**GROUPON IS TECHNICALLY INSOLVENT**

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Today (October 21) Groupon issued [amendment Number 6 to its S-1 filing](http://www.sec.gov/Archives/edgar/data/1490281/000104746911008605/a2205238zs-1a.htm). The most interesting data are on page 9 of the report, which we repeat below.

What stands out to us is that stockholders’ equity on September 30 is *negative*—the firm has become technically insolvent! Our prediction that Groupon has a high probability of failure remains intact.

Groupon also displays the results if the IPO goes as hoped for in the last column “Pro Forma as Adjusted.” If a serendipitous IPO transpires, then shareholders’ equity becomes $464 million and financial leverage drops to “only” 64%.

Of course, this felicitous result depends on investors believing the firm to be valued at the estimate provided by management. But, for reasons explained in previous essays, we doubt that investors will buy those rosy projections.

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| **(in thousands)** | |  | **As of September 30, 2011** | | | | | | | | |  |
|  | |  | **Actual** | | |  | **Pro Forma(1)** | |  | **Pro Forma As Adjusted(2)(3)** | |  |
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|  | |  |  | |
| **Consolidated Balance Sheet Data:** | |  |  |  | |  |  |  |  |  |  |  |
|  | Cash and cash equivalents |  | $ | 243,935 | |  | $ | 243,935 |  | $ | 722,735 |  |
|  | Working capital (deficit) |  |  | (301,050 | | ) |  | (301,050 | ) |  | 177,750 |  |
|  | Total assets |  |  | 795,567 | |  |  | 795,567 |  |  | 1,274,367 |  |
|  | Total long-term liabilities |  |  | 44,507 | |  |  | 44,507 |  |  | 44,507 |  |
|  | Redeemable preferred stock |  |  | — | |  |  | — |  |  | — |  |
|  | Cash dividends per common share |  |  | — | |  |  | — |  |  | — |  |
|  | Total Groupon, Inc. stockholders' (deficit) equity |  |  | (14,696 | | ) |  | (14,696 | ) |  | 464,104 |  |

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