Groupon restatement sparks more worries (Update)

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(AP) -- Groupon's announcement that its revenue and earnings were lower than what it reported in February is sparking fresh worries about the young company's business model.

Trouble arose when the online deals company said late Friday that it had to revise its previously issued fourth-quarter results to increase the money it set aside for refunds to customers. A big reason: It is selling more expensive deals, such as vacation packages and Botox procedures, which have higher return rates.

Investors responded by selling Groupon's stock on Monday, and shares fell 17 percent. Some analysts are wondering if Groupon, which began trading publicly less than five months ago, will be able to leave behind its growing pains.

"We believe Groupon is now a `show-me' story, where a company's ambitions are higher than the level of its internal planning and controls," Jordan Rohan, an analyst with Stifel Nicolaus, said in a note to investors. He downgraded the company's stock to "Sell," from "Hold."

"The company claims that the returns do not threaten its expansion and growth," Rohan wrote. "We prefer to wait and see."

Internal controls are systems that companies have in place to make sure that their financial reporting is accurate and that they can meet business goals. Late Friday afternoon - a popular time for companies to release bad news - Groupon also disclosed that its auditors found a weakness in its internal controls, but insisted that its business is solid.

Founded in November 2008, Groupon pioneered the online daily deals market, which offers subscribers deep discounts on everything from restaurant meals to tech gadgets to weekend getaways if enough people buy in. It sparked many copycats, including LivingSocial, Google and Facebook, though the latter ended up abandoning the effort.

In terms of mere numbers, the financial restatement doesn't amount to much. The revision lowered the company's fourth-quarter revenue by about 3 percent, to $492 million. And it widened its net loss by 4 cents, to 12 cents per share. Groupon's chief financial officer, Jason Child, said the company remains confident in its business.

But Friday wasn't the first time that Groupon has had to change its accounting. Last year, the company got in trouble for including as revenue the share it had to turn over to merchants running the deal. After federal regulators questioned the fuzzy math, the company counted only the money it got to keep and reduced its reported revenue by roughly half. All that preceded its initial public offering in November.

The fact that Groupon has had to revise its numbers again raises questions about the company's ability to manage its financial reporting and give investors an accurate picture of how it is faring.

Groupon spokesman Paul Taaffe said Monday that the company understands that "there is a certain amount of skepticism in the market" given the company's history.

But he said the company's fundamental business is strong, and such accounting issues are just part of being a business that is growing very quickly. Groupon's revenue nearly tripled in the fourth quarter from a year earlier, and its active subscriber base grew fourfold to 33 million.

"Every three months, Groupon is a different company," he said.

Groupon has evolved quickly from its roots offering mostly restaurant and spa deals from local merchants. It now curates vacation packages to such places as Egypt and the Horseshoe Casino in Robinsonville, Miss., and it sells consumer products such as memory foam mattresses and noise-canceling headphones.

Its deals aren't really daily any more, either. Subscribers can sign up for several email lists from Groupon, receiving multiple deals a day. They often have several days to decide whether they want to buy them.

More recently, with products such as an online scheduling tool for local merchants, Groupon has also shown that it wants to be an e-commerce hub for small businesses.

Several analysts are giving Groupon the benefit of the doubt even as they note shareholder frustrations. Dough Anmuth of JPMorgan said he doesn't believe the restatement shows that Groupon's business model is weakening.

"Instead we believe they reflect Groupon's dynamic deal mix and the company's extremely rapid growth in a very short amount of time," he said.

Scott Devitt of Morgan Stanley, the main underwriter for Groupon's IPO, called the announcement a "mild hiccup in Groupon's compelling long-term story."

The Chicago-based company's stock fell $3.11, or 16.9 percent, to close Monday at $15.28. The stock price is 24 percent below its IPO pricing of $20 and has traded from $14.85 to $31.14.