**GROUPON CFO’S SPIN RAISES MORE RED FLAGS**

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

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This past week, [CFO.com](http://www.cfo.com/article.cfm/14617945/c_2984408/?f=archives) asked for our opinion on [Groupon’s Fourth Quarter 2011](http://www.sec.gov/Archives/edgar/data/1490281/000110465912007814/a12-4452_1ex99d1.htm) operating results. Regular readers of our blog will not be surprised to learn that we took exception to Groupon’s continued emphasis on non-GAAP financial metrics at the expense of complete and transparent operating cash flow (OCF) disclosures. After all, we first raised the red flag on these two issues almost eight months ago in [Groupon: Comedy or Drama?](http://blogs.smeal.psu.edu/grumpyoldaccountants/archives/191).

What is news is that Groupon’s chief financial officer now finds it necessary to [defend his reporting practices](http://www3.cfo.com/article/2012/2/accounting-tax_groupon-cfo-jason-child-defends-non-gaap-metrics) from the critique of these two Grumpy Old Accountants! Unfortunately, the Groupon CFO only raises more red flags about the Company, the quality of its management, and of course, it’s financial reporting.

In defending his continued use of non-GAAP measures, Groupon’s CFO argues that he has been “transparent” as to why the Company relies on these disclosures, namely “to help investors better evaluate the company,” because “sometimes GAAP metrics don’t tell the entire story.” That may be true, but it doesn’t imply that non-GAAP metrics add anything substantive to the story. Often non-GAAP numbers tell significantly less of the story.

Take ***consolidated segment operating income*** (CSOI) for example. It starts with GAAP operating income and adds back very large expense amounts for stock-based compensation and acquisition-related expenses. Or how about ***pro-forma net income*** which starts with GAAP net income and again adds back the very same large expenses related to stock based compensation and acquisition-related charges. These metrics pretend that stock-based compensation and acquisition-related costs are unimportant when they are very real costs that the entity has incurred. Instead of being transparent, managers who eliminate these items are merely trying to find a nonnegative number to report.

We just don’t see how such metrics (which only bias reported performance upward) help analysts unless you believe analysts can’t read financial statements or add and subtract. Could the Company be feeding the “sell side” analyst community performance results that will make it easier for them to sell Groupon stock? After all, these are the only analysts we know of that don’t read and can’t add.

And then there is Groupon’s Magic Cash Machine! Groupon’s CFO took exception to our criticism about providing only aggregate cash flow data that failed to explain the 234 percent improvement in 2011 OCF. But even he recognizes that “it is pretty unusual to have a business that loses money from a GAAP income perspective, but actually generates free-cash flow.” Sorry Mr. CFO, “pretty unusual” does not hack it…this situation refutes all logic!

In most growth companies, OCF tend to lag net income, not the other way around. If costs exceed revenues, how is it possible to create and report huge and increasing cash flows? We know of only two ways: either delay payments to vendors or lie about what your cash flows really are! So, instead of dismissing our suggestion as “silly” that Groupon is boosting its reported cash flows by delaying payments and playing the float, prove us wrong by releasing a complete, detailed statement of cash flows. Surely, the CFO has this handy.

Oh, we almost forgot, Groupon is “a high-growth company that is disruptive and that is effectively creating a new industry.” All Groupon’s CFO left out of this statement was that the Company needed “new accounting.” Implicitly, it’s there already with its previous attempt at [gross revenue recognition](http://blogs.smeal.psu.edu/grumpyoldaccountants/archives/327) and continued lack of real financial reporting transparency, particularly in the cash flow area. You might recall that we initially raised concerns about Groupon’s “disruptiveness” in [Is Groupon “Cooking Its Books?”](http://blogs.smeal.psu.edu/grumpyoldaccountants/archives/301)

If Groupon’s CFO is serious about wanting “people to understand and trust new business models,” he needs to reengineer his mindset and approach to financial reporting transparency. GAAP may not be perfect, but is the best we have and it can be trusted. Non-GAAP numbers are usually worse because they reflect the idiosyncrasies of their creators. Overreliance on non-GAAP only adds to suspicions about the Company’s true performance.

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