Groupon, Inc.
Form 10-K
February 15, 2017
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, 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:

Title of each class	Name of each exchange on which registered
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. ¨

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, 2016, the aggregate market value of shares held by non-affiliates of the registrant was $1,313,716,295 based on the number of shares of common stock held by non-affiliates as of June 30, 2016 and based on the last reported sale price of the registrant's common stock on June 30, 2016.

As of February 13, 2017, there were 562,074,014 shares of the registrant's 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 2017, 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, 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; effectively dealing with challenges arising from our international operations, including fluctuations in currency exchange rates and any potential adverse impact from the United Kingdom's likely exit from the European Union; retaining existing customers and adding new customers; 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 realize the anticipated benefits from the hedge and warrant transactions; and those risks and other factors 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 connect local commerce, increasing consumer buying power while driving more business to merchants through price and discovery. We want Groupon to be the destination that consumers 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 provide consumers with savings and help them discover what to do, eat, see, buy and where to travel.

Groupon operates online local commerce marketplaces throughout the world that connect merchants to consumers by offering goods and services, generally at a discount. Consumers access those marketplaces through our websites, primarily localized groupon.com sites in many countries, and our mobile applications. Traditionally, local merchants have tried to reach consumers and generate sales through a variety of methods, including online advertising, paid telephone directories, direct mail,

newspaper, radio, television and other promotions. By bringing the brick and mortar world of local commerce onto the Internet, Groupon is helping local merchants to attract customers and sell goods and services.
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 goods and services in three primary categories: Local Deals ("Local"), Groupon Goods ("Goods") and Groupon Getaways ("Travel"). We act as a marketing agent primarily by selling vouchers ("Groupons") that can be redeemed for products or services with third-party merchants. We also sell merchandise inventory directly to customers.
Our results from 2016 were impacted by the strategic initiatives discussed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations. Those results include the following:

- Gross billings decreased to $6.1 billion in 2016, as compared to $6.3 billion in 2015. In 2016, 64.5%, 26.1% and 9.4% of our gross billings were generated in North America, EMEA and Rest of World, respectively, as compared to 59.3%, 28.7% and 12.0% in 2015. Gross billings represent the total dollar value of customer purchases of goods and services. 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 inventory directly to customers.
- Revenue of $3.1 billion in 2016 was consistent with the prior year. In 2016, 68.5%, 26.3% and 5.2% of our revenue was generated in North America, EMEA and Rest of World, respectively, as compared to 65.6%, 27.8% and 6.6% in 2015.
- Gross profit of $1.4 billion in 2016 was consistent with the prior year. In 2016, 65.3%, 26.7% and 8.0% of our gross profit was generated in North America, EMEA and Rest of World, respectively, as compared to 57.9%, 32.2% and 9.9% in 2015.
- Loss from operations was $109.8 million in 2016, as compared to $79.8 million in 2015.
- 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 52.7 million as of December 31, 2016 from 48.9 million as of December 31, 2015. Active customers for the year ended December 31, 2016 includes approximately 1.0 million incremental active customers from the acquisition of LivingSocial, Inc.

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 investor relations department can be reached through our investor relations hotline, which is (312) 999-3098. 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 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 goal is to build marketplaces that our customers rely on to discover and save on amazing things to do, eat, see, buy and where to travel. Key elements of our strategy for 2017 include the following:
Increasing our active customer base. We significantly increased our global marketing spend by $108.6 million, or 42.7%, for the year ended December 31, 2016 as compared to the prior period in order to secure new customers and drive additional growth. We expect marketing will remain a key strategy in growing our customer base. Our online marketing campaigns are primarily focused on customer acquisition, customer retention and driving incremental sales. We are focusing our offline advertising activities on developing our brand strength and awareness.
Narrowing our focus and improving our operating efficiency. We have undertaken a number of actions to simplify and streamline our global business. We have reduced our global footprint from 47 countries as of December 31, 2014 to 24 countries

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as of December 31, 2016, and by early 2017 we expect to focus our business on 15 core countries that we believe have the greatest potential to favorably impact our results of operations.

We continue to seek to improve our operating efficiency through a global initiative to integrate and streamline our technology platforms in order to provide a fast, stable and secure platform to support our business. Additionally, we are increasingly automating the system tools and capabilities for our functional teams to improve our overall operating efficiency. We expect to continue our efforts to streamline and simplify our business in the future.

Improving the customer experience. Improving the customer experience by growing the supply of offerings available through our marketplaces, continuing to invest in our mobile technology and creating a frictionless experience for our customers and merchants is a key strategy for increasing customer purchase frequency.

Following our transition from primarily a "push" business model that generated demand by emailing offers to customers to more of a demand fulfillment, or "pull," model that enables customers to search for goods and services on our websites and mobile applications, we continue to build our marketplaces and expand our supply of offers. By continuing to develop and expand our marketplaces and improve the search functionality of our websites and mobile applications, we seek to seamlessly connect our customers with great deals on local merchant offerings, merchandise and travel.

Investments in our mobile technology enable us to provide customers with new and innovative ways to discover our deal offerings across our platforms through browse, search, location, proximity, personalization and relevance, among others. Given the increasing quantity of offerings on our platforms, we believe that advances in connecting customers to our deal offerings will lead to higher conversion and overall strong customer satisfaction. Additionally, we believe that improving our mobile technology will help us capitalize on the continuing trend of consumers making purchases through smartphones, tablets and other mobile devices. In the fourth quarter of 2016, over 60% of our global transactions were completed on mobile devices and over 145 million people have downloaded our mobile applications worldwide as of December 31, 2016.

As we continue to build our marketplaces, we want our customers to have a superior, frictionless experience every time they use our product whether finding, booking, buying or redeeming an offer. For merchants, this includes providing capabilities to manage demand for their goods and services and improving their ability to acquire customers. For consumers, this includes easily finding offers and accessing features such as booking and takeout and delivery that augment the overall experience, as well as seamlessly purchasing and redeeming offers. We are currently investing in initiatives to improve the purchase and redemption experience, such as testing offerings with voucherless redemption resulting in cash back directly to customers' credit cards and adding direct booking tools for health and beauty offerings. We believe that these initiatives will ultimately increase customer purchase frequency and drive growth in our business.

Our Business

We earn revenue from transactions in which we provide marketing services primarily by selling vouchers through our online local marketplaces that can be redeemed for goods or services with a third-party merchant. Our third-party revenue from those transactions is reported on a net basis as the purchase price received from the customer for the voucher less an agreed upon portion of the purchase price paid to the merchant. We also earn revenue by selling merchandise inventory directly to customers through our online marketplaces. Our direct revenue from those transactions is the purchase price received from the customer.

Our business model has evolved in recent years from primarily an email-based "push" model with a limited number of deals offered at any given time to more extensive online "pull" marketplaces, where customers can come to Groupon's websites and mobile applications to search and browse for deals on goods and services. We also publish ratings and helpful tips from customers to highlight the unique aspects of local merchants, including merchants that have featured offerings through our marketplaces.

We offer goods and services through our online local marketplaces in three primary categories: Local, Goods and Travel. Collectively, Local and Travel comprise our "Services" offerings and Goods reflects our product offerings.

Local. Our Local category includes offerings from local and national merchants, as well as local events. Local also includes other revenue sources such as commission revenue and advertising revenue, as these revenue sources are primarily generated through our relationships with local and national merchants. Our local offerings comprise multiple subcategories, including events and activities, beauty and spa, health and fitness, food and drink, home and garden and automotive. National merchants also have used our marketplaces as an alternative to traditional marketing and brand advertising. Although our business today is weighted toward offerings from local merchants, we continue to feature offerings from national merchants to build our brand awareness, acquire new customers and generate additional revenue. In addition to local and national deals, we give customers the ability to access digital coupons from thousands of retailers through our Coupons offering. We also offer deals on concerts, sports, theater and other live entertainment events through GrouponLive, which is a strategic partnership with LiveNation. We are increasingly featuring offerings on our site from other online marketplaces to further expand local offerings.

Goods. Our Goods category offers customers the ability to find deals on merchandise across multiple product lines, including electronics, sporting goods, jewelry, toys, household items and apparel. 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 merchandise inventory directly to customers, as well as third-party revenue from transactions in which we act as a marketing agent and sell vouchers that can be redeemed for products with a third-party merchant. Goods transactions in our North America and EMEA segments are primarily direct revenue transactions, whereas Goods transactions in our Rest of World segment are primarily third-party revenue transactions.

Travel. Through our Travel category, we feature travel offers at both discounted and market rates, including hotels, airfare and package deals covering both domestic and international travel. For many of our travel offerings, the customer must contact the merchant directly to make a travel reservation after purchasing a travel voucher from us. However, for some of our hotel offerings, customers make room reservations directly through our websites.

Distribution

Our customers access our online local commerce marketplaces through our mobile applications and our websites, which primarily consist of localized groupon.com sites in countries throughout the world. We use a variety of marketing channels to direct customers to the deal offerings available through these marketplaces, as described in the "Marketing" section below.

Consumers predominately access our offerings through our mobile applications and, to a lesser extent, through mobile web browsers. Our applications and mobile websites enable consumers to browse, purchase, manage and redeem deals on their mobile devices. In addition, the mobile experience leverages location in several ways, enabling consumers to filter by distance, discover deals near them and visualize the assortment of Groupon offers through a maps view. In the fourth quarter of 2016, over 60% of our global transactions were completed on mobile devices.

Marketing

We primarily use marketing to acquire customers and promote awareness of our marketplaces and the services and product offerings available through those marketplaces. Consequently, marketing is an important part of our growth strategy and remains a key element of our business operations. We significantly increased our global marketing spend by $108.6 million, or 42.7%, for the year ended December 31, 2016 as compared to the prior period. We expect to continue to invest in marketing in future periods in connection with our efforts to accelerate customer growth.

We use a variety of marketing channels to make customers aware of the deal offerings on our mobile and web platforms, including search engines, through search engine optimization ("SEO") and marketing ("SEM"), email, affiliate channels, display advertising and offline marketing, which increased significantly during 2016.

Search engines. Customers can access our deal offerings indirectly through third-party search engines. We use SEO and SEM to increase the visibility of our offerings in web search results.

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

Social and display. We publish deals through various social networks and adapt our notifications to the particular format of each of these social networking platforms. Our websites and mobile application interfaces enable consumers to push notifications of our deals to their personal social networks. We also promote our deals using display advertising on websites.

Affiliate channels. We have an affiliate program that utilizes third parties to promote our deal offerings online. Affiliates earn commissions when customers access our deal offerings through links on their websites and make purchases on our platform. We expect to continue to leverage affiliate relationships to extend the distribution of our deals to a broad base of potential customers.

Television and offline. In 2016, we significantly increased the extent to which we use offline marketing such as television advertising, and to a lesser extent, radio advertising.

Our marketing activities also include elements that are not presented as "Marketing" on our consolidated statements of operations, such as order discounts and free shipping on qualifying merchandise sales.

Sales and Operations

Our sales force consists of approximately 3,100 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 Phoenix, and our international merchant sales representatives and support staff are based in their respective local offices. Our global sales and sales support headcount by segment as of December 31, 2016 was as follows:

North America	1,131
EMEA	1,295
Rest of World	682
Total	3,108

Other key operational functions include deal managers, editorial, merchant services, customer service, technology, merchandising and logistics. Deal managers work with sales teams to optimize deal structure and pricing, as well as manage the category, discount and geographic mix 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 an offering is active 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 systems. Merchandising and logistics personnel are responsible for managing inventory and the flow of products from suppliers to our customers.

Our websites are hosted at U.S. data centers in Santa Clara and Sacramento, 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 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 with customers conducted on our websites and mobile applications, we use data encryption protocols to secure information while in transit. See "Risk Factors" for additional information relating to cyber threats.

Competition

Our business is rapidly evolving and we face competition from a variety of sources. Some of our competitors offer deals as an add-on to their core business, and others have adopted a business model similar to ours. 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. 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. Further, as our business continues to evolve, we anticipate facing new competition. We believe the principal competitive factors in our markets include the following:

- size and composition of our customer base and the number of merchants that we feature;
- mobile penetration;
- understanding of local business trends;
- ability to structure deals to generate positive return on investment for merchants;
- quality and performance of our merchants;
- ability to generate large volumes of sales; and

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- reputation, strength and recognition of brand.

Although we believe that we compete favorably on the factors described above and benefit from scale, 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

Some of our offerings experience seasonal buying patterns mirroring that of the larger consumer retail 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 will continue to affect, our business and quarterly sequential revenue growth rates. We recognized 29.7%, 29.4% and 29.0% of our annual revenue during the fourth quarter of 2016, 2015 and 2014, respectively.

Regulation

We are subject to a number of foreign and domestic laws and regulations that affect companies conducting business on the Internet. Additionally, these laws and regulations may be interpreted differently across domestic and foreign jurisdictions. As a company in a relatively 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 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. 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 of 1970 (the "Bank Secrecy Act"), the Dodd-Frank Wall Street Reform and Consumer Protection 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. Groupon and its related entities own a number of trademarks and service marks registered or pending in the United States and internationally. In addition, we own a number of issued patents and pending patent applications in the United States and internationally and own and have applied for copyright registrations.

Circumstances outside our control could pose a threat to our intellectual property rights and the efforts we have taken to protect our proprietary rights may not be sufficient or effective or deter independent development of equivalent or superior intellectual property rights by others. 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, technology and other industries as well as non-practicing entities 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. 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.

We have received in the past, and we anticipate we will receive in the future, communications alleging that items offered or sold through our website infringe third-party copyrights, trademarks, patents and trade names or other intellectual property rights or that we have otherwise infringed third parties' past, current or future intellectual property rights. We may be unable to prevent third parties from offering and selling unlawful or infringing goods, and we may be subject to allegations of civil or criminal liability for unlawful activities carried out by third parties through our website. We may implement measures in an effort to protect against these potential liabilities that could require us to spend substantial resources and/or to reduce revenues by discontinuing certain service offerings. Any costs incurred as a result of liability or asserted liability relating to the sale of unlawful goods or the unlawful sale of goods could harm our business.

Employees

As of December 31, 2016, there were 3,493 employees in our North America segment, consisting of 1,131 sales representatives and 2,362 corporate, operational and customer service representatives, 2,528 employees in our EMEA segment, consisting of 1,295 sales representatives and 1,233 corporate, operational and customer service representatives, and 2,302 employees in our Rest of World segment, consisting of 682 sales representatives and 1,620 corporate, operational and customer service representatives.

Executive Officers

The following table sets forth information about our executive officers:

Name	Age	Position
Rich Williams	41	Chief Executive Officer and Director
Michael Randolfi	44	Chief Financial Officer
Dane Drobny	49	General Counsel and Corporate Secretary
Brian Stevens	42	Chief Accounting Officer and Treasurer
Jay Sullivan	49	Chief Product

Officer

Rich Williams has served as our Chief Executive Officer and a member of our Board of Directors since November 2015. Prior to this role, Mr. Williams served as our Chief Operating Officer since June 2015 and President of North America since October 2014. He joined the Company in June 2011 as Senior Vice President of Marketing. Prior to joining Groupon, Mr. Williams served in a variety of marketing leadership roles at Amazon.com, Inc. (NASDAQ: AMZN) from January 2008 to June 2011, most recently as the Director, Paid Traffic leading global advertising. Prior to joining Amazon, he spent nearly seven years in sales and marketing leadership roles at Experian plc (LSE: EXPN), a global information services company.

Michael Randolfi has served as our Chief Financial Officer since April 2016. Prior to joining Groupon, Mr. Randolfi served as the Chief Financial Officer of Orbitz Worldwide, Inc. (NYSE:OWW) from March 2013 until November 2015 (when he departed following its acquisition by Expedia, Inc.). Prior to joining Orbitz, Mr. Randolfi served as Vice President and then as Senior Vice President and Controller at Delta Air Lines (NYSE: DAL) from February 2008 to February 2013. From June 1999 to February 2008, he held various executive positions at Delta Air Lines in financial planning and analysis, controllership and treasury. Prior to his 14-year career at Delta, Mr. Randolfi held positions with Continental Airlines (NYSE: UAL) and Raymond James and Associates (NYSE: RJF). Mr. Randolfi is a CPA and a certified management accountant.

Dane Drobny has served as our General Counsel and Corporate Secretary since July 2014. Prior to joining Groupon, Mr. Drobny was Senior Vice President, General Counsel and Corporate Secretary at Sears Holdings Corporation (NASDAQ: SHLD) from May 2010 to June 2014. Prior to joining Sears Holdings, he spent 17 years at the international law firm of Winston & Strawn LLP, most recently as a partner.

Brian Stevens has served as our Chief Accounting Officer and Treasurer since May 2016 and as our Chief Accounting Officer since September 2012. Prior to joining Groupon, Mr. Stevens spent 16 years with KPMG LLP, most recently as a partner. Mr. Stevens spent five years in KPMG's Department of Professional Practice and was a practice fellow at the Financial Accounting Standards Board from 2006 to 2008. Mr. Stevens is a member of the American Institute of Certified Public Accountants and serves on its Financial Reporting Executive Committee (FinREC).

Jay Sullivan has served as our Chief Product Officer since December 2015. Prior to this role, Mr. Sullivan served as our Senior Vice President, Product from January 2015 to December 2015. Prior to joining Groupon, Mr. Sullivan was the Chief Operating Officer and Interim Chief Executive Officer of Mozilla Corporation from April 2013 to July 2014, Senior Vice President, Product from April 2010 to April 2013 and served in a variety of other senior-level roles at Mozilla Corporation since October 2007.

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 them. The Company's Code of Conduct, Corporate Governance Guidelines and committee charters are also posted on the site. The Company uses its Investor Relations website (investor.groupon.com) and its blog (https://www.groupon.com/blog) as a means of disclosing material non-public information and for complying with its disclosure obligations under Regulation FD. Information contained on our website and blog is not a part of this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

Our business, prospects, financial condition, operating results and the trading price of our 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 may continue to vary from quarter to quarter due to seasonality and other reasons such as 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 and retain quality merchants;
- 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;

- achieve additional mobile adoption to capitalize on customers' continued shift toward mobile device usage;
- increase the awareness of our brand;
- successfully achieve the anticipated benefits of business combinations or acquisitions, strategic investments, divestitures and restructuring activities;
- provide a superior customer service experience for our customers;
- avoid interruptions to our services, including as a result of cybersecurity breaches;
- respond to continuous changes in consumer and merchant use of technology;
- 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, may grow faster in certain periods relative to other categories, which may result in lower margins and profitability during those periods. Accordingly, our profitability may vary significantly from quarter to quarter.

Our strategy to grow our marketplaces 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 more extensive local commerce marketplaces. 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 portion of the gross billings from some of our merchants as we expand our marketplaces. In addition, we are continuously refining our process for presenting the most relevant deals to our customers based on their personal preferences and location. We are also continuing our efforts to optimize the mix of products in our Goods category, including lower margin product offerings. If we are not successful in achieving these objectives, our business, financial position and results of operations could be harmed.

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 continue 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;
- political, economic and civil instability and uncertainty (including acts of terrorism, civil unrest, labor unrest, violence and outbreaks of war);
- currency exchange rate fluctuations;
- strong local competitors, many of whom have been in the market longer than we have or have greater resources in the local market;
- different regulatory or other legal requirements, including regulation of gift cards and coupon terms, Internet services, professional selling, distance selling, bulk emailing, privacy and data protection, cybersecurity, business licenses and certifications, the types of services we may offer, 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;
- difficulty in staffing, developing and managing foreign operations as a result of distance, language barriers and cultural differences;
- shorter payment cycles 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 ensure that our employees, contractors, or agents will not violate our policies. Changing laws, regulations and enforcement actions in the United States and throughout the world could harm our business. If commercial and regulatory constraints in our international markets restrict our ability to conduct our operations or execute our strategic plan, our business may be adversely affected.

Economic conditions and regulatory changes leading up to and following the United Kingdom’s likely exit from the European
Union could have a material adverse effect on our business and results of operations.

In June 2016, the United Kingdom (the "U.K.") held a non-binding referendum in which voters approved an exit from the European Union (the "E.U."), commonly referred to as "Brexit." As a result of the referendum, the British government has begun negotiating the terms of the U.K.’s withdrawal from the E.U. The effects of Brexit will depend on any agreements the U.K. may make to retain access to E.U. markets either during a transitional period or more permanently. A withdrawal could, among other outcomes, disrupt the free movement of goods, services and people between the U.K. and the E.U., undermine bilateral cooperation in key policy areas and significantly disrupt trade between the U.K. and the E.U. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which E.U. laws to replace or replicate. Given the lack of comparable precedent, it is unclear what financial, trade and legal implications the withdrawal of the U.K. from the E.U. would have and how such withdrawal would affect us.

The announcement of Brexit caused significant volatility in global stock markets and currency exchange rate fluctuations that resulted in the strengthening of the U.S. dollar against foreign currencies in which we conduct business. The strengthening of the U.S. dollar relative to other currencies may adversely affect our operating results.

The announcement of Brexit and the withdrawal of the U.K. from the E.U. may also create global economic uncertainty, which may cause consumers to reduce their spending. In addition, Brexit may lead other E.U. member countries to consider referendums regarding their E.U. membership. Any of these effects of Brexit, among others, could adversely affect our business, financial condition, operating results and cash flows.

Our financial results may be adversely affected if we are unable to execute on our marketing strategy.
Our marketing strategy is focused on customer acquisition, activation and conversion, purchase frequency and mobile application downloads, as well as increasing awareness of our brand, including our online marketplaces. We increased our marketing expense to $363.0 million during 2016 as compared to $254.3 million during 2015. We expect our marketing expense as a percentage of gross billings to remain relatively consistent in 2017 as we continue to focus on new customer acquisition. If any of our assumptions regarding our marketing activities and strategies prove incorrect, our ability to generate profits from our investments may be less than we anticipated. In such case, we may need to increase expenditures 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, 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 or increase awareness of our marketplaces, 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 have ceased to make purchases, or if new customers (including unique customers from our acquisition of LivingSocial, Inc.) do not make purchases at expected levels, our revenue may decrease and our operating results may be adversely affected.
Our future success depends upon our ability to attract and retain high quality merchants.
We must continue to attract and retain high quality merchants in order to increase revenue and profitability. We depend on our ability to attract and retain merchants that are prepared to offer products or services on compelling terms through our marketplaces 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. Currently, when a merchant works with us to offer a deal for its products or services, it receives an agreed-upon portion of the total proceeds from each voucher 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 stop working with us or require a higher portion of the total proceeds from each voucher or product sold. 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 portion of the purchase price than we currently offer, or if we target merchants who will only agree to run deals if they receive a higher portion of the proceeds, we may receive a lower portion of the gross billings on deals offered through our marketplaces. 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 and retain high quality merchants in numbers sufficient to grow our business, or if merchants are unwilling to offer products or services with compelling terms through our marketplaces or offer favorable payment terms to us, our operating results may be adversely affected.
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 a security breach, whether through cyber-attack or cyber intrusion via the Internet, malware, computer viruses, phishing, attachments to e-mails, hacking, persons inside our organization with access to our systems, or other significant disruption of our information technology networks and related systems. Any failure to prevent or mitigate cybersecurity breaches or other improper access to, or disclosure of, our data or confidential information could result in the loss or misuse of such data or information.
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, the large number of transactions that we process, our payment processing, our geographic footprint and international presence, our use of open source software, the complexity of our systems,

the maturity of our risk management framework, the extent to which our current systems, controls, processes and practices permit us to detect, log and monitor security events, our use of cloud based technologies, the outsourcing of some of our business operations and continued 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. We also may be subject to additional vulnerabilities as we integrate the systems, computers, software and data of acquired businesses into our networks and separate the systems, computers, software and data of disposed businesses from our networks.

As cyber threats continue to evolve, and as we continue to evaluate and assess our systems and the controls, processes and practices to protect those systems, 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. These modifications and enhancements may take significant time to implement. 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, merchants, card brands and payment card processors to cease doing business with us, subject us to lawsuits, regulatory fines or other action or liability or damage to our reputation, 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 $1,099.0 million as of December 31, 2016. We anticipate that our financial results will be negatively impacted as we continue to invest in our growth, by increasing our marketing spending and accepting a lower portion of the proceeds from third-party revenue transactions, as we attempt to increase our active customer base and add more merchants to our marketplaces. Our expansion 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 are new and unproven and are in highly competitive businesses. 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 our industry to continue to increase. A substantial number of e-commerce sites that attempt to replicate our business model are operating around the world. In addition to such competitors, we expect increased competition from other large businesses who offer deals similar to ours as an add-on to their core business. We also compete with other companies that offer digital coupons through their websites or mobile applications. Further, we compete against other e-commerce companies 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 greater 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;
- mobile penetration;
- understanding local business trends;
- ability to structure deals to generate positive return on investment for merchants;
- 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;

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- our ability to generate large volumes of sales;
- the number, quality and reliability of the digital coupons we offer;
- the quality and performance of our merchants;
- 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, 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 mobile applications, reduce our market share and adversely impact our gross margins. In addition, we are dependent on some of our existing or potential competitors for display 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.

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 vouchers or products and we make payments to merchants at a subsequent date, either on a fixed schedule or upon redemption by customers. We currently pay merchants upon redemption for many deals in our international markets, but we may continue to move toward offering payments on a fixed schedule in those markets. 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 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 the fourth quarter of 2016, over 60% of our global transactions were completed on mobile devices. Additionally, over 145 million people have downloaded our mobile applications worldwide as of December 31, 2016. In order to continue to grow our mobile transactions, it is critical that our applications are compatible 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 or if we fail to develop applications with adequate functionality on a wide range of mobile devices.

Our business depends on our ability to maintain and improve the technology 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 network infrastructure, websites, mobile applications or transaction processing systems could result in a loss of customers or merchants.

Customers access our marketplaces through our websites and mobile applications, as well as via emails that are often targeted by location, purchase history and personal preferences. Customers can also access our deal offerings indirectly through third-party search engines. 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. Our systems may not be adequately designed with the necessary reliability and redundancy to avoid performance delays or outages that could be prolonged and harmful to our business. If our websites or mobile applications are unavailable when users attempt to access them, or if they do not load as quickly as expected, users may not return as often in the future, or at all. As our customer base and the amount of information shared on our websites and mobile

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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 and services to handle the traffic on our websites and mobile applications and to help shorten the time of or prevent system interruptions. The operation of these systems is expensive and complex and could result in operational failures. Interruptions, delays or failures in these systems, whether due to earthquakes, adverse weather conditions, other natural disasters, power loss, computer viruses, cybersecurity attacks, physical break-ins, terrorism, errors in our software or otherwise, could be prolonged and 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 or prolonged disruptions or delays in the availability of our systems or a significant search engine, we could lose current and potential customers and merchants, which could harm our operating results and financial condition.

In addition, a portion of our network infrastructure is hosted by third-party providers. Any disruption or 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 less favorably 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 our customers. For example, certain email providers, including Google, 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 ability to contact customers through email could be significantly restricted. In addition, if we are placed on "spam" lists or lists of entities that have been involved in sending unwanted, unsolicited emails, our operating results and financial condition could be substantially harmed.

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 unauthentic, which could result in potential liability under applicable laws, regulations, agreements and orders, and increase the amount of returned merchandise or customer refunds. In addition, brand owners may take legal action against us. Even if we prevail, any such legal action 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. Further, in any such matter, we may not be entitled to indemnification from our supplier, or able to effectively enforce the supplier’s contractual indemnification obligations.

We may be subject to product liability claims if people or property are harmed by the products we sell.

Some of the products we sell may expose us to product liability claims relating to personal injury, death, or environmental or property damage, and may require product recalls or other actions. Certain third parties also sell products using our e-commerce platform that may increase our exposure to product liability claims, such as if these sellers do not have sufficient protection from such claims. Although we maintain liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all. In addition, some of our agreements with our vendors and sellers do not indemnify us from product liability or we may not be able to effectively enforce our contractual indemnification rights.

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

We purchase a portion of the merchandise that we offer for sale to our customers. The demand for products can change for a variety of reasons, including customer preference, quality, seasonality, and customers' perception of the value of purchasing the product through us. If we are unable to adequately predict customer demand and efficiently manage our inventory, we could have either an excess or a shortage of inventory, either of which would adversely impact our business.

It is important that we 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 on third-party logistics providers for much of our 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, in some cases 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 and separation of certain 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. We have substantially implemented this platform in most EMEA counties and are in the process of introducing this platform to certain countries in our Rest of World segment. In addition, we also expect to continue to separate from this platform certain businesses that are part of our international restructuring effort. 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.

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 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 and cash flows. For additional information regarding these and other lawsuits in which we are involved, see Note 10, Commitments and Contingencies, to the consolidated financial statements.

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

As we increase our revenue and expand our product offerings, our customer refund rates may exceed 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.

We estimate future refunds utilizing a statistical model that incorporates historical refund experience, including the relative risk of refunds based on transaction value and deal category. 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 profitability.

Our standard agreements with 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 merchants. Our inability to obtain reimbursement from 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 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, expanding our product and service offerings 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. For example, the U.S. dollar has appreciated significantly against the Euro in recent periods. 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 technology and 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.

Our restructuring plan could be disruptive to our operations and adversely affect our results of operations and financial condition, and we may not realize some or all of the anticipated benefits of this plan in the time frame anticipated or at all.

In the third quarter of 2015, our Board of Directors approved a restructuring plan relating primarily to workforce reductions in our international operations. In addition to the workforce reductions in our ongoing markets during 2015 and 2016, we ceased operations in five countries during 2016 in connection with the restructuring plan. We expect this plan to be substantially complete by June 2017. The implementation of the restructuring plan, including the impact of workforce reductions, could be disruptive to our operations, make it difficult to attract or retain employees, result in higher than anticipated charges, create issues relating to data retention and access to our data or systems and otherwise adversely affect our results of operations and financial condition. In addition, our ability to complete the restructuring plan and achieve the anticipated benefits from the plan within the expected time frame or at all is subject to estimates and assumptions and may vary materially from our expectations, including as a result of factors that are beyond our control. Furthermore, following completion of the restructuring plan, our business may not be more efficient or effective than prior to implementation of the plan.

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

We routinely evaluate and consider a wide array of potential strategic transactions, including acquisitions and dispositions of businesses, joint ventures, technologies, services, products and other assets and minority investments. The pursuit and consummation of such transactions can result in operating difficulties, dilution, management distraction and other potentially adverse consequences. We have in the past acquired and divested a number of companies and may complete additional transactions in the future. In particular, as previously announced we continue to explore strategic alternatives in our international business to streamline our operations and reduce our geographic footprint.

Acquisitions involve significant risks and uncertainties, including uncertainties as to the future financial performance of the acquired business and the performance of acquired customers, valuation of the acquired business and integration risks such as difficulties integrating acquired personnel into our business, the potential loss of key employees, customers or suppliers, difficulties in integrating different computer, payment and accounting systems and exposure to unknown or unforeseen liabilities of acquired companies. 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 minority investments, and therefore we are dependent on others in order to realize their potential benefits. Dispositions and attempted dispositions also involve significant risks and uncertainties, such as the risk of destabilizing the applicable operations, the loss of key personnel, the terms and timing of any dispositions, the ability to obtain necessary governmental or regulatory approvals, post-disposal disputes and indemnification obligations and risks and uncertainties with respect to the separation of disposed operations, including, for example, transition services, access by purchasers to certain of our systems and tools during transition periods, the migration of data and separation of systems, data privacy matters and misuse of trademarks and intellectual property. We may be unable to successfully complete potential strategic transactions or dispositions on a timely basis or at all, or we may not realize the anticipated benefits of any of our strategic transactions in the time frame expected or at all. Further, if we are unable to complete dispositions of international businesses, we may incur additional costs to wind down or liquidate these businesses.

We may not have the ability to exert control over our minority investments, and therefore we are dependent on others in order to realize their potential benefits.

We currently hold non-controlling minority investments in Monster Holdings LP ("Monster LP"), GroupMax Pte Ltd. ("GroupMax") and other entities and we may make additional strategic minority investments in the future. Such minority investments inherently involve a lesser degree of control over business operations, thereby potentially increasing the financial, legal, operational and/or compliance risks associated with the investments. Our partners in these investments may have business goals and interests that are not aligned with ours, or may exercise their rights in a manner in which we do not approve. These circumstances could lead to delayed decisions or disputes and litigation with our partners, all of which could have a material adverse impact on our reputation, business, financial condition and results of operations.

Both Monster LP and GroupMax have been pursuing growth strategies in which they are spending significantly on marketing and offering customer incentives that frequently result in low or negative margins. Those strategies, which are consistent with the business plans contemplated at the time Monster LP and GroupMax received third-party investments in May 2015 and August 2015, respectively, have generated significant operating losses and negative cash flows as the entities build their respective active customer bases. If Monster LP or GroupMax seek additional financing in order to fund their growth strategies, such financing transactions may result in dilution of our ownership stakes and they may occur at lower valuations than the investment transactions in 2015 through which we acquired such interests, which could significantly decrease the fair values of our investments in those entities. For example, the fair value of Monster LP implied by the terms of an equity financing transaction in December 2016 was lower than its estimated fair value in previous periods, which resulted in a significant decrease in the fair value of our investment in that entity. Additionally, if Monster LP or GroupMax are unable to obtain any such financing, those entities could need to significantly reduce their spending and use of customer incentives in order to fund their operations. Such actions likely would result in reduced growth forecasts, which also could significantly decrease the fair values of our investments in those entities.

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, or developments in existing, 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. To the extent that 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.

We are subject to income taxes in the United States (federal and state) and numerous foreign jurisdictions. Tax laws, regulations, and administrative practices in various jurisdictions may be subject to significant change due to economic, political, and other conditions, and significant judgment is required in evaluating and estimating our provision and accruals for these taxes. 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 domestic and 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, there are many transactions that occur during the ordinary course of business for which the ultimate tax determination is uncertain. Our effective tax rates could be adversely affected by earnings being lower than anticipated in jurisdictions where we have lower statutory rates and higher than anticipated in jurisdictions where we have higher statutory rates, losses incurred in jurisdictions for which we are not able to realize the related tax benefits, changes in foreign currency exchange rates, entry into new businesses and geographies and changes to our existing businesses, acquisitions (including integrations) and investments, changes in our deferred tax assets and liabilities and their valuation and changes in the relevant tax, accounting and other laws, regulations, administrative practices, principles and interpretations, including fundamental changes to the tax laws applicable to corporate multinationals. The U.S., many countries in the European Union, and a number of other countries are actively considering changes in this regard. Developments in an audit, litigation or the relevant laws, regulations, administrative practices, principles and interpretations could have a material effect on our financial position, operating results and cash flows in the period or periods for which that development occurs, as well as for prior and subsequent periods.

We also 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.
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 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 our vouchers 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; (ii) the Groupon's stated expiration date (if any); or (iii) a later date provided by applicable state law. 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 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 of 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 full value or a portion of 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 vouchers 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 contractual relationship with customers and merchants and our role as it relates to the marketing 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 vouchers, 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 results of operations.

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, reference pricing, copyrights, distribution, electronic contracts and other communications, consumer protection, the provision of online payment services and the characteristics and quality of services. The application of existing laws governing issues such as property ownership, sales and other taxes, libel and personal privacy to the Internet is not clear as the vast majority of these laws were adopted prior to the advent 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 mobile 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, the recent adoption by the European Union of the European General Data Protection Regulation may require burdensome and significant operational changes and expense as compliance with the May 2018 enforcement date approaches. 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 resulting in a loss or likely loss of personal information. 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.

Misclassification or reclassification of our independent contractors or employees could increase our costs and adversely impact our business.

Our workers are classified as either employees or independent contractors, and if employees, as either exempt from overtime or non-exempt (and therefore overtime eligible). Regulatory authorities and private parties have recently asserted within several industries that some independent contractors, including those in the food ordering and delivery industry, should be classified as employees and that some exempt employees, including those in sales-related positions, should be classified as non-exempt based upon the applicable facts and circumstances and their interpretations of existing rules and regulations. If we are found to have misclassified employees as independent contractors or non-exempt employees as exempt, we could face penalties and have additional exposure under federal and state tax, workers' compensation, unemployment benefits, labor, employment and tort laws, including for prior periods, as well as potential liability for employee overtime and benefits and tax withholdings. Legislative, judicial, or regulatory (including tax) authorities could also introduce proposals or assert interpretations of existing rules and regulations that would change the classification of a significant number of independent contractors doing business with us from independent contractor to employee and a significant number of exempt employees to non-exempt. A reclassification in either case could result in a significant increase in employment-related costs such as wages, benefits and taxes. The costs associated with employee classification, including any related regulatory action or litigation, could have a material adverse effect on our results of operations and our financial position.

We are exposed to potential legal claims based on the nature of our food ordering and delivery business.

We are exposed to potential legal claims relating to our food ordering and delivery business, including potential claims related to food offerings, delivery and quality. For example, third parties could assert legal claims against us in connection with personal injuries related to food poisoning or tampering or accidents caused by the delivery drivers or other injuries or harm caused by delivery drivers. Litigation can be expensive, time-consuming and disruptive to normal business operations, so if these types of claims arise, they could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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 reference pricing 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 mobile 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 or trade 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 upon 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 could be impaired and our business and operating

results could 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, maintain and protect 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 continue to provide reliable, trustworthy and high quality offerings on our online marketplaces, 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, mobile applications, practices or service offerings, or the offerings of our merchants or their products, 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.
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 common stock.
Our business has been and is expected to 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. 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 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 vouchers with unique identifiers. It is possible that consumers or other third parties will seek to create counterfeit vouchers in order to fraudulently purchase discounted goods and services from 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. Merchants could also request reimbursement, or stop offering goods or services on our marketplaces, if they are affected by buyer fraud or other types of fraud.
We may incur significant losses from fraud and counterfeit vouchers. Additionally, we may incur losses from claims that the customer did not authorize a purchase, from credit card fraud, from merchant fraud, from erroneous transmissions, and from customers who have closed bank accounts or have insufficient funds in them to satisfy payments. We also may incur losses as a result of purchases made with fraudulent credit card information, even if the associated financial institution approved payment of the transaction. In addition to the direct costs of any such losses, if the losses 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 continual improvement and may not be effective against new and continually evolving forms of fraud or in connection with new product offerings. If we are unable to effectively combat the use of fraudulent credit cards on our websites or if we otherwise experience increased levels of fraud or disputed credit card payments, our business will suffer.

We are subject to payments-related risks.
We accept payments using a variety of methods, including credit cards, debit cards 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. In addition, our credit card and other payment processors could impose receivable holdback or reserve requirements in the future. 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 payment processing service 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 or result in unauthorized access to customer information, 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 customers. For example, the Financial Crimes Enforcement Network ("FinCEN"), a division of the U.S. Treasury Department tasked with implementing the requirements of the Bank Secrecy Act (the "BSA"), has adopted regulations expanding the scope of the BSA 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. While we believe Groupons are not subject to these regulations, it is possible that FinCEN or a court of law could consider Groupons 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 adversely impact our operating results.
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.
Our ability to raise capital in the future may be limited, which could prevent us from growing, and our existing credit agreement could restrict our business activities.
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. In addition, we are party to a $250.0 million amended and restated credit agreement with JPMorgan Chase Bank, N.A., as Administrative Agent, dated as of June 29, 2016, as amended (the "Credit Agreement"). Our Credit Agreement contains financial and other covenants that may restrict our business activities or our ability to execute our strategic objectives, and our failure to comply with these covenants could result in a default under our Credit Agreement. Furthermore, additional equity financing may dilute the interests of our common stockholders, and debt financing, if available, may involve restrictive covenants that could further restrict our business activities or our ability to execute our strategic objectives and could reduce our profitability. If we cannot raise or borrow funds on acceptable terms, we may not be able to grow our business or respond to competitive pressures.
We may not have the ability to use cash to settle the principal amount of our 3.25% convertible notes due 2022 (the "Notes") upon conversion or to repurchase the Notes upon a fundamental change, which could result in dilution and

could adversely affect our financial condition.

The Notes are convertible any time prior to their maturity on April 1, 2022 into cash, stock or a combination of cash and stock at an initial conversion rate set forth in the indenture governing the Notes (the "Indenture"). Notes that are converted in connection with a make-whole fundamental change (as defined in the Indenture) may be entitled to an increase in the conversation rate for such Notes. Upon a conversion event, if we do not have adequate cash available or cannot obtain additional financing, or our use of cash is restricted by applicable law, regulations or agreements governing our current or future indebtedness, we may not be able to use cash to settle the principal amount of the Notes upon conversion. If we settle any portion of the principal amount of the Notes upon conversion in stock, it will result in immediate dilution to the ownership interests of existing stockholders and such dilution could be material.

In addition, holders of the Notes have the right to require us to repurchase their Notes upon the occurrence of a fundamental change (as defined in the Indenture) at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any. If we do not have adequate cash available or cannot obtain additional financing, or our use of cash is restricted by applicable law, regulations or agreements governing our current or future indebtedness, we may not be able repurchase the Notes when required under the Indenture, which would constitute an event of default under the Indenture. An event of default under the Indenture could also lead to a default under other agreements governing our current and future indebtedness, and if the repayment of such other indebtedness were accelerated, we may not have sufficient funds to repay the indebtedness and repurchase the Notes or make cash payments upon conversion of the Notes.

The terms of the Notes could delay or prevent an attempt to take over our Company.

The terms of the Notes require us to repurchase the Notes in the event of a fundamental change. A takeover of our Company would constitute a fundamental change. This could have the effect of delaying or preventing a takeover of our Company that may otherwise be beneficial to our stockholders.

Risks Related to Ownership of Our Common Stock

The trading price of our common stock is highly volatile.

Our common stock began trading on the NASDAQ Global Select Market on November 4, 2011 and since that date has fluctuated significantly. 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 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 number of shares of our 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 common stock by our significant stockholders, officers and directors;
- announcements about our share repurchase program and purchases under the program;
- changes in our capital structure, such as future issuances of debt or equity securities;
- our entry into new markets or exits from existing markets;
- regulatory developments in the United States or foreign countries;
- strategic acquisitions, joint ventures or restructurings announced or consummated by us or our competitors;
- strategic dispositions of businesses or other assets announced or consummated by us; 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 common stock pursuant to our share repurchase program may affect the value of our common stock, and there can be no assurance that our share repurchase program will enhance shareholder value.

Pursuant to our publicly announced share repurchase program, we are authorized to repurchase up to $700.0 million of our outstanding common stock through April 2018. The Company has approximately $195.0 million remaining under this authorization as of December 31, 2016. 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 common stock at that time. Additionally, repurchases under our share repurchase program have and will continue to diminish our cash reserves, which could impact our ability to pursue possible strategic opportunities and acquisitions and could result in lower overall returns on our cash balances. There can be no assurance that any share repurchases will enhance shareholder value because the market price of our common stock has declined, and may continue to decline. Although our share repurchase program is intended to enhance long-term stockholder value, short-term stock price fluctuations could reduce the program's effectiveness.

If securities or industry analysts do not publish research or reports about our business, or publish inaccurate or unfavorable research reports about our business, our share price and trading volume could decline.
The trading market for our common stock depends, in part, on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If one or more of the analysts who cover us should downgrade our shares or change their opinion of our shares, industry sector or products, our share price would likely decline. If one or more of these analysts ceases coverage of our company or fails to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.
The concentration of our common stock ownership with our founders and their affiliates may limit stockholders' ability to influence corporate matters.
On October 31, 2016, each share of our Class A common stock and Class B common stock automatically converted (the "Conversion") into a single class of common stock. As a result of the Conversion, each holder of our common stock is entitled to one vote per share on any matter that is submitted to a vote of stockholders. Although the voting power of our founders was more concentrated prior to the Conversion, Eric Lefkofsky and Bradley Keywell and their affiliates continue to own approximately 23.3% of our common stock as of February 13, 2017. They, therefore, may have significant influence over 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 ownership could 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 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 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 may have the effect of delaying or preventing a change of control or changes in our management. These provisions include the following:

- 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 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 common stock. This limits the ability of minority stockholders to take certain actions without an annual meeting of stockholders.
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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 common 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 at 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.

The convertible note hedge and warrant transactions may affect the value of our common stock.

On May 9, 2016, we purchased convertible note hedges from certain bank counterparties. The convertible note hedges are intended to reduce the potential economic dilution upon conversion of the Notes. On May 9, 2016, we also sold warrants to certain bank counterparties. The warrant transactions would separately have a dilutive effect to the extent that the market price per share of our common stock exceeds the applicable strike price of the warrants.

The bank counterparties or their respective affiliates may modify their initial hedge positions by entering into or unwinding various derivatives contracts with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the Notes (and are likely to do so during any observation period related to a conversion of Notes or following any repurchase of Notes by us on any fundamental change repurchase date or otherwise). This activity could cause or avoid a significant change in the market price of our common stock.

In addition, in some circumstances, such as an early termination of the convertible note hedge and warrant transactions, the bank counterparties or their respective affiliates may unwind their hedge positions with respect to our common stock, which could adversely affect the value of our common stock.

ITEM 1B: UNRESOLVED STAFF COMMENTS
None.
ITEM 2: PROPERTIES
As of December 31, 2016, the Company had leases for approximately 1.6 million square feet of space. Our corporate headquarters and principal executive offices are located in Chicago, Illinois. 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	706,000	January 2026
Corporate offices	EMEA	341,000	June 2024
Corporate offices	Rest of World	211,000	May 2025
Fulfillment and data centers	North America	337,000	August 2020
Fulfillment and data centers	EMEA	17,000	March 2019
Fulfillment and data centers	Rest of World	24,000	July 2019

ITEM 3: LEGAL PROCEEDINGS
For a description of our material pending legal proceedings, please see Note 10, 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 or common stock, as applicable, has been listed on the NASDAQ Global Select Market under the symbol "GRPN" since November 4, 2011. On October 31, 2016, each share of our Class A common stock and Class B common stock automatically converted (the "Conversion") into a single class of common stock. The following table sets forth the high and low intraday sales price for our common stock (and Class A common stock prior to the Conversion) as reported by the NASDAQ Global Select Market for each of the quarterly periods listed.

2015	High	Low
First Quarter	$8.37	$6.75
Second Quarter	$7.54	$5.01
Third Quarter	$5.32	$3.21
Fourth Quarter	$4.05	$2.54

2016	High	Low
First Quarter	$4.86	$2.22
Second Quarter	$4.61	$2.98
Third Quarter	$5.89	$3.25
Fourth Quarter	$5.32	$3.32

Holders

As of February 13, 2017, there were 176 holders of record of our common stock. As a result of the Conversion, each holder of our common stock is entitled to one vote per share on any matter that is submitted to a vote of stockholders.

Dividend Policy

We currently do not anticipate paying dividends on our 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 2017 Annual Meeting of Stockholders.

Recent Sales of Unregistered Securities

During the year ended December 31, 2016, we did not issue any unregistered equity securities.

Issuer Purchases of Equity Securities

The Board has authorized the Company to repurchase up to $700.0 million of its common stock through April 2018 under its current share repurchase program. 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, future cash flows and borrowings under our credit facility. 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, 2016, we purchased 12,397,795 shares of our common stock (and Class A common stock prior to the Conversion) for an aggregate purchase price of $49.9 million (including fees and commissions) under the share repurchase program. A summary of our common stock repurchases during the three months ended December 31, 2016 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, 2016	1,986,963	$ 4.88	1,986,963	$235,036,117
November 1-30, 2016	5,185,153	4.01	5,185,153	$214,334,299
December 1-31, 2016	5,225,679	3.72	5,225,679	$194,964,087
Total	12,397,795	$ 4.03	12,397,795	$194,964,087

From the inception of our share repurchase programs in August 2013 through December 31, 2016, we have repurchased 171,695,908 shares of our common stock (and Class A common stock prior to the Conversion) for an aggregate purchase price of $807.4 million (including fees and commissions).

The following table provides information about purchases of shares of our common stock during the three months ended December 31, 2016 related to shares withheld upon vesting of restricted stock units for minimum tax withholding obligations:

Date	Total Number of Shares Purchased (1)	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, 2016	685,116	$ 5.06	—	—
November 1-30, 2016	360,320	4.01	—	—
December 1-31, 2016	704,219	3.43	—	—
Total	1,749,655	$ 4.19	—	—

(1) Total number of shares delivered to us by employees to satisfy the mandatory tax withholding requirement upon vesting of stock-based compensation awards.

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. Our stock price performance shown in the graph below is not indicative of our future stock price performance.

The graph set forth below compares the cumulative total return on our common stock (and Class A common stock prior to the Conversion) 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 on the last trading day of each year end period for 2012, 2013, 2014, 2015 and 2016.

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 Management's Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report on Form 10-K. Historical results are not necessarily indicative of future results.

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(in thousands, except share and per share amounts)				
Consolidated Statements of Operations Data [1]:					
Revenue:					
Third-party and other	$1,303,546	$1,372,533	$1,501,011	$1,654,654	$1,879,729
Direct	1,839,808	1,746,983	1,541,112	919,001	454,743
Total revenue	3,143,354	3,119,516	3,042,123	2,573,655	2,334,472
Cost of revenue:					
Third-party and other	171,728	188,932	203,058	232,062	297,739
Direct	1,614,723	1,545,519	1,373,756	840,060	421,201
Total cost of revenue	1,786,451	1,734,451	1,576,814	1,072,122	718,940
Gross profit	1,356,903	1,385,065	1,465,309	1,501,533	1,615,532
Operating expenses:					
Marketing	362,951	254,335	241,954	214,824	336,854
Selling, general and administrative	1,066,168	1,192,792	1,191,385	1,210,966	1,179,080
Restructuring charges	43,608	29,568	—	—	—
Gains on business dispositions	(11,711)	(13,710)	—	—	—
Acquisition-related expense (benefit), net	5,650	1,857	1,269	(11)	897
Total operating expenses	1,466,666	1,464,842	1,434,608	1,425,779	1,516,831
Income (loss) from operations	(109,763)	(79,777)	30,701	75,754	98,701
Other income (expense), net	(76,107)	(28,539)	(33,450)	(94,663)	(3,759)
Income (loss) from continuing operations before provision (benefit) for income taxes	(185,870)	(108,316)	(2,749)	(18,909)	94,942
Provision (benefit) for income taxes	(2,547)	(19,145)	15,724	70,037	145,973
Income (loss) from continuing operations	(183,323)	(89,171)	(18,473)	(88,946)	(51,031)
Income (loss) from discontinued operations, net of tax	—	122,850	(45,446)	—	—
Net income (loss)	(183,323)	33,679	(63,919)	(88,946)	(51,031)
Net (income) loss attributable to noncontrolling interests	(11,264)	(13,011)	(9,171)	(6,447)	(3,742)
Net income (loss) attributable to Groupon, Inc.	(194,587)	20,668	(73,090)	(95,393)	(54,773)
Adjustment of redeemable noncontrolling interests to redemption value	—	—	—	—	(12,604)
Net income (loss) attributable to common stockholders	$(194,587)	$20,668	$(73,090)	$(95,393)	$(67,377)
Basic and diluted net income (loss) per share [2]:					
Continuing operations	$(0.34)	$(0.16)	$(0.04)	$(0.14)	$(0.10)
Discontinued operations	—	0.19	(0.07)	—	—
Basic and diluted net income (loss) per share	$(0.34)	$0.03	$(0.11)	$(0.14)	$(0.10)
Weighted average number of shares outstanding [2]					
Basic	576,354,258	650,106,225	674,832,393	663,910,194	650,214,119

Diluted	576,354,258	650,106,225	674,832,393	663,910,194	650,214,119

(1) We disposed of our Korean subsidiary Ticket Monster, Inc. in May 2015. The financial results of Ticket Monster, including the gain on disposition and related tax effects, are presented as discontinued operations for the years ended December 31, 2015 and 2014. See Note 3, Discontinued Operations and Other Dispositions, for additional information.

(2) The structure of the Company's common stock changed during the year ended December 31, 2016. Refer to Note 11, Stockholders' Equity, and Note 17, Income (Loss) per Share, for additional information.

	As of December 31,				
	2016	2015	2014	2013	2012
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$891,846	$853,362	$1,016,634	$1,240,472	$1,209,289
Working capital (deficit)	(121,115)	(128,283)	91,460	394,340	341,834
Total assets	1,761,377	1,796,264	2,227,597	2,042,010	2,031,474
Total long-term liabilities	283,264	122,152	169,055	142,550	120,932
Total Groupon, Inc. Stockholders' Equity	264,420	469,398	762,826	713,651	744,040

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

Our operations are organized into three segments: North America, EMEA, which is comprised of Europe, Middle East and Africa, and the remainder of our international operations ("Rest of World"). See Note 18, Segment Information, for further information. For the year ended December 31, 2016, we derived 68.5% of our revenue from our North America segment, 26.3% of our revenue from our EMEA segment and 5.2% of our revenue from our Rest of World segment.

We offer goods and services through our online local commerce marketplaces in three primary categories: Local, Goods and Travel. Collectively, Local and Travel comprise our "Services" offerings and Goods reflects our product offerings. In our Goods category, we are generally the merchant of record, particularly for product offerings in North America and in EMEA. Our revenue from transactions in which we act as a third-party marketing agent is the purchase price paid by the customer, generally for a Groupon voucher (a "Groupon"), less an agreed upon portion of the purchase price paid to the merchant. Our direct revenue from transactions in which we sell merchandise inventory in our Goods category as the merchant of record is the purchase price paid by the customer. We generated revenue of $3,143.4 million during the year ended December 31, 2016, as compared to $3,119.5 million during the year ended December 31, 2015.

In September 2015, we commenced a restructuring plan relating primarily to workforce reductions in our international operations. We have also undertaken workforce reductions in our North America segment. See Note 13, Restructuring, for additional information. We continue to explore further restructuring actions in connection with our efforts to optimize our cost structure, which are expected to be substantially completed by June 2017.

In November 2015, we announced a number of strategic changes to our business that impacted our financial performance during 2016. First, we significantly increased our marketing expenses, particularly in North America, in connection with our efforts to accelerate customer growth. Those increased marketing expenditures increased our operating losses and reduced our Adjusted EBITDA (as defined below) for the year ended December 31, 2016. Second, we took significant actions to streamline and simplify our global business. Those actions included significant headcount reductions in connection with our restructuring program and increased centralization of various functions, such as customer service, in regional shared service centers. We also ceased operations in five countries during 2016 as part of our restructuring program and sold our operations in three other countries. These actions significantly reduced our selling, general, and administrative expenses for the year ended December 31, 2016. Third, we have focused on improving the margins in our Goods category in North America by de-emphasizing lower margin product offerings and reducing our per unit shipping and fulfillment costs. This initiative resulted in a gross margin improvement on Goods direct revenue transactions in North America from 10.2% in 2015 to 11.8% in 2016. While our margins improved, we believe that our de-emphasis of lower margin product offerings adversely impacted North America direct revenue growth, which was 3.2% in the current year. While we continue to seek opportunities to improve margins in our Goods category, our primary focus in 2017 will be to increase overall gross profit, regardless of whether such increase is achieved through revenue growth or margin improvements.

In October 2016, we completed a strategic review of our remaining international markets in connection with our efforts to optimize our global footprint and focus on the markets that we believe to have the greatest potential to benefit our long-term financial performance. Based on that review, we have decided to focus our business on 15 core countries, which are primarily based in North America and EMEA, and to pursue strategic alternatives for the remaining 11 countries, which are primarily based in Asia and Latin America. A business disposition that represents a strategic shift and has (or will have) a major effect on an entity's operations and financial results is reported as a discontinued operation. We have determined that the decision reached by our management and Board of Directors to exit those 11 non-core countries, which comprise a substantial majority of our operations outside of North America and EMEA, represents a strategic shift in our business. Based on our review of quantitative and qualitative factors, we also believe that the disposition of the businesses in those 11 countries will likely have a major effect on our operations and financial results. As such, we currently anticipate that when we have either disposed of our businesses in those 11 countries or have met the criteria for held-for-sale classification, their financial results, including any gains or losses on disposition, will be presented as discontinued operations in our consolidated statements of operations. We sold our business in one of those countries and ceased operations in another during the fourth quarter of 2016, but those two countries did not have a major impact on our operations and financial results. However, we currently anticipate that the remaining nine dispositions will be complete or will have met the criteria for held-for-sale classification by March 31, 2017, which would be expected to result in discontinued operations presentation at that time. Additionally, as a result of those anticipated dispositions, which represent a substantial majority of our international operations outside of EMEA, and the resulting changes to our internal reporting and leadership structure, we currently expect to combine our EMEA and Rest of World segments into a single International segment in 2017.

On October 31, 2016, each share of our Class A common stock and Class B common stock converted automatically into a single class of common stock (the "Conversion") pursuant to the terms of our Sixth Amended and Restated Certificate of Incorporation, as amended. Prior to the Conversion, holders of our Class A common stock were entitled to one vote per share and holders of our Class B common stock were entitled to 150 votes per share. Prior to the Conversion, we had 2,399,976 shares of Class B common stock issued and outstanding, all of which were held by our three founders. Following the Conversion, each share of common stock is entitled to one vote per share and otherwise has the same designations, rights, powers and preferences as a share of the Class A common stock prior to the Conversion. In addition, holders of the common stock now vote as a single class of stock on any matter that is submitted to a vote of stockholders.

On October 31, 2016, we acquired all of the outstanding shares of LivingSocial, Inc. ("LivingSocial"). No consideration was paid in connection with this acquisition. Living Social is an online local commerce company based in the United States, and its operations are reported within our North America segment for the period from its acquisition date through December 31, 2016.

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. 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. For third-party revenue transactions, 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 transactions, 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 measures the dollar volume of transactions generated through our marketplaces. Tracking gross billings on third-party revenue transactions also allows us to monitor the percentage of gross billings that we are able to retain after payments to merchants.
- Revenue. Third-party revenue, which is earned from transactions in which we act as a marketing agent, is reported on a net basis as the purchase price received from the customer less an agreed upon portion of the purchase price paid to the featured merchant. Direct revenue, which is earned from sales of merchandise inventory directly to customers

through our online marketplaces, is reported on a gross basis as the purchase price received from the customer.

- 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.

- Adjusted EBITDA. Adjusted EBITDA is a non-GAAP performance measure that we define as net income (loss) from continuing operations excluding income taxes, interest and other non-operating items, depreciation and amortization, stock-based compensation, acquisition-related expense (benefit), net and other special charges and credits, including items that are unusual in nature or infrequently occurring. For further information and a reconciliation to the most applicable financial measure under U.S. GAAP, refer to our discussion under Non-GAAP Financial Measures in the Results of Operations section.
- Free cash flow. Free cash flow is a non-GAAP financial measure that comprises net cash provided by (used in) operating activities from continuing operations less purchases of property and equipment and capitalized software from continuing operations. 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, 2016, 2015 and 2014 (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Gross billings	$6,096,504	$6,255,540	$6,237,832
Revenue	3,143,354	3,119,516	3,042,123
Gross profit	1,356,903	1,385,065	1,465,309
Adjusted EBITDA	178,090	256,832	262,301
Free cash flow (1)	48,212	215,759	184,917

The most comparable U.S. GAAP performance measure for Adjusted EBITDA is "Income (loss) from continuing operations" and the most comparable U.S. GAAP liquidity measure for Free Cash Flow is "Net cash provided by (used in) operating activities from continuing operations." For further information and a reconciliation to the most applicable measure under U.S. GAAP, refer to our discussion under Non-GAAP Financial Measures in the Results of Operations section. The following table provides income (loss) from continuing operations and net cash provided by (used) in operating activities from continuing operations for the years ended December 31, 2016, 2015 and 2014 (in thousands):

	Year Ended December 31,		
	2016	2015 (1)	2014 (1)
Income (loss) from continuing operations	$(183,323)	$(89,171)	$(18,473)
Net cash provided by (used in) operating activities from continuing operations	117,105	299,747	268,477

(1) We adopted the guidance in ASU 2016-09 on January 1, 2016. ASU 2016-09 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. We elected to apply that change in cash flow classification on a retrospective basis, which has resulted in increases to net cash provided by operating activities, net cash used in financing activities and free cash flow of $7.6 million and $16.0 million for the years ended December 31, 2015 and 2014, respectively.

Operating Metrics

- Active customers. We define active customers as unique user accounts that have made a purchase through one of our online marketplaces 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 offerings is trending. Some customers could establish and make purchases from more than one account, so it is possible that our active customer metric may count certain customers more than once in a given period. For entities that we have acquired in a business combination, active customers include unique user accounts that have made a purchase through the acquired entity's website during the trailing twelve months, which includes customers who have made purchases prior to our acquisition of the entity.
- 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 gross billings per average active customer, is a better indication of the overall growth of our marketplaces over time, gross billings per average active customer provides us with information about average annual customer spend.
- Units. This metric represents the number of purchases made through our online marketplaces, 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, 2016, 2015 and 2014 were as follows:

	Trailing twelve months ended December 31,		
	2016 (1)	2015	2014
TTM Active customers (in thousands)	52,749	48,889	47,426
TTM Gross billings per average active customer	$119.97	$129.98	$136.95

(1) TTM Active customers for the year ended December 31, 2016 includes approximately 1.0 million incremental active customers from the acquisition of LivingSocial, Inc.

Our units for the years ended December 31, 2016, 2015 and 2014 were as follows:

	Year Ended December 31,		
	2016	2015	2014
Units (in thousands)	214,285	220,824	214,301

Factors Affecting Our Performance

Deal sourcing and quality. We consider our merchant relationships to be a vital part of our business model. We depend on our 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. Our online marketplaces, which we sometimes refer to as "pull" marketplaces, enable customers to search and browse for deal offerings on our websites and mobile applications. In North America and many of our foreign markets, merchants often have 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. However, merchants have the ability to withdraw their 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 have been willing to accept lower deal margins across all three of our segments and we expect that trend to continue. 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. 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 policies. We have reduced our global footprint from 47 countries as of December 31, 2014 to 24 countries as of December 31, 2016, and we are currently exploring strategic alternatives in order to focus our business on 15 core countries by early 2017. Notwithstanding our reduced global footprint, different commercial and regulatory environments in other countries continue to make it more difficult for us to successfully operate our business. In addition, many of the automation tools and technology enhancements that we have implemented in our North America segment are not yet fully implemented in our international markets.

Our international operations have decreased as a percentage of our total revenue. For the years ended December 31, 2016, 2015 and 2014, 26.3%, 27.8% and 31.6% of our revenue was generated from our EMEA segment, respectively, and 5.2%, 6.6% and 8.4% of our revenue was generated from our Rest of World segment, respectively. The increase in North America revenue as a percentage of total revenue in 2016 was primarily due to domestic revenue growth, the reduction in our international footprint, and the adverse impact of year-over-year changes in foreign currency exchange rates on our international revenue.

Marketing activities. We must continue to acquire and retain customers in order to increase revenue and achieve profitability. If consumers do not perceive the offerings on our marketplaces 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 continue to build out more complete marketplaces, our success will depend on our ability to increase consumer awareness of offerings available through those marketplaces. We significantly increased our marketing spending throughout 2016 in order to drive customer growth and we expect marketing expense as a percentage of gross billings to remain relatively consistent in 2017.

As discussed under "Components of Results of Operations," we consider order discounts, free shipping on qualifying 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 increased our use of order discounts as a marketing tool in recent periods because we believe that this is an effective method of driving transaction activity through our marketplaces and acquiring new customers. Additionally, 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 consider such margin reductions to be a marketing-related activity because we believe that offering compelling deals from top merchants on our marketplaces is an effective method of retaining, activating and acquiring customers.

Investment in growth. We intend to continue to invest in our products and infrastructure to support our growth. We also have invested in business acquisitions to grow our merchant and customer base, expand and advance our product and service offerings and enhance our technology capabilities. We anticipate that we will make substantial investments in the foreseeable future as we continue to increase our offerings and improve the quality of active deals available through our marketplaces, broaden our customer base and develop our technology. Additionally, we believe that our efforts to automate our internal processes as well as our restructuring actions, which have allowed us to centralize many of our back office activities in lower cost shared service centers, will enable us to run our business more efficiently and improve our cost structure over time.

Competitive pressure. We face competition from a variety of sources. Some of our competitors offer deals as an add-on to their core businesses, and others have adopted a business model similar to ours. 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. 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. Further, as our business continues to evolve, we anticipate facing new competition. Increased competition in the future may adversely impact our gross billings, revenue and profit margins.

Results of Operations

Gross Billings
Gross billings represents the total dollar value of customer purchases of goods and services. Gross billings is presented net of customer refunds, order discounts and sales and related taxes.

Comparison of the Years Ended December 31, 2016 and 2015:

Gross billings for the years ended December 31, 2016 and 2015 were as follows:

	Year Ended December 31,			
	2016	2015	$ Change	% Change
	(in thousands)			
Gross billings:				
Third-party	$4,163,338	$4,450,560	$(287,222)	(6.5)%
Direct	1,839,808	1,746,983	92,825	5.3
Other	93,358	57,997	35,361	61.0
Total gross billings	$6,096,504	$6,255,540	$(159,036)	(2.5)

The effect on our gross billings for the year ended December 31, 2016 from changes in exchange rates versus the U.S. dollar was as follows:

	Year Ended December 31, 2016		
	At Avg. 2015 Rates [(1)]	Exchange Rate Effect [(2)]	As Reported
	(in thousands)		
Gross billings	$6,172,426	$(75,922)	$6,096,504

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

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

The decrease in total gross billings for the year ended December 31, 2016 was primarily attributable to the following:

- a $180.8 million reduction related to countries that we operated in during the prior year period and have subsequently exited as part of our restructuring plan and dispositions of our operations in India, Russia, Indonesia and Malaysia; and
- a $75.9 million unfavorable impact from year-over-year changes in foreign currency exchange rates.

The above drivers adversely impacted gross billings per average active customer, which were $119.97 for the year ended December 31, 2016, as compared to $129.98 for the year ended December 31, 2015. Additionally, the total number of units sold decreased to 214.3 million units for the year ended December 31, 2016, as compared to 220.8 million units for the year ended December 31, 2015, driven by our country exits and dispositions. Order discounts increased by $53.0 million to $215.9 million for the year ended December 31, 2016, as compared to $162.9 million for the year ended December 31, 2015.

The decrease in total gross billings was attributable to our international operations and was partially offset by increases in the Local and Goods categories in our North America segment.

Total gross billings attributable to the 11 countries that we plan to exit by early 2017 in connection with our global footprint optimization were $408.8 million for the year ended December 31, 2016.

Gross Billings by Segment

Gross billings by segment for the years ended December 31, 2016 and 2015 were as follows:

	Year Ended December 31,			
	2016	2015	$ Change	% Change
	(dollars in thousands)			
North America:				
Third-party and other	$2,638,611	$2,452,249	$186,362	7.6 %
Direct	1,297,810	1,257,548	40,262	3.2
Total segment gross billings	3,936,421	3,709,797	226,624	6.1
EMEA:				
Third-party	1,073,911	1,331,984	(258,073)	(19.4)
Direct	514,527	462,370	52,157	11.3
Total segment gross billings	1,588,438	1,794,354	(205,916)	(11.5)
Rest of World:				
Third-party	544,174	724,324	(180,150)	(24.9)
Direct	27,471	27,065	406	1.5
Total segment gross billings	571,645	751,389	(179,744)	(23.9)
Total gross billings	$6,096,504	$6,255,540	$(159,036)	(2.5)

The percentages of gross billings by segment for the years ended December 31, 2016 and 2015 were as follows:

2016 2015

North America	EMEA	Rest of World

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Gross billings by category and segment for the years ended December 31, 2016 and 2015 were as follows:

	North America Year Ended December 31,		EMEA Year Ended December 31,		Rest of World Year Ended December 31,		Consolidated Year Ended December 31,	
	2016	2015	2016	2015	2016	2015	2016	2015
	(in thousands)							
Local [1]:								
Third-party and other	$2,203,515	$2,024,698	$678,529	$796,136	$327,542	$376,540	$3,209,586	$3,197,374
Travel:								
Third-party	392,400	390,776	223,289	249,361	91,128	120,287	706,817	760,424
Total services	2,595,915	2,415,474	901,818	1,045,497	418,670	496,827	3,916,403	3,957,798
Goods:								
Third-party	42,696	36,775	172,093	286,487	125,504	227,497	340,293	550,759
Direct	1,297,810	1,257,548	514,527	462,370	27,471	27,065	1,839,808	1,746,983
Total	1,340,506	1,294,323	686,620	748,857	152,975	254,562	2,180,101	2,297,742
Total gross billings	$3,936,421	$3,709,797	$1,588,438	$1,794,354	$571,645	$751,389	$6,096,504	$6,255,540

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

North America

The overall increase in North America segment gross billings reflects increases in our Local and Goods categories. Those increases were primarily attributable to:

- our significant incremental marketing spend to accelerate customer growth. North America marketing expense increased by $102.3 million, or 63.6%, for the year ended December 31, 2016, as compared to the year ended December 31, 2015, driving a significant increase in active customers during 2016; and
- our focus on increasing the coverage of our offerings and improving the quality of offerings available through our marketplaces.

These items resulted in increases to both active customers and units sold in North America. Those increases were partially offset by increased order discounts and lower gross billings per average active customer. Order discounts increased by $42.0 million to $167.2 million for the year ended December 31, 2016, as compared to $125.2 million for the year ended December 31, 2015. Our new customer additions in recent quarterly periods contributed to lower gross billings per average active customer in North America as those new customers do not yet have a full twelve months of purchasing history.

Gross billings in our North America Goods category increased by 3.6% during the year ended December 31, 2016, as compared to the year ended December 31, 2015. This represents a lower rate of growth than our Goods category has historically generated, which we believe resulted, in part, from our strategic initiative to de-emphasize lower margin product offerings in that category.

The gross billings from Living Social were $22.7 million from its October 31, 2016 acquisition date through year-end.

EMEA

The overall decrease in EMEA segment gross billings reflects decreases across our Local, Travel and Goods categories. The decrease in EMEA gross billings was primarily attributable to the following:

- a $118.7 million reduction related to countries that we operated in during the prior year period and have subsequently exited as part of our restructuring plan and the disposition of our operations in Russia; and
- a $38.2 million unfavorable impact from year-over-year changes in foreign currency exchange rates.

Additionally, although EMEA active customers increased as compared to the prior year, units sold and gross billings per average active customer decreased as compared to the year ended December 31, 2015. Those decreases were driven by the countries we exited as part of our restructuring plan. The overall decrease in EMEA segment gross billings was partially offset by an increase in direct revenue transactions in our Goods category.

The British pound sterling has declined significantly against the U.S. dollar following the U.K.'s non-binding "Brexit" referendum on June 23, 2016, whereby a majority of voters supported its withdrawal from the European Union. We expect that our EMEA segment gross billings will continue to be adversely impacted during 2017 due to the increased strength of the U.S. dollar as compared to prior periods.

Rest of World

The overall decrease in Rest of World segment gross billings reflects decreases across our Local, Travel and Goods categories. The decrease in Rest of World gross billings was primarily attributable to the following:

- a $62.1 million reduction related to countries that we operated in during the prior year period and have subsequently exited as part of our restructuring plan and dispositions of our operations in India, Indonesia and Malaysia;
- a $36.7 million unfavorable impact from year-over-year changes in foreign currency exchange rates; and
- the substantial elimination of Goods offerings from our marketplaces in Brazil and Japan, which we eliminated in connection with our strategic initiative to de-emphasize lower margin product offerings.

Rest of World active customers, units sold and gross billings per average active customer all decreased as compared to the year ended December 31, 2015, driven by the countries we exited as part of our restructuring plan and dispositions of our operations in India, Indonesia and Malaysia.

Comparison of the Years Ended December 31, 2015 and 2014:

Gross billings for the years ended December 31, 2015 and 2014 were as follows:

	Year Ended December 31,			
	2015	2014	$ Change	% Change
	(in thousands)			
Gross billings:				
Third-party	$4,450,560	$4,670,653	$(220,093)	(4.7)%
Direct	1,746,983	1,541,112	205,871	13.4
Other	57,997	26,067	31,930	122.5
Total gross billings	$6,255,540	$6,237,832	$17,708	0.3

The effect on our gross billings for the year ended December 31, 2015 from changes in exchange rates versus the U.S. dollar was as follows:

	Year Ended December 31, 2015		
	At Avg. 2014 Rates (1)	Exchange Rate Effect (2)	As Reported
	(in thousands)		
Gross billings	$6,711,274	$(455,734)	$6,255,540

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

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

The increase in total gross billings for the year ended December 31, 2015 was primarily due to the following:

- a $205.9 million increase in gross billings from direct revenue transactions;
- a $31.9 million increase in other gross billings. The increase in other gross billings was primarily driven by an increase in commission revenue earned when customers make purchases with retailers using digital coupons accessed through our websites and mobile applications; and
- increases in active customers and the volume of transactions, resulting from our global efforts to build our marketplaces and increase our offerings to customers.

These increases were partially offset by a $220.1 million decrease in gross billings from third-party revenue transactions and a $455.7 million unfavorable impact from year-over-year changes in foreign currency exchange rates. Additionally, order discounts increased to $162.9 million for the year ended December 31, 2015, as compared to $94.4 million for the year ended December 31, 2014.

Gross Billings by Segment

Gross billings by segment for the years ended December 31, 2015 and 2014 were as follows:

	Year Ended December 31,			
	2015	2014	$ Change	% Change
	(dollars in thousands)			
North America:				
Third-party and other	$2,452,249	$2,228,566	$223,683	10.0 %
Direct	1,257,548	1,074,913	182,635	17.0
Total segment gross billings	3,709,797	3,303,479	406,318	12.3
EMEA:				
Third-party	1,331,984	1,604,463	(272,479)	(17.0)
Direct	462,370	442,344	20,026	4.5
Total segment gross billings	1,794,354	2,046,807	(252,453)	(12.3)
Rest of World:				
Third-party	724,324	863,691	(139,367)	(16.1)
Direct	27,065	23,855	3,210	13.5
Total segment gross billings	751,389	887,546	(136,157)	(15.3)
Total gross billings	$6,255,540	$6,237,832	$17,708	0.3

The percentages of gross billings by segment for the years ended December 31, 2015 and 2014 were as follows:

2015 2014

North America	EMEA	Rest of World

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Gross billings by category and segment for the years ended December 31, 2015 and 2014 were 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,	
	2015	2014	2015	2014	2015	2014	2015	2014
Local [1]:								
Third-party and other	$2,024,698	$1,864,141	$796,136	$950,141	$376,540	$451,090	$3,197,374	$3,265,372
Travel:								
Third-party	390,776	336,898	249,361	285,978	120,287	134,626	760,424	757,502
Total services	2,415,474	2,201,039	1,045,497	1,236,119	496,827	585,716	3,957,798	4,022,874
Goods:								
Third-party	36,775	27,527	286,487	368,344	227,497	277,975	550,759	673,846
Direct	1,257,548	1,074,913	462,370	442,344	27,065	23,855	1,746,983	1,541,112
Total	1,294,323	1,102,440	748,857	810,688	254,562	301,830	2,297,742	2,214,958
Total gross billings	$3,709,797	$3,303,479	$1,794,354	$2,046,807	$751,389	$887,546	$6,255,540	$6,237,832

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

North America

The overall increase in North America segment gross billings reflects increases across our Local, Travel and Goods categories. Those increases were primarily attributable to increases in active customers, units sold and gross billings per average active customer.

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 gross billings for our North America segment. In addition, we refined our approach to targeting customers and undertook marketing initiatives to increase consumer awareness of offerings available through our marketplaces, which we believe contributed to the gross billings growth. Order discounts increased $55.7 million to $125.2 million for the year ended December 31, 2015, as compared to $69.5 million for the year ended December 31, 2014.

EMEA

The overall decrease in EMEA segment gross billings reflects decreases across our Local, Travel and Goods categories. The decrease in EMEA segment gross billings resulted from a $317.6 million unfavorable impact from year-over-year changes in foreign currency exchange rates for the year ended December 31, 2015 as compared to the year ended December 31, 2014, partially offset by increases in active customers and units sold.

Rest of World

The overall decrease in Rest of World segment gross billings reflects decreases across our Local, Travel and Goods categories. The decrease in Rest of World segment gross billings resulted from a $132.7 million unfavorable impact on gross billings from year-over-year changes in foreign currency exchange rates for the year ended December 31, 2015 as compared to the year ended December 31, 2014.

Revenue

Third-party revenue arises from transactions in which we are acting as a marketing agent primarily by selling vouchers through our online local commerce marketplaces that can be redeemed for goods or services with third-party merchants. Our third-party revenue from those transactions is reported on a net basis as the purchase price received from the customer, less an agreed upon portion of the purchase price paid to the merchant.

Direct revenue arises from transactions in our Goods category in which we sell merchandise inventory directly to customers through our online marketplaces. The direct revenue that we earn from those transactions is reported on a gross basis as the purchase price we receive from the customer.
Other revenue primarily consists of commission revenue earned when customers make purchases with retailers using digital coupons accessed through our websites and mobile applications, payment processing revenue and advertising revenue.
Comparison of the Years Ended December 31, 2016 and 2015:
Revenue for the years ended December 31, 2016 and 2015 was as follows:

	Year Ended December 31,			
	2016	2015	$ Change	% Change
	(in thousands)			
Revenue:				
Third-party	$1,213,711	$1,314,536	$(100,825)	(7.7)%
Direct	1,839,808	1,746,983	92,825	5.3
Other	89,835	57,997	31,838	54.9
Total revenue	$3,143,354	$3,119,516	$23,838	0.8

The effect on revenue for the year ended December 31, 2016 from changes in exchange rates versus the U.S. dollar was as follows:

	Year Ended December 31, 2016		
	At Avg. 2015 Rates (1)	Exchange Rate Effect (2)	As Reported
	(in thousands)		
Revenue	$3,174,361	$(31,007)	$3,143,354

(1) Represents the financial statement balance that would have resulted had exchange rates in the reporting period been the same as those in effect in the prior year period.
(2) Represents the increase or decrease in the reported amount resulting from changes in exchange rates from those in effect in the prior year period.

The increase in revenue was primarily attributable to an increase in direct revenue transactions in our Goods category and other revenue. The increase was partially offset by the following:

- a $62.5 million reduction related to countries that we operated in during the prior year period and have subsequently exited as part of our restructuring plan, dispositions our operations in India, Russia, Indonesia and Malaysia; and
- a $31.0 million unfavorable impact from year-over-year changes in foreign currency exchange rates.

Total revenue attributable to the 11 countries that we plan to exit by early 2017 was $129.7 million for the year ended December 31, 2016.

Revenue by Segment

Revenue by segment for the years ended December 31, 2016 and 2015 was as follows:

	Year Ended December 31,			
	2016	2015	$ Change	% Change
	(dollars in thousands)			
North America:				
Third-party and other	$853,959	$790,194	$63,765	8.1 %
Direct	1,297,810	1,257,548	40,262	3.2
Total segment revenue	2,151,769	2,047,742	104,027	5.1
EMEA:				
Third-party	312,669	405,510	(92,841)	(22.9)
Direct	514,527	462,370	52,157	11.3
Total segment revenue	827,196	867,880	(40,684)	(4.7)
Rest of World:				
Third-party	136,918	176,829	(39,911)	(22.6)
Direct	27,471	27,065	406	1.5
Total segment revenue	164,389	203,894	(39,505)	(19.4)
Total revenue	$3,143,354	$3,119,516	$23,838	0.8

The percentages of revenue by segment for the years ended December 31, 2016 and 2015 were as follows:

2016 2015

North America EMEA Rest of World

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The percentages of third-party and other gross billings that we retained after deducting the merchant's share for the years ended December 31, 2016 and 2015 were as follows:

North America	EMEA	Rest of World

Revenue by category and segment for the years ended December 31, 2016 and 2015 was as follows:

	North America Year Ended December 31,		EMEA Year Ended December 31,		Rest of World Year Ended December 31,		Consolidated Year Ended December 31,	
	2016	2015	2016	2015	2016	2015	2016	2015
	(in thousands)							
Local [1]:								
Third-party and other	$762,314	$701,312	$241,683	$302,085	$88,488	$107,381	$1,092,485	$1,110,778
Travel:								
Third-party	82,577	81,731	45,909	53,059	18,869	24,091	147,355	158,881
Total services	844,891	783,043	287,592	355,144	107,357	131,472	1,239,840	1,269,659
Goods:								
Third-party	9,068	7,151	25,077	50,366	29,561	45,357	63,706	102,874
Direct revenue	1,297,810	1,257,548	514,527	462,370	27,471	27,065	1,839,808	1,746,983
Total	1,306,878	1,264,699	539,604	512,736	57,032	72,422	1,903,514	1,849,857
Total revenue	$2,151,769	$2,047,742	$827,196	$867,880	$164,389	$203,894	$3,143,354	$3,119,516

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

North America

The increase in North America segment revenue reflects increases in our Local and Goods categories. Those revenue increases resulted from the increases in gross billings. As discussed above, those increases were primarily attributable to our significant incremental marketing spend to accelerate customer growth, as well as our focus on increasing the coverage of our offerings and improving the quality of active offerings available through our marketplaces. Additionally, other revenue transactions in our Local category increased during the current year, which was primarily attributable to commission revenue earned when customers make purchases with retailers using digital coupons accessed through our websites and mobile applications.

The percentages of gross billings that we retained after deducting the merchant's share on third-party and other revenue transactions in our Local and Travel categories were 34.6% and 21.0%, respectively, which were consistent with the prior period.

We continue to focus more of our efforts on sourcing local deal offerings in sub-categories that provide the best opportunities for high frequency customer purchase behavior. These "high frequency use cases" include food and drink (including take-out and delivery), health, beauty and wellness, and events and activities. In connection with these efforts, we may be willing to offer more attractive terms to merchants that could reduce our deal margins in future periods.

The revenue from Living Social was $9.3 million from its October 31, 2016 acquisition date through year-end.

We sell Groupon gift cards that can be used to make purchases through our online marketplaces. Those gift cards have no expiration dates and administrative fees are not charged on unused gift cards. During the fourth quarter of the current year, we concluded that we had developed sufficient historical evidence regarding the pattern of customer redemptions of Groupon gift cards to have the ability to estimate the portion of gift cards that will never be redeemed ("breakage"). As a result, we recorded $6.4 million of gift card breakage revenue for the year ended December 31, 2016, including $4.3 million attributed to third party and other revenue and $2.1 million attributed to direct revenue, which represented our estimate of cumulative gift card breakage through the balance sheet date based on the proportion of customer redemptions to total expected redemptions.

EMEA

The decrease in EMEA segment revenue reflects decreases in our Local and Travel categories and from third-party revenue transactions in our Goods category. Those revenue decreases were primarily attributable to the decreases in gross billings as discussed above in addition to the following:

- decreases in the percentage of gross billings that we retained after deducting the merchant's share for third-party revenue transactions in our Local, Travel and Goods categories. For the year ended December 31, 2016, those percentages decreased to 35.6% in our Local category, 20.6% in our Travel category and 14.6% in our Goods category, as compared to 37.9%, 21.3% and 17.6% in our Local, Travel and Goods categories, respectively, for the year ended December 31, 2015. We have been willing to accept lower deal margins in order to improve the quality and increase the number of deals offered to our customers by offering more attractive terms to merchants;
- a $50.8 million reduction related to countries that we operated in during the prior year period and have subsequently exited as part of our restructuring plan and the disposition of our operations in Russia; and
- a $14.4 million unfavorable impact from year-over-year changes in foreign currency exchange rates.

Those decreases were partially offset by an increase in direct revenue transactions in our Goods category.

Rest of World

The decrease in Rest of World segment revenue reflects decreases across our Local, Travel and Goods categories. The decrease in Rest of World revenue was primarily attributable to the decreases in gross billings as discussed above in addition to the following:

- a decrease in the percentage of gross billings that we retained after deducting the merchant's share in our Local category. For the year ended December 31, 2016, that percentage decreased to 27.0% as compared to 28.5% for the year ended December 31, 2015;
- a $16.4 million unfavorable impact from year-over-year changes in foreign currency exchange rates; and
- an $11.7 million reduction related to countries that we operated in during the prior year period and have subsequently exited as part of our restructuring plan and dispositions of our operations in India, Indonesia and Malaysia.

Those decreases were partially offset by an increase in the percentage of gross billings that we retained after deducting the merchant's share for third-party revenue transactions in our Travel and Goods categories. For the year ended December 31, 2016, those percentages increased to 20.7% in our Travel category and 23.6% in our Goods category, as compared to 20.0% and 19.9%, respectively, for the year ended December 31, 2015.

Comparison of the Years Ended December 31, 2015 and 2014:
Revenue for the years ended December 31, 2015 and 2014 was as follows:

	Year Ended December 31,			
	2015	2014	$ Change	% Change
	(in thousands)			
Revenue:				
Third-party	$1,314,536	$1,474,944	$(160,408)	(10.9)%
Direct	1,746,983	1,541,112	205,871	13.4
Other	57,997	26,067	31,930	122.5
Total revenue	$3,119,516	$3,042,123	$77,393	2.5

The effect on revenue for the year ended December 31, 2015 from changes in exchange rates versus the U.S. dollar was as follows:

	Year Ended December 31, 2015		
	At Avg. 2014 Rates (1)	Exchange Rate Effect (2)	As Reported
	(in thousands)		
Revenue	$3,315,691	$(196,175)	$3,119,516

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

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

The increase in revenue was primarily attributable to the following:

- Increases in direct revenue from transactions in our Goods category and in other revenue; and
- Increases in third-party revenue driven by increases in the number of merchant relationships and the volume of offerings available on our marketplaces.

These increases were partially offset by a $196.2 million unfavorable impact on revenue from year-over-year changes in foreign currency exchange rates for the year ended December 31, 2015.

Revenue by Segment

Revenue by segment for the years ended December 31, 2015 and 2014 was as follows:

	Year Ended December 31,			
	2015	2014	$ Change	% Change
	(dollars in thousands)			
North America:				
Third-party and other	$790,194	$749,548	$40,646	5.4 %
Direct	1,257,548	1,074,913	182,635	17.0
Total segment revenue	2,047,742	1,824,461	223,281	12.2
EMEA:				
Third-party	405,510	518,786	(113,276)	(21.8)
Direct	462,370	442,344	20,026	4.5
Total segment revenue	867,880	961,130	(93,250)	(9.7)
Rest of World:				
Third-party	176,829	232,677	(55,848)	(24.0)
Direct	27,065	23,855	3,210	13.5
Total segment revenue	203,894	256,532	(52,638)	(20.5)
Total revenue	$3,119,516	$3,042,123	$77,393	2.5

The percentages of revenue by segment for the years ended December 31, 2015 and 2014 were as follows:

2015 2014

North America EMEA Rest of World

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The percentages of third-party and other gross billings that we retained after deducting the merchant's share for the years ended December 31, 2015 and 2014 were as follows:

North America	EMEA	Rest of World

Revenue by category and segment for the years ended December 31, 2015 and 2014 was as follows:

	North America		EMEA		Rest of World		Consolidated	
	Year Ended December 31,		Year Ended December 31,		Year Ended December 31,		Year Ended December 31,	
	2015	2014	2015	2014	2015	2014	2015	2014
	(in thousands)							
Local [1]:								
Third-party and other	$701,312	$674,605	$302,085	$391,179	$107,381	$147,248	$1,110,778	$1,213,032
Travel:								
Third-party	81,731	68,977	53,059	63,957	24,091	26,407	158,881	159,341
Total services	783,043	743,582	355,144	455,136	131,472	173,655	1,269,659	1,372,373
Goods:								
Third-party	7,151	5,966	50,366	63,650	45,357	59,022	102,874	128,638
Direct revenue	1,257,548	1,074,913	462,370	442,344	27,065	23,855	1,746,983	1,541,112
Total	1,264,699	1,080,879	512,736	505,994	72,422	82,877	1,849,857	1,669,750
Total revenue	$2,047,742	$1,824,461	$867,880	$961,130	$203,894	$256,532	$3,119,516	$3,042,123

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

North America

The increase in North America segment revenue reflects increases across our Local, Travel and Goods categories. Those revenue increases were primarily attributable to the increases in gross billings as discussed above.

Those increases were partially offset by a decrease in the percentage of gross billings that we retained after deducting the merchant's share in our Local category. For the year ended December 31, 2015 that percentage decreased to 34.6% , as compared to 36.2% for the year ended December 31, 2014. This decrease in the percentage of gross billings that we retained after deducting the merchant's share reflects the overall results of individual deal-by-deal negotiations with 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.

We believe that increases in transaction activity on mobile devices and in the number of offerings contributed to the growth in revenue for our North America segment. In addition, we refined our approach to targeting customers and undertook marketing initiatives to increase consumer awareness of deals available through our marketplaces, which we believe contributed to the revenue growth.

EMEA

The decrease in EMEA segment revenue reflects decreases in our Local and Travel categories and from third-party revenue transactions in our Goods category. Those revenue decreases were primarily attributable to the decreases in gross billings as discussed above in addition to the following:

- the decreases in the percentage of gross billings that we retained after deducting the merchant's share in our Local and Travel categories. For the year ended December 31, 2015, those percentages decreased to 37.9% in our Local category and 21.3% in our Travel category, as compared to 41.2% and 22.4%, respectively, for the year ended December 31, 2014; and
- a $157.9 million unfavorable impact on revenue from year-over-year changes in foreign currency exchange rates for the year ended December 31, 2015.

The decreases in the percentage of gross billings that we retained during the year ended December 31, 2015 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 year ended December 31, 2014, 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 EMEA segment revenue was partially offset by an increase in direct revenue from our Goods category as a result of a shift to more direct revenue transactions in EMEA during 2015.

Rest of World

The decrease in Rest of World segment revenue reflects decreases in our Local and Travel categories and from third-party revenue transactions in our Goods category. Those revenue decreases were primarily attributable to the decreases in gross billings as discussed above in addition to the following:

- decreases in the percentage of gross billings that we retained after deducting the merchant's share in our Local category and from third-party revenue transactions in our Goods category. For the year ended December 31, 2015, those percentages decreased to 28.5% in our Local category and 19.9% on third-party revenue transactions in our Goods category, as compared to 32.6% and 21.2%, respectively, for the year ended December 31, 2014; and
- a $36.9 million unfavorable impact on revenue from year-over-year changes in foreign currency exchange rates for the year ended December 31, 2015.

The decrease in revenue for our Rest of World segment was also driven by a decrease in active customers and units sold for the year ended December 31, 2015, as compared to the year ended December 31, 2014.

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 fulfillment center. 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, compensation expense for technology support personnel who are responsible for maintaining the infrastructure of the Company's websites, amortization of internal-use software relating to customer-facing applications, web hosting and other processing fees, are attributed to cost of third-party revenue, direct revenue and other revenue in proportion to gross billings during the period.

Comparison of the Years Ended December 31, 2016 and 2015:

Cost of revenue on third-party, direct revenue and other revenue for the years ended December 31, 2016 and 2015 was as follows:

	Year Ended December 31,			
	2016	2015	$ Change	% Change
	(in thousands)			
Cost of revenue:				
Third-party	$164,667	$168,964	$(4,297)	(2.5)%
Direct	1,614,723	1,545,519	69,204	4.5
Other	7,061	19,968	(12,907)	(64.6)
Total cost of revenue	$1,786,451	$1,734,451	$52,000	3.0

The effect on cost of revenue for the year ended December 31, 2016 from changes in exchange rates versus the U.S. dollar was as follows:

	Year Ended December 31,		
	At Avg. 2015 Rates (1)	Exchange Rate Effect (2)	As Reported
	(in thousands)		
Cost of revenue	$1,799,195	$(12,744)	$1,786,451

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

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

The increase in total cost of revenue was primarily attributable to the growth in direct revenue from our Goods category. The increase was partially offset by the following:

- a $26.4 million reduction related to countries that we operated in during the prior year period and have subsequently exited as part of our restructuring plan, dispositions of our operations in India, Russia, Indonesia and Malaysia; and
- a $12.7 million favorable impact from year-over-year changes in foreign currency exchange rates.

Cost of Revenue by Segment

Cost of revenue by segment for the years ended December 31, 2016 and 2015 was as follows:

	Year Ended December 31,			
	2016	2015	$ Change	% Change
	(dollars in thousands)			
North America:				
Third-party and other	$121,151	116,343	$4,808	4.1 %
Direct	1,145,071	1,129,828	15,243	1.3
Total segment cost of revenue	1,266,222	1,246,171	20,051	1.6
EMEA:				
Third-party	22,840	32,454	(9,614)	(29.6)
Direct	441,950	389,862	52,088	13.4
Total segment cost of revenue	464,790	422,316	42,474	10.1
Rest of World:				
Third-party	27,737	40,135	(12,398)	(30.9)
Direct	27,702	25,829	1,873	7.3
Total segment cost of revenue	55,439	65,964	(10,525)	(16.0)
Total cost of revenue	$1,786,451	1,734,451	$52,000	3.0

The percentages of cost of revenue by segment for the years ended December 31, 2016 and 2015 were as follows:

2016 2015

North America EMEA Rest of World

Cost of revenue by category and segment for the years ended December 31, 2016 and 2015 was as follows:

	North America Year Ended December 31,		EMEA Year Ended December 31,		Rest of World Year Ended December 31,		Consolidated Year Ended December 31,	
	2016	2015	2016	2015	2016	2015	2016	2015
	(in thousands)							
Local [1]:								
Third-party and other	$101,331	$100,419	$15,501	$19,205	$13,088	$15,196	$129,920	$134,820
Travel:								
Third-party	18,222	14,704	3,781	5,665	4,168	5,274	26,171	25,643
Total services	119,553	115,123	19,282	24,870	17,256	20,470	156,091	160,463
Goods:								
Third-party	1,598	1,220	3,558	7,584	10,481	19,665	15,637	28,469
Direct	1,145,071	1,129,828	441,950	389,862	27,702	25,829	1,614,723	1,545,519
Total	1,146,669	1,131,048	445,508	397,446	38,183	45,494	1,630,360	1,573,988
Total cost of revenue	$							