Groupon, Inc.
Form 10-Q
April 29, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________________ to ________________

Commission file number: 1-35335

Groupon, Inc.
(Exact name of registrant as specified in its charter)

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

312-334-1579
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No x

As of April 26, 2016, there were 577,617,876 shares of the registrant's Class A Common Stock outstanding and 2,399,976 shares of the registrant's Class B Common Stock outstanding.

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PART I

FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding our future results of operations and financial position, business strategy and plans and our objectives for future operations. The words "may," "will," "should," "could," "expect," "anticipate," "believe," "estimate," "intend," "continue" and other similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, but are not limited to, volatility in our revenue and operating results; risks related to our business strategy, including our strategy to grow our local marketplaces, marketing strategy and spend and the productivity of those marketing investments and the impact of our shift away from lower-margin products in our Goods category; effectively dealing with challenges arising from our international operations, including fluctuations in currency exchange rates; retaining existing customers and adding new customers, including as we increase our marketing spend and shift away from lower-margin products in our Goods category; retaining and adding high quality merchants; cyber security breaches; incurring expenses as we expand our business; competing successfully in our industry; maintaining favorable payment terms with our business partners; providing a strong mobile experience for our customers; delivery and routing of our emails; product liability claims; managing inventory and order fulfillment risks; integrating our technology platforms; litigation; managing refund risks; retaining, attracting and integrating members of our executive team; difficulties, delays or our inability to successfully complete all or part of the announced restructuring actions or to realize the operating efficiencies and other benefits of such restructuring actions; higher than anticipated restructuring charges or changes in the timing of such restructuring charges; completing and realizing the anticipated benefits from acquisitions, dispositions, joint ventures and strategic investments; tax liabilities; tax legislation; compliance with domestic and foreign laws and regulations, including the CARD Act and regulation of the Internet and e-commerce; classification of our independent contractors; maintaining our information technology infrastructure; protecting our intellectual property; maintaining a strong brand; seasonality; customer and merchant fraud; payment-related risks; our ability to raise capital if necessary and our outstanding indebtedness; global economic uncertainty; the impact of our ongoing strategic review and any potential strategic alternatives we may choose to pursue; our senior convertible notes; our ability to complete and realize the anticipated benefits from the hedge and warrant transactions; and those risks and other factors discussed in Part I, "Item 1A: Risk Factors" of our 2015 Annual Report on Form 10-K for the year ended December 31, 2015, and Part II, "Item 1A: Risk Factors" of this Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, as well as in our condensed consolidated financial statements, related notes, and the other financial information appearing elsewhere in this report and our other filings with the Securities and Exchange Commission, 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. FINANCIAL STATEMENTS

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

	March 31, 2016 (unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$688,512	$853,362
Accounts receivable, net	73,471	68,175
Prepaid expenses and other current assets	134,831	153,705
Total current assets	896,814	1,075,242
Property, equipment and software, net	193,036	198,897
Goodwill	291,747	287,332
Intangible assets, net	32,769	36,483
Investments (including $162.5 million and $163.7 million at March 31, 2016 and December 31, 2015, respectively, at fair value)	177,553	178,236
Deferred income taxes	4,254	3,454
Other non-current assets	22,507	16,620
Total Assets	$1,618,680	$1,796,264
Liabilities and Equity		
Current liabilities:		
Accounts payable	$21,970	$24,590
Accrued merchant and supplier payables	674,153	776,211
Accrued expenses and other current liabilities	406,578	402,724
Total current liabilities	1,102,701	1,203,525
Deferred income taxes	6,937	8,612
Other non-current liabilities	123,371	113,540
Total Liabilities	1,233,009	1,325,677
Commitments and contingencies (see Note 7)		
Stockholders' Equity		
Class A common stock, par value $0.0001 per share, 2,000,000,000 shares authorized, 720,766,970 shares issued and 573,478,805 shares outstanding at March 31, 2016 and 717,387,446 shares issued and 588,919,281 shares outstanding at December 31, 2015	72	72
Class B common stock, par value $0.0001 per share, 10,000,000 shares authorized, 2,399,976 shares issued and outstanding at March 31, 2016 and December 31, 2015	—	—
Common stock, par value $0.0001 per share, 2,010,000,000 shares authorized, no shares issued and outstanding at March 31, 2016 and December 31, 2015	—	—
Additional paid-in capital	1,997,930	1,964,453
Treasury stock, at cost, 147,288,165 shares at March 31, 2016 and 128,468,165 shares at December 31, 2015	(708,490)	(645,041)
Accumulated deficit	(953,542)	(901,292)
Accumulated other comprehensive income (loss)	48,354	51,206
Total Groupon, Inc. Stockholders' Equity	384,324	469,398
Noncontrolling interests	1,347	1,189
Total Equity	385,671	470,587
Total Liabilities and Equity	$1,618,680	$1,796,264

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2016	2015
Revenue:		
Third party and other	$334,568	$360,121
Direct	397,403	390,235
Total revenue	731,971	750,356
Cost of revenue:		
Third party and other	46,781	51,697
Direct	345,862	351,253
Total cost of revenue	392,643	402,950
Gross profit	339,328	347,406
Operating expenses:		
Marketing	89,765	52,533
Selling, general and administrative	280,988	289,847
Restructuring charges	12,444	—
Acquisition-related expense (benefit), net	3,464	(269)
Total operating expenses	386,661	342,111
Income (loss) from operations	(47,333)	5,295
Other income (expense), net	3,486	(19,927)
Income (loss) from continuing operations before provision (benefit) for income taxes	(43,847)	(14,632)
Provision (benefit) for income taxes	1,749	2,107
Income (loss) from continuing operations	(45,596)	(16,739)
Income (loss) from discontinued operations, net of tax	—	6,284
Net income (loss)	(45,596)	(10,455)
Net income attributable to noncontrolling interests	(3,523)	(3,818)
Net income (loss) attributable to Groupon, Inc.	$(49,119)	$(14,273)
Basic net income (loss) per share:		
Continuing operations	$(0.08)	$(0.03)
Discontinued operations	—	0.01
Basic net income (loss) per share	$(0.08)	$(0.02)
Diluted net income (loss) per share:		
Continuing operations	$(0.08)	$(0.03)
Discontinued operations	—	0.01
Diluted net income (loss) per share	$(0.08)	$(0.02)
Weighted average number of shares outstanding		
Basic	582,751,678	676,382,937
Diluted	582,751,678	676,382,937

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31, 2016	2015
Income (loss) from continuing operations	$(45,596)	$(16,739)
Other comprehensive income (loss) from continuing operations:		
Foreign currency translation adjustments:		
Net unrealized gain (loss) during the period	(4,225)	10,707
Reclassification adjustments included in income (loss) from continuing operations	1,462	—
Net change in unrealized gain (loss)	(2,763)	10,707
Amortization of pension net actuarial gain (loss) to earnings (net of tax effect of $4 and $5 for the three months ended March 31, 2016 and 2015, respectively)	27	26
Net change in unrealized gain (loss) on available-for-sale securities (net of tax effect of $0 and $83 for the three months ended March 31, 2016 and 2015, respectively)	(116)	137
Other comprehensive income (loss) from continuing operations	(2,852)	10,870
Comprehensive income (loss) from continuing operations	(48,448)	(5,869)
Income (loss) from discontinued operations	—	6,284
Other comprehensive income (loss) from discontinued operations - Foreign currency translation adjustments (net of tax effect of $1,428 for the three months ended March 31, 2015)	—	(2,417)
Comprehensive income (loss) from discontinued operations	—	3,867
Comprehensive income (loss)	(48,448)	(2,002)
Comprehensive income (loss) attributable to noncontrolling interests	(3,523)	(3,818)
Comprehensive income (loss) attributable to Groupon, Inc.	$(51,971)	$(5,820)

See Notes to Condensed Consolidated Financial Statements.

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

	Groupon, Inc. Stockholders' Equity									
	Common Stock			Treasury Stock						
	Shares	Amount	Additional Paid-In Capital	Shares	Amount	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Groupon Inc. Stockholders' Equity	Non-controlling Interests	Tot Equ
Balance at December 31, 2015	719,787,422	$72	$1,964,453	(128,468,165)	$(645,041)	$(901,292)	$51,206	$469,398	$1,189	$47
Cumulative effect of change in accounting principle	—	—	—	—	—	(3,131)	—	(3,131)	—	(3,1
Net income (loss)	—	—	—	—	—	(49,119)	—	(49,119)	3,523	(45
Foreign currency translation	—	—	—	—	—	—	(2,763)	(2,763)	—	(2,7
Amortization of pension net actuarial loss to earnings, net of tax	—	—	—	—	—	—	27	27	—	27
Unrealized gain (loss) on available-for-sale securities, net of tax	—	—	—	—	—	—	(116)	(116)	—	(11
Forfeiture of unvested restricted stock	(196,968)	—	—	—	—	—	—	—	—	—
Exercise of stock options	253,511	—	319	—	—	—	—	319	—	319
Vesting of restricted stock units	4,104,383	—	—	—	—	—	—	—	—	—
Shares issued under employee stock purchase plan	618,319	—	1,614	—	—	—	—	1,614	—	1,6
Tax withholdings related to net share settlements of stock-based compensation awards	(1,399,721)	—	(4,262)	—	—	—	—	(4,262)	—	(4,2
	—	—	35,806	—	—	—	—	35,806	—	35,

Stock-based compensation on equity-classified awards										
Purchases of treasury stock	—	—	—	(18,820,000)	(63,449)	—	—	(63,449)	—	(63
Distributions to noncontrolling interest holders	—	—	—	—	—	—	—	—	(3,365)	(3,3
Balance at March 31, 2016	723,166,946	$72	$1,997,930	(147,288,165)	$(708,490)	$(953,542)	$48,354	$384,324	$1,347	$38

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2016	2015
Operating activities		
Net income (loss)	$(45,596)	$(10,455)
Less: Income (loss) from discontinued operations, net of tax	—	6,284
Income (loss) from continuing operations	(45,596)	(16,739)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization of property, equipment and software	30,143	26,266
Amortization of acquired intangible assets	4,654	5,934
Stock-based compensation	30,756	35,144
Restructuring-related long-lived asset impairments	45	—
Deferred income taxes	(2,310)	22
(Gain) loss, net from changes in fair value of contingent consideration	3,442	(279)
Loss from changes in fair value of investments	1,100	—
Change in assets and liabilities, net of acquisitions:		
Restricted cash	505	3,245
Accounts receivable	(3,223)	(8,901)
Prepaid expenses and other current assets	20,940	(2,513)
Accounts payable	(2,850)	2,244
Accrued merchant and supplier payables	(112,425)	(17,034)
Accrued expenses and other current liabilities	10,848	(2,470)
Other, net	(12,754)	18,688
Net cash provided by (used in) operating activities from continuing operations	(76,725)	43,607
Net cash provided by (used in) operating activities from discontinued operations	—	(24,355)
Net cash provided by (used in) operating activities	(76,725)	19,252
Investing activities		
Purchases of property and equipment and capitalized software	(19,952)	(18,294)
Acquisitions of businesses, net of acquired cash	(40)	(800)
Settlement of liabilities related to purchase of additional interest in consolidated subsidiaries	—	(349)
Acquisitions of intangible assets	(786)	—
Net cash provided by (used in) investing activities from continuing operations	(20,778)	(19,443)
Net cash provided by (used in) investing activities from discontinued operations	—	(624)
Net cash provided by (used in) investing activities	(20,778)	(20,067)
Financing activities		
Payments for purchases of treasury stock	(64,665)	(18,006)
Taxes paid related to net share settlements of stock-based compensation awards	(4,964)	(14,584)
Proceeds from stock option exercises and employee stock purchase plan	1,933	1,946
Distribution to noncontrolling interest holders	(3,365)	(1,558)
Payments of capital lease obligations	(6,954)	(3,636)
Net cash provided by (used in) financing activities	(78,015)	(35,838)
Effect of exchange rate changes on cash and cash equivalents, including cash classified within current assets held for sale	10,668	(30,199)
Net increase (decrease) in cash and cash equivalents, including cash classified within current assets held for sale	(164,850)	(66,852)
Less: Net increase (decrease) in cash classified within current assets held for sale	—	(25,722)

Net increase (decrease) in cash and cash equivalents	(164,850)	(41,130)
Cash and cash equivalents, beginning of period	853,362	1,016,634
Cash and cash equivalents, end of period	$688,512	$975,504
Non-cash investing and financing activities		
Continuing operations:		
Equipment acquired under capital lease obligations	$1,163	$ —
Leasehold improvements funded by lessor	4,809	—
Liability for purchases of treasury stock	2,965	901
Liability for purchase consideration	250	—
Accounts payable and accrued expenses related to purchases of property and equipment and capitalized software	3,928	3,440
Liability for purchase of additional interest in consolidated subsidiaries	526	1,249
Discontinued operations:		
Accounts payable and accrued expenses related to purchases of property and equipment and capitalized software	—	415

See Notes to Condensed Consolidated Financial Statements.

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

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Company Information

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

The Company's operations are organized into three segments: North America, EMEA, which is comprised of Europe, Middle East and Africa, and the remainder of the Company's international operations ("Rest of World"). See Note 13, "Segment Information."

In May 2015, the Company sold a controlling stake in its subsidiary Ticket Monster, Inc. ("Ticket Monster"), an entity based in the Republic of Korea, that resulted in its deconsolidation. The financial results of Ticket Monster are presented as discontinued operations in the accompanying condensed consolidated financial statements for the three months ended March 31, 2015. See Note 2, "Discontinued Operations," for additional information.

Unaudited Interim Financial Information

The Company has prepared the accompanying condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial reporting. These condensed consolidated financial statements are unaudited and, in the Company's opinion, include all adjustments, consisting of normal recurring adjustments and accruals, necessary for a fair presentation of the Company's condensed consolidated balance sheets, statements of operations, comprehensive income (loss), cash flows and stockholders' equity for the periods presented. Operating results for the periods presented are not necessarily indicative of the results to be expected for the full year ending December 31, 2016. Certain information and disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") have been omitted in accordance with the rules and regulations of the SEC. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 11, 2016, as amended by the Form 10-K/A for the year ended December 31, 2015, filed with the SEC on March 30, 2016.

Principles of Consolidation

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

Adoption of New Accounting Standards

The Company adopted the guidance in Accounting Standards Update ("ASU") 2016-09, Compensation - Stock Compensation (Topic 718) - Improvements to Employee Share-Based Payment Accounting, on January 1, 2016. Under this ASU, entities are permitted to make an accounting policy election to either estimate forfeitures on share-based payment awards, as previously required, or to recognize forfeitures as they occur. The Company has elected to recognize forfeitures as they occur and

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the impact of that change in accounting policy has been recorded as a $3.1 million cumulative effect adjustment to its accumulated deficit as of January 1, 2016. Additionally, ASU 2016-09 requires that all income tax effects related to settlements of share-based payment awards be reported in earnings as an increase or decrease to income tax expense (benefit), net. Previously, income tax benefits at settlement of an award were reported as an increase (or decrease) to additional paid-in capital to the extent that those benefits were greater than (or less than) the income tax benefits reported in earnings during the award's vesting period. The requirement to report those income tax effects in earnings has been applied on a prospective basis to settlements occurring on or after January 1, 2016 and the impact of applying that guidance was not material to the condensed consolidated financial statements for the period ended March 31, 2016. ASU 2016-09 also requires that all income tax-related cash flows resulting from share-based payments be reported as operating activities in the statement of cash flows. Previously, income tax benefits at settlement of an award were reported as a reduction to operating cash flows and an increase to financing cash flows to the extent that those benefits exceeded the income tax benefits reported in earnings during the award's vesting period. The Company has elected to apply that change in cash flow classification on a retrospective basis, which has resulted in a $2.9 million increase to net cash provided by operating activities and a corresponding increase to net cash used in financing activities in the accompanying condensed consolidated statement of cash flows for the period ended March 31, 2015, as compared to the amounts previously reported. The remaining provisions of ASU 2016-09 did not have a material impact on the accompanying condensed consolidated financial statements.

The Company adopted the guidance in ASU 2015-02, Consolidation (Topic 810) - Amendments to the Consolidation Analysis, on January 1, 2016. This ASU expands the variable interest entity ("VIE") criteria to specifically include limited partnerships in certain circumstances. The adoption of ASU 2015-02 did not have a material impact on the accompanying condensed consolidated financial statements. The Company determined that Monster Holdings LP ("Monster LP") is not a VIE under ASU 2015-02, which is consistent with its conclusion prior to adoption of the ASU. That investment is evaluated as a corporation, rather than a limited partnership, for purposes of making consolidation determinations because its governance structure is akin to a corporation. Under the terms of Monster LP's amended and restated agreement of limited partnership, all of the objectives and purposes of Monster LP are carried out by a board of directors, rather than a general partner.

The Company adopted the guidance in ASU 2015-05, Intangibles - Goodwill and Other - Internal Use Software (Subtopic 350-40) - Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, on January 1, 2016. This ASU provides guidance about whether a cloud computing arrangement contains a software license. The Company has elected to apply this guidance prospectively to arrangements entered into or materially modified on or after January 1, 2016. The adoption of ASU 2015-05 did not have a material impact on the accompanying condensed consolidated financial statements.

Reclassifications

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

Use of Estimates

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

2. DISCONTINUED OPERATIONS

In May 2015, the Company sold a controlling stake in Ticket Monster to an investor group. A component of an entity is reported in discontinued operations after meeting the criteria for held-for-sale classification if the disposition represents a strategic shift that has (or will have) a major effect on the entity's operations and financial results. The

Company analyzed the quantitative and qualitative factors relevant to the Ticket Monster disposition transaction and determined that those conditions for discontinued operations presentation were met. As such, the financial results of Ticket Monster and the related income tax effects are reported within discontinued operations in the accompanying condensed consolidated financial statements.

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

The following table summarizes the major classes of line items included in income (loss) from discontinued operations, net of tax, for the three months ended March 31, 2015 (in thousands):

	Three Months Ended March 31, 2015
Third party and other revenue	$17,883
Direct revenue	24,823
Third party and other cost of revenue	(9,524)
Direct cost of revenue	(25,949)
Marketing expense	(5,023)
Selling, general and administrative expense	(22,763)
Other income, net	61
Loss from discontinued operations before benefit for income taxes	(20,492)
Benefit for income taxes	26,776
Income (loss) from discontinued operations, net of tax	$6,284

The Company recognized an income tax benefit from discontinued operations of $26.8 million for the three months ended March 31, 2015. That tax benefit resulted from the recognition of a deferred tax asset related to the excess of the tax basis over the financial reporting basis of the Company's investment in Ticket Monster upon meeting the criteria for held-for-sale classification. No tax benefits were recognized in relation to Ticket Monster's pre-tax losses for the three months ended March 31, 2015 because valuation allowances were provided against the related net deferred tax assets.

3. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table summarizes the Company's goodwill activity by segment for the three months ended March 31, 2016 (in thousands):

	North America	EMEA	Rest of World	Consolidated
Balance as of December 31, 2015	$178,746	$92,063	$16,523	$ 287,332
Foreign currency translation	—	3,741	674	4,415
Balance as of March 31, 2016	$178,746	$95,804	$17,197	$ 291,747

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

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

	March 31, 2016		
Asset Category	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Subscriber relationships	$53,614	$ 46,227	$ 7,387
Merchant relationships	9,903	8,463	1,440
Trade names	11,213	7,862	3,351
Developed technology	37,460	27,374	10,086
Brand relationships	7,960	3,471	4,489
Other intangible assets	21,578	15,562	6,016
Total	$141,728	$ 108,959	$ 32,769

	December 31, 2015		
Asset Category	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Subscriber relationships	$52,204	$ 43,725	$ 8,479
Merchant relationships	9,648	8,064	1,584
Trade names	11,013	7,396	3,617
Developed technology	37,103	25,436	11,667
Brand relationships	7,960	3,073	4,887
Other intangible assets	20,638	14,389	6,249
Total	$138,566	$ 102,083	$ 36,483

Amortization of intangible assets is computed using the straight-line method over their estimated useful lives, which range from 1 to 5 years. Amortization expense related to intangible assets was $4.7 million and $5.9 million for the three months ended March 31, 2016 and 2015, respectively. As of March 31, 2016, the Company's estimated future amortization expense related to intangible assets is as follows (in thousands):

Remaining amounts in 2016	$12,015
2017	11,470
2018	7,961
2019	831
2020	478
Thereafter	14
Total	$32,769

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

4. INVESTMENTS

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

	March 31, 2016	Percent Ownership of Voting Stock	December 31, 2015	Percent Ownership of Voting Stock
Available-for-sale securities:				
Convertible debt securities	$10,173		$ 10,116	
Redeemable preferred shares	22,699	17% to 25%	22,834	17% to 25%
Total available-for-sale securities	32,872		32,950	
Cost method investments	15,056	2% to 10%	14,561	2% to 10%
Fair value option investments	129,625	43% to 45%	130,725	43% to 45%
Total investments	$177,553		$ 178,236	

The following table summarizes the amortized cost, gross unrealized gain, gross unrealized loss and fair value of the Company's available-for-sale securities as of March 31, 2016 and December 31, 2015, respectively (in thousands):

	March 31, 2016				December 31, 2015			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss (1)	Fair Value	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss (1)	Fair Value
Available-for-sale securities:								
Convertible debt securities	$9,272	$ 901	$ —	$10,173	$9,234	$ 882	$ —	$10,116
Redeemable preferred shares	22,973	—	(274)	22,699	22,973	—	(139)	22,834
Total available-for-sale securities	$32,245	$ 901	$ (274)	$32,872	$32,207	$ 882	$ (139)	$32,950

(1) Available-for-sale securities with an unrealized loss were in a loss position for less than 12 months.

Fair Value Option Investments

In connection with the dispositions of Ticket Monster in May 2015 and the Company's subsidiary in India ("Groupon India") in August 2015, the Company obtained a minority limited partner interest in Monster Holdings LP ("Monster LP") and a minority investment in GroupMax Pte Ltd. ("GroupMax"). The investments in Monster LP and GroupMax were measured at their fair values of $122.1 million and $16.4 million, respectively, as of their respective acquisition dates.

The Company has made an irrevocable election to account for both of these investments at fair value with changes in fair value reported in earnings. The Company elected to apply fair value accounting to these investments because it believes that fair value is the most relevant measurement attribute for these investments, as well as to reduce operational and accounting complexity.

As of March 31, 2016, the Company has measured the fair value of the Monster LP investment primarily using the discounted cash flow method, which is an income approach. Under that method, the first step in determining the fair value of the investment that the Company holds is to estimate the fair value of Monster LP in its entirety. The key inputs to determining the fair value are cash flow forecasts and discount rates. As of March 31, 2016, the Company applied a discount rate of 22.5% in its discounted cash flow valuation of Monster LP. The Company also used a market approach valuation technique, which is based on market multiples of guideline companies, in determining the fair value of Monster LP as of March 31, 2016. The discounted cash flow and market approach valuations are then evaluated and weighted to determine the amount that is most representative of the fair value of the investee. Once the Company has determined the fair value of Monster LP, it then determines the fair value of its specific investment in the entity. Monster LP has a complex capital structure, so the Company applies an option-pricing model

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that considers the liquidation preferences of the respective classes of ownership interests in Monster LP to determine the fair value of its ownership interest in the entity. The Company recognized a loss of less than $0.1 million from changes in the fair value of its investment in Monster LP for the three months ended March 31, 2016.
As of March 31, 2016, the Company has measured the fair value of the GroupMax investment primarily using the discounted cash flow method, which is an income approach. Under that method, the first step in determining the fair value of the investment that the Company holds is to estimate the fair value of GroupMax in its entirety. The key inputs to determining the fair value are cash flow forecasts and discount rates. As of March 31, 2016, the Company applied a discount rate of 20% in its discounted cash flow valuation of GroupMax. The Company also used a market approach valuation technique, which is based on market multiples of guideline companies, to determine the fair value of GroupMax as of March 31, 2016. The discounted cash flow and market approach valuations are then evaluated and weighted to determine the amount that is most representative of the fair value of the investee. Once the Company has determined the fair value of GroupMax, it then determines the fair value of its specific investment in the entity. GroupMax has a complex capital structure, so the Company applies an option-pricing model that considers the liquidation preferences of the respective classes of ownership interests in GroupMax to determine the fair value of its ownership
interest in the entity. The Company recognized a loss of $1.1 million from changes in the fair value of its investment in GroupMax for the three months ended March 31, 2016.

5. SUPPLEMENTAL CONSOLIDATED BALANCE SHEETS AND STATEMENTS OF OPERATIONS INFORMATION
The following table summarizes the Company's other income (expense), net for the three months ended March 31, 2016 and 2015 (in thousands):

	Three Months Ended March 31,	
	2016	2015
Interest income	$395	$227
Interest expense	(849)	(670)
Loss on changes in fair value of investments	(1,100)	—
Foreign currency gains (losses), net [(1)]	6,456	(19,497)
Other	(1,416)	13
Other income (expense), net	$3,486	$(19,927)

(1) Foreign currency gains (losses), net for the three months ended March 31, 2016 includes a $1.5 million cumulative translation loss that was reclassified to earnings as a result of the Company's exit from certain countries as part of its restructuring plan. Refer to Note 9, "Restructuring," for additional information.

The following table summarizes the Company's prepaid expenses and other current assets as of March 31, 2016 and December 31, 2015 (in thousands):

	March 31, 2016	December 31, 2015
Finished goods inventories	$39,029	$42,305
Prepaid expenses	41,098	49,134
Income taxes receivable	22,249	32,483
VAT receivable	14,100	14,305
Other	18,355	15,478
Total prepaid expenses and other current assets	$134,831	$153,705

The following table summarizes the Company's accrued merchant and supplier payables as of March 31, 2016 and December 31, 2015 (in thousands):

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	March 31, 2016	December 31, 2015
Accrued merchant payables	$458,399	$471,607
Accrued supplier payables [1]	215,754	304,604
Total accrued merchant and supplier payables	$674,153	$776,211

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

The following table summarizes the Company's accrued expenses and other current liabilities as of March 31, 2016 and December 31, 2015 (in thousands):

	March 31, 2016	December 31, 2015
Refunds reserve	$33,383	$35,297
Payroll and benefits	51,555	50,454
Customer credits	34,862	32,293
Restructuring-related liabilities	10,158	11,556
Income taxes payable	13,453	13,885
Deferred revenue	50,410	40,396
Current portion of capital lease obligations	26,679	26,776
Other	186,078	192,067
Total accrued expenses and other current liabilities	$406,578	$402,724

The following table summarizes the Company's other non-current liabilities as of March 31, 2016 and December 31, 2015 (in thousands):

	March 31, 2016	December 31, 2015
Long-term tax liabilities	$53,283	$46,506
Capital lease obligations	25,502	30,943
Other	44,586	36,091
Total other non-current liabilities	$123,371	$113,540

The following table summarizes the components of accumulated other comprehensive income (loss) as of March 31, 2016 and December 31, 2015 (in thousands):

	Foreign currency translation adjustments	Unrealized gain (loss) on available-for-sale securities	Pension adjustments	Total
Balance as of December 31, 2015	$ 52,261	$ 458	$ (1,513)	$51,206
Other comprehensive income (loss) before classification adjustments	(4,225)	(116)	27	(4,314)
Reclassification adjustments included in net income (loss)	1,462	—	—	1,462
Other comprehensive income (loss)	(2,763)	(116)	27	(2,852)
Balance at March 31, 2016	$ 49,498	$ 342	$ (1,486)	$48,354

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6. REVOLVING CREDIT AGREEMENT

The Company has a senior secured revolving credit agreement (as amended, the "Credit Agreement") that provides for aggregate principal borrowings of up to $250.0 million through its August 1, 2017 maturity date. The Credit Agreement also provides for the issuance of up to $45.0 million in letters of credit, provided that the sum of outstanding borrowings and letters of credit do not exceed the maximum funding commitment of $250.0 million. The Company entered into an amendment to the Credit Agreement, which became effective on April 4, 2016 upon closing of its convertible notes issuance to A-G Holdings, LP ("Atairos") (see Note 14, "Subsequent Event"), to amend its financial covenants relating to the maintenance of a minimum fixed charge coverage ratio and maximum leverage ratio, impose a financial covenant relating to the maintenance of a maximum senior secured indebtedness ratio and modify the covenants relating to the Company’s ability to make certain restricted payments, each as set forth in the amendment to the Credit Agreement.

As of March 31, 2016 and December 31, 2015, the Company had no borrowings under the Credit Agreement and was in compliance with all covenants. As of March 31, 2016 and December 31, 2015, the Company had outstanding letters of credit of $11.8 million and $11.6 million, respectively, under the Credit Agreement.

7. COMMITMENTS AND CONTINGENCIES

The Company's commitments as of March 31, 2016 did not materially change from the amounts set forth in the Company's 2015 Annual Report on Form 10-K.

Legal Matters and Other Contingencies

From time to time, the Company is party to various legal proceedings incident to the operation of its business. For example, the Company is currently involved in proceedings brought by stockholders, former employees and merchants, intellectual property infringement suits and suits by customers (individually or as class actions) alleging, among other things, violations of the federal securities laws, the Credit Card Accountability, Responsibility and Disclosure Act and state laws governing gift cards, stored value cards and coupons. The following is a brief description of significant legal proceedings.

The Company is currently a defendant in a proceeding pursuant to which, on October 29, 2012, a consolidated amended class action complaint was filed against the Company, certain of its directors and officers, and the underwriters that participated in the initial public offering of the Company's Class A common stock. The case is currently pending before the United States District Court for the Northern District of Illinois: In re Groupon, Inc. Securities Litigation. In the first quarter of 2016, the parties entered into a term sheet to settle the litigation that provides for a settlement payment to the class of $45.0 million in cash, including plaintiff’s attorneys’ fees, in exchange for a full and final release and also includes a denial of liability or any wrongdoing by the Company and the other defendants. On February 1, 2016, the court entered an order staying all deadlines in the case. On April 7, 2016, the Court entered an order preliminarily approving the settlement. On April 21, 2016, a $45.0 million settlement payment was made into an escrow account. A hearing on final approval of the settlement is scheduled for July 13, 2016. The Company was fully reserved for the settlement amount as of March 31, 2016 and December 31, 2015.

In addition, federal and state purported stockholder derivative lawsuits have been filed against certain of the Company's current and former directors and officers. The federal purported stockholder derivative lawsuit was originally filed in April 2012, and a consolidated stockholder derivative complaint, filed on July 30, 2012, is currently pending in the United States District Court for the Northern District of Illinois: In re Groupon Derivative Litigation. The state derivative cases are currently pending before the Chancery Division of the Circuit Court of Cook County, Illinois: Orrego v. Lefkofsky, et al., was filed on April 5, 2012; and Kim v. Lefkofsky, et al., was filed on May 25, 2012. In the first quarter of 2016, the parties reached an agreement in principle to settle the litigation. The agreement, which is subject to court approval, provides that the Company will implement certain corporate reforms, but the parties continue to negotiate a reasonable plaintiffs’ attorneys’ fee award to be paid as part of the settlement.

In 2010, the Company was named as a defendant in a series of class actions that came to be consolidated in the U.S. District Court for the Southern District of California. The consolidated actions are referred to as In re Groupon Marketing and Sales Practices Litigation. In July 2015, the parties reached an agreement in principle regarding a settlement involving a combination of cash and Groupon credits, worth a total of $8.5 million. On March 23, 2016, the district court granted final approval of the settlement over various objections posed by two individuals and entered judgment pursuant to the settlement. The Company continues to deny liability and if the settlement is not consummated for any reason, will contest the case vigorously. The Company was fully reserved for the settlement amount as of March 31, 2016 and December 31, 2015.

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On March 2, 2016, International Business Machines Corporation ("IBM") filed a complaint in the United States District Court for the District of Delaware against Groupon, Inc. In the complaint, IBM alleges that the Company has infringed and continues to willfully infringe certain IBM patents that IBM claims relate to the presentation of applications and advertising in an interactive service, preserving state information in online transactions and single sign-on processes in a computing environment and seeks unspecified damages (including a request that the amount of compensatory damages be trebled), injunctive relief and costs and reasonable attorneys’ fees. The Company intends to deny liability and vigorously defend itself in this matter.

In addition, other third parties have from time to time claimed, and others may claim in the future, that the Company has infringed their intellectual property rights. The Company is subject to intellectual property disputes, including patent infringement claims, and expects that it will increasingly be subject to intellectual property infringement claims as its services expand in scope and complexity. The Company has in the past litigated such claims, and the Company is presently involved in several patent infringement and other intellectual property-related claims, including pending litigation, some of which could involve potentially substantial claims for damages. The Company may also become more vulnerable to third party claims as laws such as the Digital Millennium Copyright Act are interpreted by the courts, and as the Company becomes subject to laws in jurisdictions where the underlying laws with respect to the potential liability of online intermediaries are either unclear or less favorable. The Company believes that additional lawsuits alleging that it has violated patent, copyright or trademark laws will be filed against it. Intellectual property claims, whether meritorious or not, are time consuming and costly to resolve, could require expensive changes in the Company's methods of doing business, or could require it to enter into costly royalty or licensing agreements.

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

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

Certain foreign tax authorities previously issued assessments or provided notification of potential assessments to subsidiaries of the Company in the amount of $44.0 million for additional value-added taxes (VAT) covering periods ranging from January 2011 to May 2014. Those tax authorities alleged that, for VAT purposes, the Company's revenues from voucher sales should reflect the total amounts collected from purchasers of those vouchers, rather than the amounts that the Company retains after deducting the portion that is payable to the featured merchants. In connection with the completion of a VAT audit in March 2016, a $40.1 million notification of potential assessment related to this matter from one of those jurisdictions was superseded by the audit closing agreement, which did not require that the Company's VAT obligations be determined based on the total amounts collected from purchasers of vouchers. The Company believes that the remaining assessments of $3.9 million from the other jurisdictions are without merit and intends to vigorously defend itself in those matters.

Indemnifications

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

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

8. STOCKHOLDERS' EQUITY AND COMPENSATION ARRANGEMENTS

Common Stock

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

Share Repurchase Program

The Board previously authorized the Company to repurchase up to $500.0 million of its Class A common stock through August 2017 under its current share repurchase program. During the three months ended March 31, 2016, the Company purchased 18,820,000 shares for an aggregate purchase price of $63.4 million (including fees and commissions) under that program. As of March 31, 2016, up to $93.6 million of Class A common stock remained available for purchase under that program. Effective April 4, 2016, the Board approved an increase of $200.0 million to its share repurchase program and an extension of the program through April 2018. The timing and amount of any share repurchases are determined based on market conditions, share price and other factors, and the program may be discontinued or suspended at any time.

Groupon, Inc. Stock Plans

The Groupon, Inc. Stock Plans (the "Plans") are administered by the Compensation Committee of the Board, which determines the number of awards to be issued, the corresponding vesting schedule and the exercise price for options. As of March 31, 2016, 30,376,307 shares were available for future issuance under the Plans.

The Company recognized stock-based compensation expense from continuing operations of $30.8 million and $35.1 million for the three months ended March 31, 2016 and 2015, respectively, related to stock awards issued under the Plans and acquisition-related awards. The Company recognized stock-based compensation expense from discontinued operations of $1.1 million for the three months ended March 31, 2015. The Company also capitalized $2.2 million and $3.1 million of stock-based compensation for the three months ended March 31, 2016 and 2015, respectively, in connection with internally-developed software.

As of March 31, 2016, a total of $175.7 million of unrecognized compensation costs related to unvested employee stock awards and unvested acquisition-related awards are expected to be recognized over a remaining weighted-average period of 1.15 years.

Employee Stock Purchase Plan

The Company is authorized to grant up to 10,000,000 shares of common stock under its employee stock purchase plan ("ESPP"). For the three months ended March 31, 2016 and 2015, 618,319 and 328,644 shares of common stock were issued under the ESPP, respectively.

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Stock Options

The table below summarizes the stock option activity for the three months ended March 31, 2016:

	Options	Weighted-Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands) (1)
Outstanding at December 31, 2015	1,584,832	$ 0.95	3.96	$ 3,360
Exercised	(253,511)	1.26		
Forfeited	(61,650)	0.73		
Outstanding and exercisable at March 31, 2016	1,269,671	$ 0.87	3.64	$ 4,071

(1) The aggregate intrinsic value of options outstanding and exercisable represents the total pretax intrinsic value (the difference between the fair value of the Company's stock on the last day of each period and the exercise price, multiplied by the number of options where the fair value exceeds the exercise price) that would have been received by the option holders had all option holders exercised their options as of March 31, 2016 and December 31, 2015, respectively.

Restricted Stock Units

The restricted stock units granted under the Plans generally have vesting periods between one and four years. Restricted stock units are generally amortized on a straight-line basis over the requisite service period, except for restricted stock units with performance conditions and ratable vesting, which are amortized using the accelerated method. In May 2015, 575,744 restricted stock units previously granted to Ticket Monster employees were modified to permit continued vesting following the Company’s sale of its controlling stake in Ticket Monster. These nonemployee restricted stock units, which require ongoing employment with Ticket Monster to vest, are remeasured to fair value each reporting period. As of March 31, 2016, 317,978 nonemployee restricted stock units were outstanding.

The table below summarizes activity regarding unvested restricted stock units granted under the Plans for the three months ended March 31, 2016:

	Restricted Stock Units	Weighted-Average Grant Date Fair Value (per share)
Unvested at December 31, 2015	39,143,509	$ 6.53
Granted	5,175,152	$ 2.25
Vested	(4,104,383)	$ 6.93
Forfeited	(3,432,215)	$ 6.92
Unvested at March 31, 2016	36,782,063	$ 5.86

Restricted Stock Awards

The Company has granted restricted stock awards in connection with business combinations. Compensation expense on these awards is recognized on a straight-line basis over the requisite service periods, which extend through January 2018.

The table below summarizes activity regarding unvested restricted stock for the three months ended March 31, 2016:

	Restricted Stock Awards	Weighted-Average Grant Date Fair Value (per share)
Unvested at December 31, 2015	1,908,408	$ 5.72
Granted	—	$ —
Vested	(492,422)	$ 7.42
Forfeited	(196,968)	$ 7.42
Unvested at March 31, 2016	1,219,018	$ 4.76

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Performance Share Units
During the three months ended March 31, 2016, the Company granted 128,337 performance share units to certain key employees. The vesting of these awards into shares of the Company's Class A common stock is contingent upon the Company's achievement of specified financial and operational targets for the year ended December 31, 2016 and is subject to continued employment through the performance period. The grant date fair value of the performance share units was $2.22 per share. There were no shares vested or forfeited during the three months ended March 31, 2016.

9. RESTRUCTURING

In September 2015, the Company commenced a restructuring plan pursuant to which it initially expected to incur up to $35.0 million in costs relating primarily to workforce reductions in its international operations. The Company has also undertaken workforce reductions in its North America segment. In addition to workforce reductions in its ongoing markets, the Company has ceased operations in six countries within its Rest of World segment and eleven countries within its EMEA segment as part of the restructuring plan, including four countries within its EMEA segment that were exited during the three months ended March 31, 2016. The total revenue and net loss for the countries exited under the restructuring plan were $14.9 million and $4.3 million, respectively, for the three months ended March 31, 2015. Costs related to the restructuring plan are classified as "Restructuring charges" on the condensed consolidated statements of operations.

Through March 31, 2016, the Company has incurred cumulative costs for employee severance and benefits and other exit costs of $34.7 million under the restructuring plan. In addition to those costs, the Company has incurred cumulative long-lived asset impairment charges of $7.3 million resulting from its restructuring activities. Management continues to explore potential further restructuring actions in connection with its efforts to optimize the Company's cost structure and global footprint.

The following table summarizes the costs incurred by segment related to the Company's restructuring plan for the three months ended March 31, 2016 (in thousands):

	Three Months Ended March 31, 2016			
	Employee Severance and Benefit Costs (1)	Asset Impairments	Other Exit Costs	Total Restructuring Charges
North America	$4,725	$ 45	$849	$ 5,619
EMEA	3,267	—	208	3,475
Rest of World	3,327	—	23	3,350
Consolidated	$11,319	$ 45	$1,080	$ 12,444

(1) The employee severance and benefit costs for the three months ended March 31, 2016 relates to the termination of approximately 500 employees. Substantially all of the remaining cash payments for those costs are expected to be disbursed through June 30, 2016.

The following table summarizes restructuring liability activity for the three months ended March 31, 2016 (in thousands):

	Employee Severance and Benefit Costs	Other Exit Costs	Total

Balance as of December 31, 2015	$ 9,017	$2,539	$11,556
Charges payable in cash [1]	8,574	1,080	9,654
Cash payments	(8,316)	(3,025)	(11,341)
Foreign currency translation	280	9	289
Balance as of March 31, 2016	$ 9,555	$603	$10,158

(1) Excludes stock-based compensation of $2.6 million related to accelerated vesting of stock-based compensation awards for certain employees terminated as a result of the Company's restructuring activities for the three months ended March 31, 2016.

10. INCOME TAXES

The Company's tax provision for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items.

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For the three months ended March 31, 2016, the Company recorded income tax expense from continuing operations of $1.7 million on a pre-tax loss from continuing operations of $43.8 million. For the three months ended March 31, 2015, the Company recorded income tax expense from continuing operations of $2.1 million on a pre-tax loss from continuing operations of $14.6 million.

The Company's U.S. statutory rate is 35%. The primary factor impacting the effective tax rate for the three months ended March 31, 2016 was the pre-tax losses incurred by the Company's operations in jurisdictions that have valuation allowances against its net deferred tax assets, including the United States. Significant factors impacting the effective tax rate for the three months ended March 31, 2015 included pre-tax losses in foreign jurisdictions with valuation allowances against its net deferred tax assets and amortization of the tax effects of intercompany sales of intellectual property.

The Company expects that its consolidated effective tax rate in future periods will continue to differ significantly from the U.S. federal income tax rate as a result of its tax obligations in jurisdictions with profits and valuation allowances in jurisdictions with losses.

The Company is currently undergoing income tax audits in multiple jurisdictions. There are many factors, including factors outside of the Company's control, which influence the progress and completion of those audits. As of March 31, 2016, the Company believes that it is reasonably possible that changes of up to $23.8 million in unrecognized tax benefits may occur within the next 12 months upon closing of income tax audits or the expiration of applicable statutes of limitations.

See Note 2, "Discontinued Operations," for discussion of the income tax benefit from discontinued operations for the three months ended March 31, 2015.

11. FAIR VALUE MEASUREMENTS

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

To increase the comparability of fair value measures, the following hierarchy prioritizes the inputs in valuation methodologies used to measure fair value:

Level 1 - Measurements that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Measurements that include other inputs that are directly or indirectly observable in the marketplace.

Level 3 - Measurements derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. These fair value measurements require significant judgment.

In determining fair value, the Company uses various valuation approaches within the fair value measurement framework. The valuation methodologies used for the Company's assets and liabilities measured at fair value and their classification in the valuation hierarchy are summarized below:

Cash equivalents - Cash equivalents primarily consist of AAA-rated money market funds. The Company classified cash equivalents as Level 1 due to the short-term nature of these instruments and measured the fair value based on quoted prices in active markets for identical assets.

Fair value option and available-for-sale securities investments - See Note 4, "Investments," for discussion of the valuation methodologies used to measure the fair value of the Company's investments in Monster LP and GroupMax. The Company measures the fair value of those investments using the discounted cash flow method, which is an income approach, and the market approach. The Company also has investments in redeemable preferred shares and convertible debt securities issued by nonpublic entities. The Company measures the fair value of those available-for-sale securities using the discounted cash flow method.

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The Company has classified its fair value option investments and its investments in available-for-sale securities as Level 3 due to the lack of observable market data over fair value inputs such as cash flow projections and discount rates. Increases in projected cash flows and decreases in discount rates contribute to increases in the estimated fair values of the fair value option investments and available-for-sale securities, whereas decreases in projected cash flows and increases in discount rates contribute to decreases in their fair values.

Contingent consideration - The Company has contingent obligations to transfer cash to the former owners of acquired businesses if specified financial results are met over future reporting periods (i.e., earn-outs). Liabilities for contingent consideration are measured at fair value each reporting period, with the acquisition-date fair value included as part of the consideration transferred and subsequent changes in fair value are recorded in earnings within "Acquisition-related expense (benefit), net" on the condensed consolidated statements of operations.
The Company uses an income approach to value contingent consideration obligations based on future financial performance, which is determined based on the present value of probability-weighted future cash flows. The Company has classified the contingent consideration liabilities as Level 3 due to the lack of relevant observable market data over fair value inputs such as probability-weighting of payment outcomes. Increases in the assessed likelihood of a higher payout under a contingent consideration arrangement contribute to increases in the fair value of the related liability. Conversely, decreases in the assessed likelihood of a higher payout under a contingent consideration arrangement contribute to decreases in the fair value of the related liability. Changes in assumptions could have an impact on the payout of contingent consideration arrangements with a maximum payout of $16.8 million.
The following tables summarize the Company's assets and liabilities that are measured at fair value on a recurring basis (in thousands):

		Fair Value Measurement at Reporting Date Using		
Description	March 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$236,783	$236,783	$ —	$ —
Fair value option investments	129,625	—	—	129,625
Available-for-sale securities:				
Convertible debt securities	10,173	—	—	10,173
Redeemable preferred shares	22,699	—	—	22,699
Liabilities:				
Contingent consideration	13,938	—	—	13,938

		Fair Value Measurement at Reporting Date Using		
Description	December 31, 2015	Quoted Prices in Active Markets for	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

		Identical Assets (Level 1)		
Assets:				
Cash equivalents	$ 305,179	$ 305,179	$ —	$ —
Fair value option investments	130,725	—	—	130,725
Available-for-sale securities:				
Convertible debt securities	10,116	—	—	10,116
Redeemable preferred shares	22,834	—	—	22,834
Liabilities:				
Contingent consideration	10,781	—	—	10,781

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The following table provides a roll-forward of the fair value of recurring Level 3 fair value measurements for the three months ended March 31, 2016 and 2015 (in thousands):

	Three Months Ended March 31, 2016	2015
Assets		
Fair value option investments:		
Beginning Balance	$130,725	$—
Total gains (losses) included in earnings	(1,100)	—
Ending Balance	$129,625	$—
Unrealized gains (losses) still held (1)	$(1,100)	$—
Available-for-sale securities		
Convertible debt securities:		
Beginning Balance	$10,116	$2,527
Total gains (losses) included in other comprehensive income	19	230
Total gains (losses) included in other income (expense), net (2)	38	—
Ending Balance	$10,173	$2,757
Unrealized gains (losses) still held (1)	$57	$230
Redeemable preferred shares:		
Beginning Balance	$22,834	$4,910
Total gains (losses) included in other comprehensive income (loss)	(135)	(10)
Ending Balance	$22,699	$4,900
Unrealized (losses) gains still held (1)	$(135)	$(10)
Liabilities		
Contingent Consideration:		
Beginning Balance	$10,781	$1,983
Reclass to non-fair value liabilities when no longer contingent	(285)	(331)
Total losses (gains) included in earnings (3)	3,442	(279)
Ending Balance	$13,938	$1,373
Unrealized losses (gains) still held (1)	$3,316	$(279)

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

(2) Represents accretion of interest income and changes in the fair value of an embedded derivative for the three months ended March 31, 2016.

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

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis, including assets that are written down to fair value as a result of an impairment. The Company did not record any significant nonrecurring fair value measurements after initial recognition for the three months ended March 31, 2016 and 2015.

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Estimated Fair Value of Financial Assets and Liabilities Not Measured at Fair Value
The following table presents the carrying amounts and fair values of financial instruments that are not carried at fair value in the consolidated financial statements (in thousands):

	March 31, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cost method investments	$15,056	$16,838	$14,561	$15,922

The fair values of the Company's cost method investments were determined using the market approach or the income approach, depending on the availability of fair value inputs such as financial projections for the investees and market multiples for comparable companies. The Company has classified the fair value measurements of its cost method investments as Level 3 measurements within the fair value hierarchy because they involve significant unobservable inputs such as cash flow projections and discount rates.
The Company's other financial instruments not carried at fair value consist primarily of accounts receivable, restricted cash, accounts payable, accrued merchant and supplier payables and accrued expenses. The carrying values of these assets and liabilities approximate their respective fair values as of March 31, 2016 and December 31, 2015 due to their short-term nature.

12. INCOME (LOSS) PER SHARE OF CLASS A AND CLASS B COMMON STOCK

The Company computes net income (loss) per share of Class A and Class B common stock using the two-class method. Basic net income (loss) per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share is computed using the weighted-average number of common shares and the effect of potentially dilutive equity awards outstanding during the period. Potentially dilutive securities consist of stock options, restricted stock units, unvested restricted stock awards, performance share units and ESPP shares. The dilutive effect of these equity awards is reflected in diluted net income (loss) per share by application of the treasury stock method. The computation of the diluted net income (loss) per share of Class A common stock assumes the conversion of Class B common stock, if dilutive, while the diluted net income (loss) per share of Class B common stock does not assume the conversion of those shares.
The rights, including the liquidation and dividend rights, of the holders of Class A and Class B common stock are identical, except with respect to voting. Under the two-class method, the undistributed earnings for each period are allocated based on the contractual participation rights of the Class A and Class B common shares as if the earnings for the period had been distributed. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. Further, as the Company assumes the conversion of Class B common stock, if dilutive, in the computation of the diluted net income (loss) per share of Class A common stock, the undistributed earnings are equal to net income (loss) for that computation.

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The following table sets forth the computation of basic and diluted net income (loss) per share of Class A and Class B common stock for the three months ended March 31, 2016 and 2015 (in thousands, except share amounts and per share amounts):

	Three Months Ended March 31,			
	2016		2015	
	Class A	Class B	Class A	Class B
Basic net income (loss) per share:				
Numerator				
Allocation of net income (loss) - continuing operations	$(45,408)	$ (188)	$(16,681)	$ (58)
Less: Allocation of net income (loss) attributable to noncontrolling interests	3,508	15	3,804	14
Allocation of net income (loss) attributable to common stockholders - continuing operations	$(48,916)	$ (203)	$(20,485)	$ (72)
Allocation of net income (loss) attributable to common stockholders - discontinued operations	—	—	6,261	23
Allocation of net income (loss) attributable to common stockholders	$(48,916)	$ (203)	$(14,224)	$ (49)
Denominator				
Weighted-average common shares outstanding	580,351,702	2,399,976	673,982,961	2,399,976
Basic net income (loss) per share:				
Continuing operations	$(0.08)	$ (0.08)	$(0.03)	$ (0.03)
Discontinued operations	—	—	0.01	0.01
Basic net income (loss) per share	$(0.08)	$ (0.08)	$(0.02)	$ (0.02)