reported at US$72.41 on March 31, 2011, compared to US$71.77 on March 31, 2012.[47] Rather than adding revenue solely by acquiring more customers, Groupon was searching for ways to increase the amount of revenue it received per subscriber from its existing base.

"We Don't Measure Ourselves in Conventional Ways"

Investors and the Securities and Exchange Commission began to question management's reporting of Groupon's financials. Although Groupon disclosed all financial data required by the SEC, management stressed the importance of other, more unconventional metrics. The company, which said that it did not "measure [itself] in conventional ways," placed more importance on metrics such as adjusted consolidated segment operating income, free cash flow, and gross billings, rather than net income.[48] Groupon reported net losses in each of the past three years and believed that unique metrics better reflected its financial progress.

Groupon defined adjusted consolidated segment operating income (CSOI) as "the consolidated segment operating income before new subscriber acquisition costs and certain non-cash charges."[49] It believed that adjusted CSOI was an important measure of the performance of its business since adjusted CSOI excluded expenses that management believed were not indicative of future operating expenses. Free cash flow was defined as cash flow from operations reduced by "purchases of property and equipment"[50] and although the measure could be revealing, Groupon acknowledged that it was a non-GAAP financial measure. Gross billings, another proprietary metric, was the gross amount collected from customers for Groupons sold. Management viewed gross billings as a measurement of growth, but its use in revenue recognition was a source of controversy. Wall Street observers argued that Groupon's use of these non-GAAP measures was simply a strategy to portray its financials favorably in light of its lack of profitability.[51]

In 2011, Groupon had to restate its earnings for the three months ended March 31, 2011 "to correct for an error in its presentation of revenue."[52] Groupon historically reported its revenue as the gross amounts billed to its subscribers. The revision required revenue to be restated as the net of the amounts related to merchant fees. This error prompted the company to report a "material weakness" in its internal control over financial reporting.[53] The Condensed Statement of Operations shown in **Exhibit 8** for the three months ended March 31, 2011, was restated to show the net amount the company retained after paying merchant fees. Several other income statement expenses were changed as well to align with the reporting of revenue on a net basis.

Then, on March 30, 2012, the company announced that it would also have to restate earnings for the fourth quarter of 2011 after a higher-than-expected number of customers demanded refunds.[54] Going forward, management planned to improve its internal controls for financial reporting. With significant errors and multiple financial restatements present in

EXHIBIT 8
Groupon, Inc. Notes to Condensed Consolidated Financial Statements for the Three Months Ended March 31, 2011, In Thousands (Unaudited)

	As previously reported (unaudited)	Restatement adjustment	As restated
Revenue	$ 644,728	(349,205)	$ 295,523
Cost of revenue	$ 374,728	(334,963)	$ 39,765
Marketing	$ 208,209	21,876	$ 230,085
Selling, general, and administrative	$ 178,939	(36,118)	$ 142,821

SOURCE: Groupon, Inc. *10-Q* (May 15, 2012), p. 11.