**SHOULD THE SEC PROTECT GROUPON INVESTORS FROM CSOI?**

***Anthony H. Catanach Jr. and J. Edward Ketz***

***Grumpy Old Accountants, August 2011***

A curious article made the first page of the *Wall Street Journal* last Thursday. Shayndi Raice and Nick Wingfield wrote that a non-GAAP measure employed in Groupon’s S-1 has attracted the attention of the SEC ([“Groupon’s Accounting Lingo Gets Scrutiny”](http://online.wsj.com/article/SB10001424053111903635604576472531846174782.html)). We wonder why.

In a previous column ([“Groupon: Comedy or Drama?”](http://blogs.smeal.psu.edu/grumpyoldaccountants/archives/191)), we shared, “Management begs us to look at consolidated segment operating income [CSOI]. This metric is operating income with add-backs for online marketing expenses, stock-based compensation, and acquisition-related expenses. Of course, these adjustments have no economic foundation and serve only to create a value that is in the plus column. Rational investors will ignore this nonsense and perceive that it distracts one from important numbers like net income.” And free cash flow.

Raice and Wingfield reported that the SEC raised questions about this new metric. If the SEC is concerned about the appropriateness of the disclosure, we disagree as Groupon seems to have followed [Regulation G](http://www.sec.gov/rules/final/33-8176.htm) (and the concomitant sections of S-K), which requires enterprises to provide a reconciliation from a non-GAAP measure to the GAAP number. Unless Groupon erred in its reconciliation, we don’t understand the scrutiny.

If the SEC is concerned about the utility of the metric, we think the agency has stepped into something that is none of its business. The SEC’s purpose is to protect investors from lack of certain information and from erroneous data designed to defraud investors and potential investors. But, its raison d’être does not include protecting investors from themselves. Anybody stupid enough to think this metric worthwhile deserves the losses they will face. But, the SEC commissioners might use their bully pulpit to educate the investment community.

As one investment guru said, “Stupid is as stupid does.”

POSTSCRIPT:

Groupon amended its [S-1](http://www.sec.gov/Archives/edgar/data/1490281/000104746911007178/a2204399zs-1a.htm#ei79801_principal_and_selling_stockholders) on August 10 and removed the controversial disclosures on CSOI. That move apparently is in response to questions or pressure from the SEC over this measure. We think the removal is good because CSOI assertions were mere rhetoric without any substance.

We also use this update to clarify our earlier comments. We understand fully that the SEC was assessing whether Groupon complied with its rules about non-GAAP measures and that the SEC may have had problems with CSOI. These actions by the SEC were appropriate as the SEC wants registrants to follow the rules.

Our point was more basic: why is the SEC using precious resources to monitor these non-GAAP numbers? The Congress created the SEC in 1934 to ensure the disclosure of important information and to prevent the disclosure of fraudulent data. Non-GAAP measures are not fraudulent numbers—they are irrelevant and stupid numbers. As long as the registrant clearly marks the quantitative measures as not being GAAP, we have no problem in allowing any fool that wants to employ the numbers to have the freedom to do so.

We shall use this forum to attack accounting fraud and accounting shenanigans, including both creative accounting and creative auditing. But we never have advocated and never will advocate that the SEC be the Big Brother of investors and creditors by attempting to tell them how they should perform investment analyses, including advising them on what variables to include and which to exclude. Those objectives are unrealistic, and therefore the SEC should not pursue these windmills.

*This essay reflects the opinion of the authors and not necessarily the opinions of The Pennsylvania State University, The American College, or Villanova University.*