issued and outstanding capital stock. This limits the ability of minority stockholders to take certain actions without an annual meeting of stockholders.
- Our stockholders may not act by written consent unless the action to be effected and the taking of such action by written consent is approved in advance by our board of directors. As a result, a holder, or holders, controlling a majority of our capital stock would generally not be able to take certain actions without holding a stockholders' meeting.
- Our certificate of incorporation prohibits cumulative voting in the election of directors. This limits the ability of minority stockholders to elect director candidates.
- Stockholders must provide timely notice to nominate individuals for election to the board of directors or to propose matters that can be acted upon an annual meeting of stockholders. These provisions may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of our company.
- Our board of directors may issue, without stockholder approval, shares of undesignated preferred stock. The ability to authorize undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us.

ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

ITEM 2: PROPERTIES

As of December 31, 2013, the Company had leases for approximately 1.5 million square feet of space. Our corporate headquarters and principal executive offices in North America are located in Chicago, Illinois, and our principal international executive offices are located in Schaffhausen, Switzerland. Other properties are located throughout the world and largely represent local operating facilities. We believe that our properties are in good condition and meet the needs of our business, and that suitable additional or alternative space will be available as needed to accommodate our business operations and future growth.

Description of Use	Segment	Square Feet	Various lease expirations through
Corporate offices	North America	405,000	April 2019
Corporate offices	EMEA	440,000	September 2023
Corporate offices	Rest of World	335,000	June 2018
Fulfillment and data centers	North America	190,000	August 2018
Fulfillment and data centers	EMEA	16,000	February 2017
Fulfillment and data centers	Rest of World	70,000	June 2016

ITEM 3: LEGAL PROCEEDINGS

For a description of our material pending legal proceedings, please see Note 8 "Commitments and Contingencies" to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Class A common stock has been listed on the NASDAQ Global Select Market under the symbol "GRPN" since November 4, 2011. Prior to that time, there was no public market for our Class A common stock. The following table sets forth the high and low intraday sales price for our Class A common stock as reported by the NASDAQ Global Select Market for each of the years listed.

2011	High	Low
Fourth Quarter (from November 4, 2011)	$31.14	$14.85
2012	High	Low
First Quarter	$25.84	$16.25
Second Quarter	$16.57	$8.80
Third Quarter	$10.50	$4.00
Fourth Quarter	$5.50	$2.60
2013	High	Low
First Quarter	$6.36	$4.24
Second Quarter	$8.69	$5.37
Third Quarter	$12.76	$8.26
Fourth Quarter	$12.31	$8.40
2014	High	Low
First Quarter (through February 18, 2014)	$12.42	$9.90

Holders

As of February 18, 2014, there were 152 holders of record of our Class A common stock and 3 holders of record of our Class B common stock. Each share of our Class A common stock is entitled to one vote per share. Each share of our Class B common stock is entitled to 150 votes per share and is convertible at any time into one share of Class A common stock.

Dividend Policy

We currently do not anticipate paying dividends on our Class A common stock or Class B common stock in the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our board of directors, subject to applicable laws and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors may deem relevant.

Equity Compensation Plan Information

Information about the securities authorized for issuance under our compensation plans is incorporated by reference from the Company's Proxy Statement for the 2014 Annual Meeting of Stockholders.

Recent Sales of Unregistered Securities

During the three months ended December 31, 2013, we issued 127,601 shares of Class A common stock to settle liability-classified stock-based compensation awards.

These issuances of shares of Class A common stock were exempt from registration under the Securities Act of 1933 in reliance upon Section 4(2) or Regulation D of the Securities Act of 1933 as transactions by an issuer not involving any public offering. The stockholders who received shares of our Class A common stock made representations to us as to their accredited investor status and as to their investment intent and financial sophistication. Appropriate legends were placed upon any book-entry entitlements issued with respect to such shares of Class A common stock.

Issuer Purchases of Equity Securities

In August 2013, our Board of Directors authorized a share repurchase program. Under the program, we are authorized to repurchase up to $300 million of our outstanding Class A common stock through August 2015. The timing and amount of any share repurchases will be determined based on market conditions, share price and other factors, and the program may be discontinued or suspended at any time. We will fund the repurchases through cash on hand and future cash flow. Repurchases will be made in compliance with SEC rules and other legal requirements and may be made in part under a Rule 10b5-1 plan, which permits stock repurchases when the Company might otherwise be precluded from doing so.

During the three months ended December 31, 2013, we purchased 3,661,900 shares of Class A common stock for an aggregate purchase price of $37.6 million (including fees and commissions) under the share repurchase program. A summary of our Class A common stock repurchases during the three months ended December 31, 2013 under the repurchase program is set forth in the following table:

Date	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under Program
October 1-31, 2013	1,293,700	$10.47	1,293,700	$277,000,000
November 1-30, 2013	1,204,200	$9.84	1,204,200	$265,000,000
December 1-31, 2013	1,164,000	$10.46	1,164,000	$253,000,000
Total	3,661,900	$10.26	3,661,900	$253,000,000

Stock Performance Graph

This performance graph shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or incorporated by reference into any filing of Groupon, Inc. under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

The graph set forth below compares the cumulative total return on the common stock with the cumulative total return of the Nasdaq Composite Index and the Nasdaq 100 Index, resulting from an initial investment of $100 in each and assuming the reinvestment of any dividends, based on closing prices. Measurement points are Groupon's initial public offering date of November 4, 2011 and the last trading day of each quarterly period throughout 2012 and 2013.

Source: Yahoo! Finance

ITEM 6: SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and the accompanying notes thereto in Item 8 of this Annual Report on Form 10-K, and the information contained in Item 7 of this Annual Report on Form 10-K "Management's Discussion and Analysis of Financial Condition and Results of Operations." Historical results are not necessarily indicative of future results.

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands, except share and per share amounts)				
Consolidated Statements of Operations Data:					
Revenue:					
Third party and other	$1,654,654	$1,879,729	$1,589,604	$312,941	$14,540
Direct	919,001	454,743	20,826	—	—
Total revenue	2,573,655	2,334,472	1,610,430	312,941	14,540
Cost of revenue:					
Third party and other	232,062	297,739	243,789	42,896	4,716
Direct	840,060	421,201	15,090	—	—
Total cost of revenue	1,072,122	718,940	258,879	42,896	4,716
Gross profit	1,501,533	1,615,532	1,351,551	270,045	9,824
Operating expenses:					
Marketing	214,824	336,854	768,472	290,569	5,053
Selling, general and administrative	1,210,966	1,179,080	821,002	196,637	5,848
Acquisition-related (benefit) expense, net	(11)	897	(4,537)	203,183	—
Total operating expenses	1,425,779	1,516,831	1,584,937	690,389	10,901
Income (loss) from operations	75,754	98,701	(233,386)	(420,344)	(1,077)
Loss on equity method investments	(44)	(9,925)	(26,652)	—	—
Other (expense) income, net	(94,619)	6,166	5,973	284	(16)
(Loss) income before provision for income taxes	(18,909)	94,942	(254,065)	(420,060)	(1,093)
Provision (benefit) for income taxes	70,037	145,973	43,697	(6,674)	248
Net loss	(88,946)	(51,031)	(297,762)	(413,386)	(1,341)
Net (income) loss attributable to noncontrolling interests	(6,447)	(3,742)	18,335	23,746	—
Net loss attributable to Groupon, Inc.	(95,393)	(54,773)	(279,427)	(389,640)	(1,341)
Dividends on preferred stock	—	—	—	(1,362)	(5,575)
Redemption of preferred stock in excess of carrying value	—	—	(34,327)	(52,893)	—
Adjustment of redeemable noncontrolling interests to redemption value	—	(12,604)	(59,740)	(12,425)	—
Net loss attributable to common stockholders	$(95,393)	$(67,377)	$(373,494)	$(456,320)	$(6,916)
Net loss per share					
Basic	$(0.14)	$(0.10)	$(1.03)	$(1.33)	$(0.02)
Diluted	$(0.14)	$(0.10)	$(1.03)	$(1.33)	$(0.02)
Weighted average number of shares outstanding					
Basic	663,910,194	650,214,119	362,261,324	342,698,772	337,208,284
Diluted	663,910,194	650,214,119	362,261,324	342,698,772	337,208,284

	As of December 31,				
	2013	2012	2011	2010	2009
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$1,240,472	$1,209,289	$1,122,935	$118,833	$12,313
Working capital (deficit)	$374,720	$319,345	$328,165	$(196,564)	$3,988
Total assets	$2,042,010	$2,031,474	$1,774,476	$381,570	$14,962
Total long-term liabilities	$142,550	$120,932	$78,194	$1,621	$—
Redeemable preferred stock	$—	$—	$—	$—	$34,712
Cash dividends per common share	$—	$—	$—	$—	$0.063
Total Groupon, Inc. Stockholders' Equity (Deficit)	$713,651	$744,040	$702,541	$8,077	$(29,969)

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ITEM 7: 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 consolidated financial statements and related notes included under Item 8 of this Annual Report on Form 10-K. 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 Annual Report.

Overview

Groupon operates online local commerce marketplaces throughout the world that connect merchants to consumers by offering goods and services at a discount. Traditionally, local merchants have tried to reach consumers and generate sales through a variety of methods, including online advertising, the yellow pages, direct mail, newspaper, radio, television, and 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.

Current and potential customers are able to access our deal offerings directly through our websites and mobile applications. We also send emails to our subscribers each day with deal offerings that are targeted by location and personal preferences. We offer deals in three primary categories: Local Deals ("Local"), Groupon Goods ("Goods") and Groupon Getaways ("Travel"). In our Goods category, through which we offer deals on merchandise, we often act as the merchant of record, particularly for deals in North America and for deals in EMEA beginning in September 2013. Our revenue from deals where we act as the third party marketing agent is the purchase price paid by the customer for a Groupon voucher ("Groupon") less an agreed upon portion of the purchase price paid to the featured merchants, excluding applicable taxes and net of estimated refunds for which the merchant's share is recoverable. Our direct revenue from deals where we act as the merchant of record is the purchase price paid by the customer excluding applicable taxes and net of estimated refunds. We generated revenue of $2,573.7 million during the year ended December 31, 2013, as compared to $2,334.5 million during the year ended December 31, 2012.

Our operations are organized into three principal segments: North America, EMEA, which is comprised of Europe, Middle East and Africa, and the remainder of the Company's international operations ("Rest of World"). During the second quarter of 2013, the Company changed the composition of its operating segments to separate its former International segment between EMEA and Rest of World. See Note 15 "Segment Information" for further information. For the year ended December 31, 2013, we derived 59.1% of our revenue from our North America segment, 28.9% of our revenue from our EMEA segment and 12.0% of our revenue from our Rest of World segment.

We have an accumulated deficit of $848.9 million as of December 31, 2013. Since our inception, we have driven our growth through substantial investments in infrastructure and marketing to increase subscriber acquisition. In particular, our significant net losses in previous years were driven in part by the rapid expansion of our EMEA and Rest of World segments, which involved investing heavily in upfront marketing, sales and infrastructure related to the build out of our operations in early stage countries.

On January 2, 2014, we acquired LivingSocial Korea, Inc., including its subsidiary Ticket Monster Inc. ("Ticket Monster"), for total consideration of $100.0 million cash and 13,825,283 shares of Class A common stock with an acquisition date fair value of $162.9 million. Ticket Monster is an e-commerce company based in the Republic of Korea that connects merchants to consumers by offering goods and services at a discount. The operations of Ticket Monster will be reported within our Rest of World segment beginning in 2014. On January 13, 2014, we acquired Ideeli, Inc. ("Ideeli"), a fashion flash site based in the United States. Ideeli is focused on women's fashion apparel, accessories and home décor, and the operations of Ideeli will be reported within our North America segment beginning in 2014. We expect that these acquisitions will increase both our revenue and net loss in 2014. We expect to incur incremental costs related to the consolidation of our existing Korean operations with Ticket Monster in the first quarter 2014. Additionally, we plan to increase marketing expenditures in the near term for Ticket Monster and Ideeli in connection with our efforts to drive growth in those operations.

How We Measure Our Business

We measure our business with several financial and operating metrics. We use these metrics to assess the progress of our business, make decisions on where to allocate capital, time and technology investments and assess the long-term performance of our marketplaces. Certain of the financial metrics are reported in accordance with U.S. generally accepted accounting principles

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("U.S. GAAP") and certain of these metrics are considered non-GAAP financial measures. As our business evolves, we may make changes to our key financial and operating metrics used to measure our business in future periods. For further information and a reconciliation to the most applicable financial measure under U.S. GAAP, refer to our discussion under Non-GAAP Financial Measures in the "Results of Operations" section.

Financial Metrics

- Gross billings. This metric represents the total dollar value of customer purchases of goods and services, excluding applicable taxes and net of estimated refunds. For third party revenue deals, gross billings differs from third party revenue reported in our consolidated statements of operations, which is presented net of the merchant's share of the transaction price. For direct revenue deals, gross billings are equivalent to direct revenue reported in our consolidated statements of operations. We consider this metric to be an important indicator of our growth and business performance as it is a proxy for the dollar volume of transactions generated through our marketplaces. Tracking gross billings on third party revenue deals also allows us to track changes in the percentage of gross billings that we are able to retain after payments to our merchants.
- Revenue. Third party revenue is derived from deals where we act as the marketing agent and is the purchase price paid by the customer less an agreed upon portion of the purchase price paid to the featured merchant, excluding applicable taxes and net of estimated refunds for which the merchant's share is recoverable. Direct revenue, when the Company is selling the product as the merchant of record, is the purchase price paid by the customer, excluding applicable taxes and net of estimated refunds.
- Gross profit. Gross profit reflects the net margin earned after deducting our cost of revenue from our revenue. Due to the lack of comparability between third party revenue, which is presented net of the merchant's share of the transaction price, and direct revenue, which is reported on a gross basis, we believe that gross profit is an important measure for evaluating our performance.
- Operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net. Operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net is a non-GAAP financial measure that comprises the consolidated total of the segment operating income (loss) of our three segments, North America, EMEA and Rest of World. Stock based compensation expense and acquisition related expense (benefit), net are excluded from segment operating income (loss) that we report under U.S. GAAP for our segments. Stock-based compensation expense is primarily a non-cash item. Acquisition-related expense (benefit), net is comprised of the change in the fair value of contingent consideration arrangements and, beginning in 2013, also includes external transaction costs related to business combinations, primarily consisting of legal and advisory fees. We have used consolidated operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net to allocate resources and evaluate performance internally. However, in recent periods, our management and Board of Directors have increasingly focused on Adjusted EBITDA, described below, as the primary non-GAAP measure for evaluating our consolidated operating results. Accordingly, we do not expect to continue to report Operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net on a consolidated basis in future periods. For further information and a reconciliation to the most applicable financial measure under U.S. GAAP, refer to our discussion under Non-GAAP Financial Measures in the "Results of Operations" section.
- Adjusted EBITDA. Adjusted EBITDA is a non-GAAP financial measure that comprises net income (loss) excluding income taxes, interest and other non-operating items, depreciation and amortization, stock-based compensation and acquisition-related expense (benefit), net. Adjusted EBITDA is similar to Operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net, except Adjusted EBITDA also excludes depreciation and amortization. We exclude depreciation and amortization because it is non-cash in nature, and we believe that non-GAAP financial measures excluding these items provide meaningful supplemental information about our operating performance and liquidity. Our definition of Adjusted EBITDA may differ from similar measures used by other companies, even when similar terms are used to identify such measures. We believe that Adjusted EBITDA is a meaningful measure for evaluating our operating performance. For further information and a reconciliation to the most applicable financial measure under U.S. GAAP, refer to our discussion under Non-GAAP Financial Measures in the "Results of Operations" section.
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Free cash flow. Free cash flow is a non-GAAP financial measure that comprises net cash provided by operating activities less purchases of property and equipment and capitalized software. We use free cash flow, and ratios based on it, to conduct and evaluate our business because, although it is similar to cash flow from operations, we believe that it typically represents a more useful measure of cash flows because purchases of fixed assets, software developed for internal-use and website development costs are necessary components of our ongoing operations. Free cash flow is not intended to represent the total increase or decrease in Groupon's cash balance for the applicable period. For further information and a reconciliation to the most applicable financial measure under U.S. GAAP, refer to our discussion under Non-GAAP Financial Measures in the "Results of Operations" section.

The following table presents the above Financial Metrics for the years ended December 31, 2013, 2012, and 2011:

	Year Ended December 31,		
	2013	2012	2011
Gross billings	$5,757,330	$5,380,184	$3,985,501
Revenue	2,573,655	2,334,472	1,610,430
Gross profit	1,501,533	1,615,532	1,351,551
Operating income (loss) excluding stock-based compensation and acquisition-related (benefit) expense, net	197,205	203,715	(144,333)
Adjusted EBITDA	286,654	259,516	(112,278)
Free cash flow	154,927	170,998	246,636

Operating Metrics

- Active customers. We define active customers as unique user accounts that have purchased a voucher or product from us during the trailing twelve months. 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 deals is trending.
- Gross billings per average active customer. This metric represents the trailing twelve months gross billings generated per average active customer. This metric is calculated as the total gross billings generated in the trailing twelve months, divided by the average number of active customers in such time period. Although we believe total gross billings, not trailing twelve months gross billings per average active customer, is a better indication of the overall growth of our marketplaces over time, trailing twelve months gross billings per average active customer provides an opportunity to evaluate whether our growth is primarily driven by growth in total customers or in spend per customer in any given period.
- Units. This metric represents the number of vouchers and products purchased from us by our customers, before refunds and cancellations. We consider unit growth to be an important indicator of the total volume of business conducted through our marketplaces.

Our Active customers and Gross billings per average active customer for the trailing twelve months ("TTM") ended December 31, 2013, 2012 and 2011 were as follows:

	Trailing twelve months ended December 31,		
	2013	2012	2011
TTM Active customers (in thousands)	44,877	41,049	33,742
TTM Gross billings per average active customer	$134.01	$143.88	$186.75

Our Units for the years ended December 31, 2013, 2012 and 2011 were as follows:

	Year Ended December 31,		
	2013	2012	2011
Units (in thousands)	193,426	176,079	141,859

Factors Affecting Our Performance

Deal sourcing and quality. We consider our merchant relationships to be a vital part of our business model and have made significant investments in order to expand the variety of tools that we can provide to our merchants. We depend on our

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ability to attract and retain merchants that are prepared to offer products or services on compelling terms, particularly as we attempt to expand our product and service offerings in order to create more complete online marketplaces for local commerce. In North America and many of our foreign markets, we offer deals in which the merchant has a continuous presence on our websites and mobile applications by offering vouchers on an ongoing basis for an extended period of time. Currently, a substantial majority of our merchants in North America elect to offer deals in this manner, and we expect that trend to continue. These marketplaces, which we refer to as "pull," enable customers to search for specific types of deals (e.g., steakhouse, pizza, massage, nail salon, golf lessons, yoga) on our websites and mobile applications. However, merchants have the ability to withdraw their extended deal offerings and we generally do not have noncancelable long-term arrangements to guarantee availability of deals. In order to attract merchants that may not have run deals on our platform or would have run deals on a competing platform, we are periodically willing to accept lower deal margins across all three of our segments. This has contributed to lower deal margins during the year ended December 31, 2013, as compared to the prior year periods. If new merchants do not find our marketing and promotional services effective, or if our existing merchants do not believe that utilizing our services provides them with a long-term increase in customers, revenue or profit, they may stop making offers through our marketplaces or they may only continue offering deals if we accept lower margins.

International operations. Our international operations are critical to our revenue growth and our ability to achieve and maintain profitability. For the years ended December 31, 2013, 2012 and 2011, 28.9%, 34.5% and 44.7% of our revenue was generated from our EMEA segment, respectively, and 12.0%, 15.6% and 15.9% of our revenue was generated from our Rest of World segment, respectively. With the acquisition of Ticket Monster on January 2, 2014, we expect the percentage of revenue generated by our Rest of World segment to increase in future periods. Operating a global business requires management attention and resources and requires us to localize our services to conform to a wide variety of local cultures, business practices, laws and regulations. The different commercial and regulatory environments in other countries may make it more difficult for us to successfully operate our business. In addition, many of the automation tools that we have implemented in our North America segment are close to being fully implemented in most EMEA countries but have not yet been substantially rolled out to the countries in our Rest of World segment. Revenue declined in our EMEA and Rest of World segments for the year ended December 31, 2013, as compared to the prior year, which contributed to the reductions in the percentage of our total revenue generated by those segments. Additionally, the increase in direct revenue transactions from our Groupon Goods business in North America contributed to the increase in North America revenue as a percentage of our total revenue during the year ended December 31, 2013, as compared to the prior year periods, as direct revenue is presented on a gross basis in our consolidated statements of operations.

Marketing activities. We must continue to acquire and retain customers in order to increase revenue and achieve profitability. If consumers do not perceive our Groupon offerings to be attractive, or if we fail to introduce new or more relevant deals, we may not be able to acquire or retain customers. In addition, as we build out more complete marketplaces, our success will depend on our ability to offer consumers the deals that they are most likely to purchase on our websites, through our mobile applications and through targeted emails. As discussed under "Components of Results of Operations," we consider order discounts, free shipping on merchandise sales and reducing margins on our deals to be marketing-related activities, even though these activities are not presented as marketing expenses in our consolidated statements of operations. We have, and expect to continue to, reduce our deal margins when we believe that by doing so we can offer our customers a product or service from a merchant who might not have otherwise been willing to conduct business through our marketplaces. We use this as a marketing tool because we believe that in some instances this is an effective means of retaining or activating a customer, as compared to other methods of retention or activation, such as traditional advertising or discounts.

Investment in growth. We have aggressively invested, and intend to continue to invest, in our products and infrastructure to support our growth. We anticipate that we will make substantial investments in the foreseeable future as we continue to increase the number and variety of deals we offer each day, broaden our customer base, expand our marketing channels, expand our operations, hire additional employees and develop our technology. For example, we are developing a suite of merchant products, such as payment processing and point of sale, which require substantial investment, and these products do not currently generate a significant amount of revenue. Additionally, we believe that our efforts to automate our internal processes through investments in technology should allow us to improve our cost structure over time, as we are able to more efficiently run our business and minimize manual processes.

Competitive pressure. A substantial number of companies that attempt to replicate our business model have emerged around the world. In addition to such competitors, we expect to increasingly compete against other large Internet and technology based businesses that have launched initiatives which are directly competitive to our core business as well as our other categories and our suite of merchant products, such as payment processing and point of sale. We also expect to compete against other Internet sites that are focused on specific communities or interests and offer coupons or discount arrangements related to such communities or interests. The margins on deals in our Local category, measured as the percentage of billings that we retain after deducting the merchant's share, declined sequentially during the quarter ended December 31, 2013, as compared to the quarter ended September 30, 2013, as well as during the year ended December 31, 2013, as compared to the year ended December 31,

2012. Increased competition in the future may cause us to continue to lower our margins on Local deals.

Components of Results of Operations

Third Party and Other Revenue

Third party revenue arises from transactions in which we are acting as a third party marketing agent and consists of the net amount we retain from the sale of Groupons after paying an agreed upon portion of the purchase price to the featured merchant, excluding applicable taxes and net of estimated refunds for which the merchant's share is recoverable. Other revenue primarily consists of advertising revenue, payment processing revenue, point of sale revenue, reservation revenue and commission revenue.

Direct Revenue

Direct revenue arises from transactions, primarily in our Goods category, in which we are the merchant of record and consists of the gross amount we receive from the customer, excluding applicable taxes and net of estimated refunds.

Cost of Revenue

Cost of revenue is comprised of direct and certain indirect costs incurred to generate revenue. For direct revenue transactions, cost of revenue 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 own fulfillment center, which began operations in the fourth quarter of 2013. For third party revenue transactions, cost of revenue includes estimated refunds for which the merchant's share is not recoverable. Other costs incurred to generate revenue, which include credit card processing fees, editorial costs, certain technology costs, web hosting, and other processing fees, are allocated to cost of third party revenue, direct revenue and other revenue in proportion to gross billings during the period.

Technology costs within cost of revenue include the payroll and stock based compensation expense related to the Company's technology support personnel who are responsible for operating and maintaining the infrastructure of the Company's existing website. Technology costs also include a portion of amortization expense from internal-use software, primarily related to website development. Remaining technology costs within cost of revenue include email distribution costs. Editorial costs included in cost of revenue consist of payroll and stock based compensation expense related to the Company's editorial personnel, as these staff members are primarily dedicated to drafting and promoting deals.

Marketing

Marketing expense consists primarily of targeted online marketing costs, such as sponsored search, advertising on social networking sites, email marketing campaigns, affiliate programs and, to a lesser extent, offline marketing costs such as television, radio and print advertising. Additionally, marketing payroll and stock based compensation expense are classified as marketing expense. We record these costs within "Marketing" on the consolidated statements of operations when incurred. From time to time, we offer deals with well-known national merchants for subscriber acquisition and customer activation purposes, for which the amount we owe the merchant for each voucher sold exceeds the transaction price paid by the customer. Our gross billings from those transactions generate no third party revenue and our net cost (i.e., the excess of the amount owed to the merchant over the amount paid by the customer) is classified as marketing expense. Our marketing activities also include elements that are not presented as "Marketing" on our consolidated statements of operations, such as order discounts, free shipping on merchandise sales and accepting lower margins on our deals. Marketing is the primary method by which we acquire customers and, as such, is a critical part of our growth strategy.

Selling, General and Administrative

Selling expenses reported within "Selling, general and administrative" on the consolidated statements of operations consist of payroll, stock-based compensation expense and sales commissions for sales representatives, as well as costs associated with supporting the sales function such as technology, telecommunications and travel. General and administrative expenses consist of payroll and stock-based compensation expense for employees involved in general corporate functions, including accounting, finance, tax, legal and human resources, among others. Additional costs included in general and administrative include customer service and operations, depreciation and amortization, rent, professional fees, litigation costs, travel and entertainment, charitable contributions, recruiting, office supplies, maintenance, certain technology costs and other general corporate costs.

Acquisition Related

Acquisition-related (benefit) expense, net includes the change in the fair value of contingent consideration arrangements related to business combinations. See Note 13 "Fair Value Measurements." For the year ended December 31, 2013, acquisition-related (benefit) expense, net also includes external transaction costs related to business combinations, primarily consisting of legal and advisory fees. Such costs were not material for the years ended December 31, 2012 and 2011.

Other (Expense) Income, Net

Other (expense) income, net includes interest income on our cash and cash equivalents, interest expense on capital leases and foreign currency transaction gains and losses, primarily resulting from intercompany balances related to our foreign subsidiaries that are denominated in currencies other than their functional currencies. During the year ended December 31, 2013, other expense, net included an $85.5 million impairment of our investments in Life Media Limited ("F-tuan"). During the year ended December 31, 2012, other income, net included a $56.0 million gain resulting from the E-Commerce transaction and a $50.6 million impairment of our investments in F-tuan. The impairments of our investments in F-tuan and the gain on the E-Commerce transaction are described in Note 6 "Investments."

Results of Operations
Comparison of the Years Ended December 31, 2013 and 2012:

	Year Ended December 31,	
	2013	2012
	(in thousands)	
Revenue:		
Third party and other	$1,654,654	$1,879,729
Direct	919,001	454,743
Total revenue	2,573,655	2,334,472
Cost of revenue:		
Third party and other	232,062	297,739
Direct	840,060	421,201
Total cost of revenue	1,072,122	718,940
Gross profit	1,501,533	1,615,532
Operating expenses:		
Marketing	214,824	336,854
Selling, general and administrative	1,210,966	1,179,080
Acquisition-related (benefit) expense, net	(11)	897
Total operating expenses	1,425,779	1,516,831
Income from operations	75,754	98,701
Loss on equity method investments	(44)	(9,925)
Other (expense) income, net	(94,619)	6,166
(Loss) income before provision for income taxes	(18,909)	94,942
Provision for income taxes	70,037	145,973
Net loss	(88,946)	(51,031)
Net income attributable to noncontrolling interests	(6,447)	(3,742)
Net loss attributable to Groupon, Inc.	(95,393)	(54,773)
Adjustment of redeemable noncontrolling interests to redemption value	—	(12,604)
Net loss attributable to common stockholders	$(95,393)	$(67,377)

Classification of stock-based compensation within cost of revenue and operating expenses

Cost of revenue and operating expenses include stock-based compensation as follows:

	Year Ended December 31,			
	2013		2012	
	Statement of Operations line item	Stock-based compensation included in line item	Statement of Operations line item	Stock-based compensation included in line item
	(in thousands)			
Total cost of revenue	$1,072,122	$1,982	$718,940	$2,928
Operating expenses:				
Marketing	$214,824	$9,677	$336,854	$3,570
Selling, general and administrative	1,210,966	109,803	1,179,080	97,619
Acquisition-related (benefit) expense, net	(11)	—	897	—
Total operating expenses	$1,425,779	$119,480	$1,516,831	$101,189

Foreign exchange rate neutral operating results

The effect on our gross billings, revenue, cost of revenue and operating expenses, and income from operations for the year ended December 31, 2013 from changes in exchange rates versus the U.S. dollar was as follows:

	Year Ended December 31, 2013		
	At Avg. 2012 Rates [1]	Exchange Rate Effect [2]	As Reported
	(in thousands)		
Gross billings	$5,797,599	$(40,269)	$5,757,330
Revenue	$2,585,376	$(11,721)	$2,573,655
Cost of revenue and operating expenses	2,513,664	(15,763)	2,497,901
Income from operations	$71,712	$4,042	$75,754

(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 comparable prior year period.

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

Gross Billings

Gross billings represents the total dollar value of customer purchases of goods and services, excluding applicable taxes and net of estimated refunds. Gross billings for the years ended December 31, 2013 and 2012 were as follows:

	Year Ended December 31,	
	2013	2012
	(in thousands)	
Gross billings:		
Third party	$4,824,659	$4,905,022
Direct	919,001	454,743
Other	13,670	20,419
Total gross billings	$5,757,330	$5,380,184

For third party revenue deals, gross billings differs from third party revenue reported in our consolidated statements of operations, which is presented net of the merchant's share of the transaction price. For direct revenue deals and other revenue, gross billings are equivalent to direct revenue and other revenue reported in our consolidated statements of operations. Gross billings increased by $377.1 million to $5,757.3 million for the year ended December 31, 2013, as compared to $5,380.2 million for the year ended December 31, 2012. The increase was comprised of a $464.3 million increase in gross billings from direct revenue transactions, partially offset by an $80.4 million decrease in gross billings from third party revenue transactions and a $6.7 million decrease in gross billings from other revenue transactions. The net increase in gross billings was driven by an increase in active customers and the volume of transactions. The unfavorable impact on gross billings from year-over-year changes in foreign exchange rates for the year ended December 31, 2013 was $40.3 million.

We offer goods and services through three primary categories: Local Deals ("Local"), Groupon Goods ("Goods") and Groupon Getaways ("Travel") within our North America, EMEA and Rest of World segments. We also earn advertising revenue, payment processing revenue, point of sale revenue, reservation revenue and commission revenue. Our other gross billings, revenue, cost of revenue and gross profit are presented within "Travel and other" in the tables below. The increase in our gross billings was comprised of a $373.2 million increase in our Goods category and a $24.4 million increase in our Travel and other category, partially offset by a $20.5 million decrease in our Local category, which was primarily driven by declines in our Rest of World segment.

Gross Billings by Segment

Gross billings by segment for the years ended December 31, 2013 and 2012 were as follows:

	Year Ended December 31,					
	2013	% of total		2012	% of total	
	(dollars in thousands)					
Gross billings:						
North America	$2,847,244	49.5	%	$2,373,153	44.1	%
EMEA	1,983,599	34.5		1,928,508	35.8	
Rest of World	926,487	16.0		1,078,523	20.1	
Total gross billings	$5,757,330	100.0	%	$5,380,184	100.0	%

Gross billings by category and segment for the years ended December 31, 2013 and 2012 were as follows (in thousands):

	North America		EMEA		Rest of World		Consolidated	
	Year Ended December 31,		Year Ended December 31,		Year Ended December 31,		Year Ended December 31,	
	2013	2012	2013	2012	2013	2012	2013	2012
Local [(1)]:								
Third party	$1,738,371	$1,616,020	$984,311	$1,014,127	$469,236	$572,007	$3,191,918	$3,202,154
Direct	1,772	12,037	—	—	—	—	1,772	12,037
Total gross billings	1,740,143	1,628,057	984,311	1,014,127	469,236	572,007	3,193,690	3,214,191
Goods:								
Third party	68,818	172,859	590,635	572,950	291,270	310,458	950,723	1,056,267
Direct	774,023	391,238	115,881	36,393	27,325	10,822	917,229	438,453
Total gross billings	842,841	564,097	706,516	609,343	318,595	321,280	1,867,952	1,494,720
Travel and other:								
Third party and other	264,260	180,999	292,772	300,785	138,656	185,236	695,688	667,020
Direct	—	—	—	4,253	—	—	—	4,253
	264,260	180,999	292,772	305,038	138,656	185,236	695,688	671,273

Total gross billings								
Total gross billings	$2,847,244	$2,373,153	$1,983,599	$1,928,508	$926,487	$1,078,523	$5,757,330	$5,380,184

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

North America
North America segment gross billings increased by $474.1 million to $2,847.2 million for the year ended December 31, 2013, as compared to $2,373.2 million for the year ended December 31, 2012. The increase in gross billings was comprised of a $278.7 million increase in our Goods category, a $112.1 million increase in our Local category and an $83.3 million increase in our Travel and other category. The increase in gross billings in the North America segment resulted from higher unit sales and an increase in active customers for the year ended December 31, 2013, as compared to the prior year. We believe that increases in transaction activity by active customers who make purchases on mobile devices and in the number of deals that we offered contributed to the growth in billings for our North America segment. In addition, we have continued to refine our approach to targeting customers through our emails, on our websites and through our mobile applications by sending and highlighting deals for specific locations and personal preferences, which we believe contributed to the billings growth.
Although North America segment gross billings increased by 20.0% during the year ended December 31, 2013, as compared to the prior year, we believe that there were a number of factors that may have negatively impacted gross billings. For example, we believe that the continued growth of our online marketplaces of deals, where merchants have a continuous presence on our websites for an extended period of time, is impacting the timing of customer purchases in our Local category. Historically, our customers often purchased a Groupon voucher when they received our email with a limited-time offer, even though they may not have intended to use the voucher in the near term. However, the growth of marketplaces of deals enables customers to wait until they are ready to use the related vouchers before making purchases, which we believe is adversely impacting gross billings in the short term. Additionally, a more significant portion of our marketing in recent periods has been directed toward increasing downloads of our mobile applications, and we have reduced our spending on email subscriber acquisition. On average, it takes longer for customers to make an initial purchase after downloading our mobile application than it does after subscribing to our emails and we believe that this shift in our marketing toward mobile application downloads has adversely impacted our gross billings in the current period.
EMEA
EMEA segment gross billings increased by $55.1 million to $1,983.6 million for the year ended December 31, 2013, as compared to $1,928.5 million for the year ended December 31, 2012. The increase in gross billings was comprised of a $97.2 million increase in our Goods category, resulting from higher unit sales in this category for the year ended December 31, 2013, as compared to the prior year. The increase in gross billings was partially offset by a $29.8 million decrease in our Local category and a $12.3 million decrease in our Travel and other category, resulting from lower unit sales in these categories for the year ended December 31, 2013, as compared to the prior year. Our gross billings were also negatively impacted by lower gross billings per average active customer in our EMEA segment for the year ended December 31, 2013, as compared to the prior year. The favorable impact on gross billings from year-over-year changes in foreign exchange rates for the year ended December 31, 2013 was $37.6 million.
Rest of World
Rest of World segment gross billings decreased by $152.0 million to $926.5 million for the year ended December 31, 2013, as compared to $1,078.5 million for the year ended December 31, 2012. The decrease in gross billings was comprised of a $102.8 million decrease in our Local category, a $46.6 million decrease in our Travel and other category and a $2.7 million decrease in our Goods category. The decrease in gross billings in the Rest of World segment resulted from unfavorable foreign exchange rate fluctuations, lower gross billings per average active customer and lower unit sales for the year ended December 31, 2013, as compared to the prior year, as well as overall weakness in some of our markets. The unfavorable impact on gross billings from year-over-year changes in foreign exchange rates for the year ended December 31, 2013 was $76.7 million. Lower unit sales were attributable, in part, to actions we have taken to reduce the number of local and travel deals offered in many of the smaller cities within our Rest of World segment in order to reduce our marketing and selling costs by focusing on markets that provide better scaling opportunities.
On January 2, 2014, we acquired LivingSocial Korea, Inc., including its subsidiary Ticket Monster. We expect that gross billings for our Rest of World segment will increase significantly in future periods as a result of this acquisition.

Revenue

We generate revenue from third party revenue deals, direct revenue deals and other transactions. Revenue for the years ended December 31, 2013 and 2012 was as follows:

	Year Ended December 31,	
	2013	2012
	(in thousands)	
Revenue:		
Third party	$1,640,984	$1,859,310
Direct	919,001	454,743
Other	13,670	20,419
Total revenue	$2,573,655	$2,334,472

Revenue increased by $239.2 million to $2,573.7 million for the year ended December 31, 2013, as compared to $2,334.5 million for the year ended December 31, 2012. The primary driver of this increase was the $464.3 million increase in direct revenue from transactions, primarily in our Goods category, where we are the merchant of record and for which revenue is reported on a gross basis. This increase in direct revenue was partially offset by a $218.3 million decrease in third party revenue and a $6.7 million decrease in other revenue. The net increase in revenue was attributable to an increase in active customers and units purchased for the year ended December 31, 2013, as compared to the prior year. In addition, we have continued to refine our approach to targeting customers through our emails, on our websites and through our mobile applications by sending and highlighting deals for specific locations and personal preferences, which we believe contributed to revenue growth. We also increased the number of merchant relationships and the volume of deals we offer to our customers. The unfavorable impact on revenue from year-over-year changes in foreign exchange rates for the year ended December 31, 2013 was $11.7 million.

Third Party Revenue

Third party revenue decreased by $218.3 million to $1,641.0 million for the year ended December 31, 2013, as compared to $1,859.3 million for the year ended December 31, 2012. The decrease in third party revenue was primarily due to a $114.6 million decrease in our Goods category, which resulted from a $105.5 million decrease in gross billings and a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 23.1% for the year ended December 31, 2013, as compared to 31.7% in the prior year. Third party revenue in our Goods category also decreased as a result of the increasing proportion of direct revenue transactions in that category. The decrease in third party revenue was also due to a $98.6 million decrease in our Local category, which resulted from a $10.2 million decrease in gross billings and a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 39.8% for the year ended December 31, 2013, as compared to 42.7% for the year ended December 31, 2012. The decreases in the percentage of gross billings that we retained after deducting the merchant's share were attributable, in part, to an $18.5 million one-time increase during the prior year period in revenue from unredeemed Groupons in Germany, as described below.

We recognized a one-time increase of $18.5 million to third party revenue from unredeemed Groupons during the year ended December 31, 2012. This one-time increase in the prior year period represented the cumulative impact of deals in Germany for which, based on a German tax ruling, our obligation to the merchant would have ended prior to the third quarter of 2012. For merchant payment arrangements that are structured under a redemption payment model, we retain all of the gross billings from unredeemed Groupons. We record revenue from unredeemed Groupons and derecognize the related accrued merchant payable when our legal obligation to the merchant expires, which we believe is shortly after deal expiration in most jurisdictions which use a pay on redemption model. However, we had historically concluded based on our interpretation of applicable German law that our obligation to merchants in that jurisdiction extended for three years. Due to the German tax ruling, which requires us to remit value-added taxes (VAT) earlier on unredeemed Groupons, we began recognizing revenue from unredeemed Groupons in Germany shortly after deal expiration, which is consistent with most other jurisdictions in which we pay on redemption.

Direct Revenue

Direct revenue increased by $464.3 million to $919.0 million for the year ended December 31, 2013, as compared to $454.7 million for the year ended December 31, 2012. We are often the merchant of record for transactions in the Goods category, particularly in North America and also in EMEA beginning in September 2013, such that the resulting revenue is reported on a gross basis within direct revenue. Direct revenue deals have continued to grow, both overall and as a percentage of our revenue, through the continued growth of our Goods category, and we expect that trend to continue for the foreseeable future. In addition, we expect that any growth in direct revenue will result in a smaller increase in income from operations than growth in third party revenue because direct revenue includes the entire amount of gross billings, before deducting the cost of the related inventory, while third party revenue is net of the merchant's share of the transaction price. Additionally, our Goods category has lower margins than our Local category, primarily as a result of shipping and fulfillment costs related to direct revenue transactions.

We believe that direct revenue deals in our Goods category will increase in the future in the EMEA and Rest of World segments as we continue to build out our global supply chain infrastructure. Additionally, we acquired Ideeli for $43.0 million cash on January 13, 2014. Ideeli is a fashion flash site that sells apparel to consumers in direct revenue transactions, and its operations will be reported within our North America segment beginning in 2014.

Other Revenue

Other revenue decreased by $6.7 million to $13.7 million for the year ended December 31, 2013, as compared to $20.4 million for the year ended December 31, 2012, primarily due to a decrease in advertising revenue. Other revenue also includes point of sale and payment processing revenue, which we launched in the third quarter of 2012, reservation revenue, which we launched in the third quarter of 2013, and commission revenue, which we launched in the fourth quarter of 2013. Reservation revenue, point of sale revenue, payment processing revenue and commission revenue were not significant for the years ended December 31, 2013 and 2012, and we do not expect them to be material in the near term.

Revenue by Segment

Revenue by segment for the years ended December 31, 2013 and 2012 was as follows:

	Year Ended December 31,					
	2013	% of total		2012	% of total	
	(dollars in thousands)					
North America:						
Third party and other	$745,563	29.0	%	$762,424	32.7	%
Direct	775,795	30.1		403,276	17.2	
Total segment revenue	1,521,358	59.1		1,165,700	49.9	
EMEA:						
Third party and other	627,034	24.4		764,830	32.8	
Direct	115,881	4.5		40,646	1.7	
Total segment revenue	742,915	28.9		805,476	34.5	
Rest of World:						
Third party and other	282,057	11.0		352,475	15.1	
Direct	27,325	1.0		10,821	0.5	
Total segment revenue	309,382	12.0		363,296	15.6	
Total revenue	$2,573,655	100.0	%	$2,334,472	100.0	%

Revenue by category and segment for the years ended December 31, 2013 and 2012 was as follows (in thousands):

	North America Year Ended December 31,		EMEA Year Ended December 31,		Rest of World Year Ended December 31,		Consolidated Year Ended December 31,	
	2013	2012	2013	2012	2013	2012	2013	2012
Local [1]:								
Third party	$663,074	$652,764	$426,903	$497,821	$180,229	$218,224	$1,270,206	$1,368,809
Direct revenue	1,772	12,037	—	—	—	—	1,772	12,037
Total revenue	664,846	664,801	426,903	497,821	180,229	218,224	1,271,978	1,380,846
Goods:								
Third party	17,409	60,269	133,117	186,495	69,344	87,746	219,870	334,510
Direct revenue	774,023	391,239	115,881	36,393	27,325	10,821	917,229	438,453
Total revenue	791,432	451,508	248,998	222,888	96,669	98,567	1,137,099	772,963
Travel and other:								
Third party and other revenue	65,080	49,391	67,014	80,514	32,484	46,505	164,578	176,410
Direct revenue	—	—	—	4,253	—	—	—	4,253
Total revenue	65,080	49,391	67,014	84,767	32,484	46,505	164,578	180,663
Total revenue	$1,521,358	$1,165,700	$742,915	$805,476	$309,382	$363,296	$2,573,655	$2,334,472

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

North America

North America segment revenue increased by $355.7 million to $1,521.4 million for the year ended December 31, 2013, as compared to $1,165.7 million for the year ended December 31, 2012. The increase in revenue primarily resulted from a $382.8 million increase in direct revenue from our Goods category. Direct revenue, which is recorded on a gross basis, is derived primarily from selling products through our Goods category where we are the merchant of record. The increase in direct revenue in our Goods category was partially offset by a $42.9 million decrease in third party revenue in our Goods category, which resulted from a $104.0 million decrease in gross billings and a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 25.3% for the year ended December 31, 2013, as compared to 34.9% for the year ended December 31, 2012. Revenue in our Travel and other category increased by $15.7 million, which resulted from an $83.3 million increase in gross billings, partially offset by a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 24.6% for the year ended December 31, 2013, as compared to 27.3% for the year ended December 31, 2012. Additionally, the percentage of gross billings that we retained after deducting the merchant's share in our Local category for third party revenue decreased to 38.1% for the year ended December 31, 2013, as compared to 40.4% for the year ended December 31, 2012. These decreases in the percentage of gross billings that we retained after deducing the merchant's share reflect the overall results of individual deal-by-deal negotiations with our merchants and can vary significantly from period-to-period. We were willing to accept lower deal margins in order to improve the quality and increase the number of deals offered to customers by offering more attractive terms to merchants. The increase in revenue was also due to an increase in active customers and higher unit sales for the year ended December 31, 2013, as compared to the prior year.

We believe that increases in transaction activity on mobile devices and in the number of deals that we offered contributed to the growth in revenue for our North America segment. In addition, we have continued to refine our approach to targeting customers through our emails, on our websites and through our mobile applications by sending and highlighting deals for specific locations and personal preferences, which we believe contributed to the revenue growth.

EMEA

EMEA segment revenue decreased by $62.6 million to $742.9 million for the year ended December 31, 2013, as compared to $805.5 million for the year ended December 31, 2012. The overall decrease in EMEA segment revenue was primarily due to a $70.9 million decrease in our Local category and a $17.8 million decrease in our Travel and other category, partially offset by a $26.1 million increase in our Goods category. Revenue from transactions in our Goods category in our EMEA segment have primarily been presented on a net basis within third party revenue, as we were not typically the merchant of record for those transactions outside of the United States. However, we began increasing the number of product deals offered in our EMEA segment for which we are the merchant of record beginning in September 2013, which resulted in a $79.5 million increase in direct revenue from our Goods category for the year ended December 31, 2013, as compared to the prior year. As a result, the proportion of direct revenue deals in the Goods category of our EMEA segment increased in the fourth quarter of 2013, and we expect that the proportion of direct revenue deals in the Goods category of our EMEA segment will continue to increase in future periods.

The $70.9 million decrease in revenue in our Local category resulted from a $29.8 million decrease in gross billings and a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 43.4% for the year ended December 31, 2013, as compared to 49.1% in the prior year. Although gross billings on third party revenue transactions in our Goods category increased by $17.7 million, revenue on third party deals in our Goods category decreased by $53.4 million, which resulted from a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 22.5% for the year ended December 31, 2013, as compared to 32.5% for the year ended December 31, 2012. Revenue on third party deals in our Travel and other category decreased $13.5 million, which resulted from an $8.0 million decrease in gross billings and a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 22.9% for the year ended December 31, 2013, as compared to 26.8% in the prior year. These decreases in the percentage of gross billings that we retained during the year ended December 31, 2013 reflect the overall results of individual deal-by-deal negotiations with our merchants and can vary significantly from period-to-period. We were willing to accept lower deal margins, as compared to the prior year, in order to improve the quality and increase the number of deals offered to our customers by offering more attractive terms to merchants. The decrease in revenue was also due to a decrease in active customers, lower gross billings per average active customer and lower unit sales for the year ended December 31, 2013, as compared to the prior year. The decrease in revenue for our EMEA segment was partially offset by a $79.5 million increase in direct revenue from our Goods category, as compared to the prior year. The favorable impact on revenue from year-over-year changes in foreign exchange rates for the year ended December 31, 2013 was $16.1 million.

Rest of World

Rest of World segment revenue decreased by $53.9 million to $309.4 million for the year ended December 31, 2013, as compared to $363.3 million for the year ended December 31, 2012. The decrease was primarily due to a $38.0 million decrease in revenue from our Local category, which resulted from a $102.8 million decrease in gross billings. The decrease in revenue for our Rest of World segment was also due to an $18.4 million decrease in third party revenue from our Goods category, which resulted from a $19.2 million decrease in gross billings and a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 23.8% for the year ended December 31, 2013, as compared to 28.3% in the prior year. The decrease in revenue for our Rest of World segment was also due to a $14.0 million decrease in revenue from our Travel and other category, which resulted from a $46.6 million decrease in gross billings and a reduction in the percentage of gross billings that we retained after deducting the merchant's share to 23.4% for the year ended December 31, 2013, as compared to 25.1% in the prior year. We were willing to accept lower deal margins, as compared to the prior year, in order to improve the quality and increase the number of deals offered to our customers by offering more attractive terms to merchants. The decrease in revenue was also due to lower gross billings per average active customer and lower unit sales for the year ended December 31, 2013, as compared to the prior year. The decrease in revenue for our Rest of World segment was partially offset by a $16.5 million increase in direct revenue from our Goods category for the year ended December 31, 2013, as compared to the prior year. The unfavorable impact on revenue from year-over-year changes in foreign exchange rates for the year ended December 31, 2013 was $27.5 million.

In our Rest of World segment, revenue from transactions in our Goods category are primarily presented on a net basis within third party revenue, as we have not typically been the merchant of record for those transactions outside of the United States. We expect that revenue for our Rest of World segment will increase in future periods as a result of our acquisition of Ticket Monster.

Cost of Revenue

Cost of revenue on third party, direct revenue and other deals for the years ended December 31, 2013 and 2012 was as follows:

	Year Ended December 31,	
	2013	2012
	(in thousands)	
Cost of revenue:		
Third party	$224,840	$297,574
Direct	840,060	421,201
Other	7,222	165
Total cost of revenue	$1,072,122	$718,940

Cost of revenue is comprised of direct and certain indirect costs incurred to generate revenue. For direct revenue deals, cost of revenue 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 own fulfillment center, which began operations in the fourth quarter of 2013. For third party revenue transactions, cost of revenue includes estimated refunds for which the merchant's share is not recoverable. Other costs incurred to generate revenue, which include credit card processing fees, editorial costs, certain technology costs, web hosting and other processing fees, are allocated to cost of third party revenue, direct revenue, and other revenue in proportion to gross billings during the period. As a result of the significant growth we have experienced from direct revenue transactions relative to our total gross billings for the year ended December 31, 2013, as compared to the prior year, an increased share of those allocable costs has been allocated to cost of direct revenue in our consolidated statement of operations for the year ended December 31, 2013.

Cost of revenue increased by $353.2 million to $1,072.1 million for the year ended December 31, 2013, as compared to $718.9 million for the year ended December 31, 2012, which was attributable to the growth in direct revenue from our Goods category. The increase in cost of revenue was primarily driven by the cost of inventory and related shipping and fulfillment costs on direct revenue deals, which were not as significant during the prior year. We currently outsource most of our inventory fulfillment activities to third party logistics providers. However, we expect to reduce our usage of those third parties in future periods by transitioning a portion of inventory fulfillment work in the United States to internal resources. We launched our own fulfillment center in the fourth quarter of 2013. We believe the transition to internal fulfillment centers will ultimately reduce our fulfillment costs. However, we may incur increased fulfillment costs in the near term as we build our internal processes and transition the fulfillment work from those third parties.

Cost of Revenue by Segment

Cost of revenue by segment for the years ended December 31, 2013 and 2012 was as follows:

	Year Ended December 31,					
	2013	% of total		2012	% of total	
	dollars in thousands					
North America:						
Third party and other	$98,697	9.2	%	$145,212	20.2	%
Direct	709,824	66.2		365,179	50.8	
Total segment cost of revenue	808,521	75.4		510,391	71.0	
EMEA:						
Third party and other	70,102	6.5		73,654	10.2	
Direct	102,687	9.6		42,638	6.0	
Total segment cost of revenue	172,789	16.1		116,292	16.2	
Rest of World:						
Third party and other	63,263	5.9		78,873	11.0	
Direct	27,549	2.6		13,384	1.8	
Total segment cost of revenue	90,812	8.5		92,257	12.8	
Total cost of revenue	$1,072,122	100.0	%	$718,940	100.0	%

Cost of revenue by category and segment for the years ended December 31, 2013 and 2012 was as follows (in thousands):

	North America Year Ended December 31,		EMEA Year Ended December 31,		Rest of World Year Ended December 31,		Consolidated Year Ended December 31,	
	2013	2012	2013	2012	2013	2012	2013	2012
Local [1]:								
Third party	$82,636	$123,871	$45,718	$47,812	$28,446	$48,124	$156,800	$219,807
Direct	2,554	10,128	—	—	—	—	2,554	10,128
Total cost of revenue	85,190	133,999	45,718	47,812	28,446	48,124	159,354	229,935
Goods:								
Third party	2,090	11,981	16,760	18,066	29,645	21,475	48,495	51,522
Direct	707,270	355,051	102,687	38,914	27,549	13,384	837,506	407,349
Total cost of revenue	709,360	367,032	119,447	56,980	57,194	34,859	886,001	458,871
Travel and other:								
Third party and other	13,971	9,360	7,624	7,776	5,172	9,274	26,767	26,410
Direct	—	—	—	3,724	—	—	—	3,724
Total cost of revenue	13,971	9,360	7,624	11,500	5,172	9,274	26,767	30,134
Total cost of revenue	$808,521	$510,391	$172,789	$116,292	$90,812	$92,257	$1,072,122	$718,940

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

North America

North America segment cost of revenue increased by $298.1 million to $808.5 million for the year ended December 31, 2013, as compared to $510.4 million for the year ended December 31, 2012. The increase in cost of revenue was primarily driven by the cost of inventory and shipping and fulfillment costs related to direct revenue deals in our Goods category, due to the growth of that category as compared to the prior year.

EMEA

EMEA segment cost of revenue increased by $56.5 million to $172.8 million for the year ended December 31, 2013, as compared to $116.3 million for the year ended December 31, 2012. The increase in cost of revenue was primarily driven by the cost of inventory and shipping and fulfillment costs related to direct revenue deals in our Goods category, as we began increasing the number of product deals offered in our EMEA segment for which we are the merchant of record beginning in September 2013.

Rest of World

Rest of World segment cost of revenue decreased by $1.4 million to $90.8 million for the year ended December 31, 2013, as compared to $92.3 million for the year ended December 31, 2012. The decrease in cost of revenue was primarily driven by reduced email distribution costs, primarily due to the migration to an internal email distribution platform, lower payroll expense for editorial personnel and a reduction in estimated refunds for which the merchant's share is not recoverable, partially offset by increases in the cost of inventory and shipping and fulfillment costs related to direct revenue deals in our Goods category. We expect that cost of revenue for our Rest of World segment will increase in future periods as a result of our acquisition of Ticket Monster.

Gross Profit

Gross profit for the years ended December 31, 2013 and 2012 was as follows:

	Year Ended December 31,	
	2013	2012
	(in thousands)	
Gross profit:		
Third party	$1,416,144	$1,561,736
Direct	78,941	33,542
Other	6,448	20,254
Total gross profit	$1,501,533	$1,615,532

Gross profit decreased by $114.0 million to $1,501.5 million for the year ended December 31, 2013, as compared to $1,615.5 million for the year ended December 31, 2012. This decrease in gross profit resulted from the $353.2 million increase in cost of revenue during the year ended December 31, 2013, partially offset by the $239.2 million increase in revenue. Gross profit as a percentage of revenue decreased to 58.3% for the year ended December 31, 2013, as compared to 69.2% for the year ended December 31, 2012. The decrease in gross profit as a percentage of revenue during the year ended December 31, 2013, as compared to the prior year, was primarily attributable to the increase in direct revenue. Direct revenue primarily relates to deals in our Goods category, which typically have lower margins than deals in our Local category. Additionally, direct revenue and the related cost of revenue are presented on a gross basis in our consolidated statements of operations, which contributes to lower gross profit as a percentage of revenue.

Gross profit on third party revenue decreased by $145.6 million to $1,416.1 million for the year ended December 31, 2013, as compared to $1,561.7 million for the year ended December 31, 2012. This decrease in gross profit resulted from the $218.3 million decrease in third party revenue, partially offset by the $72.7 million decrease in the cost of third party revenue. Gross profit as a percentage of revenue on third party revenue deals increased to 86.3% for the year ended December 31, 2013, as compared to 84.0% for the year ended December 31, 2012. The increase in gross profit as a percentage of revenue on third party revenue deals was attributable, in part, to a lower proportion of the allocable costs within cost of revenue being allocated to the cost of third party revenue for the year ended December 31, 2013, as compared to the prior year. These allocable costs include credit card processing fees, editorial costs, certain technology costs, web hosting and other processing fees. An increased share of those costs was allocated to the cost of direct revenue due to the increase in billings from direct revenue transactions relative to total gross billings.

Gross profit on direct revenue increased by $45.4 million to $78.9 million for the year ended December 31, 2013, as compared to $33.5 million for the year ended December 31, 2012. This increase in gross profit resulted from the $464.3 million increase in direct revenue to $919.0 million for the year ended December 31, 2013, as compared to $454.7 million for the year ended December 31, 2012, partially offset by the $418.9 million increase in cost of revenue on direct revenue deals to $840.1 million for the year ended December 31, 2013, as compared to $421.2 million for the year ended December 31, 2012. Gross profit as a percentage of revenue on direct revenue deals increased to 8.6% for the year ended December 31, 2013, as compared to 7.4% for the year ended December 31, 2012. The increase in gross profit as a percentage of revenue on direct revenue deals was attributable, in part, to lower cost of inventory sold as a percentage of direct revenue, partially offset by increased shipping and fulfillment costs as a percentage of direct revenue.

Gross profit on other revenue decreased by $13.8 million to $6.4 million for the year ended December 31, 2013, as compared to $20.3 million for the year ended December 31, 2012. The decrease in gross profit was driven by the $6.7 million decrease in other revenue, which was primarily attributable to the decrease in advertising revenue, and a $7.1 million increase in cost of revenue, partially attributable to credit card interchange fees related to the Company's payment processing offering, during the year ended December 31, 2013.

Gross Profit by Segment

Gross profit by segment for the years ended December 31, 2013 and 2012 was as follows:

	Year Ended December 31,			
	2013	% of total	2012	% of total
	(dollars in thousands)			
North America:				
Third party and other	$646,866	43.1 %	$617,212	38.2 %
Direct	65,971	4.4	38,097	2.4
Total gross profit	712,837	47.5	655,309	40.6
EMEA:				
Third party and other	556,932	37.1	691,176	42.8
Direct	13,194	0.9	(1,992)	(0.1)
Total gross profit	570,126	38.0	689,184	42.7
Rest of World:				
Third party and other	218,794	14.6	273,602	16.9
Direct	(224)	(0.1)	(2,563)	(0.2)
Total gross profit	218,570	14.5	271,039	16.7
Total gross profit	$1,501,533	100.0 %	$1,615,532	100.0 %

Gross profit by category and segment for the years ended December 31, 2013 and 2012 was as follows (in thousands):

	North America		EMEA		Rest of World		Consolidated	
	Year Ended December 31,		Year Ended December 31,		Year Ended December 31,		Year Ended December 31,	
	2013	2012	2013	2012	2013	2012	2013	2012
Local [(1)]:								
Third party	$580,438	$528,893	$381,185	$450,009	$151,783	$170,100	$1,113,406	$1,149,002
Direct	(782)	1,909	—	—	—	—	(782)	1,909
Total gross profit	579,656	530,802	381,185	450,009	151,783	170,100	1,112,624	1,150,911
Goods:								
Third party	15,319	48,288	116,357	168,429	39,699	66,271	171,375	282,988
Direct	66,753	36,188	13,194	(2,521)	(224)	(2,563)	79,723	31,104
Total gross profit	82,072	84,476	129,551	165,908	39,475	63,708	251,098	314,092
Travel and other:								
Third party and other	51,109	40,031	59,390	72,738	27,312	37,231	137,811	150,000
Direct	—	—	—	529	—	—	—	529
Total gross profit	51,109	40,031	59,390	73,267	27,312	37,231	137,811	150,529
Total gross profit	$712,837	$655,309	$570,126	$689,184	$218,570	$271,039	$1,501,533	$1,615,532

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

North America

North America segment gross profit increased by $57.5 million to $712.8 million for the year ended December 31, 2013, as compared to $655.3 million for the year ended December 31, 2012. The increase in gross profit was comprised of a $48.9 million increase in the Local category and an $11.1 million increase in the Travel and other category.

EMEA

EMEA segment gross profit decreased by $119.1 million to $570.1 million for the year ended December 31, 2013, as compared to $689.2 million for the year ended December 31, 2012. The decrease in gross profit was comprised of a $68.8 million decrease in the Local category, a $36.4 million decrease in the Goods category and a $13.9 million decrease in the Travel and other category.

Rest of World

Rest of World segment gross profit decreased by $52.5 million to $218.6 million for the year ended December 31, 2013, as compared to $271.0 million for the year ended December 31, 2012. The decrease in gross profit was comprised of a $24.2 million decrease in the Goods category, an $18.3 million decrease in the Local category and a $9.9 million decrease in the Travel and other category. We expect that gross profit for our Rest of World segment will increase in future periods as a result of our acquisition of Ticket Monster.

Marketing

For the years ended December 31, 2013 and 2012, marketing expense was $214.8 million and $336.9 million, respectively. Marketing expense by segment as a percentage of segment revenue for the years ended December 31, 2013 and 2012 was as follows:

	Year Ended December 31,					
	2013	% of Segment Revenue		2012	% of Segment Revenue	
	(dollars in thousands)					
North America	$113,612	7.5	%	$105,914	9.1	%
EMEA	65,130	8.8	%	156,476	19.4	%
Rest of World	36,082	11.7	%	74,464	20.5	%
Marketing	$214,824	8.3	%	$336,854	14.4	%

We evaluate our marketing expense as a percentage of revenue because it gives us an indication of how well our marketing spend is driving the volume of transactions. Marketing expense as a percentage of revenue for the year ended December 31, 2013 has decreased from the prior year, which we believe is due to efficiencies we have realized from building a subscriber base and shifting the focus of our marketing spend to customer activation and mobile application downloads. Additionally, we continue to enhance our technology and methods for optimizing marketing expenditures, which we believe has contributed to more efficient marketing spending in recent periods.

Marketing expense by segment as a percentage of total marketing expense for the years ended December 31, 2013 and 2012 was as follows:

	Year Ended December 31,					
	2013	% of total		2012	% of total	
	(dollars in thousands)					
North America	$113,612	52.9	%	$105,914	31.4	%
EMEA	65,130	30.3		156,476	46.5	
Rest of World	36,082	16.8		74,464	22.1	
Marketing	$214,824	100.0	%	$336,854	100.0	%

Our marketing expense decreased by $122.0 million to $214.8 million for the year ended December 31, 2013, as compared to $336.9 million for the year ended December 31, 2012. As our markets have continued to develop throughout 2013, the focus of our marketing spend has shifted from subscriber acquisition marketing to customer activation and mobile application downloads, which has contributed to lower marketing expense during the year ended December 31, 2013, as compared to the prior year. Additionally, we have enhanced our return on investment analyses for marketing expenditures, which we believe has resulted in more efficient marketing spending in recent periods.

Our subscriber acquisition and customer activation marketing activities also include elements that are not presented as

"Marketing" on our consolidated statements of operations, such as order discounts, free shipping on merchandise sales and accepting lower margins on our deals. Marketing is the primary method by which we acquire customers, and as such, is an important part of our business.

North America

North America segment marketing expense increased by $7.7 million to $113.6 million for the year ended December 31, 2013, as compared to $105.9 million for the year ended December 31, 2012. For the year ended December 31, 2013, marketing expense as a percentage of revenue for the North America segment was 7.5%, as compared to 9.1% for the year ended December 31, 2012. The increase in marketing expense for the year ended December 31, 2013 as compared to the prior year was primarily attributable to an increase in mobile marketing spend in connection with our initiatives to increase customer demand for deals offered through our platform.

EMEA

EMEA segment marketing expense decreased by $91.3 million to $65.1 million for the year ended December 31, 2013, as compared to $156.5 million for the year ended December 31, 2012. For the year ended December 31, 2013, marketing expense as a percentage of revenue for the EMEA segment was 8.8%, as compared to 19.4% for the year ended December 31, 2012. The decreases were primarily attributable to a decrease in online marketing spend. This reflects the continued shift in marketing spend from subscriber acquisition to customer activation and mobile application downloads and our enhanced return on investment analyses for marketing expenditures, which have contributed to lower marketing expense during the year ended December 31, 2013.

Rest of World

Rest of World segment marketing expense decreased by $38.4 million to $36.1 million for the year ended December 31, 2013, as compared to $74.5 million for the year ended December 31, 2012. For the year ended December 31, 2013, marketing expense as a percentage of revenue for the Rest of World segment was 11.7%, as compared to 20.5% for the year ended December 31, 2012. The decreases were primarily attributable to a decrease in online marketing spend. This reflects the continued shift from subscriber acquisition marketing to customer activation and our enhanced return on investment analyses for marketing expenditures, which have contributed to lower marketing expense during the year ended December 31, 2013. We expect that marketing expense for our Rest of World segment will increase in future periods as a result of our acquisition of Ticket Monster.

Selling, General and Administrative

Selling, general and administrative expense increased by $31.9 million to $1,211.0 million for the year ended December 31, 2013, as compared to $1,179.1 million for the year ended December 31, 2012. The increase in selling, general and administrative expense was primarily due to increases in depreciation and amortization, wages and benefits, stock-based compensation and system maintenance expenses, partially offset by lower general corporate costs and consulting and professional fees. Depreciation and amortization recorded within selling, general and administrative expense increased by $25.8 million for the year ended December 31, 2013, primarily due to increased amortization expense related to higher internally-developed software and computer hardware balances, as compared to the prior year. There was a $14.9 million increase in system maintenance expenses for the year ended December 31, 2013, as compared to the prior year, as a result of investments in technology and our corporate infrastructure. Wages and benefits (excluding stock-based compensation) within selling, general and administrative expense increased by $12.3 million for the year ended December 31, 2013. Stock-based compensation costs recorded within selling, general and administrative expense increased by $12.2 million for the year ended December 31, 2013, as compared to the prior year. Those increases were partially offset by general corporate costs, which decreased $16.5 million for the year ended December 31, 2013, as compared to the prior year, primarily due to a reduction in telecommunication expenses, office equipment and office supplies. Consulting and professional fees also decreased by $13.2 million for the year ended December 31, 2013, as compared to the prior year.

Selling, general and administrative expense as a percentage of revenue was 47.1% for the year ended December 31, 2013, as compared to 50.5% for the year ended December 31, 2012, respectively. Although revenue increased by $239.2 million, or 10.2%, for the year ended December 31, 2013, as compared to the prior year, selling, general and administrative expense increased by $31.9 million, or 2.7%. We are continuing to refine our sales management and administrative processes, including through automation, in connection with our efforts to generate increased operating efficiencies.

We expect that selling, general and administrative expense will increase in future periods as a result of expenses, including amortization of acquired intangible assets, related to our acquisitions of Ticket Monster and Ideeli in January 2014.

Acquisition Related (Benefit) Expense, Net
For the years ended December 31, 2013 and 2012, we incurred a net acquisition-related benefit of less than $0.1 million and expense of $0.9 million, respectively. Acquisition-related (benefit) expense, net is comprised of the change in fair value of contingent consideration arrangements and, beginning in 2013, also includes external transaction costs related to business combinations, primarily consisting of legal and advisory fees. For the year ended December 31, 2013, the net acquisition-related benefit included $3.2 million related to changes in the fair value of contingent consideration, partially offset by $3.2 million of external transaction costs related to business combinations. The external transaction costs incurred in 2013 were primarily related to the acquisition of Ticket Monster, which closed on January 2, 2014. Such transaction costs were not material for the year ended December 31, 2012. See Note 13 "Fair Value Measurements" for information about fair value measurements of contingent consideration arrangements.
Income from Operations
Income from operations decreased by $22.9 million to $75.8 million for the year ended December 31, 2013, as compared to $98.7 million for the year ended December 31, 2012. The decrease in income from operations for the year ended December 31, 2013, as compared to the prior year, was primarily due to the decrease in gross profit of $114.0 million and the increase in selling, general and administrative expense of $31.9 million, partially offset by the decrease in marketing expense of $122.0 million. The favorable impact on income from operations from year-over-year changes in foreign exchange rates for the year ended December 31, 2013 was $4.0 million.
North America
Segment operating income in our North America segment, which excludes stock-based compensation and acquisition-related expense (benefit), net, increased by $0.9 million to $140.6 million for the year ended December 31, 2013, as compared to $139.7 million for the year ended December 31, 2012. The increase in segment operating income was primarily attributable to an increase in gross profit, partially offset by an increase in segment operating expenses.
EMEA
Segment operating income in our EMEA segment, which excludes stock-based compensation and acquisition-related expense (benefit), net, increased by $5.5 million to $111.5 million for the year ended December 31, 2013, as compared to $106.0 million for the year ended December 31, 2012. The increase in segment operating income was primarily attributable to a decrease in segment operating expenses, partially offset by a decrease in gross profit.
Rest of World
Segment operating loss in our Rest of World segment, which excludes stock-based compensation and acquisition-related expense (benefit), net, increased by $12.9 million to a loss of $54.9 million for the year ended December 31, 2013, as compared to a loss of $42.0 million for the year ended December 31, 2012. The increased segment operating loss was primarily attributable to a decrease in gross profit, partially offset by a decrease in segment operating expenses.
Other (Expense) Income, Net
Other (expense) income, net was an expense, net of $94.6 million for the year ended December 31, 2013, as compared to income, net of $6.2 million for the year ended December 31, 2012. During the year ended December 31, 2013, other expense, net included an $85.5 million impairment of our investments in F-tuan. During the year ended December 31, 2012, other income, net included a $56.0 million gain resulting from the E-Commerce transaction partially offset by a $50.6 million impairment of our investments in F-tuan. The impairments of our investments in F-tuan and the gain on the E-Commerce transaction are described in Note 6 "Investments." The change in other (expense) income, net was also due to an increase in foreign currency transaction losses for the year ended December 31, 2013, as compared to the prior year.
Provision for Income Taxes
For the years ended December 31, 2013 and 2012, we recorded income tax expense of $70.0 million and $146.0 million, respectively.
The effective tax rate was (370.4)% for the year ended December 31, 2013, as compared to 153.7% for the year ended December 31, 2012. The most significant factors impacting our effective tax rate for the years ended December 31, 2013 and

2012 were losses in jurisdictions that we are not able to benefit due to uncertainty as to the realization of those losses, amortization of the tax effects of intercompany sales of intellectual property and nondeductible stock-based compensation expense. The effective tax rate for the year ended December 31, 2013 was also impacted by the release of a portion of the valuation allowance in the U.S. against our federal and state deferred tax assets, which resulted in a $9.6 million reduction to income tax expense.

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. Our consolidated effective tax rate in future periods will also be adversely impacted by the amortization of the tax effects of intercompany transactions, including intercompany sales of intellectual property that we expect to undertake in the future.

Results of Operations

Comparison of the Years Ended December 31, 2012 and 2011:

	Year Ended December 31,	
	2012	2011
	(in thousands)	
Revenue:		
Third party and other	$1,879,729	$1,589,604
Direct	454,743	20,826
Total revenue	2,334,472	1,610,430
Cost of revenue:		
Third party and other	297,739	243,789
Direct	421,201	15,090
Total cost of revenue	718,940	258,879
Gross profit	1,615,532	1,351,551
Operating expenses:		
Marketing	336,854	768,472
Selling, general and administrative	1,179,080	821,002
Acquisition-related expense (benefit), net	897	(4,537)
Total operating expenses	1,516,831	1,584,937
Income (loss) from operations	98,701	(233,386)
Loss on equity method investments	(9,925)	(26,652)
Other income, net	6,166	5,973
Income (loss) before provision for income taxes	94,942	(254,065)
Provision for income taxes	145,973	43,697
Net loss	(51,031)	(297,762)
Net (income) loss attributable to noncontrolling interests	(3,742)	18,335
Net loss attributable to Groupon, Inc.	(54,773)	(279,427)
Redemption of preferred stock in excess of carrying value	—	(34,327)
Adjustment of redeemable noncontrolling interests to redemption value	(12,604)	(59,740)
Net loss attributable to common stockholders	$(67,377)	$(373,494)

Classification of stock-based compensation within cost of revenue and operating expenses
Cost of revenue and operating expenses included stock-based compensation as follows:

	Year Ended December 31,			
	2012		2011	
	Statement of Operations line item	Stock-based compensation included in line item	Statement of Operations line item	Stock-based compensation included in line item
	(in thousands)			
Total cost of revenue	$718,940	$2,928	$258,879	$1,130
Operating expenses:				
Marketing	$336,854	$3,570	$768,472	$2,531
Selling, general and administrative	1,179,080	97,619	821,002	89,929
Acquisition-related expense (benefit), net	897	—	(4,537)	—
Total operating expenses	$1,516,831	$101,189	$1,584,937	$92,460

Foreign exchange rate neutral operating results
The effect on our gross billings, revenue, cost of revenue and operating expenses, and income from operations for the year ended December 31, 2012 from changes in exchange rates versus the U.S. dollar was as follows:

	Year Ended December 31, 2012		
	At Avg. 2011 Rates [1]	Exchange Rate Effect [2]	As Reported
	(in thousands)		
Gross billings	$5,563,703	$(183,519)	$5,380,184
Revenue	$2,408,588	$(74,116)	$2,334,472
Cost of revenue and operating expenses	2,302,486	(66,715)	2,235,771
Income from operations	$106,102	$(7,401)	$98,701

(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 comparable prior year period.

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

Gross Billings
Gross billings represents the total dollar value of customer purchases of goods and services, excluding applicable taxes and net of estimated refunds. Gross billings for the years ended December 31, 2012 and 2011 were as follows:

	Year Ended December 31,	
	2012	2011
	(in thousands)	
Gross billings:		
Third party	$4,905,022	$3,958,942
Direct	454,743	20,826
Other	20,419	5,733
Total gross billings	$5,380,184	$3,985,501

For third party revenue deals, gross billings differs from third party revenue reported in our consolidated statements of operations, which is presented net of the merchant's share of the transaction price. For direct revenue deals and other revenue, gross billings are equivalent to direct revenue and other revenue reported in our consolidated statements of operations. Gross billings increased by $1,394.7 million to $5,380.2 million for the year ended December 31, 2012, as compared to $3,985.5 million for the year ended December 31, 2011. The increase was comprised of a $946.1 million increase in gross billings from third party revenue transactions, a $433.9 million increase in gross billings from direct revenue transactions and a $14.7 million increase in gross billings from other revenue transactions. The increase in gross billings was also driven by an increase in active customers and the volume of transactions, as we continued to grow our business. The unfavorable impact on gross billings from year-over-year changes in foreign exchange rates for the year ended December 31, 2012 was $183.5 million.

We offers goods and services through three primary categories: Local, Goods and Travel. We also earned advertising revenue, payment processing revenue and point of sale revenue. Our Goods and Travel categories were launched in the second half of 2011. It is not practicable to determine our gross billings, revenue, cost of revenue and gross profit by category for the year ended December 31, 2011.

Gross Billings by Segment

Gross billings by segment for the years ended December 31, 2012 and 2011 were as follows:

	Year Ended December 31,					
	2012	% of total		2011	% of total	
	(dollars in thousands)					
Gross billings:						
North America	$2,373,153	44.1	%	$1,561,927	39.2	%
EMEA	1,928,508	35.8		1,647,848	41.3	
Rest of World	1,078,523	20.1		775,726	19.5	
Total gross billings	$5,380,184	100.0	%	$3,985,501	100.0	%

North America

North America segment gross billings increased by $811.2 million to $2,373.2 million for the year ended December 31, 2012, as compared to $1,561.9 million for the year ended December 31, 2011. The increase in gross billings was largely attributable to an increase in active customers and the volume of transactions.

EMEA

EMEA segment gross billings increased by $280.7 million to $1,928.5 million for the year ended December 31, 2012, as compared to $1,647.8 million for the year ended December 31, 2011. The increase in gross billings was largely attributable to an increase in active customers and the volume of transactions. The unfavorable impact on gross billings from year-over-year changes in foreign exchange rates for the year ended December 31, 2012 was $127.6 million.

Rest of World

Rest of World segment gross billings increased by $302.8 million to $1,078.5 million for the year ended December 31, 2012, as compared to $775.7 million for the year ended December 31, 2011. The increase in gross billings was largely attributable to an increase in active customers and the volume of transactions. The unfavorable impact on gross billings from year-over-year changes in foreign exchange rates for the year ended December 31, 2012 was $53.1 million.

Revenue

We generate revenue from third party revenue deals, direct revenue deals and other transactions. Revenue for the years ended December 31, 2012 and 2011 was as follows:

	Year Ended December 31,	
	2012	2011
	(in thousands)	
Revenue:		
Third party	$1,859,310	$1,583,871
Direct	454,743	20,826
Other	20,419	5,733
Total revenue	$2,334,472	$1,610,430

Revenue increased by $724.0 million to $2,334.5 million for the year ended December 31, 2012, as compared to $1,610.4 million for the year ended December 31, 2011. The increase in revenue was primarily driven by the $433.9 million increase in direct revenue from transactions, primarily in our Goods category, where we are the merchant of record and for which revenue is reported on a gross basis. The net increase in revenue was also attributable to an increase in active customers and the volume of transactions during the year ended December 31, 2012, as compared to the prior year. In addition, several other initiatives contributed to revenue growth for the year ended December 31, 2012, as compared to the prior year. Through our daily emails, we increasingly targeted customers by sending them deals for specific locations and personal preferences, which we believe contributed to revenue growth. We also increased the number of merchant partner relationships and the volume of deals we offered to our customers. The unfavorable impact on revenue from year-over-year changes in foreign exchange rates for the year ended December 31, 2012 was $74.1 million.

Third Party Revenue

Third party revenue increased by $275.4 million to $1,859.3 million for the year ended December 31, 2012, as compared to $1,583.9 million for the year ended December 31, 2011. Several initiatives contributed to third party revenue growth for the year ended December 31, 2012 as compared to the prior year. We added to our sales force in early 2012, allowing us to increase the number of merchant partner relationships and the volume of deals we offered to our customers on our websites and mobile applications. The launch of our Goods category in the second half of 2011 also contributed to the growth in third party revenue for the year ended December 31, 2012, because Goods transactions where we are acting as a third party marketing agent of the merchant are reported on a net basis within third party revenue.

Direct Revenue

Direct revenue increased by $433.9 million to $454.7 million for the year ended December 31, 2012, as compared to $20.8 million for the year ended December 31, 2011, due to the launch of Goods in the second half of 2011. We were often the merchant of record for transactions throughout 2012 and 2011 in the Goods category, particularly in North America, such that the resulting revenue was reported on a gross basis within direct revenue. Direct revenue deals continued to grow, both overall and as a percentage of our revenue, through the continued growth of our Goods category for the year ended December 31, 2012, as compared to the prior year.

Other Revenue

Other revenue increased by $14.7 million to $20.4 million for the year ended December 31, 2012, as compared to $5.7 million for the year ended December 31, 2011. Other revenue was primarily comprised of advertising revenue, which increased with the growth of our business. Other revenue also included point of sale and payment processing revenue, which we launched in the third quarter of 2012. Point of sale and payment processing revenue were not significant for the year ended December 31, 2012.

Revenue by Segment

Revenue by segment for the years ended December 31, 2012 and 2011 was as follows:

	Year Ended December 31,					
	2012	% of total		2011	% of total	
	(dollars in thousands)					
North America:						
Third party and other	$762,424	32.7	%	$634,980	39.4	%
Direct	403,276	17.2		—	—	
Total segment revenue	1,165,700	49.9		634,980	39.4	
EMEA:						
Third party and other	764,830	32.8		699,393	43.4	
Direct	40,646	1.7		20,826	1.3	
Total segment revenue	805,476	34.5		720,219	44.7	
Rest of World:						
Third party and other	352,475	15.1		255,231	15.9	
Direct	10,821	0.5		—	—	
Total segment revenue	363,296	15.6		255,231	15.9	
Total revenue	$2,334,472	100.0	%	$1,610,430	100.0	%

North America

North America segment revenue increased by $530.7 million to $1,165.7 million for the year ended December 31, 2012, as compared to $635.0 million for the year ended December 31, 2011. The increase in revenue was largely attributable to an increase in active customers and the volume of transactions and strong growth in our direct revenue. Direct revenue, which is recorded on a gross basis, is derived primarily from selling products through our Goods category where we are the merchant of record.

EMEA

EMEA segment revenue increased by $85.3 million to $805.5 million for the year ended December 31, 2012, as compared to $720.2 million for the year ended December 31, 2011 and was largely attributable to an increase in active customers and the volume of transactions. While we grew our EMEA segment revenue for the year ended December 31, 2012 as compared to the prior year, revenue declined 26.6% for the quarter ended December 31, 2012, as compared to the corresponding period of the prior year. This decline was largely attributable to reductions in the percentage of gross billings that we retained after deducting the merchant's share from sales in our Local category. The unfavorable impact on revenue from year-over-year changes in foreign exchange rates for the year ended December 31, 2012 was $54.6 million.

Rest of World

Rest of World segment revenue increased by $108.1 million to $363.3 million for the year ended December 31, 2012, as compared to $255.2 million for the year ended December 31, 2011. The increase in revenue was largely attributable to an increase in active customers and the volume of transactions. The unfavorable impact on revenue from year-over-year changes in foreign exchange rates for the year ended December 31, 2012 was $18.4 million.

Cost of Revenue

Cost of revenue on third party, direct revenue and other deals for the years ended December 31, 2012 and 2011 was as follows:

	Year Ended December 31,	
	2012	2011
	(in thousands)	
Cost of revenue:		
Third party	$297,574	$243,709
Direct	421,201	15,090
Other	165	80
Total cost of revenue	$718,940	$258,879

Cost of revenue is comprised of direct and certain indirect costs incurred to generate revenue. For direct revenue transactions, cost of revenue includes the cost of inventory, shipping and fulfillment costs and inventory markdowns. For third party revenue transactions, cost of revenue includes estimated refunds for which the merchant's share is not recoverable. Other costs incurred to generate revenue, which include credit card processing fees, editorial costs, certain technology costs, web hosting and other processing fees, are allocated to cost of third party revenue, direct revenue, and other revenue in proportion to gross billings during the period. As a result of the significant growth we experienced from direct revenue transactions relative to our total gross billings for the year ended December 31, 2012, an increased share of those allocable costs was allocated to cost of direct revenue in our consolidated statement of operations for the year ended December 31, 2012.

Cost of revenue increased by $460.1 million to $718.9 million for the year ended December 31, 2012, as compared to $258.9 million for the year ended December 31, 2011, which was attributable to the growth in direct revenue, primarily from our Goods category. The increase in cost of revenue was primarily driven by the cost of inventory and the related shipping and fulfillment costs on direct revenue deals, which were not as significant during the prior year, as the Goods business launched in the second half of 2011. The increase in cost of revenue for the year ended December 31, 2012, as compared to the prior year, was also due to an increase in estimated refunds for which the merchant's share is not recoverable related to our third party revenue deals, increased processing fees directly related to higher overall transaction volumes and increased email distribution costs as a result of our larger subscriber base.

Cost of Revenue by Segment

Cost of revenue by segment for the years ended December 31, 2012 and 2011 was as follows:

	Year Ended December 31,					
	2012	% of total		2011	% of total	
	dollars in thousands					
North America:						
Third party and other	$145,212	20.2	%	$139,954	54.1	%
Direct	365,179	50.8		—	—	
Total segment cost of revenue	510,391	71.0		139,954	54.1	
EMEA:						
Third party and other	73,654	10.2		58,367	22.5	
Direct	42,638	6.0		15,090	5.8	
Total segment cost of revenue	116,292	16.2		73,457	28.3	
Rest of World:						
Third party and other	78,873	11.0		45,468	17.6	
Direct	13,384	1.8		—	—	
Total segment cost of revenue	92,257	12.8		45,468	17.6	
Total cost of revenue	$718,940	100.0	%	$258,879	100.0	%

North America

North America segment cost of revenue increased by $370.4 million to $510.4 million for the year ended December 31, 2012, as compared to $140.0 million for the year ended December 31, 2011. The increase in cost of revenue was primarily driven by the cost of inventory and shipping and fulfillment costs related to direct revenue deals.

EMEA

EMEA segment cost of revenue increased by $42.8 million to $116.3 million for the year ended December 31, 2012, as compared to $73.5 million for the year ended December 31, 2011. The increase in cost of revenue was primarily driven by the continued growth of our third party and direct revenue deals during the year ended December 31, 2012, as compared to the prior year.

Rest of World

Rest of World segment cost of revenue increased by $46.8 million to $92.3 million for the year ended December 31, 2012, as compared to $45.5 million for the year ended December 31, 2011. The increase in cost of revenue was primarily driven by the continued growth of our third party and direct revenue deals during the year ended December 31, 2012, as compared to the prior year.

Gross Profit

Gross profit for the years ended December 31, 2012 and 2011 was as follows:

	Year Ended December 31,	
	2012	2011
	(in thousands)	
Gross profit:		
Third party	$1,561,736	$1,340,162
Direct	33,542	5,736
Other	20,254	5,653
Total gross profit	$1,615,532	$1,351,551

Gross profit increased by $264.0 million to $1,615.5 million for the year ended December 31, 2012, as compared to $1,351.6 million for the year ended December 31, 2011. This increase in gross profit resulted from the $724.0 million increase in revenue, partially offset by the $460.1 million increase in cost of revenue for the year ended December 31, 2012, as compared to the prior year. Gross profit as a percentage of revenue decreased to 69.2% for the year ended December 31, 2012, as compared to 83.9% for the year ended December 31, 2011. The decrease in gross profit as a percentage of revenue for the year ended December 31, 2012, as compared to the prior year, was primarily attributable to the increase in direct revenue. Direct revenue primarily relates to deals in our Goods category, which typically have lower margins than deals in our Local category. Additionally, direct revenue and the related cost of revenue are presented on a gross basis in our consolidated statements of operations, which contributes to lower gross profit as a percentage of revenue.

Gross profit on third party revenue deals and other revenue increased by $236.2 million to $1,582.0 million for the year ended December 31, 2012, as compared to $1,345.8 million for the year ended December 31, 2011. This increase in gross profit resulted from the $960.8 million increase in gross billings on third party revenue transactions and other revenue to $4,925.4 million for the year ended December 31, 2012, as compared to $3,964.7 million for the year ended December 31, 2011, partially offset by a reduction in the percentage of billings that we retained from third party revenue transactions for the year ended December 31, 2012. Gross profit as a percentage of revenue on third party revenue deals and other revenue was 84.2% for the year ended December 31, 2012, as compared to 84.7% for the year ended December 31, 2011.

Gross profit on direct revenue deals increased by $27.8 million to $33.5 million for the year ended December 31, 2012, as compared to $5.7 million for the year ended December 31, 2011. This increase in gross profit resulted from the $433.9 million increase in direct revenue to $454.7 million for the year ended December 31, 2012, as compared to $20.8 million for the year ended December 31, 2011, partially offset by the $406.1 million increase in cost of revenue on direct revenue deals to $421.2 million for the year ended December 31, 2012, as compared to $15.1 million for the year ended December 31, 2011. Gross profit as a percentage of revenue on direct revenue deals was 7.4% for the year ended December 31, 2012, as compared to 27.5% for

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the year ended December 31, 2011. The Goods category, which comprises the majority of our direct revenue for the year ended December 31, 2012, was not launched until the second half of 2011. Therefore, the comparison of gross profit as a percentage of revenue on direct revenue deals for the year ended December 31, 2012, as compared to the prior year, is not meaningful due to the limited volume of direct revenue deals in 2011.

Gross Profit by Segment

Gross profit by segment for the years ended December 31, 2012 and 2011 was as follows:

	Year Ended December 31,			
	2012	% of total	2011	% of total
	(dollars in thousands)			
North America:				
Third party and other	$617,212	38.2 %	$495,026	36.6 %
Direct	38,097	2.4	—	—
Total gross profit	655,309	40.6	495,026	36.6
EMEA:				
Third party and other	691,176	42.8	641,026	47.4
Direct	(1,992)	(0.1)	5,736	0.5
Total gross profit	689,184	42.7	646,762	47.9
Rest of World:				
Third party and other	273,602	16.9	209,763	15.5
Direct	(2,563)	(0.2)	—	—
Total gross profit	271,039	16.7	209,763	15.5
Total gross profit	$1,615,532	100.0 %	$1,351,551	100.0 %

North America

North America segment gross profit increased by $160.3 million to $655.3 million for the year ended December 31, 2012, as compared to $495.0 million for the year ended December 31, 2011. The increase in gross profit was comprised of a $122.2 million increase in third party and other gross profit and a $38.1 million increase in direct gross profit.

EMEA

EMEA segment gross profit increased by $42.4 million to $689.2 million for the year ended December 31, 2012, as compared to $646.8 million for the year ended December 31, 2011. The increase in gross profit was comprised of a $50.2 million increase in third party and other gross profit, partially offset by a $7.8 million decrease in direct gross profit.

Rest of World

Rest of World segment gross profit increased by $61.3 million to $271.1 million as of December 31, 2012, as compared to $209.8 million as of December 31, 2011. The increase in gross profit was comprised of a $63.8 million increase in third party and other gross profit, partially offset by a $2.5 million decrease in direct gross profit.

Marketing

For the years ended December 31, 2012 and 2011, marketing expense was $336.9 million and $768.5 million, respectively. Marketing expense by segment as a percentage of segment revenue for the years ended December 31, 2012 and 2011 was as follows:

	Year Ended December 31,					
	2012	% of Segment Revenue		2011	% of Segment Revenue	
	(dollars in thousands)					
North America	$105,914	9.1	%	$254,746	40.1	%
EMEA	156,476	19.4	%	297,522	41.3	%
Rest of World	74,464	20.5	%	216,204	84.7	%
Marketing	$336,854	14.4	%	$768,472	47.7	%

We evaluate our marketing expense as a percentage of revenue because it gives us an indication of how well our marketing spend is driving the volume of transactions. Marketing expense as a percentage of revenue for the year ended December 31, 2012 has decreased from the prior year, which we believe is due to efficiencies we have realized from building a subscriber base and shifting our marketing spend to customer activation. In 2010, we began our international expansion and subsequently made significant marketing investments related to subscriber acquisition in our international markets to accelerate growth and establish our presence in new markets. We continued to invest heavily in subscriber acquisition throughout 2011. Additionally, the increase in revenue, including direct revenue that is reported on a gross basis, contributed to the decline in marketing expense as a percentage of revenue for the year ended December 31, 2012, as compared to the prior year.

Marketing expense by segment as a percentage of total marketing expense for the years ended December 31, 2012 and 2011 was as follows:

	Year Ended December 31,					
	2012	% of total		2011	% of total	
	(dollars in thousands)					
North America	$105,914	31.4	%	$254,746	33.1	%
EMEA	156,476	46.5		297,522	38.7	
Rest of World	74,464	22.1		216,204	28.2	
Marketing	$336,854	100.0	%	$768,472	100.0	%

Our marketing expense decreased by $431.6 million to $336.9 million for the year ended December 31, 2012, as compared to $768.5 million for the year ended December 31, 2011. For the year ended December 31, 2011, subscriber acquisition still comprised the primary portion of our marketing spend, particularly in our international markets as we were still in the early phases of building our customer base in those markets. As our markets developed throughout the year ended December 31, 2012, we began shifting our marketing spend from subscriber acquisition marketing to customer activation, which contributed to lower marketing expense the year ended December 31, 2012, as compared to the prior year.

North America

North America segment marketing expense decreased by $148.8 million to $105.9 million for the year ended December 31, 2012, as compared to $254.7 million for the year ended December 31, 2011. For the year ended December 31, 2012, marketing expense as a percentage of revenue for the North America segment was 9.1%, as compared to 40.1% for the year ended December 31, 2011. The decreases were primarily attributable to a decrease in online marketing spend. This reflected the continued shift in focus from subscriber acquisition marketing to customer activation, which contributed to lower marketing expense for the year ended December 31, 2012, as compared to the prior year.

EMEA

EMEA segment marketing expense decreased by $141.0 million to $156.5 million for the year ended December 31, 2012, as compared to $297.5 million for the year ended December 31, 2011. For the year ended December 31, 2012, marketing expense as a percentage of revenue for the EMEA segment was 19.4%, as compared to 41.3% for the year ended December 31, 2011. The decreases were primarily attributable to a decrease in online marketing spend. This reflected the continued shift in focus from subscriber acquisition marketing to customer activation, which contributed to lower marketing expense for the year ended December 31, 2012, as compared to the prior year.

Rest of World

Rest of World segment marketing expense decreased by $141.7 million to $74.5 million for the year ended December 31, 2012, as compared to $216.2 million for the year ended December 31, 2011. For the year ended December 31, 2012, marketing expense as a percentage of revenue for the Rest of World segment was 20.5%, as compared to 87.4% for the year ended December 31, 2011. The decreases were primarily attributable to a decrease in online marketing spend. This reflected the continued shift in focus from subscriber acquisition marketing to customer activation, which contributed to lower marketing expense for the year ended December 31, 2012, as compared to the prior year.

Selling, General and Administrative

Selling, general and administrative expense increased by $358.1 million to $1,179.1 million for the year ended December 31, 2012, as compared to $821.0 million for the year ended December 31, 2011. The increase in selling, general and administrative expense was primarily due to increases in wages and benefits, consulting and professional fees, depreciation and amortization, rent expense and system maintenance expenses. Additionally, selling, general and administrative expense as a percentage of revenue for our EMEA segment of 54.9% and our Rest of World Segment of 72.2% were significantly higher than for our North America segment of 40.7%. This was primarily a result of the build out of our international operations, including both sales force and administrative personnel.

Wages and benefits (excluding stock-based compensation) within selling, general and administrative expense increased by $220.2 million to $653.6 million for the year ended December 31, 2012, as compared to the prior year, as we added sales force, technology and administrative personnel to support our business. Stock-based compensation costs within selling, general and administrative expense also increased to $97.6 million for the year ended December 31, 2012, as compared to $89.9 million for the year ended December 31, 2011, due to the addition of certain key personnel to the Company. Our consulting and professional fees increased by $22.9 million for the year ended December 31, 2012, as compared to the prior year, primarily related to higher legal and accounting-related costs. Depreciation and amortization recorded within selling, general and administrative expense increased by $19.7 million and rent expense increased by $17.5 million for the year ended December 31, 2012, as compared to the prior year, primarily due to our expansion during 2011 and 2012. There was a $34.6 million increase in system maintenance expenses for the year ended December 31, 2012, as compared to the prior year, as a result of investments in technology and our corporate infrastructure.

Acquisition Related Expense (Benefit), Net

For the years ended December 31, 2012 and 2011, we incurred net acquisition-related expenses of $0.9 million and benefits of $4.5 million, respectively, representing changes in the fair value of contingent consideration liabilities from business acquisitions. See Note 13 "Fair Value Measurements."

Income (Loss) from Operations

Income from operations increased by $332.1 million to income from operations of $98.7 million for the year ended December 31, 2012, as compared to a loss from operations of $233.4 million for the year ended December 31, 2011. The increase to income from operations for the year ended December 31, 2012 from the loss from operations for the year ended December 31, 2011 was primarily due to the decrease in marketing expense of $431.6 million and the increase in gross profit of $264.0 million, partially offset by the increase in selling, general and administrative expense of $358.1 million. The unfavorable impact on income from operations from year-over-year changes in foreign exchange rates for the year ended December 31, 2012 was $7.4 million.

North America

Segment operating income in our North America segment, which excludes stock-based compensation and acquisition-related expense (benefit), net, increased by $134.9 million to $139.7 million for the year ended December 31, 2012, as compared to $4.8 million for the year ended December 31, 2011. The increase in segment operating income was primarily attributable to an increase in gross profit, partially offset by an increase in segment operating expenses.

EMEA

Segment operating income in our EMEA segment, which excludes stock-based compensation and acquisition-related expense (benefit), net, increased by $40.8 million to $106.0 million for the year ended December 31, 2012, as compared to $65.2 million for the year ended December 31, 2011. The increase in segment operating income was primarily attributable to an increase in gross profit.

Rest of World

Segment operating loss in our Rest of World segment, which excludes stock-based compensation and acquisition-related expense (benefit), net, decreased by $172.4 million to a loss of $42.0 million for the year ended December 31, 2012, as compared to a loss of $214.4 million for the year ended December 31, 2011. The decrease in segment operating loss was primarily attributable to a decrease in segment operating expenses and an increase in gross profit.

Other Income, Net

Other income, net includes foreign currency transaction gains and losses, primarily resulting from intercompany balances related to our foreign subsidiaries that are denominated in currencies other than their functional currencies, interest income on our cash and cash equivalents and other non-operating gains and losses.

Other income, net was $6.2 million for the year ended December 31, 2012, as compared to $6.0 million for the year ended December 31, 2011. During the year ended December 31, 2012, other income, net included a $56.0 million gain resulting from the E-Commerce transaction partially offset by a $50.6 million impairment of our investments in F-tuan. The impairments of our investments in F-tuan and the gain on the E-Commerce transaction are described in Note 6 "Investments." During the year ended December 31, 2011, other income, net included $4.9 million related to the return of 400,000 shares of non-voting common stock from a former executive officer in connection with a separation agreement.

Provision for Income Taxes

For the years ended December 31, 2012 and 2011, we recorded income tax expense of $146.0 million and $43.7 million, respectively.

The effective tax rate was 153.7% for the year ended December 31, 2012, as compared to (17.2)% for the year ended December 31, 2011. The most significant factors impacting our effective tax rate for the year ended December 31, 2012 were the impact of unrecognized tax benefits related to income tax uncertainties in certain foreign jurisdictions, losses in jurisdictions that we are not able to benefit due to uncertainty as to the realization of those losses, amortization of the tax effects of intercompany sales of intellectual property and nondeductible stock-based compensation expense. The most significant factors impacting our effective tax rate for the year ended December 31, 2011 were losses in jurisdictions that we are not able to benefit due to uncertainty as to the realization of those losses and nondeductible stock-based compensation expense.

Non-GAAP Financial Measures

In addition to financial results reported in accordance with U.S. GAAP, we have provided the following non-GAAP financial measures: operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net, Adjusted EBITDA, free cash flow and foreign exchange rate neutral operating results. These non-GAAP financial measures are used in addition to and in conjunction with results presented in accordance with U.S. GAAP. However, these measures are not intended to be a substitute for those reported in accordance with U.S. GAAP. These measures may be different from non-GAAP financial measures used by other companies, even when similar terms are used to identify such measures.

Operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net. Operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net is a non-GAAP financial measure that comprises the consolidated total of the segment operating income (loss) of our three segments, North America, EMEA and Rest of World. Stock-based compensation expense and acquisition-related expense (benefit), net are excluded from segment operating income (loss) that we report under U.S. GAAP for our segments. Stock-based compensation expense is primarily a non-cash item. Acquisition-related expense (benefit), net is comprised of the change in the fair value of contingent consideration arrangements and, beginning in 2013, also includes external transaction costs related to business combinations, primarily consisting of legal and advisory fees. We have used consolidated operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net to allocate resources and evaluate performance internally.

We have considered operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net to be an important measure for management to evaluate the performance of our business. However, in recent periods our management and Board of Directors have increasingly focused on Adjusted EBITDA, described below, as the primary non-GAAP measure for evaluating our consolidated operating results. Accordingly, we do not expect to continue to report Operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net on a consolidated basis in future periods.

We believe it is important to view operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net as a complement to our entire consolidated statements of operations. When evaluating our performance, you should consider operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net as a complement to other financial performance measures, including net income (loss) and our other U.S. GAAP results.

The following is a reconciliation of Operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net to the most comparable U.S. GAAP financial measure, "Income (loss) from operations," for the years ended December 31, 2013, 2012 and 2011.

	Year Ended December 31,		
	2013	2012	2011
Income (loss) from operations	$75,754	$98,701	$(233,386)
Adjustments:			
Stock-based compensation[1]	121,462	104,117	93,590
Acquisition-related (benefit) expense, net[2]	(11)	897	(4,537)
Total adjustments	121,451	105,014	89,053
Operating income (loss) excluding stock-based compensation and acquisition-related (benefit) expense, net	$197,205	$203,715	$(144,333)

(1) Represents stock-based compensation expense recorded within "Selling, general and administrative," "Cost of revenue," and "Marketing" on the consolidated statements of operations.

(2) Represents changes in the fair value of contingent consideration related to business combinations and, beginning in 2013, also includes external transaction costs related to business combinations, primarily consisting of legal and advisory fees. Those external transaction costs were not material for the years ended December 31, 2012 and 2011.

Adjusted EBITDA. Adjusted EBITDA is a non-GAAP financial measure that comprises net income (loss) excluding income taxes, interest and other non-operating items, depreciation and amortization, stock-based compensation and acquisition-related expense (benefit), net. Adjusted EBITDA is similar to Operating income (loss) excluding stock-based compensation and acquisition-related expense (benefit), net, except Adjusted EBITDA also excludes depreciation and amortization. We exclude depreciation and amortization because it is non-cash in nature, and we believe that non-GAAP financial measures excluding these

items provide meaningful supplemental information about our operating performance and liquidity. Our definition of Adjusted EBITDA may differ from similar measures used by other companies, even when similar terms are used to identify such measures. Adjusted EBITDA is a key measure used by our management and Board of Directors to evaluate operating performance, generate future operating plans and make strategic decisions for the allocation of capital. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and Board of Directors.
The following is a reconciliation of Adjusted EBITDA to the most comparable U.S. GAAP financial measure, "Net income (loss)" for the years ended December 31, 2013, 2012 and 2011.

	Year Ended December 31,		
	2013	2012	2011
Net loss	$(88,946)	$(51,031)	$(297,762)
Adjustments:			
Stock-based compensation[1]	121,462	104,117	93,590
Acquisition-related (benefit) expense, net[2]	(11)	897	(4,537)
Depreciation and amortization	89,449	55,801	32,055
Non-operating items:			
Loss on equity method investments	44	9,925	26,652
Other expense (income), net	94,619	(6,166)	(5,973)
Provision for income taxes	70,037	145,973	43,697
Total adjustments	375,600	310,547	185,484
Adjusted EBITDA	$286,654	$259,516	$(112,278)

(1) Represents stock-based compensation expense recorded within "Selling, general and administrative," "Cost of revenue," and "Marketing" on the consolidated statements of operations.

(2) Represents changes in the fair value of contingent consideration related to business combinations and, beginning in 2013, also includes external transaction costs related to business combinations, primarily consisting of legal and advisory fees. Those external transaction costs were not material for the years ended December 31, 2012 and 2011.

Free cash flow. Free cash flow is a non-GAAP financial measure that comprises net cash provided by operating activities less purchases of property and equipment and capitalized software. We use free cash flow, and ratios based on it, to conduct and evaluate our business because, although it is similar to cash flow from operations, we believe that it typically represents a more useful measure of cash flows because purchases of fixed assets, software developed for internal-use and website development costs are necessary components of our ongoing operations. Free cash flow is not intended to represent the total increase or decrease in our cash balance for the applicable period.

Free cash flow has limitations due to the fact that it does not represent the residual cash flow available for discretionary expenditures. For example, free cash flow does not include the cash payments for business acquisitions. In addition, free cash flow reflects the impact of the timing difference between when we are paid by customers and when we pay merchants and suppliers. Therefore, we believe it is important to view free cash flow as a complement to our entire consolidated statements of cash flows.

The following is a reconciliation of free cash flow to the most comparable U.S. GAAP financial measure, "Net cash provided by operating activities," for the years ended December 31, 2013, 2012 and 2011:

	Year Ended December 31,		
	2013	2012	2011
Net cash provided by operating activities	$218,432	$266,834	$290,447
Purchases of property and equipment and capitalized software	(63,505)	(95,836)	(43,811)
Free cash flow	$154,927	$170,998	$246,636
Net cash used in investing activities	$(96,315)	$(194,979)	$(147,433)
Net cash (used in) provided by financing activities	$(81,697)	$12,095	$867,205

Foreign exchange rate neutral operating results. Foreign exchange rate neutral operating results show current period operating results as if foreign currency exchange rates had remained the same as those in effect in the comparable prior year period. These measures are intended to facilitate comparisons to our historical performance. For a reconciliation of foreign exchange rate neutral operating results to the most comparable U.S. GAAP financial measure, see "Results of Operations" above.

Liquidity and Capital Resources

As of December 31, 2013, we had $1,240.5 million in cash and cash equivalents, which primarily consisted of cash, money market accounts and overnight securities.

Since our inception, we have funded our working capital requirements and expansion primarily with cash flows from operations and through public and private sales of common and preferred stock, which have yielded net proceeds of approximately $1,857.1 million. We generated positive cash flow from operations for the years ended December 31, 2013, 2012 and 2011, and we expect cash flow from operations to remain positive in annual periods for the foreseeable future. We generally use this cash flow to fund our operations, make additional acquisitions, purchase capital assets, purchase treasury stock and meet our other cash operating needs. Cash flow from operations was $218.4 million, $266.8 million and $290.4 million for the years ended December 31, 2013, 2012 and 2011, respectively.

We consider the undistributed earnings of our foreign subsidiaries as of December 31, 2013 to be indefinitely reinvested and, accordingly, no U.S. income taxes have been provided thereon. As of December 31, 2013, the amount of cash and cash equivalents held in foreign jurisdictions was approximately $432.7 million. We have not, nor do we anticipate the need to, repatriate funds to the United States to satisfy domestic liquidity needs arising in the ordinary course of business.

Although we can provide no assurances, we believe that our available cash and cash equivalents balance and cash generated from operations should be sufficient to meet our working capital requirements and other capital expenditures for at least the next twelve months.

Uses of Cash

On January 2, 2014, we acquired LivingSocial Korea, Inc., including its subsidiary Ticket Monster, for total consideration of $100.0 million cash and 13,825,283 shares of Class A common stock with an acquisition date fair value of $162.9 million. On January 13, 2014, we acquired Ideeli for $43.0 million in cash. We intend to continue to acquire additional businesses and make strategic minority investments in complementary businesses throughout 2014 to grow our subscriber base, expand our merchant relationships, enhance our technology capabilities and acquire experienced workforces. During the year ended December 31, 2013, we acquired seven businesses for an aggregate acquisition price of $16.1 million, of which $7.3 million was paid for in cash (net of cash acquired), and we expect to continue to use cash to make strategic acquisitions.

In order to support our current and future global expansion, we expect to continue to make significant investments in our technology platforms and business processes, as well as internal tools aimed at improving the efficiency of our operations. We will also continue to invest in sales and marketing as we seek to grow both the number of active deals available through our online local marketplaces and the volume of transactions through those marketplaces.

We currently plan to fund these investments in business acquisitions, strategic minority investments, technology, and sales and marketing with our available cash and cash equivalents and cash flow generated from our operations. We may also seek to raise additional financing in the capital markets, if available on terms that we believe are favorable, to increase the amount of liquid funds that we can access for future acquisitions or other strategic investment opportunities.

In August 2013, our Board of Directors authorized a share repurchase program. Under the program, we are authorized to repurchase up to $300 million of our outstanding Class A common stock through August 2015. The timing and amount of any share repurchases will be determined based on market conditions, share price and other factors, and the program may be discontinued or suspended at any time. We will fund the repurchases through cash on hand and future cash flow. Repurchases will be made in compliance with SEC rules and other legal requirements and may be made in part under a Rule 10b5-1 plan, which permits stock repurchases when the Company might otherwise be precluded from doing so. During the year ended December 31, 2013, we purchased 4,432,800 shares of Class A common stock for an aggregate purchase price of $46.6 million (including fees and commissions) under the share repurchase program.

Cash Flow

Our net cash flows from operating, investing and financing activities for the years ended December 31, 2013, 2012 and 2011 were as follows:

	Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Cash provided by (used in):			
Operating activities	$218,432	$266,834	$290,447
Investing activities	(96,315)	(194,979)	(147,433)
Financing activities	(81,697)	12,095	867,205
Effect of changes in exchange rates on cash and cash equivalents	(9,237)	2,404	(6,117)
Net increase in cash and cash equivalents	$31,183	$86,354	$1,004,102

Cash Provided By Operating Activities

Cash provided by operating activities primarily consists of our net loss adjusted for certain items, including depreciation and amortization, stock based compensation, deferred income taxes and the effect of changes in working capital and other items.

Our current merchant arrangements are structured as either a redemption payment model or a fixed payment model defined as follows:

Redemption payment model - We typically pay our merchants upon redemption for the majority of deals in our EMEA and Rest of World segments. Under our redemption merchant payment model, we collect payments at the time our customers purchase Groupons and make payments to our merchants at a subsequent date. Using this payment model, merchants are not paid until the customer redeems the Groupon that has been purchased. If a customer does not redeem the Groupon under this payment model, we retain all of the gross billings from the unredeemed Groupon. The redemption model generally improves our overall cash flow because we do not pay our merchants until the customer redeems the Groupon.

Fixed payment model - We typically pay our merchants under the fixed payment model for the majority of deals in North America. Under our fixed merchant payment model, we have historically paid our merchants in installments over a period of sixty days for third party revenue deals. However, for third party revenue deals in which the merchant has a continuous presence on our websites and mobile applications by offering deals for an extended period of time, which currently represents a substantial majority of our third party revenue deals in North America, we remit payments to the merchant on an ongoing basis, generally bi-weekly, throughout the term of the offering. For direct revenue deals in our Goods category, payment terms with our suppliers typically range from net 30 days to net 60 days. Under the fixed payment model, merchants are paid regardless of whether the Groupon is redeemed.

We experience swings in accrued merchant and supplier payables associated with our normal revenue-generating activities, including both third party and direct revenue sales transactions, that can cause volatility in working capital levels and impact cash balances more or less than our operating income or loss would indicate. In recent periods, the shift in our business from limited-time daily deal offerings to a demand fulfillment model that enables customers to search for goods and services that are offered by merchants for an extended period of time through our websites and mobile applications has reduced our overall cash flow benefits from the timing differences between when we receive cash from customers and remit payments to our merchants. We pay merchants who offer deals for an extended period of time on an ongoing basis, generally bi-weekly, throughout the term of the offering. We expect this trend to continue in the future.

We believe that seasonal fluctuations will continue to impact our cash flows, particularly as a result of the growth of our Goods category. Our operating cash flow of $178.3 million in the fourth quarter of 2013 represented 81.6% of our operating cash flow for the full year and was primarily attributable to the seasonal increase in direct revenue in our Goods category during the holiday season. Our operating cash flow benefited by an $88.5 million increase in accrued merchant and supplier payables during the year ended December 31, 2013, which was primarily due to the timing of payments to suppliers of merchandise and the seasonally high levels of Goods transactions in the fourth quarter of 2013. Our operating cash flow benefited by a $149.9 million increase in accrued merchant and supplier payables during the year ended December 31, 2012, as we were experiencing more favorable growth rates in our Local category at that time and our Goods category was much smaller in late 2011. The cash flow impact of changes in accrued merchant and supplier payables during the years ended December 31, 2013 and 2012 was a primary driver of the $48.4 million decrease in cash provided by operating activities between those periods. We expect that our operating cash flow will decrease significantly and may be negative in the first quarter of 2014 as we pay suppliers for merchandise inventory that we sold during the 2013 holiday season.

For the year ended December 31, 2013, our net cash provided by operating activities was $218.4 million, which consisted of a $255.2 million net increase for certain non-cash items and a $52.2 million net increase related to changes in working capital and other assets and liabilities, partially offset by an $88.9 million net loss. The net adjustments for certain non-cash items include $121.5 million of stock-based compensation expense, $89.4 million of depreciation and amortization expense and an $85.9 million impairment of our investments in F-tuan, partially offset by $20.5 million of excess tax benefits on stock-based compensation. The net increase in cash resulting from changes in working capital activities primarily consisted of an $88.5 million increase in accrued merchant and supplier payables and an $11.0 million decrease in account receivable, partially offset by a $62.9 million increase in prepaid expenses and other current assets, a $31.3 million decrease in accounts payable and a $4.1 million decrease in accrued expenses and other current liabilities. The significant increase in merchant and supplier payables was primarily attributable to amounts owed to suppliers of merchandise inventory due to the seasonal increase in direct revenue in our Goods category during the holiday season.

For the year ended December 31, 2012, our net cash provided by operating activities was $266.8 million, which consisted of a $187.3 million net increase related to changes in working capital and other assets and liabilities and a $130.6 million net increase for certain non-cash items, partially offset by a $51.0 million net loss. The net increase in cash resulting from changes in working capital activities primarily consisted of a $149.9 million increase in merchant and supplier payables and a $47.7 million increase in accrued expenses and other current liabilities, due to the continued growth in the business. Liabilities included in accrued expenses and other current liabilities are primarily the reserve for customer refunds, accrued payroll and benefits, costs associated with subscriber credits and VAT and sales taxes payable. The net increase in accrued expenses and other current liabilities primarily reflect the significant increase in the number of employees, vendors, and customers resulting from our internal growth and global expansion. The net increase in cash resulting from changes in working capital activities also included an $18.7 million increase in accounts payable due to general business growth, partially offset by a $70.9 million increase in prepaid expenses and other current assets as a result of business growth and increases in inventory relating to our Goods category. The net adjustments for certain non-cash items include $104.1 million of stock-based compensation expense, $55.8 million of depreciation and amortization expense and $50.6 million for the impairment of the F-tuan cost method investment, partially offset by $56.0 million for the gain recognized on the E-Commerce transaction.

For the year ended December 31, 2011, our net cash provided by operating activities of $290.4 million, which consisted of a $423.3 million net increase related to changes in working capital and other assets and liabilities and a $164.9 million net increase for certain non-cash items, partially offset by a $297.8 million net loss. The net increase in cash resulting from changes in working capital activities primarily consisted of a $380.1 million increase in our merchant and supplier payables, due to continued growth in the daily deals business and a $189.1 million increase in accrued expenses and other current liabilities. Liabilities included in accrued expenses and other current liabilities are primarily online marketing costs incurred to acquire and retain customers, the reserve for customer refunds, accrued payroll and benefits, subscriber credits and VAT and sales taxes payable. Increases in accrued expenses and other current liabilities primarily reflect the significant increase in the number of employees, vendors, and customers resulting from our internal growth and global expansion through recent acquisitions. These increases were partially offset by a $70.4 million increase in accounts receivable, primarily attributable to an increase in revenue for the year ended December 31, 2011, and a $36.3 million increase in prepaid expenses and other current assets, as a result of business growth. The net adjustments for certain non-cash items include $93.6 million of stock based compensation expense, $32.2 million of deferred income tax expense and $32.1 million of depreciation and amortization expense.

Cash Used In Investing Activities

Cash used in investing activities primarily consists of capital expenditures, additional investments in subsidiaries, minority investments and acquisitions of businesses.

For the year ended December 31, 2013, our net cash used in investing activities of $96.3 million primarily consisted of $63.5 million in capital expenditures, including capitalized internally-developed software, $22.0 million in purchases of investments, $7.3 million in net cash paid for business acquisitions, $2.0 million related to the settlement of the liability related to the purchase of an additional interest in a consolidated subsidiary and $1.5 million for purchases of intangible assets.

For the year ended December 31, 2012, our net cash used in investing activities of $195.0 million primarily consisted of $95.8 million in capital expenditures, including capitalized internally-developed software, $51.7 million invested in subsidiaries and minority investments and $46.9 million in net cash paid for business acquisitions.

For the year ended December 31, 2011, our net cash used in investing activities of $147.4 million primarily consisted of $74.7 million invested in subsidiaries and equity method investments, $43.8 million in capital expenditures, including capitalized internal-use software, $14.5 million for purchases of intangible assets and $14.4 million in net cash paid for business acquisitions. Intangible assets purchased in 2011 relate primarily to domain names.

Cash (Used in) Provided by Financing Activities

For the year ended December 31, 2013, our net cash used in financing activities of $81.7 million was driven primarily by taxes paid related to net share settlements of stock-based compensation awards of $47.6 million. We also paid $44.8 million for purchases of treasury stock under our share repurchase program, as described above. Our net cash used in financing activities was also due to partnership distributions to noncontrolling interest holders of $6.1 million, settlements of purchase price obligations related to acquisitions of $5.0 million and payments of capital lease obligations of $1.6 million, partially offset by $20.5 million of excess tax benefits related to stock-based compensation and $7.3 million of proceeds from stock option exercises and our employee stock purchase plan.

For the year ended December 31, 2012, our net cash provided by financing activities of $12.1 million was driven primarily by $27.0 million of excess tax benefits related to stock-based compensation, partially offset by tax withholdings related to net share settlements of stock-based compensation awards of $13.0 million.

For the year ended December 31, 2011, our net cash provided by financing activities of $867.2 million was driven primarily by $1,266.4 million of net cash proceeds from the issuance of common and preferred stock, partially offset by $353.8 million for the purchase of treasury stock, $35.0 million for the redemption of our preferred stock and $14.4 million for the repayment of related party loans incurred in connection with the CityDeal acquisition.

Free Cash Flow

Free cash flow, a non-GAAP financial measure, was $154.9 million, $171.0 million, and $246.6 million for the years ended December 31, 2013, 2012 and 2011, respectively. The decrease in free cash flow for the year ended December 31, 2013, as compared to the prior year, was primarily due to the $48.4 million decrease in our operating cash flow, partially offset by lower capital expenditures. The decrease in free cash flow for the year ended December 31, 2012, as compared to the prior year was primarily due to higher capital expenditures and the $23.6 million decrease in our operating cash flow. For further information and a reconciliation to the most applicable financial measure under U.S. GAAP, refer to our discussion under "Non-GAAP Financial Measures" above.

Contractual Obligations and Commitments

The following table summarizes our future contractual obligations and commitments as of December 31, 2013. The table below excludes $109.3 million of non-current liabilities for unrecognized tax benefits, including interest and penalties, as of December 31, 2013. We cannot make a reasonable estimate of the period of cash settlement for the tax positions classified as non-current liabilities.

	Payments due by period						
	Total	2014	2015	2016	2017	2018	Thereafter
	(in thousands)						
Capital lease obligations(1)	$9,572	$3,803	$3,688	$2,081	$—	$—	$—
Operating lease obligations(2)	147,287	39,450	33,628	25,543	18,221	15,159	15,286
Purchase obligations(3)	16,905	11,718	4,356	541	145	145	—
Total	$173,764	$54,971	$41,672	$28,165	$18,366	$15,304	$15,286

(1) Capital lease obligations include both principal and interest components of future minimum capital lease payments.

(2) Operating lease obligations are primarily for office facilities and are non-cancelable. Certain leases contain periodic rent escalation adjustments and renewal and expansion options. Operating lease obligations expire at various dates with the latest maturity in 2023.

(3) Purchase obligations primarily represent non-cancelable contractual obligations related to information technology products and services.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of December 31, 2013.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). Our significant accounting policies are discussed in Note 2 "Summary of Significant Accounting Policies" in the notes to the consolidated financial statements.

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts and classifications of assets and liabilities, revenue and expense, and related disclosure of contingent liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. If actual amounts are ultimately different from previous estimates, the revisions are included in our results of operations for the period in which the actual amounts become known.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the financial statements. Management believes its critical accounting policies that reflect its more significant estimates and assumptions are policies related to revenue recognition, refunds, goodwill and long-lived assets, income taxes and other-than-temporary impairments.

Revenue Recognition

We recognize revenue when the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred; the selling price is fixed or determinable; and collection is reasonably assured.

Third party revenue recognition

We generate third party revenue, where we act as the third party marketing agent, by offering goods and services provided by third party merchants at a discount through our online local commerce marketplaces that connect merchants to consumers. Our marketplaces include deals offered in three primary categories: Local, Goods and Travel. Customers purchase the discount vouchers ("Groupons") from us and redeem them with our merchants.

The revenue recognition criteria are met when the customer purchases a deal, the Groupon has been electronically delivered to the purchaser and a listing of Groupons sold has been made available to the merchant. At that time, our obligations to the merchant, for which we are serving as a marketing agent, are substantially complete. Our remaining obligations, which are limited to remitting payment to the merchant and continuing to make available on our website information about Groupons sold that was previously provided to the merchant, are inconsequential or perfunctory.

For a portion of the hotel deals offered through our online local marketplaces, we facilitate the booking of rooms by taking reservations through our websites and managing any subsequent changes to those reservations. We defer the revenue on those deals until the customer's stay occurs.

We record as revenue the net amount we retain from the sale of Groupons after deducting the portion of the purchase price that is payable to the featured merchant, excluding applicable taxes and net of estimated refunds for which the merchant's share is recoverable. Revenue is recorded on a net basis because we are acting as a marketing agent of the merchant in the transaction.

For merchant payment arrangements that are structured under a redemption model, merchants are not paid until the customer redeems the Groupon that has been purchased. If a customer does not redeem the Groupon under this payment model, we retain all the gross billings. We record revenue from unredeemed Groupons and derecognize the related accrued merchant payable when our legal obligation to the merchant expires, which we believe is shortly after deal expiration in most jurisdictions that have payment arrangements structured under a redemption model. However, prior to the quarter ended September 30, 2012, we had historically concluded based on our interpretation of applicable German law that our obligation to merchants in that jurisdiction extended for three years. Due to a German tax ruling, which required us to remit value-added taxes (VAT) earlier on unredeemed Groupons, we began recognizing revenue from unredeemed Groupons in Germany shortly after deal expiration during the quarter ended September 30, 2012, consistent with most other jurisdictions. As a result, the quarter ended September 30, 2012 included an $18.5 million one-time increase to third party revenue, which represented the cumulative impact of deals in Germany for which, based on the German tax ruling, the Company's obligation to the merchant would have ended prior to the third quarter of 2012.

Direct revenue recognition

We evaluate whether it is appropriate to record the gross amount of our sales and related costs by considering a number of factors, including, among other things, whether we are the primary obligor under the arrangement, have inventory risk and have latitude in establishing prices.

Direct revenue is derived primarily from selling consumer products through our Goods category where we are the merchant of record. We are the primary obligor in these transactions, are subject to general inventory risk and have latitude in establishing prices. Accordingly, direct revenue is recorded on a gross basis, excluding applicable taxes and net of estimated refunds. For purposes of evaluating whether product revenue should be recognized on a gross basis, unmitigated general inventory risk is a strong indicator of whether a seller has the risks and rewards of a principal to the sale transaction. U.S. GAAP specifies that general inventory risk exists if a seller either takes title to a product before that product is ordered by a customer (that is, maintains the product in inventory) or will take title to the product if it is returned by the customer (that is, back-end inventory risk) and the customer has a right of return. We have unmitigated general inventory risk on all of our direct revenue. Currently, that general inventory risk is primarily in the form of back-end inventory risk, as the amount of inventory that we maintain on hand has not been significant in relation to the amount of our direct revenue. However, we had $57.1 million of finished goods inventory on hand as of December 31, 2013, and in future periods we may increase the levels of inventory on hand for our Goods category. For Goods transactions where we are performing a service by acting as a marketing agent of the merchant, revenue is recorded on a net basis and is presented within third party revenue.

Direct revenue, including associated shipping revenue, is recorded when title passes to the customer. In connection with our rollout of increased direct revenue deals outside the United States, a global change was made to customer terms and conditions in the fourth quarter of 2013 to specify that title to products transfers upon delivery. As a result of this change, we began recognizing direct revenue upon delivery, rather than shipment.

Discounts

We provide discount offers to encourage purchases of goods and services through our marketplaces. We record discounts as a reduction of revenue.

Refunds

We estimate future refunds utilizing a statistical model that incorporates the following data inputs and factors: historical refund experience developed from millions of deals featured on our website, the relative risk of refunds based on expiration date, deal value, deal category and other qualitative factors that could impact the level of future refunds, such as introductions of new deals, discontinuations of legacy deals and expected changes, if any, in our practices in response to refund experience or economic trends that might impact customer demand. The portion of customer refunds for which the merchant's share is not recoverable on third party revenue deals is estimated based on the refunds that are expected to be issued after expiration of the related vouchers, the refunds that are expected to be issued due to the merchant bankruptcy or poor customer experience, and whether the payment terms of the related merchant contracts are structured using a redemption payment model or a fixed payment model.

In early 2012, actual refund activity for deals featured late in 2011 was demonstrating a consistent trend that was deviating from the modeled refund behavior, due in part to a shift in fourth quarter deal mix and higher price point offers. Accordingly, we updated our refund model to better capture variations in trends in our business. By continually refining the refund model to reflect such data inputs as discussed above, we believe our model enables us to track and anticipate refund behavior.

We accrue costs associated with refunds within "Accrued expenses" on the consolidated balance sheets. The cost of refunds for third party revenue where the amounts payable to the merchant are recoverable and for all direct revenue is presented on the consolidated statements of operations as a reduction to revenue. The cost of refunds for third party revenue for which the merchant's share is not recoverable is presented as a cost of revenue.

We assess the trends that could affect our estimates on an ongoing basis and make adjustments to the refund reserve calculations if it appears that changes in circumstances, including changes to the Company's refund policies, may cause future refunds to differ from our original estimates. If actual results are not consistent with the estimates or assumptions stated above, we may need to change our future estimates, and the effects could be material to the consolidated financial statements.

Impairment Assessments of Goodwill and Long-Lived Assets

A component of our growth strategy has been to acquire and integrate businesses that complement our existing operations. We account for business combinations using the acquisition method of accounting and allocate the acquisition price of acquired companies to the tangible and intangible assets acquired and liabilities assumed based upon their estimated fair values at the acquisition date. The difference between the acquisition price and the fair value of the net assets acquired is recorded as goodwill.

In determining the fair value of assets acquired and liabilities assumed in business combinations and for determining fair values in impairment tests, we use one of the following recognized valuation methods: the income approach (including discounted cash flows), the market approach and the cost approach. Our significant estimates in those fair value measurements include identifying business factors such as size, growth, profitability, risk and return on investment and assessing comparable revenue and operating income multiples. Further, when measuring fair value based on discounted cash flows, we make assumptions about risk-adjusted discount rates, future price levels, rates of increase in revenue, cost of revenue, and operating expenses, weighted average cost of capital, rates of long-term growth, and income tax rates. Valuations are performed by management or third party valuation specialists under management's supervision, where appropriate. We believe that the estimated fair values assigned to the assets acquired and liabilities assumed and for determining fair value in business combinations and impairment tests are based on reasonable assumptions that marketplace participants would use. However, such assumptions are inherently uncertain and actual results could differ from those estimates.

Goodwill is allocated to our reporting units at the date the goodwill is initially recorded. Once goodwill has been allocated to the reporting units, it no longer retains its identification with a particular acquisition and becomes identified with the reporting unit in its entirety. Accordingly, the fair value of the reporting unit as a whole is available to support the recoverability of its goodwill.

We evaluate goodwill for impairment annually on October 1 or more frequently when an event occurs or circumstances change that indicates the carrying value may not be recoverable. We have the option to assess goodwill for impairment by first performing a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we determine that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then the two-step goodwill impairment test is not required to be performed. If we determine that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we perform the two-step goodwill impairment test. In the first step, the fair value of the reporting unit is compared to its book value including goodwill. If the fair value of the reporting unit is in excess of its book value, the related goodwill is not impaired and no further analysis is necessary. If the fair value of the reporting unit is less than its book value, there is an indication of potential impairment and a second step is performed. When required, the second step of testing involves calculating the implied fair value of goodwill for the reporting unit. The implied fair value of goodwill is determined in the same manner as goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit determined in step one over the fair value of its net assets and identifiable intangible assets as if the reporting unit had been acquired. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. For reporting units with a negative book value (i.e., excess of liabilities over assets), we evaluate qualitative factors to determine whether it is necessary to perform the second step of the goodwill impairment test. As of December 31, 2013, our market capitalization of $7.9 billion substantially exceeded our consolidated net book value of $711.7 million.

Goodwill is tested for impairment at the reporting unit level. As discussed in Note 15 "Segment Information," we changed the composition of our operating segments during the second quarter of 2013 to separate our former International segment between EMEA and Rest of World. As a result of this change in operating segments, our former EMEA reporting unit has been disaggregated into four new reporting units for goodwill impairment testing purposes: Southern EMEA, Western EMEA, Northern EMEA and Eastern/Central EMEA. Goodwill from the former EMEA reporting unit was reallocated to the four new EMEA reporting units based on their relative fair values.

Due to the establishment of the four new reporting units during the second quarter of 2013, we performed an interim goodwill impairment evaluation for those reporting units as of June 30, 2013. For the Southern EMEA and Northern EMEA reporting units, there was no impairment of goodwill because the fair value of those reporting units exceeded their carrying values. As of the June 30, 2013 testing date, liabilities exceeded assets for the Western EMEA and Eastern/Central EMEA reporting units. For reporting units with a negative book value (i.e., excess of liabilities over assets), qualitative factors are evaluated to determine whether it is necessary to perform the second step of the goodwill impairment test. Based on that evaluation, which included consideration of the significant growth of the businesses and improvement in their operating performance since they were acquired in May 2010, we determined that the likelihood of a goodwill impairment for the two reporting units with negative book values did not reach the more-likely-than-not threshold specified in U.S. GAAP. Accordingly, we concluded that the goodwill relating to the Western EMEA and Eastern/Central EMEA reporting units was not impaired as of June 30, 2013, and step two of the goodwill impairment test was not required to be performed. We also tested the former EMEA reporting unit for goodwill impairment immediately prior to the establishment of the four new reporting units and there was no impairment of goodwill because its fair value exceeded its carrying value.

In connection with our October 1, 2013 annual goodwill impairment evaluation, we elected to perform a qualitative assessment for the following reporting units to determine whether to perform the two-step quantitative impairment tests: North America, Southern EMEA, Western EMEA, Northern EMEA and Eastern/Central EMEA. Based on that evaluation, no impairment of goodwill was identified for any of those five reporting units because the likelihood of a goodwill impairment did not reach the more-likely-than-not threshold specified in U.S. GAAP. In performing that evaluation, some of the factors we considered included the recent operating performance of each of the five reporting units, the fair values of the four EMEA reporting units and related analyses performed three months earlier in connection with the interim goodwill impairment tests described above and the significant increases in our market capitalization since the most recent quantitative goodwill impairment tests (June 30, 2013 for the four EMEA reporting units and October 1, 2012 for the North America reporting unit).

We performed quantitative goodwill impairment tests as of October 1, 2013 for our APAC and LATAM reporting units. Liabilities exceeded assets for those reporting units at the impairment test date. Due to the recent declines in the operating performance of our Rest of World segment, which is comprised of the LATAM and APAC reporting units, we determined that the second step of the goodwill impairment test should be performed. The results of those tests indicated no impairment of goodwill as of October 1, 2013 for either the APAC or LATAM reporting units.

Long lived assets, such as property, equipment and software, net and intangible assets, net, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. If circumstances require that a long lived asset or asset group be tested for possible impairment, we first compare the undiscounted cash flows expected to be generated by that long-lived asset or asset group to its carrying amount. If the carrying amount of the long lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value.

Future changes in our assumptions or the interrelationship of those assumptions may negatively impact future valuations. In future measurements of fair value, adverse changes in assumptions could result in an impairment of goodwill or long-lived assets that would require a non-cash charge to the consolidated statements of operations and may have a material effect on our financial condition and operating results.

Income Taxes

We account for income taxes using the asset and liability method, under which deferred income tax assets and liabilities are recognized based upon anticipated future tax consequences attributable to differences between financial statement carrying values of assets and liabilities and their respective tax bases. We regularly review deferred tax assets to assess whether it is more likely than not that the deferred tax assets will be realized and, if necessary, establish a valuation allowance for portions of such assets to reduce the carrying value.

For purposes of assessing whether it is more likely than not that our deferred tax assets will be realized, we consider the following four sources of taxable income for each tax jurisdiction: (a) future reversals of existing taxable temporary differences, (b) projected future earnings, (c) taxable income in carryback years, to the extent that carrybacks are permitted under the tax laws of the applicable jurisdiction, and (d) tax planning strategies, which represent prudent and feasible actions that a company ordinarily might not take, but would take to prevent an operating loss or tax credit carryforward from expiring unused. To the extent that evidence about one or more of these sources of taxable income is sufficient to support a conclusion that a valuation allowance is not necessary, other sources need not be considered. Otherwise, evidence about each of the sources of taxable income is considered in arriving at a conclusion about the need for and amount of a valuation allowance. We have incurred significant losses in recent years and had accumulated deficits of $848.9 million and $753.5 million as of December 31, 2013 and 2012, respectively. A cumulative loss in the most recent three-year period is a significant piece of negative evidence that is difficult to overcome when assessing the realizability of deferred tax assets. Outside of the United States, we have only recognized deferred tax assets to the extent that they will be realizable either through future reversals of existing taxable temporary differences or through taxable income in carryback years for the applicable jurisdictions. Due to our cumulative losses outside of the United States, we have recognized valuation allowances against deferred tax assets that are not supported by those objective sources of taxable income. As of December 31, 2013, we have not recognized deferred tax assets without a valuation allowance outside of the United States when the only sources of taxable income are projected future earnings or tax planning strategies. For certain jurisdictions where applicable tax law imposes limitations that may prevent us from realizing our deferred tax assets through the scheduled reversal of taxable temporary differences, we have recorded valuation allowances in excess of the net deferred tax asset balances.

During the fourth quarter of 2013, earnings in the United States moved to a cumulative income position for the most recent three-year period. Based on the income in that jurisdiction in recent periods and projected future income, we released a portion of the valuation allowance against our federal and state deferred tax assets, resulting in a $9.6 million reduction to income tax expense. We continue to maintain a valuation allowance in the United States as of December 31, 2013 against a portion of our acquired federal net operating losses that are subject to limitations under the tax law and state net operating loss carryforwards and tax credits that are not expected to be realized.

As of December 31, 2013 and 2012, we recorded a valuation allowance of $173.6 million and $159.2 million, respectively, against our domestic and foreign net deferred tax assets, as we believe it is more likely than not that these benefits will not be realized. A change in the assumptions used to assess the realizability of our deferred tax assets could cause an increase or decrease to the valuation allowance and, consequently, our effective tax rate, which could materially impact our results of operations.

We are subject to taxation in the United States, various state and foreign jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes and recording the related income tax assets and liabilities. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. For example, our effective tax rate could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by changes in foreign currency exchange rates, by changes in the valuation of our deferred tax assets and liabilities, or by changes in the relevant tax, accounting and other laws, regulations, principles and interpretations. Our practice for accounting for uncertainty in income taxes is to recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not criteria, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

We are subject to audit in various jurisdictions, and such jurisdictions may assess additional income tax against us. Although we believe our tax estimates are reasonable, the final determination of any tax audits and any related litigation could be materially different from income tax provision accruals and, therefore, could materially affect our operating results or cash flows in the period(s) in which that determination is made.

Other-than-Temporary Impairment of Investments

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

For the year ended December 31, 2013, we recorded an $85.5 million other-than-temporary impairment of our investments in F-tuan. F-tuan has operated at a loss since its inception and has used proceeds from equity offerings to fund investments in marketing and other initiatives to grow its business. We participated in an equity funding round in 2013 and the aggregate cash proceeds raised by F-tuan in that round, which were funded in two installments in September and October 2013 and included proceeds received from another investor, were intended to fund its operations for approximately six months, at which time additional financing would be required. In December 2013, we were notified by F-tuan's largest shareholder, which had served as a source of funding and operational support, that they had made a strategic decision to cease providing support to F-tuan. At its December 12, 2013 meeting, our Board of Directors discussed our strategy with respect to the Chinese market in light of this information. After that meeting, management pursued opportunities to divest its minority investment in F-tuan either for cash or in exchange for a minority equity investment in a larger competitor, but no agreement was ultimately reached. At its February 11, 2014 meeting, our Board of Directors determined that we should not provide funding to F-tuan in future periods. At the present time, F-tuan requires additional financing to continue its operations. Given the uncertainty as to whether it will be able to obtain such financing and our decision not to provide significant funding ourselves, we believe that there is substantial doubt as to F-tuan's ability to operate as a going concern for the foreseeable future.

Our evaluation of other-than-temporary impairments involves consideration of qualitative and quantitative factors regarding the severity and duration of the unrealized loss, as well as our intent and ability to hold the investment for a period of time that is sufficient to allow for an anticipated recovery in value. As a result of F-tuan's immediate liquidity needs, the decision by existing shareholders to cease providing support, our inability to find a buyer for our minority investment, our decision not to be a source of significant funding and the expectation that any subsequent third party investment, if one occurs, would substantially dilute the existing shareholders, we concluded that our investment in F-tuan is other-than-temporarily impaired and our best estimate of fair value at the present time is zero. Accordingly, we have recognized an $85.5 million impairment charge in earnings for the year ended December 31, 2013.

For the year ended December 31, 2012, we recorded a $50.6 million other-than-temporary impairment of our investments in F-tuan. We obtained these investments in June 2012 as part of a transaction in which we received a 19% interest in F-tuan, in the form of common and Series E preferred shares, in exchange for our 49.8% interest in E-Commerce and an additional $25.0 million of cash consideration. We recognized a $56.0 million non-operating gain as a result of this transaction, which represented the excess of the acquisition-date fair value of the 19% interest in F-tuan that we acquired over the carrying value of our investment in E-Commerce and the $25.0 million of cash consideration. The $128.1 million acquisition-date fair value of our investments in F-tuan, a nonpublic entity, was determined using the discounted cash flow method, which is an income approach, and the resulting value was corroborated using the market approach. The inputs used to estimate fair value under the discounted cash flow method included financial projections and the discount rate. Because these fair value inputs are unobservable, fair value measurements of our investments in F-tuan are classified within Level 3 of the fair value hierarchy.

In connection with the acquisition-date fair value measurement of F-tuan, we obtained financial projections from the investee. We evaluated those financial projections based on our knowledge of the business and related market conditions. As a result of our evaluations, downward adjustments were applied to reduce the anticipated growth that was reflected in the original projections. We applied a 25% discount rate to the adjusted cash flow projections, which included an entity-specific risk premium to account for the riskiness and uncertainty inherent in the business. Additionally, we corroborated the acquisition-date fair value measurement of F-tuan by estimating the fair value of our 49.8% interest in E-Commerce at the time of the transaction and comparing the estimated fair value of the consideration we transferred, including the additional $25.0 million of cash consideration, to the estimated fair value of the investments in F-tuan that we obtained.

In January 2013, we obtained updated financial projections from the investee, as well as their operating results for the year ended December 31, 2012. The investee's operating loss for the year-ended December 31, 2012 was lower than the loss that was forecasted in June 2012 at the time of our investment, primarily due to lower-than-forecasted operating expenses. However, actual 2012 revenues were lower than the adjusted financial projections used at the time of our investments and the updated financial projections provided by the investee at year-end indicated significant declines in forecasted revenues in future years as compared to the adjusted financial projections used at the time of our investments due to reduced gross billings and deal margin forecasts. As of December 31, 2012, we continued to apply a discounted cash flow approach, corroborated by a market approach, to estimate the fair value of our investments in F-tuan. For the December 31, 2012 fair value measurement, we used the updated financial projections and a discount rate of 30%. The increase to the discount rate as compared to the acquisition-date fair value measurement was primarily attributable to an increase in the entity-specific risk premium to reflect our current assessment of the riskiness of these investments. The resulting fair value measurement of our investments in F-tuan was $77.5 million as of December 31, 2012, a $50.6 million reduction from the $128.1 million acquisition-date fair value measurement in June 2012.

Although our investments in F-tuan had not been in an unrealized loss position for an extended period of time as of December 31, 2012 and there were no plans to dispose of the investments at that time, we concluded that the impairment was other-than-temporary due to the significant declines in forecasted revenue growth and the severity of the unrealized loss.

The $85.5 million and $50.6 million other-than-temporary impairments of our investments in F-tuan are reported within "Other (expense) income, net" on the consolidated statements of operations for the years ended December 31, 2013 and 2012, respectively.

We also recorded an additional $1.2 million other-than-temporary impairment of an equity method investment in a nonpublic entity, which is reported within "Loss on equity method investments" on the consolidated statement of operations for the year ended December 31, 2012.

Recently Issued Accounting Standards

There are no accounting standards that have been issued but not yet adopted that we believe will have a material impact on our consolidated financial position or results of operations.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have operations both within the United States and internationally, and we are exposed to market risks in the ordinary course of our business, including the effect of foreign currency fluctuations, interest rate changes and inflation. Information relating to quantitative and qualitative disclosures about these market risks is set forth below.

Foreign Currency Exchange Risk

We transact business in various foreign currencies other than the U.S. dollar, principally the Euro, British pound sterling, Japanese yen and Brazilian real, which exposes us to foreign currency risk. For the year ended December 31, 2013, we derived approximately 28.9% and 12.0% of our revenue from our EMEA and Rest of World segments, respectively. Revenue and related expenses generated from our international operations are generally denominated in the local currencies of the corresponding countries. The functional currency of our subsidiaries that either operate or support these markets is generally the same as the corresponding local currency. The results of operations of, and certain of our intercompany balances associated with, our international operations are exposed to foreign exchange rate fluctuations. Upon consolidation, as exchange rates vary, our revenue and other operating results may differ materially from expectations, and we may record significant gains or losses on the re-measurement of intercompany balances.

We assess our foreign currency exchange risk based on hypothetical changes in rates utilizing a sensitivity analysis that measures the potential impact on working capital based on a 10% change (increase and decrease) in currency rates. We use a current market pricing model to assess the changes in the value of the U.S. dollar on foreign currency denominated monetary assets and liabilities. The primary assumption used in this model is a hypothetical 10% weakening or strengthening of the U.S. dollar against all our currency exposures as of December 31, 2013 and 2012.

As of December 31, 2013, our net working capital deficit (defined as current assets less current liabilities) from subsidiaries that are subject to foreign currency translation risk was $168.2 million. The potential increase in this working capital deficit from a hypothetical 10% adverse change in quoted foreign currency exchange rates would be $16.8 million. This compares to a $197.3 million working capital deficit subject to foreign currency exposure as of December 31, 2012, for which a 10% adverse change would have resulted in a potential increase in this working capital deficit of $19.7 million. The primary difference between foreign currency exposure from December 31, 2012 to December 31, 2013 is due to fluctuations in foreign currencies against the U.S. Dollar during the year ended December 31, 2013 and improvements in the working capital deficit throughout the year.

Interest Rate Risk

Our cash and cash equivalents primarily consists of cash and money market funds. We currently do not have long-term borrowings except for $5.7 million of long-term capital lease obligations, which do not expose us to significant interest rate risk. Our exposure to market risk for changes in interest rates is limited because our cash and cash equivalents have a short-term maturity and are used primarily for working capital purposes. The Company has investments in convertible debt securities and convertible redeemable preferred shares issued by nonpublic entities and has classified these investments as available-for-sale. We believe that the interest rate risk on these investments is not significant.

Impact of Inflation

We believe that our results of operations are not materially impacted by moderate changes in the inflation rate. Inflation and changing prices did not have a material effect on our business, financial condition or results of operations for the years ended December 31, 2013, 2012 or 2011.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
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Groupon, Inc.
Consolidated Financial Statements
As of December 31, 2013 and 2012 and for the Years Ended December 31, 2013, 2012 and 2011

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Groupon, Inc.

We have audited the accompanying consolidated balance sheets of Groupon, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule listed in Item 15(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Groupon, Inc. at December 31, 2013 and 2012, and the consolidated results of its operations, and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Groupon, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 20, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Chicago, Illinois
February 20, 2014

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

	December 31, 2013	2012
Assets		
Current assets:		
Cash and cash equivalents	$1,240,472	$1,209,289
Accounts receivable, net	83,673	96,713
Deferred income taxes	27,938	31,211
Prepaid expenses and other current assets	210,415	150,573
Total current assets	1,562,498	1,487,786
Property, equipment and software, net	134,423	121,072
Goodwill	220,827	206,684
Intangible assets, net	28,443	42,597
Investments	20,652	84,209
Deferred income taxes, non-current	35,941	29,916
Other non-current assets	39,226	59,210
Total Assets	$2,042,010	$2,031,474
Liabilities and Equity		
Current liabilities:		
Accounts payable	$27,573	$59,865
Accrued merchant and supplier payables	752,943	671,305
Accrued expenses	226,986	246,924
Deferred income taxes	47,558	53,700
Other current liabilities	132,718	136,647
Total current liabilities	1,187,778	1,168,441
Deferred income taxes, non-current	10,853	20,860
Other non-current liabilities	131,697	100,072
Total Liabilities	1,330,328	1,289,373
Commitments and contingencies (see Note 8)		
Stockholders' Equity		
Class A common stock, par value $0.0001 per share, 2,000,000,000 shares authorized, 670,149,976 shares issued and 665,717,176 shares outstanding at December 31, 2013 and 654,523,706 shares issued and outstanding at December 31, 2012	67	65
Class B common stock, par value $0.0001 per share, 10,000,000 shares authorized, 2,399,976 shares issued and outstanding at December 31, 2013 and 2012	—	—
Common stock, par value $0.0001 per share, 2,010,000,000 shares authorized, no shares issued and outstanding at December 31, 2013 and 2012	—	—
Additional paid-in capital	1,584,211	1,485,006
Treasury stock, at cost, 4,432,800 shares at December 31, 2013 and no shares at December 31, 2012	(46,587)	—
Accumulated deficit	(848,870)	(753,477)
Accumulated other comprehensive income	24,830	12,446

Total Groupon, Inc. Stockholders' Equity	713,651	744,040
Noncontrolling interests	(1,969)	(1,939)
Total Equity	711,682	742,101
Total Liabilities and Equity	$2,042,010	$2,031,474

See Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2013	2012	2011
Revenue:			
Third party and other	$1,654,654	$1,879,729	$1,589,604
Direct	919,001	454,743	20,826
Total revenue	2,573,655	2,334,472	1,610,430
Cost of revenue:			
Third party and other	232,062	297,739	243,789
Direct	840,060	421,201	15,090
Total cost of revenue	1,072,122	718,940	258,879
Gross profit	1,501,533	1,615,532	1,351,551
Operating expenses:			
Marketing	214,824	336,854	768,472
Selling, general and administrative	1,210,966	1,179,080	821,002
Acquisition-related (benefit) expense, net	(11)	897	(4,537)
Total operating expenses	1,425,779	1,516,831	1,584,937
Income (loss) from operations	75,754	98,701	(233,386)
Loss on equity method investments	(44)	(9,925)	(26,652)
Other (expense) income, net	(94,619)	6,166	5,973
(Loss) income before provision for income taxes	(18,909)	94,942	(254,065)
Provision for income taxes	70,037	145,973	43,697
Net loss	(88,946)	(51,031)	(297,762)
Net (income) loss attributable to noncontrolling interests	(6,447)	(3,742)	18,335
Net loss attributable to Groupon, Inc.	(95,393)	(54,773)	(279,427)
Redemption of preferred stock in excess of carrying value	—	—	(34,327)
Adjustment of redeemable noncontrolling interests to redemption value	—	(12,604)	(59,740)
Net loss attributable to common stockholders	$(95,393)	$(67,377)	$(373,494)
Net loss per share			
Basic	$(0.14)	$(0.10)	$(1.03)
Diluted	$(0.14)	$(0.10)	$(1.03)
Weighted average number of shares outstanding			
Basic	663,910,194	650,214,119	362,261,324
Diluted	663,910,194	650,214,119	362,261,324

See Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2013	2012	2011
Net loss	$(88,946)	$(51,031)	$(297,762)
Other comprehensive income, net of tax:			
Foreign currency translation adjustments	12,933	425	3,053
Unrealized (loss) gain on available-for-sale debt securities	(175)	53	—
Other comprehensive income	12,758	478	3,053
Comprehensive loss	(76,188)	(50,553)	(294,709)
Comprehensive (income) loss attributable to noncontrolling interests	(6,821)	(4,702)	18,335
Comprehensive loss attributable to Groupon, Inc.	$(83,009)	$(55,255)	$(276,374)

See Notes to Consolidated Financial Statements.

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

	Groupon, Inc. Stockholders' Equity									
	Series B, D, E, F, and G Preferred Stock		Class A and Class B Common Stock		Additional Paid-In Capital	Treasury Stock		Stockholder Receivable	Accumulated Deficit	Accumu Other Compre Income
	Shares	Amount	Shares	Amount		Shares	Amount			
Balance at December 31, 2010	29,033,624	$3	434,720,968	$4	$921,122	(93,328,656)	$(503,173)	$(286)	$(419,468)	$9,875
Net loss	—	—	—	—	—	—	—	—	(279,427)	—
Foreign currency translation	—	—	—	—	—	—	—	—	—	3,053
Adjustment of redeemable noncontrolling interests to redemption value	—	—	—	—	(59,740)	—	—	—	—	—
Stock issued in connection with acquisitions of businesses and equity method investments	—	—	4,025,762	—	56,290	—	—	—	—	—
Proceeds from issuance of stock, net of issuance costs	15,827,796	2	42,431,660	4	1,253,901	—	—	144	—	—
Exercise of stock options, net of tax benefits	—	—	4,990,665	—	2,729	—	—	142	—	—
Vesting of restricted stock units	—	—	1,070,432	—	—	—	—	—	—	—
Tax withholding related to net share settlements of stock-based compensation awards	—	—	—	—	(4,200)	—	—	—	—	—
Vesting of performance stock units	—	—	960,000	—	—	—	—	—	—	—
Stock-based compensation on equity-classified awards	—	—	—	—	88,979	—	—	—	—	—
	(370,401)	—	—	—	(35,003)	—	—	—	—	—

Redemption of preferred stock										
Purchases of treasury stock	—	—	—	—		(45,090,184)	(353,768)	—	—	—
Purchases of additional interests in consolidated subsidiaries	—	—	1,454,838	—	13,981	—	—	—	—	—
Return of common stock	—	—	(400,000)	—	(4,916)	—	—	—	—	—
Excess tax benefits, net of shortfalls, on stock-based compensation awards	—	—	—	—	12,051	—	—	—	—	—
Recapitalization of outstanding shares to Class A and Class B common stock	(44,491,019)	(5)	154,890,876	56	(808,666)	138,418,840	808,666	—	—	—
Reclassification of dividends paid on redemption of common stock	—	—	—	—	(48,275)	—	48,275	—	—	—
Forfeiture of dividends	—	—	—	—	—	—	—	—	191	—
Partnership distributions to noncontrolling interest holders	—	—	—	—	—	—	—	—	—	—
Balance at December 31, 2011	—	$—	644,145,201	$64	$1,388,253	—	$—	$—	$(698,704)	$12,928
Net loss	—	—	—	—	—	—	—	—	(54,773)	—
Foreign currency translation	—	—	—	—	—	—	—	—	—	(535
Unrealized gain on available-for-sale debt securities, net of tax	—	—	—	—	—	—	—	—	—	53

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Adjustment of redeemable noncontrolling interests to redemption value	—	—	—	—	(12,604)	—	—	—	—	—	(12,604)	—	(12,604)
Restricted stock issued to employees in connection with acquisitions	—	—	152,446	—	—	—	—	—	—	—	—	—	—
Purchases of additional interests in consolidated subsidiaries	—	—	51,000	—	(2,584)	—	—	—	—	—	(2,584)	739	(1,845)
Shares issued to settle liability-classified awards and contingent consideration	—	—	660,539	—	2,503	—	—	—	—	—	2,503	—	2,503
Exercise of stock options	—	—	9,025,164	1									