

Groupon says 4th-quarter was weaker than reported

March 31 2012, By SARAH SKIDMORE , AP Business Reporter

(AP) -- Groupon Inc. said Friday that its fourth-quarter loss was wider than initially reported because it needed to increase the amount of money it sets aside for refunds.

The disclosure weakened the company's first quarterly report since it went public in November, which already had disappointed investors, and added to its list of fumbles.

[Groupon](#) prominently promises to refund money to any user unhappy with a deal, an important part of its business model that has made it so popular. The need for the revision, however, indicates it might not have the controls in place to adequately keep up with its own success.

Groupon said that it was selling online deals at higher prices during the period. and that put it on the hook for larger refunds. The revision lowered the company's quarterly revenue by \$14.3 million and widened its loss by \$22.6 million, or 4 cents per share.

The company originally reported in February a surprise loss of \$42.7 million, or 8 cents per share, for the period. It said at the time that its revenue nearly tripled to \$506.5 million from the same quarter a year earlier.

Groupon's auditor Ernst & Young also flagged a weakness in the company's internal controls over its financial statement for the period in a regulatory filing Friday.

Groupon said it is working to identify and address the underlying causes and said it may have added expenses to solve the problem, including the cost of hiring more financial staff for the quickly growing company.

The company's shares plunged in after-hours trading on the news.

This is not the first time Groupon has struggled to get its financial reporting in order. The company faced federal scrutiny before its initial public offering for the way it accounted for revenue.

Groupon makes money by sending out frequent emails to subscribers offering a chance to buy discount deals for anything from manicures to ballroom dance lessons. The company takes a cut of what people pay and gives the rest to the merchant.

The company used to report all of its gross billings, not just the money it gets to keep, as revenue. After federal regulators questioned the practice, Groupon submitted new documents in September that showed that net revenue in the first half of 2011 was about half of what it originally reported.

The company's rapid growth, financial reporting difficulties, high marketing expenses and enormous employee base have caused some IPO experts to compare its ascent to the late 1990s tech boom - and bust.

Groupon has failed to impress [investors](#) since its market debut. It started strong, pricing above expectations at \$20 and raising \$700 million in its offering. Its shares soared 31 percent in its first day of trading, closing at \$26.11. It has fallen 30 percent since then, closing regular trading Friday at \$18.38.

The company has struggled with intense competition from other daily deal sites and complaints by merchants after they've been overwhelmed

by customers using, and sometimes abusing, the company's offers.

Groupon also issued a more modest growth forecast for its first quarter as the number of subscribers signing up for its service and the number of merchants joining appears to be slowing.

The company stood by its 2012 first-quarter expectations for revenue of \$510 million to \$550 million. But that is still single-digit growth year-over-year when it delivered double-digit growth in every quarter of 2011.

"We remain confident in the fundamentals of our business, as our performance continues to highlight the value that we provide to customers and merchants," Groupon's Chief Financial Officer Jason Child said in a statement.

The company also said Friday that it would extend its "lockup" period one month beyond what it had set out at its IPO. These agreements restrict the sale or transfer shares held by certain stockholders, often executives in the company. The agreements also prevent key stockholders from unloading shares or flooding the market, which could hurt its price.

Groupon said that its lockup agreements were originally scheduled to expire on May 2 but the [company](#) will be reporting its earnings on May 12 and the agreement forbids the two being so close to each other. As a result, the lockup period will be automatically extended through June 1.

Shares of Groupon, based in Chicago, plunged \$1.24, nearly 7 percent, in after-hours trading.

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