GROUPON’S NON-STANDARD ACCOUNTING EMBARRASSMENT RAISES NEED FOR MORE TRANSPARENCY FROM IPOS

In the new JOBS Act, a vaguely obscured provision would allow companies to sort out their differences with regulators, behind closed doors, before they go public. This provision, which is part of the bill already passed by the Congress and which President Barrack Obama is expected to sign, would enable companies to submit top secret drafts of their initial-public-offering documents to the Securities and Exchange Commission before they file publicly. Critics say that such a provision would allow a company like Groupon, which was in the news last year over differences with the SEC over the company’s accounting, to resolve its differences without coming in the public eye. The provision is attracting even more attention following Groupon’s admission that ”it was revising fourth-quarter revenue downward and that it had a material weakness in its internal controls, the policies and procedures designed to avoid financial error.” J. Edward Ketz, an associate professor of accounting at Penn State University said, "I find it amazing that Congress would allow any firm to work behind closed doors on any accounting or auditing issue," humorously adding, "We learned a long time ago that sunshine is the best antiseptic." Advocates of the provision being investor-friendly and one that will ensure that inferior standard IPO’s are kept out of the market, insist that the provision’s intent is not that companies like Groupon, “duck investor scrutiny,” but that it is needed to help smaller companies. Kate Mitchell, who had chaired a task force that passed recommendations that made it simpler for companies to file publicly said, "Nothing's under the radar. Nobody's pulling anything over anyone's eyes. "We don't want poor-quality IPOs out there." Task-force members admit that Groupon would have benefitted from this provision, but only before it filed to go public. Since then the company has gone beyond $1 billion in annual revenue and is not eligible to enjoy the bills protections. Groupon, last November, had successfully pulled of one of the largest Internet IPO’s of the last ten years, putting the value of the company at more than $10 billion. However, the company has since been censured for its faulty financial mechanism. In its annual report, it admits that it has a "material weakness" in internal controls over its financial statement. Herman Leung, an analyst at Susquehanna Financial Group says, “When you're a public company, there's a certain level of expectations for financial controls." In a filing with the U.S. Securities and Exchange Commission on Friday the company’s net loss for the fourth quarter was revised to $65.4 million. The company said, “In February, the company posted a net loss of $42.7 million, or 8 cents per share, on revenue of $506.5 million for the fourth quarter.” The company said that it was looking into the effectiveness of its internal controls, adding, “The Company continues to implement process improvement initiatives and augment it’s staffing, and is expanding the accounting firm's engagement scope to address the underlying causes of the material weakness." Groupon Chief Financial Officer Jason Child said, "We remain confident in the fundamentals of our business.”