

Endurance International Group Holdings, Inc.

Form 10-Q

November 06, 2015

**Table of Contents**

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

**X    QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended September 30, 2015**

**OR**

**..    TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 001-36131**

**Endurance International Group Holdings, Inc.**

**(Exact Name of Registrant as Specified in Its Charter)**

**Delaware**  
**(State or Other Jurisdiction of**  
**Incorporation or Organization)**

**46-3044956**  
**(I.R.S. Employer**  
**Identification No.)**

**10 Corporate Drive, Suite 300**  
**Burlington, Massachusetts**  
**(Address of Principal Executive Offices)**  
**(781) 852-3200**

**01803**  
**(Zip Code)**

**(Registrant's Telephone Number, Including Area Code)**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of October 31, 2015, there were 136,999,800 shares of the issuer's common stock, \$0.0001 par value per share, outstanding.

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
Item 1. Financial Statements (unaudited)	
<u>Consolidated Balance Sheets as of December 31, 2014 and September 30, 2015</u>	3
<u>Consolidated Statements of Operations and Comprehensive Loss for the three and nine months ended September 30, 2014 and 2015</u>	4
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2015</u>	5
<u>Notes to Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	48
<u>Item 4. Controls and Procedures</u>	49
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	49
<u>Item 1A. Risk Factors</u>	50
<u>Item 5. Other Information</u>	77
<u>Item 6. Exhibits</u>	78
<u>Signatures</u>	79

**Table of Contents****Endurance International Group Holdings, Inc.****Consolidated Balance Sheets****(unaudited)****(in thousands, except share and per share amounts)**

	<b>December 31, 2014</b>	<b>September 30, 2015</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 32,379	\$ 34,162
Restricted cash	1,325	1,207
Accounts receivable	10,201	12,112
Deferred tax asset - short term	13,961	13,961
Prepaid domain name registry fees	49,605	59,130
Prepaid expenses and other current assets	13,173	16,121
<b>Total current assets</b>	<b>120,644</b>	<b>136,693</b>
Property and equipment - net	56,837	67,885
Goodwill	1,105,023	1,190,451
Other intangible assets - net	410,338	368,039
Deferred financing costs	400	339
Investments	40,447	32,205
Prepaid domain name registry fees, net of current portion	7,957	5,273
Other assets	4,397	1,432
<b>Total assets</b>	<b>\$ 1,746,043</b>	<b>\$ 1,802,317</b>
<b>Liabilities, redeemable non-controlling interest and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 8,960	\$ 11,230
Accrued expenses	38,275	47,656
Deferred revenue	259,567	282,877
Current portion of notes payable	60,500	80,500
Current portion of capital lease obligations	3,793	4,173
Deferred consideration - short term	13,917	48,137
Other current liabilities	10,358	7,047
<b>Total current liabilities</b>	<b>395,370</b>	<b>481,620</b>
Long-term deferred revenue	65,850	75,027
Notes payable - long term	1,026,375	1,018,500
Capital lease obligations	4,302	1,096
Deferred tax liability - long term	35,579	41,253
Deferred consideration	10,722	3,498

Edgar Filing: Endurance International Group Holdings, Inc. - Form 10-Q

Other liabilities	2,806	3,304
Total liabilities	\$ 1,541,004	\$ 1,624,298
Redeemable non-controlling interest	30,543	
Commitments and contingencies		
Stockholders' equity:		
Preferred Stock par value \$0.0001; 5,000,000 shares authorized; no shares issued or outstanding		
Common Stock par value \$0.0001; 500,000,000 shares authorized; 130,959,113 and 131,506,256 shares issued at December 31, 2014 and September 30, 2015, respectively; 130,914,333 and 131,504,177 outstanding at December 31, 2014 and September 30, 2015, respectively	14	14
Additional paid-in capital	816,591	838,010
Accumulated other comprehensive loss	(517)	(1,875)
Accumulated deficit	(641,592)	(658,130)
Total stockholders' equity	174,496	178,019
Total liabilities, redeemable non-controlling interest and stockholders' equity	\$ 1,746,043	\$ 1,802,317

*See accompanying notes to consolidated financial statements.*

**Table of Contents****Endurance International Group Holdings, Inc.****Consolidated Statements of Operations and Comprehensive Loss****(unaudited)****(in thousands, except share and per share amounts)**

	<b>Three Months ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>
Revenue	\$ 160,167	\$ 188,523	\$ 457,909	\$ 548,272
Cost of revenue	97,416	110,773	279,218	316,684
Gross profit	62,751	77,750	178,691	231,588
Operating expense:				
Sales and marketing	34,761	37,523	114,610	109,791
Engineering and development	4,179	7,902	14,497	19,906
General and administrative	18,557	23,212	50,914	63,031
Total operating expense	57,497	68,637	180,021	192,728
Income (loss) from operations	5,254	9,113	(1,330)	38,860
Other income (expense):				
Other income				5,440
Interest income	83	107	255	316
Interest expense	(14,407)	(14,624)	(42,219)	(42,956)
Total other expense net	(14,324)	(14,517)	(41,964)	(37,200)
Income (loss) before income taxes and equity earnings of unconsolidated entities	(9,070)	(5,404)	(43,294)	1,660
Income tax expense	289	5,397	4,776	9,082
Loss before equity earnings of unconsolidated entities	(9,359)	(10,801)	(48,070)	(7,422)
Equity (income) loss of unconsolidated entities, net of tax	84	4,550	(26)	9,116
Net loss	\$ (9,443)	\$ (15,351)	\$ (48,044)	\$ (16,538)
Net loss attributable to non-controlling interest	(1,545)		(7,413)	
	\$ (7,898)	\$ (15,351)	\$ (40,631)	\$ (16,538)

Net loss attributable to Endurance International Group Holdings, Inc.

Comprehensive loss:

Foreign currency translation adjustments	(243)	(836)	(195)	(1,358)
--	-------	-------	-------	---------

Total comprehensive loss	\$	(8,141)	\$	(16,187)	\$	(40,826)	\$	(17,896)
--------------------------	----	---------	----	----------	----	----------	----	----------

Basic and diluted net loss per share attributable to Endurance International Group Holdings, Inc. common stockholders

\$	(0.06)	\$	(0.12)	\$	(0.32)	\$	(0.13)
----	--------	----	--------	----	--------	----	--------

Weighted-average common shares used in computing net loss per share attributable to Endurance International Group Holdings, Inc.

Basic and diluted	127,475,305	131,398,446	127,053,560	131,195,109
-------------------	-------------	-------------	-------------	-------------

*See accompanying notes to consolidated financial statements.*

**Table of Contents****Endurance International Group Holdings, Inc.****Consolidated Statements of Cash Flows****(unaudited)****(in thousands)**

	<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2015</b>
Cash flows from operating activities:		
Net loss	\$ (48,044)	\$ (16,538)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation of property and equipment	22,553	24,649
Amortization of other intangible assets	75,788	67,191
Amortization of deferred financing costs	57	62
Amortization of net present value of deferred consideration	5	488
Stock-based compensation	11,362	20,272
Deferred tax expense	1,534	5,621
Gain on sale of assets	(291)	(155)
Gain from unconsolidated entities		(5,440)
(Income) loss of unconsolidated entities	(26)	9,116
Dividend from minority interest	167	
Loss from change in deferred consideration	420	1,083
Changes in operating assets and liabilities:		
Accounts receivable	(1,401)	(1,742)
Prepaid expenses and other current assets	(21,973)	(9,254)
Accounts payable and accrued expenses	2,444	9,257
Deferred revenue	61,932	29,204
Net cash provided by operating activities	104,527	133,814
Cash flows from investing activities:		
Business acquired in purchase transaction, net of cash acquired	(76,098)	(73,212)
Cash paid for minority investment	(18,940)	(7,250)
Purchases of property and equipment	(18,015)	(23,267)
Proceeds from sale of property and equipment	86	93
Proceeds from note receivable		3,454
Proceeds from sale of assets	100	191
Purchases of intangible assets	(200)	(44)
Net withdrawals and (deposits) of principal balances in restricted cash accounts	73	(109)
Net cash used in investing activities	(112,994)	(100,144)
Cash flows from financing activities:		



Edgar Filing: Endurance International Group Holdings, Inc. - Form 10-Q

Repayment of term loan	(7,875)	(7,875)
Proceeds from borrowing of revolver	107,000	109,000
Repayment of revolver	(46,000)	(89,000)
Payment of financing costs	(12)	
Payment of deferred consideration	(81,503)	(10,591)
Payment of redeemable non-controlling interest liability	(4,190)	(30,543)
Principal payments on capital lease obligations	(2,690)	(2,827)
Proceeds from exercise of stock options	12	1,147
Issuance costs of common stock	(731)	
Net cash used in financing activities	(35,989)	(30,689)
Net effect of exchange rate on cash and cash equivalents	44	(1,198)
Net (decrease) increase in cash and cash equivalents	(44,412)	1,783
Cash and cash equivalents:		
Beginning of period	66,815	32,379
End of period	\$ 22,403	\$ 34,162
Supplemental cash flow information:		
Interest paid	\$ 42,578	\$ 42,449

**Table of Contents**

	<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2015</b>
Income taxes paid	\$ 1,497	\$ 3,974
Supplemental disclosure of non-cash financing activities:		
Shares issued in connection with the acquisition of Directi	\$ 27,235	
Assets acquired under capital lease	\$ 11,704	
<i>See accompanying notes to consolidated financial statements.</i>		

**Table of Contents**

**Endurance International Group Holdings, Inc.**

**Notes to Consolidated Financial Statements**

**(unaudited)**

**1. Nature of Business**

***Formation and Nature of Business***

Endurance International Group Holdings, Inc. ( Holdings ) is a Delaware corporation which together with its wholly owned subsidiary company, EIG Investors Corp. ( EIG Investors ), its primary operating subsidiary company, The Endurance International Group, Inc. ( EIG ), and other subsidiary companies of EIG, collectively form the Company . The Company is a leading provider of cloud-based platform solutions designed to help small- and medium-sized businesses succeed online.

EIG and EIG Investors were incorporated in April 1997 and May 2007, respectively, and Holdings was originally formed as a limited liability company in October 2011 in connection with the acquisition by investment funds and entities affiliated with Warburg Pincus and Goldman, Sachs & Co. on December 22, 2011 of a controlling interest in EIG Investors, EIG and EIG 's subsidiary companies. On November 7, 2012, Holdings reorganized as a Delaware limited partnership and on June 25, 2013, Holdings converted into a Delaware C-corporation and changed its name to Endurance International Group Holdings, Inc.

***Follow-on Offerings***

On November 26, 2014, the Company closed a follow-on offering of its common stock, in which the Company sold 3,000,000 shares of its common stock at a public offering price of \$14.50 per share and selling stockholders sold 10,000,000 shares of common stock. The underwriters also exercised their overallotment option to purchase an additional 1,950,000 shares of common stock from the selling stockholders. The Company did not receive any proceeds from the sale of shares by the selling stockholders. The follow-on offering resulted in gross proceeds to the Company of \$43.5 million and net proceeds to the Company of \$41.1 million after deducting underwriting discounts and commissions of \$1.7 million and other estimated offering expenses of approximately \$0.7 million payable by the Company. The Company incurred an additional \$0.3 million of offering expenses on behalf of the selling stockholders, which was included in general and administrative expense in the consolidated statement of operations and comprehensive loss for the year ended December 31, 2014.

On March 11, 2015, the Company closed a follow-on offering of its common stock, in which selling stockholders sold 12,000,000 shares of common stock at a public offering price of \$19.00 per share. The underwriter also exercised its overallotment option to purchase an additional 1,800,000 shares of common stock from the selling stockholders. The Company did not receive any proceeds from the sale of shares by the selling stockholders. The Company incurred \$0.7 million of offering expenses on behalf of the selling stockholders, which was included in general and administrative expense in the consolidated statement of operations and comprehensive loss for the nine months ended September 30, 2015.

**2. Summary of Significant Accounting Policies**

***Basis of Preparation***

The accompanying consolidated financial statements, which include the accounts of the Company and its subsidiaries, have been prepared using accounting principles generally accepted in the United States of America ( U.S. GAAP ). All intercompany transactions have been eliminated on consolidation. The Company has reviewed the criteria of the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 280-10, *Segment Reporting*, and determined that the Company is comprised of only one segment for reporting purposes.

### ***Use of Estimates***

U.S. GAAP requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates, judgments and assumptions used in preparing the accompanying consolidated financial statements are based on the relevant facts and circumstances as of the date of the consolidated financial statements. Although the Company regularly assesses these estimates, judgments and assumptions used in preparing the consolidated financial statements, actual results could differ from those estimates. Changes in estimates are recorded in the period in which they become known. The more significant estimates reflected in these consolidated financial statements include estimates of fair value of assets acquired and liabilities assumed under purchase accounting related to the Company's acquisitions and when evaluating goodwill and long-lived assets for potential impairment, the estimated useful lives of intangible and depreciable assets, stock-based compensation, certain accruals, reserves and deferred taxes.

**Table of Contents*****Unaudited Interim Financial Information***

The accompanying interim consolidated balance sheet as of September 30, 2015, and the related statements of operations and comprehensive loss for the three and nine months ended September 30, 2014 and 2015, cash flows for the nine months ended September 30, 2014 and 2015, and the notes to consolidated financial statements are unaudited. These unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements. The unaudited consolidated financial statements include, in the opinion of management, all adjustments, consisting only of normal recurring adjustments that are necessary for a fair presentation of the Company's financial position at September 30, 2015, results of operations for the three and nine months ended September 30, 2014 and 2015 and cash flows for the nine months ended September 30, 2014 and 2015. The consolidated results in the consolidated statements of operations and comprehensive loss are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2015.

***Accounts Receivable***

Accounts receivable is primarily composed of cash due from credit card companies for unsettled transactions charged to subscribers' credit cards. As these amounts reflect authenticated transactions that are fully collectible, the Company does not maintain an allowance for doubtful accounts. The Company also accrues for earned referral fees and commissions, which are governed by reseller or affiliate agreements, when the amount is reasonably estimable.

***Prepaid Domain Name Registry Fees***

Prepaid domain name registry fees represent amounts that are paid in full at the time a domain is registered by one of the Company's registrars on behalf of a customer. The registry fees are recognized on a straight-line basis over the term of the domain registration period.

***Property and Equipment***

Property and equipment is recorded at cost or fair value if acquired in an acquisition. The Company also capitalizes the direct costs of constructing additional computer equipment for internal use, as well as upgrades to existing computer equipment which extend the useful life, capacity or operating efficiency of the equipment. Capitalized costs include the cost of materials, shipping and taxes. Materials used for repairs and maintenance of computer equipment are expensed and recorded as a cost of revenue. Materials on hand and construction-in-process are recorded as property and equipment. Assets recorded under capital lease are depreciated over the lease term. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Building	Thirty-five years
Software	Two to three years
Computers and office equipment	Three years
Furniture and fixtures	Five years
Leasehold improvements	Shorter of useful life or remaining term of the lease
<b><i>Software Development Costs</i></b>	

The Company accounts for software development costs for internal use software under the provisions of ASC 350-40, *Internal-Use Software*. Accordingly, certain costs to develop internal-use computer software are capitalized, provided these costs are expected to be recoverable. The Company capitalized internal-use software development

costs of \$1.6 million and \$3.9 million, during the three and nine months ended September 30, 2014, respectively, and \$1.7 million and \$4.5 million, during the three and nine months ended September 30, 2015, respectively.

***Goodwill***

Goodwill relates to amounts that arose in connection with the Company's various acquisitions and represents the difference between the purchase price and the fair value of the identifiable intangible and tangible net assets when accounted for using the purchase method of accounting. Goodwill is not amortized, but is subject to periodic review for impairment. Events that would indicate impairment and trigger an interim impairment assessment include, but are not limited to, current economic and market

## **Table of Contents**

conditions, including a decline in the equity value of the business, a significant adverse change in certain agreements that would materially affect reported operating results, business climate or operational performance of the business and an adverse action or assessment by a regulator.

In accordance with ASC 350, *Intangibles Goodwill and Other*, or ASC 350, the Company is required to review goodwill by reporting unit for impairment at least annually or more often if there are indicators of impairment present. Under U.S. GAAP, a reporting unit is either the equivalent of, or one level below, an operating segment. The Company has determined it operates in one segment and its entire business represents one reporting unit. Historically, the Company has performed its annual impairment analysis during the fourth quarter of each year. The provisions of ASC 350 require that a two-step impairment test be performed for goodwill. In the first step, the Company compares the fair value of its reporting unit to which goodwill has been allocated to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that reporting unit, goodwill is considered not impaired and the Company is not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the Company must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then the Company would record an impairment loss equal to the difference.

The Company assesses fair value based on current market capitalization. As of December 31, 2014 and September 30, 2015, the fair value of the Company's reporting unit exceeded the carrying value of the reporting unit's net assets. Therefore, no impairment existed as of those dates.

Determining the fair value of a reporting unit, if applicable, requires the Company to make judgments and involves the use of significant estimates and assumptions. These estimates and assumptions relate to, among other things, revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions and determination of appropriate market comparables. The Company bases its fair value estimates on assumptions it believes to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates.

The Company had goodwill of \$1,105.0 million and \$1,190.5 million as of December 31, 2014 and September 30, 2015, respectively, and no impairment charges have been recorded.

## ***Long-Lived Assets***

The Company's long-lived assets consist primarily of intangible assets, including acquired subscriber relationships, trade names, intellectual property, developed technology, domain names available for sale and in-process research and development (IPR&D). The Company also has long-lived tangible assets, primarily consisting of property and equipment. The majority of the Company's intangible assets are recorded in connection with its various acquisitions. The Company's intangible assets are recorded at fair value at the time of their acquisition. The Company amortizes intangible assets over their estimated useful lives.

Determination of the estimated useful lives of the individual categories of intangible assets is based on the nature of the applicable intangible asset and the expected future cash flows to be derived from the intangible asset. Amortization of intangible assets with finite lives is recognized in accordance with their estimated projected cash flows.

The Company evaluates long-lived intangible and tangible assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If indicators of impairment are present and

undiscounted future cash flows are less than the carrying amount, the fair value of the assets is determined and compared to the carrying value. If the fair value is less than the carrying value, then the carrying value of the asset is reduced to the estimated fair value and an impairment loss is charged to expense in the period the impairment is identified. No such impairment losses have been identified in the three and nine months ended September 30, 2014 and 2015.

Indefinite life intangible assets include domain names that are available for sale which are recorded at cost to acquire. These assets are not being amortized and are being tested for impairment annually and whenever events or changes in circumstance indicate that their carrying value may not be recoverable. When a domain name is sold, the Company records the cost of the domain in cost of revenue.

***Acquired In-Process Research and Development (IPR&D)***

Acquired IPR&D represents the fair value assigned to research and development assets that the Company acquires that have not been completed at the date of acquisition. The acquired IPR&D is capitalized as an intangible asset and reviewed on a quarterly basis to determine future use. Any impairment loss of the acquired IPR&D is charged to expense in the period the impairment is identified. No such impairment losses have been identified in the three and nine months ended September 30, 2014 and 2015. Upon commercialization, the acquired fair value of the IPR&D will be amortized over its estimated useful life.



## **Table of Contents**

### ***Revenue Recognition***

The Company generates revenue primarily from selling subscriptions for cloud-based products and services. The subscriptions are similar across all of the Company's brands and are provided under contracts pursuant to which the Company has ongoing obligations to support the subscriber. These contracts are generally for service periods of up to 36 months and typically require payment in advance. The Company recognizes the associated revenue ratably over the service period, whether the associated revenue is derived from a direct subscriber or through a reseller. Deferred revenue represents the liability to subscribers for advance billings for services not yet provided and the fair value of the assumed liability outstanding for subscriber relationships purchased in an acquisition.

The Company sells domain name registrations that provide a subscriber with the exclusive use of a domain name. These domains are primarily obtained by one of the Company's registrars on the subscriber's behalf, or to a lesser extent by the Company from third-party registrars on the subscriber's behalf. Domain registration fees are non-refundable.

Revenue from the sale of a domain name registration by a registrar within the Company is recognized ratably over the subscriber's service period as the Company has the obligation to provide support over the domain term. Revenue from the sale of a domain name registration purchased by the Company from a third-party registrar is recognized when the subscriber is billed on a gross basis as there are no remaining Company obligations once the sale to the subscriber occurs, and the Company has full discretion on the sales price and bears all credit risk.

Revenue from the sale of premium domains is recognized when persuasive evidence of an arrangement to sell such domains exists, delivery of an authorization key to access the domain name has occurred, the fee for the sale of the premium domain is fixed or determinable, and collection of the fee for the sale of the premium domain is deemed probable.

Revenue from the sale of non-term based applications and services, such as certain online security products and professional technical services, referral fees and commissions, is recognized when the product is purchased, the service is provided or the referral fee or commission is earned, respectively.

A substantial amount of the Company's revenue is generated from transactions that are multiple-element service arrangements that may include hosting plans, domain name registrations, and other cloud-based products and services.

The Company follows the provisions of the FASB, Accounting Standards Update (ASU) No. 2009-13 (ASU 2009-13), *Revenue Recognition (Topic 605), Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force* and allocates revenue to each deliverable in a multiple-element service arrangement based on its respective relative selling price.

Under ASU 2009-13, to treat deliverables in a multiple-element service arrangement as separate units of accounting, the deliverables must have standalone value upon delivery. If the deliverables have standalone value upon delivery, the Company accounts for each deliverable separately. Hosting services, domain name registrations, cloud-based products and services have standalone value and are often sold separately.

When multiple deliverables included in a multiple-element service arrangement are separated into different units of accounting, the total transaction amount is allocated to the identified separate units based on a relative selling price hierarchy. The Company determines the relative selling price for a deliverable based on vendor specific objective evidence (VSOE) of fair value, if available, or best estimate of selling price (BESP), if VSOE is not available. The Company has determined that third-party evidence of selling price (TPE) is not a practical alternative due to

differences in its multi-brand offerings compared to competitors and the lack of availability of relevant third-party pricing information. The Company has not established VSOE for its offerings due to lack of pricing consistency, the introduction of new products, services and other factors. Accordingly, the Company generally allocates revenue to the deliverables in the arrangement based on the BESP. The Company determines BESP by considering its relative selling prices, competitive prices in the marketplace and management judgment; these selling prices, however, may vary depending upon the particular facts and circumstances related to each deliverable. The Company analyzes the selling prices used in its allocation of transaction amount, at a minimum, on a quarterly basis. Selling prices are analyzed on a more frequent basis if a significant change in our business necessitates a more timely analysis.

## **Table of Contents**

The Company maintains a reserve for refunds and chargebacks related to revenue that has been recognized and is expected to be refunded. The Company had a refund and chargeback reserve of \$0.6 million and \$0.6 million as of December 31, 2014 and September 30, 2015, respectively. The portion of deferred revenue that is expected to be refunded at December 31, 2014 and September 30, 2015 was \$2.2 million and \$2.2 million, respectively. Based on refund history, a significant majority of refunds happen in the same fiscal month that the customer contract starts or renews. Approximately 75% of all refunds happen in the same fiscal month that the contract starts or renews, and approximately 90% of all refunds happen within 45 days of the contract start or renewal date.

## ***Income Taxes***

Income taxes are accounted for in accordance with ASC 740, *Accounting for Income Taxes*, or ASC 740. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

ASC 740 clarifies the accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. The Company recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Recognized income tax positions are measured at the largest amount that is more likely than not to be realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. There were no unrecognized tax benefits in the three and nine months ended September 30, 2014 and 2015.

The Company records interest related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the three and nine months ended September 30, 2014 and 2015, the Company did not recognize any interest and penalties related to unrecognized tax benefits.

## ***Stock-Based Compensation***

The Company may issue restricted stock units and restricted stock awards and stock options which vest upon the satisfaction of a performance condition and/ or a service condition. The Company follows the provisions of ASC 718, *Compensation Stock Compensation*, or ASC 718, which requires employee stock-based payments to be accounted for under the fair value method. Under this method, the Company is required to record compensation cost based on the estimated fair value for stock-based awards granted over the requisite service periods for the individual awards, which generally equals the vesting periods. The Company uses the straight-line amortization method for recognizing stock-based compensation expense. In addition, for stock-based awards where vesting is dependent upon achieving certain performance goals, the Company estimates the likelihood of achieving the performance goals against established performance targets.

The Company estimates the fair value of employee stock options on the date of grant using the Black-Scholes option-pricing model, which requires the use of highly subjective estimates and assumptions. For restricted stock awards granted, the Company estimates the fair value of each restricted stock award based on the closing trading price of its common stock on the date of grant.

## ***Net Loss per Share***

The Company considered ASC 260-10, *Earnings per Share*, or ASC 260-10, which requires the presentation of both basic and diluted earnings per share in the consolidated statements of operations and comprehensive loss. The Company's basic net loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding for the period, and, if there are dilutive securities, diluted income per share is computed by including common stock equivalents which includes shares issuable upon the exercise of stock options, net of shares assumed to have been purchased with the proceeds, using the treasury stock method.

The Company's potentially dilutive shares of common stock are excluded from the diluted weighted-average number of shares of common stock outstanding as their inclusion in the computation would be anti-dilutive due to net losses. For the three and nine months ended September 30, 2014 and 2015, all non-vested shares granted prior to the Company's initial public offering in October 2013 (the "IPO"), stock options, restricted stock awards and restricted stock units were excluded from the calculation of diluted earnings per share as their inclusion would have been anti-dilutive as a result of the net losses for these periods.

**Table of Contents**

	Three Months Ended September 30, 2014		2015		Nine Months Ended September 30, 2014		2015	
	(unaudited)							
	(in thousands, except share amounts and per share data)							
Net loss attributable to Endurance International Group Holdings, Inc.	\$	(7,898)	\$	(15,351)	\$	(40,631)	\$	(16,538)
Net loss per share attributable to Endurance International Group Holdings, Inc.:								
Basic and diluted	\$	(0.06)	\$	(0.12)	\$	(0.32)	\$	(0.13)
Weighted-average common shares outstanding used in computing net loss per share attributable to Endurance International Group Holdings, Inc.								
Basic and diluted		127,475,305		131,398,446		127,053,560		131,195,109

**Recent Accounting Pronouncements**

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, or ASU 2014-09, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgments and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. In July 2015, the FASB approved a one-year deferral of the effective date to January 1, 2018, with early adoption to be permitted as of the original effective date of January 1, 2017. Once this standard becomes effective, companies may use either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company is currently evaluating the impact of its pending adoption of ASU 2014-09 on its consolidated financial statements and has not yet determined the method by which it will adopt the standard.

In February 2015, the FASB issued ASU No. 2015-02, *Amendments to the Consolidation Analysis*, or ASU 2015-02. This new guidance provides a revised consolidation model that reporting entities use to evaluate partnerships and similar entities, evaluate service providers and decision makers as they relate to a variable interest entity, referred to as a VIE, and examine how related party interests in a VIE can affect the consolidation of that VIE. ASU 2015-02 is effective for annual reporting periods beginning after December 15, 2015 with early adoption permitted. The Company is evaluating the potential impact of ASU 2015-02 on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, *Interest Imputation of Interest, Simplifying the Presentation of Debt Issuance Costs*, or ASU 2015-03. This new guidance changes the balance sheet presentation for deferred financing costs from being presented as an asset to being a deduction from the related recognized liability. ASU 2015-03 is effective for annual reporting periods beginning after December 15, 2016. The Company is evaluating the potential impact of ASU 2015-03 and does not believe it will have a material impact on its financial statements.

In April 2015, the FASB issued ASU No. 2015-05, *Intangibles Goodwill and Other Internal Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. This new guidance will help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement by providing guidance as to whether an arrangement includes the sale or license of software. ASU 2015-05 is effective for annual reporting periods beginning after December 15, 2015. The Company is evaluating the potential impact ASU 2015-05 will have on its consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*. This new guidance requires an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The acquirer needs to record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization or other income effects, if any, as a result of the provisional amounts, calculated as if the accounting had been completed as of the acquisition date. ASU 2015-16 is effective for annual reporting periods beginning after December 15, 2015. The Company does not believe ASU 2015-16 will have a material effect on its accounting processes, however the ASU will affect its disclosures as the Company will be required to disclose the adjustments made during the measurement period and their effect on the period's earnings.

---

**Table of Contents**

**3. Acquisitions**

The Company accounts for the acquisitions of businesses using the purchase method of accounting. The Company allocates the purchase price to the tangible and identifiable intangible assets and liabilities assumed based on their estimated fair values. Purchased identifiable intangible assets typically include subscriber relationships, trade names, domain names held for sale, developed technology and IPR&D. The methodologies used to determine the fair value assigned to subscriber relationships and domain names held for sale are typically based on the excess earnings method that considers the return received from the intangible asset and includes certain expenses and also considers an attrition rate based on the Company's internal subscriber analysis and an estimate of the average life of the subscribers. The fair value assigned to trade names is typically based on the income approach using a relief from royalty methodology that assumes that the fair value of a trade name can be measured by estimating the cost of licensing and paying a royalty fee for the trade name that the owner of the trade name avoids. The fair value assigned to developed technology typically uses the cost approach. The fair value assigned to IPR&D is based on the cost approach. If applicable, the Company estimates the fair value of contingent consideration payments in determining the purchase price. The contingent consideration is then adjusted to fair value in subsequent periods as an increase or decrease in current earnings in general and administrative expense in the consolidated statements of operations and comprehensive loss.

***Verio***

On May 26, 2015, the Company acquired the assets of the U.S. retail portion of the Verio business of NTT America, Inc. ( Verio ), which is a provider of shared, virtual private server ( VPS ) and dedicated hosting services. The Company expects this acquisition to leverage its reach and generate better economies of scale.

The aggregate purchase price was \$13.0 million, of which \$10.5 million was paid in cash at the closing. The Company is obligated to pay the remaining cash consideration of \$2.5 million on the first anniversary of the acquisition, less amounts used to satisfy any obligation determined to be owed to the Company for any indemnity pursuant to the asset purchase agreement.

The purchase price of \$13.0 million has been allocated on a preliminary basis to intangible assets consisting of subscriber relationships and trade names of \$12.3 million and \$0.1 million, respectively, and goodwill of \$2.0 million, offset by deferred revenue of \$1.4 million. Goodwill related to the acquisition is deductible for tax purposes.

***World Wide Web Hosting***

On June 25, 2015, the Company acquired substantially all of the assets of World Wide Web Hosting, LLC ( WWWH ), which is a provider of web presence solutions doing business under the brand name Site5. The Company previously had an equity interest in WWWH, which was originally acquired when the Company acquired Hostgator.com LLC on July 13, 2012. The Company expects this acquisition will allow it to leverage its reach and generate better economies of scale.

The aggregate purchase price was \$34.9 million, \$23.0 million of which is payable in cash and \$11.9 million of which is the implied value of the pro rata interest in the acquired assets that the Company obtained upon the seller's redemption of its 40% equity interest in WWWH. The Company recognized a \$5.4 million gain as a result of this redemption, which is recorded as other income in the Company's consolidated statement of operations and comprehensive loss. Of the \$23.0 million payable in cash, \$18.4 million was paid at the closing and the Company is obligated to pay the remaining cash consideration of \$4.6 million on the first anniversary of the acquisition, less amounts used to satisfy any obligation determined to be owed to the Company for any indemnity pursuant to the asset

purchase agreement.

The purchase price of \$34.9 million has been allocated on a preliminary basis to intangible assets consisting of subscriber relationships and trade names of \$10.7 million and \$1.7 million, respectively, goodwill of \$23.8 million, and prepaid expenses and other current assets of \$1.2 million, offset by deferred revenue of \$2.5 million. Goodwill related to the acquisition is deductible for tax purposes.

***Ace Data Center and Ace Holdings***

On September 21, 2015, the Company entered into a purchase agreement with Ace Data Centers, Inc. ( *Ace DC* ) to acquire substantially all of the assets of Ace DC and with Ace Holdings, LLC ( *Ace Holdings* ) and its owners to acquire all of the ownership interests in Ace Holdings (collectively, *Ace* ). Ace DC is the manager of a data center that provides colocation, infrastructure and



## **Table of Contents**

carrier-neutral connectivity services. This data center is the Company's largest data center. Ace Holdings owns the real property, improvements and building at and on which the data center is located, including certain non-systems equipment and personal property. The Company expects this acquisition will provide cost efficiencies and increased control over its largest data center.

The aggregate purchase price was \$73.3 million, of which \$44.4 million was paid in cash at the closing. The Company is obligated to pay the remaining cash consideration of \$31.5 million on the first anniversary of the acquisition, less amounts used to satisfy any obligation determined to be owed to the Company for any indemnity pursuant to the asset purchase agreement. The net present value of the remaining cash consideration is \$28.9 million, which was the amount used to calculate the \$73.3 million aggregate purchase price above. An aggregate amount of \$0.1 million for the accretion of the present value of the remaining cash consideration is included in interest expense for both the three and nine months ended September 30, 2015, resulting in the net present value of the remaining cash consideration at September 30, 2015 of \$29.0 million. Under the terms of the purchase agreement, within approximately 75 days of the closing date of the acquisition, the purchase consideration is subject to a working capital adjustment and a tax gross up adjustment.

The purchase price of \$73.3 million has been allocated on a preliminary basis to property and equipment, including real property, of \$12.5 million, goodwill of \$61.0 million and prepaid expenses and other current assets of \$0.3 million, offset by other liabilities of \$0.5 million. The goodwill reflects the value of estimated cost efficiencies gained for the Company by owning its own data center. Goodwill related to the acquisition is deductible for tax purposes.

For the three and nine months ended September 30, 2015, \$5.3 million and \$6.5 million, respectively, of revenue attributable to 2015 acquisitions was included in the Company's consolidated statement of operations and comprehensive loss.

The Company has omitted earnings information related to its acquisitions as it does not separately track earnings from each of its acquisitions in a manner that would provide meaningful disclosure. The Company considers it to be impracticable to compile such information on an acquisition-by-acquisition basis since activities of integration and use of shared costs and services across the Company's business are not allocated to each acquisition and are not managed to provide separate identifiable earnings from the dates of acquisition.

For the intangible assets acquired in connection with all acquisitions completed during the nine months ended September 30, 2015, subscriber relationships have a weighted-useful life of 4.1 years and trade names have a weighted-useful life of 3.0 years.

## ***Pro Forma Disclosure***

The Company has omitted pro forma disclosures related to its acquisitions completed during 2015 as the pro forma effect of including the results of these acquisitions since the beginning of 2015 would not be materially different than the actual results reported.

**Table of Contents*****Summary of Deferred Consideration Related to Acquisitions***

Components of deferred consideration short-term and long-term as of December 31, 2014 and September 30, 2015, consisted of the following:

	<b>December 31, 2014</b>		<b>September 30, 2015</b>	
	<b>Short-term</b>	<b>Long-term</b>	<b>Short-term</b>	<b>Long-term</b>
	<b>(in thousands)</b>			
Mojoness, Inc. (Acquired in 2012)	\$ 490	\$ 1,370	\$ 681	\$ 698
Typepad Holdings LLC (Acquired in 2013)		2,800		2,800
Domain name business (Acquired in 2014)	9,027			
Webzai Ltd. (Acquired 2014)		2,617	2,788	
BuyDomains (Acquired in 2014)		3,935	4,192	
Arvixe LLC (Acquired in 2014)	4,400		4,400	
Verio (Acquired in 2015)			2,474	
World Wide Web Hosting (Acquired in 2015)			4,600	
Ace (Acquired in 2015)			29,002	
Total	\$ 13,917	\$ 10,722	\$ 48,137	\$ 3,498

**Table of Contents****4. Property and Equipment and Capital Lease Obligations**

Components of property and equipment consisted of the following:

	December 31, 2014	September 30, 2015
	(in thousands)	
Land	\$	\$ 713
Building		5,037
Software	22,550	26,635
Computers and office equipment	76,274	94,466
Furniture and fixtures	4,045	5,117
Leasehold improvements	7,015	7,391
Construction in process	2,378	6,375
Property and equipment at cost	112,262	145,734
Less accumulated depreciation	(55,425)	(77,849)
Property and equipment net	\$ 56,837	\$ 67,885

Depreciation expense related to property and equipment for the three months ended September 30, 2014 and 2015 was \$8.0 million and \$8.5 million, respectively. Depreciation expense related to property and equipment for the nine months ended September 30, 2014 and 2015 was \$22.6 million and \$24.6 million, respectively.

Property under capital lease with a cost basis of \$11.7 million was included in software as of September 30, 2015. The net carrying value of property under capital lease as of September 30, 2015 was \$4.9 million.

**5. Fair Value Measurements**

The following valuation hierarchy is used for disclosure of the inputs used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are quoted prices for similar assets or liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3 inputs are unobservable inputs based on the Company's own assumptions used to measure assets and liabilities at fair value.

A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

As of December 31, 2014, the Company's financial assets or liabilities required to be measured on a recurring basis consist of the accrued earn-out consideration payable in connection with the 2012 acquisition of certain assets of Mojones, Inc. or Mojo, and the 2014 acquisition of a domain name business. As of September 30, 2015, the Company's financial assets or liabilities required to be measured on a recurring basis consist of the accrued earn-out consideration payable in connection with Mojo. The Company has classified its liabilities for contingent earn-out consideration related to these acquisitions within Level 3 of the fair value hierarchy because the fair value is determined using significant unobservable inputs, which include probability weighted cash flows. During the nine months ended September 30, 2015, the Company paid \$0.5 million related to the earn-out provisions for the Mojo acquisition and \$10.1 million related to the earn-out provisions for the domain name business. The Company recorded a \$1.1 million expense related to the change in fair value of the earn-out consideration related to the domain name business during the nine months ended September 30, 2015, which is included in general and administrative expense in the Company's consolidated statement of operations and comprehensive loss. The earn-out consideration in the table below is included in total deferred consideration in the Company's consolidated balance sheets.

**Table of Contents****Basis of Fair Value Measurements**

	<b>Balance</b>	<b>Quoted Prices in Active Markets for Identical Items (Level 1) (in thousands)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Balance at December 31, 2014:</b>				
Financial liabilities:				
Contingent earn-out consideration	\$ 10,887			\$ 10,887
Total financial liabilities	\$ 10,887			\$ 10,887
<b>Balance at September 30, 2015:</b>				
Financial liabilities:				
Contingent earn-out consideration	\$ 1,379			\$ 1,379
Total financial liabilities	\$ 1,379			\$ 1,379

The following table summarizes the changes in the financial liabilities measured on a recurring basis using Level 3 inputs as of September 30, 2015 (in thousands):

Financial liabilities measured using Level 3 inputs at January 1, 2015	\$ 10,887
Payment of contingent earn-out related to 2012 Mojo acquisition	(488)
Payment of contingent earn-out related to 2014 domain name business acquisition	(10,104)
Change in fair value of contingent earn-out	1,084
Financial liabilities measured using Level 3 inputs at September 30, 2015	\$ 1,379

**6. Goodwill and Other Intangible Assets**

The following table summarizes the changes in the Company's goodwill balances from December 31, 2014 to September 30, 2015 (in thousands):

Goodwill balance at December 31, 2014	\$ 1,105,023
Goodwill related to 2015 acquisitions	86,724
Foreign currency translation impact	(1,296)

Goodwill balance at September 30, 2015	\$ 1,190,451
--	--------------

In accordance with ASC 350, the Company reviews goodwill and other indefinite-lived intangible assets for indicators of impairment on an annual basis and between tests if an event occurs or circumstances change that would more likely than not reduce the fair value of goodwill below its carrying amount. The Company concluded there were no triggering events during the nine months ended September 30, 2015.

**Table of Contents**

At September 30, 2015, other intangible assets consisted of the following:

	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization (in thousands)</b>	<b>Net Carrying Amount</b>	<b>Weighted Average Useful Life</b>
Developed technology	\$ 205,785	\$ 74,916	\$ 130,869	7 years
Subscriber relationships	387,214	242,602	144,612	5 years
Trade names	81,561	39,425	42,136	6 years
Intellectual property	29,564	5,665	23,899	13 years
Domain names available for sale	27,488	2,468	25,020	Indefinite
Leasehold interests	314	314		1 year
In-process research and development	1,503		1,503	
 Total September 30, 2015	 \$ 733,429	 \$ 365,390	 \$ 368,039	

The estimated useful lives of the individual categories of other intangible assets are based on the nature of the applicable intangible asset and the expected future cash flows to be derived from the intangible asset. Amortization of intangible assets with finite lives is recognized over the period of time the assets are expected to contribute to future cash flows. The Company amortizes finite-lived intangible assets over the period in which the economic benefits are expected to be realized based upon their estimated projected cash flows.

The Company's amortization expense is included in cost of revenue in the aggregate amounts of \$26.2 million and \$23.8 million for the three months ended September 30, 2014 and 2015, respectively, and \$75.8 million and \$67.2 million for the nine months ended September 30, 2014 and 2015, respectively.

## 7. Investments

As of December 31, 2014 and September 30, 2015, the Company's carrying value of investments in privately-held companies was \$40.4 million and \$32.2 million, respectively.

In January 2012, the Company made an initial investment of \$0.3 million to acquire a 25% interest in BlueZone Labs, LLC ( "BlueZone" ), a provider of "do-it-yourself" tools and managed search engine optimization services.

The Company also has an agreement with BlueZone to purchase products and services. During the three months ended September 30, 2014 and 2015, the Company purchased \$0.2 million and \$0.2 million, respectively, of products and services from BlueZone, which is included in cost of revenue in the Company's consolidated statements of operations and comprehensive loss. During the nine months ended September 30, 2014 and 2015, the Company purchased \$0.7 million and \$0.8 million, respectively, of products and services from BlueZone, which is included in cost of revenue in the Company's consolidated statements of operations and comprehensive loss. As of September 30, 2014 and 2015, \$0.1 million and \$0.2 million, respectively, relating to our investment in BlueZone was included in accounts payable and accrued expense in the Company's consolidated balance sheet.

In July 2012, the Company assumed a 50% interest in WWWW with a fair value of \$10.0 million. On October 31, 2013, the Company sold 20% of its ownership interest, or 10% of the capital stock of WWWW, reducing its equity interest to 40%, recorded an additional \$1.5 million note receivable from the buyer for total notes receivable from the

buyer of \$3.5 million, and decreased its investment in WWWW by \$1.5 million. The Company evaluated its remaining 40% ownership interest in WWWW and recognized a \$2.6 million impairment on the remaining investment, which was recorded in equity (income) loss of unconsolidated entities, net of tax, in the Company's consolidated statement of operations and comprehensive loss for the year ended December 31, 2013.

On June 25, 2015, the Company acquired substantially all of the assets of WWWW. In connection with the asset purchase agreement dated June 25, 2015, the seller redeemed from the Company its 40% equity interest in exchange for a pro rata interest in the acquired assets, which had an estimated implied value of \$11.9 million. The Company recognized a \$5.4 million gain as a result of the redemption of its equity interest, which was recorded as other income for the nine months ended September 30, 2015 in the Company's consolidated statements of operations and comprehensive loss. In addition, the Company received a \$3.5 million repayment of total notes receivable that were due to the Company from the seller of WWWW prior to the acquisition. For more detail, see Note 3 to the consolidated financial statements.

In June 2013, the Company made an initial investment of \$8.8 million to acquire a 17.5% interest in JDI Backup Ltd., which provides online desktop backup services. The agreement also provided for a call option for the acquisition of additional equity interests which the Company exercised on December 11, 2013 to increase its investment in JDI Backup Ltd. to 60% for \$22.2 million, which was paid in cash. On July 7, 2014, the Company paid an additional \$4.2 million to increase its investment in JDI Backup Ltd. to 67%. On January 13, 2015, the Company entered into an agreement to increase its investment in JDI Backup Ltd. to 100% for \$30.5 million, which was payable in three equal installments. For more detail, see Note 11 to the consolidated financial statements.



**Table of Contents**

In May 2014, the Company made a strategic investment of \$15.0 million in Automattic, Inc. ( Automattic ), which provides content management systems associated with WordPress. The investment represents less than 5% of the outstanding shares of Automattic and better aligns the Company with an important partner.

In August 2014, the Company made an aggregate investment of \$3.9 million for a joint venture with and 49% ownership interest in WZ UK Ltd., which is a provider of technology and sales marketing services associated with web builder solutions. The agreement provides for the acquisition of additional equity interests in WZ UK Ltd. at the option of the Company.

The Company has a license agreement with WZ UK Ltd. to license certain technology to WZ UK Ltd. to enable it to use, develop, market, distribute, host and support website builder applications. Under the terms of the license agreement, the Company receives a royalty payment in the amount of 4.5% of all billings in the previous month, net of any refunds, chargebacks and any other credits applied. During the three and nine months ended September 30, 2015, the Company recognized \$0.1 million and \$0.2 million, respectively, of royalty revenue under the terms of the license agreement.

During the three and nine months ended September 30, 2015, the Company's proportionate share of net loss from its investment in WZ UK Ltd. was \$4.6 million and \$8.7 million, respectively. On July 2, 2015, the Company and the majority investor made additional equity contributions to WZ UK Ltd. The Company's share of the incremental investments was approximately \$7.4 million.

The significance of the net loss of WZ UK Ltd., in comparison to the Company's net loss requires the disclosure of summarized financial information from the statement of operations and comprehensive loss for WZ UK Ltd. The following table presents a summary of the statement of operations and comprehensive loss for WZ UK Ltd. for the three and nine months ended September 30, 2015:

	<b>Three Months Ended September 30, 2015</b>	<b>Nine Months Ended September 30, 2015</b>
	<b>(in thousands)</b>	
Revenue	\$ 1,267	\$ 1,744
Gross profit (loss)	\$ 18	\$ 254
Operating loss	\$ (9,418)	\$ (17,817)
Net loss	\$ (9,418)	\$ (17,817)

As of December 31, 2014 and September 30, 2015, WZ UK Ltd. had total assets of \$5.6 million and \$7.3 million, respectively, and total liabilities of \$6.3 million and \$3.9 million, respectively.

In December 2014, the Company made an aggregate investment of \$15.2 million to acquire a 40% ownership interest in AppMachine BV ( AppMachine ), which is a developer of software that allows users to build mobile applications for smart devices such as phones and tablets. Under the terms of the investment agreement for AppMachine, the Company is obligated to purchase the remaining 60% of AppMachine in three tranches of 20% within specified periods if AppMachine achieves a specified minimum revenue threshold within a designated timeframe. The consideration for each of the three tranches is calculated as the product of AppMachine's revenue, as defined in the investment agreement, for the trailing twelve month period prior to the applicable determination date times a specified

multiple based upon year-over-year revenue growth multiplied by 20%.

Investments in which the Company's interest is less than 20% and which are not classified as available-for-sale securities are carried at the lower of cost or net realizable value unless it is determined that the Company exercises significant influence over the investee company, in which case the equity method of accounting is used. For those investments in which the Company's voting interest is between 20% and 50%, the equity method of accounting is used. Under this method, the investment balance, originally recorded at cost, is adjusted to recognize the Company's share of net earnings or losses of the investee company as they occur, limited to the extent of the Company's investment in, advances to and commitments for the investee. These adjustments are reflected in equity (income) loss of unconsolidated entities, net of tax in the Company's consolidated statement of operations and comprehensive loss. The Company recognized net income of \$0.1 million and net loss of \$4.5 million for the three months ended September 30, 2014 and 2015, respectively, and net income of \$0.0 million and net loss of \$9.1 million for the nine months ended September 30, 2014 and 2015, respectively, related to its investments.

From time to time, the Company may make new and follow-on investments and may receive distributions from investee companies.

As of December 31, 2014 the Company did not have an equity method investment in which the Company's proportionate share of the investee's net income or loss exceeded 10% of the Company's consolidated assets or income from continuing operations. As of September 30, 2015, the Company's proportionate share of the net losses of WZ UK Ltd. exceeded 10% of the Company's income from continuing operations.

**Table of Contents****8. Notes Payable**

At December 31, 2014 and September 30, 2015 notes payable consisted of a first lien term loan facility with a principal amount outstanding of \$1,036.9 million and \$1,029.0 million, respectively, which bore interest at a LIBOR-based rate of 5.00%. The current portion of the first lien term loan as of December 31, 2014 and September 30, 2015 was \$10.5 million in both periods. In addition, as of September 30, 2015, notes payable included a bank revolver loan ( Revolver loan ) of \$70.0 million, consisting of a loan of \$64.0 million which bore interest at a LIBOR-based rate of 7.75% and a loan of \$6.0 million which bore interest at an alternate base rate of 8.50%. The amounts outstanding under the Revolver loan as of December 31, 2014 and September 30, 2015 of \$50.0 million and \$70.0 million, respectively, were classified as current notes payable on the consolidated balance sheets.

In November 2013, following the IPO, the Company repaid in full its November 2012 second lien term loan facility of \$315.0 million and increased the first lien term loan facility ( November 2013 First Lien ) by \$166.2 million to \$1,050.0 million. The Company also increased its Revolver loan capacity by \$40.0 million to \$125.0 million, none of which was drawn down at the time of the increase. The mandatory repayment of principal on the November 2013 First Lien was increased to approximately \$2.6 million at the end of each quarter. During the nine months ended September 30, 2014 and 2015, the Company made aggregate mandatory repayments on the November 2013 First Lien of \$7.9 million in each period. In the nine months ended September 30, 2015, the Company had drawn down an aggregate amount of \$109.0 million on its Revolver loan, and repaid an aggregate amount of \$89.0 million of the amount drawn down, resulting in \$70.0 million outstanding under the Revolver loan at September 30, 2015. The maturity dates of the November 2013 First Lien and Revolver loan are November 9, 2019 and December 22, 2016, respectively.

Effective November 25, 2013, the interest rate for a LIBOR based interest loan was reduced to 4.00% plus the greater of the LIBOR rate or 1.00%. The interest rate for a reference rate loan was reduced to 3.00% per annum plus the greater of the prime rate, the federal funds effective rate plus 0.50%, an Adjusted LIBOR rate or 2.00%. There was no change to the interest rates for a revolver loan. Interest is payable on maturity of the elected interest period for a LIBOR-based interest loan, which can be one, two, three or six months. Interest is payable at the end of each fiscal quarter for a reference rate loan, term loan or an ABR revolver loan.

**Interest**

The Company recorded \$14.4 million and \$14.6 million in interest expense for the three months ended September 30, 2014 and 2015, respectively and \$42.2 million and \$43.0 million, respectively, for the nine months ended September 30, 2014 and 2015, respectively.

The following table provides a summary of interest rates and interest expense for the three and nine months ended September 30, 2014 and 2015:

		Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015
		(dollars in thousands)			
Interest rate	LIBOR	5.00%-7.75%	5.00%-7.75%	5.00%-7.75%	5.00%-7.75%
Interest rate	reference	8.50%	8.50%	8.50%	8.50%
		0.50%	0.50%	0.50%	0.50%

Non-refundable fee unused facility						
Interest expense and service fees	\$	14,199	\$	14,252	\$	41,506
Amortization of deferred financing fees	\$	19	\$	21	\$	57
Amortization of net present value of deferred consideration	\$		\$	207	\$	5
Interest expense for capital lease obligations	\$	120	\$	74	\$	394
Interest expense for deferred consideration promissory note	\$	69	\$	70	\$	209
Other interest expense	\$		\$		\$	48
Total interest expense	\$	14,407	\$	14,624	\$	42,219
					\$	42,956

***Debt Covenants***

The November 2013 First Lien requires that the Company maintain one financial covenant, based on EBITDA coverage.

There are also restrictions on the payment of dividends, as well as reporting requirements. Additionally, the November 2013 First Lien term loan facility contains certain negative covenants and defines certain events of default, including a change of control and non-payment of principal and interest, among others, which could result in amounts becoming payable prior to their maturity dates. The Company was in compliance with all covenants at September 30, 2015.

**Table of Contents**

Substantially all of the Company's assets are pledged as collateral for the outstanding loan commitments with the exception of certain excluded equity interests and certain restricted cash balances and bank deposits permitted under the terms of the November 2013 First Lien.

**9. Stockholders' Equity*****Preferred Stock***

The Company has 5,000,000 shares of authorized preferred stock, par value \$0.0001. There are no preferred shares issued or outstanding as of December 31, 2014 and September 30, 2015.

***Common Stock***

The Company has 500,000,000 shares of authorized common stock, par value \$0.0001.

***Voting Rights***

All holders of common stock are entitled to one vote per share.

The following table presents the changes in total stockholders' equity:

	<b>Total Stockholders Equity (in thousands)</b>
Balance, December 31, 2014	\$ 174,496
Stock-based compensation	20,272
Stock option exercises	1,147
Foreign currency translation adjustment	(1,358)
Net loss	(16,538)
Balance, September 30, 2015	\$ 178,019

**10. Stock-Based Compensation**

The following table presents total stock-based compensation expense recorded in the consolidated statement of operations and comprehensive loss for all 2012 restricted stock awards and units issued prior to the IPO and all awards granted under the Company's 2013 Stock Incentive Plan (the "2013 Plan") in connection with or subsequent to the IPO:

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	2015		2015	
	(in thousands)			
Cost of revenue	\$ 135	\$ 601	\$ 381	\$ 1,360

Edgar Filing: Endurance International Group Holdings, Inc. - Form 10-Q

Sales and marketing	373	1,107	1,126	2,342
Engineering and development	218	627	591	1,331
General and administrative	3,463	7,427	9,264	15,239
Total stock-based compensation expense	\$ 4,189	\$ 9,762	\$ 11,362	\$ 20,272

**Table of Contents*****2012 Restricted Stock Awards***

The following table provides a summary of the 2012 restricted stock awards activity for the nine months ended September 30, 2015 for restricted stock awards that were granted prior to the IPO:

<b>2012 Restricted Stock Awards</b>	
Non-vested at December 31, 2014	759,122
Vested	(475,935)
Canceled	(20,428)
Non-vested at September 30, 2015	262,759

The following table provides a summary of the activity for the nine months ended September 30, 2015 for the restricted stock units that were granted in connection with the IPO and the non-vested balance as of September 30, 2015:

	<b>Restricted Stock Units</b>	<b>Weighted Average Grant Date Fair Value</b>
Non-vested at December 31, 2014	155,094	\$ 12.00
Vested and unissued	(99,702)	\$ 12.00
Non-vested at September 30, 2015	55,392	\$ 12.00

***2013 Stock Incentive Plan***

The following table provides a summary of the Company's stock options as of September 30, 2015 and the stock option activity for all stock options granted under the 2013 Plan during the nine months ended September 30, 2015:

	<b>Stock Options</b>	<b>Weighted- Average Exercise Price</b>	<b>Weighted- Average Remaining Contractual Term (In Years)</b>	<b>Aggregate Intrinsic Value(3) (in thousands)</b>
Outstanding at December 31, 2014	5,407,959	\$ 12.07		
Granted	2,340,469	\$ 18.00		
Exercised	(95,490)	\$ 12.00		
Forfeited/ canceled	(153,534)	\$ 13.63		
Outstanding at September 30, 2015	7,499,404	\$ 13.89	8.6	\$ 6,923

Edgar Filing: Endurance International Group Holdings, Inc. - Form 10-Q

Exercisable at September 30, 2015	2,449,625	\$ 12.01	8.1	\$ 3,319
Expected to vest after September 30, 2015 (1)	4,956,756	\$ 14.76	8.6	\$ 3,585
Exercisable as of September 30, 2015 and expected to vest thereafter (2)	7,406,381	\$ 13.85	8.4	\$ 6,904

- (1) This represents the number of unvested options outstanding as of September 30, 2015 that are expected to vest in the future, which have been reduced using an estimated forfeiture rate.
- (2) This represents the number of vested options as of September 30, 2015 plus the number of unvested options outstanding as of September 30, 2015 that are expected to vest in the future, which have been reduced using an estimated forfeiture rate.
- (3) The aggregate intrinsic value was calculated based on the positive difference between the estimated fair value of the Company's common stock on September 30, 2015 of \$13.36 per share, or the date of exercise, as appropriate, and the exercise price of the underlying options.



**Table of Contents**

Unless otherwise determined by the Company's board of directors, restricted stock awards granted under the 2013 Plan generally vest annually over a four-year period. Performance-based restricted stock awards are earned based on the achievement of performance criteria established by the Company's Compensation Committee and Board of Directors. The performance criteria are weighted and have threshold, target and maximum performance goals. The following table provides a summary of the Company's restricted stock award activity for the 2013 Plan during the nine months ended September 30, 2015:

	<b>Restricted Stock Awards</b>	<b>Weighted Average Grant Date Fair Value</b>
Non-vested at December 31, 2014	695,312	\$ 12.40
Granted	4,571,158	\$ 15.56
Vested	(18,419)	\$ 13.83
Canceled	(58,445)	\$ 13.56
Non-vested at September 30, 2015	5,189,606	\$ 15.16

The performance-based award granted to the Company's chief executive officer in the nine months ended September 30, 2015 provides an opportunity for the participant to earn a fully vested right to up to 3,693,754 shares of the Company's common stock (collectively, the "Award Shares") over a three year period beginning July 1, 2015 and ending on June 30, 2018 (the "Performance Period"). Award shares may be earned based on the Company achieving pre-established, threshold, target and maximum performance metrics.

Award Shares may be earned during each calendar quarter during the Performance Period (each, a "Performance Quarter") if the Company achieves a threshold, target or maximum level of the performance metric for the Performance Quarter. If the performance metric is less than the threshold level for a Performance Quarter, no Award Shares will be earned during the Performance Quarter. Award Shares that were not earned during a Performance Quarter may be earned later during the then current twelve month period from July 1<sup>st</sup> to June 30<sup>th</sup> during the Performance Period (each, a "Performance Year") at a threshold, target or maximum level of the performance metric for the Performance Year. No Award Shares were earned for the Performance Quarter ending September 30, 2015 because the threshold level for the performance metric was not met.

This performance-based award is evaluated quarterly to determine the probability of its vesting and determine the amount of stock-based compensation to be recognized. During the three and nine months ended September 30, 2015 the Company recognized \$2.9 million of stock-based compensation expense related to the performance-based award.

Unless otherwise determined by the Company's board of directors, restricted stock units granted under the 2013 Plan generally vest monthly over a four-year period. The following table provides a summary of the Company's restricted stock unit activity for the 2013 Plan during the nine months ended September 30, 2015:

<b>Restricted Stock Units</b>	<b>Weighted Average Grant Date</b>
-------------------------------	--

		<b>Fair Value</b>
Non-vested at December 31, 2014	341,161	\$ 12.00
Vested and unissued	(90,297)	\$ 12.00
Non-vested at September 30, 2015	250,864	\$ 12.00

During the three months ended September 30, 2015, in connection with restructuring activities, the Company modified certain stock awards held by four members of management to accelerate the vesting of those awards in connection with the termination of the employment of these individuals. As a result of these modifications, the Company recognized incremental stock-based compensation during the three months ended September 30, 2015.

## **11. Redeemable Non-controlling Interest**

In connection with a 2013 equity investment in JDI Backup Ltd., where the Company acquired a controlling interest, the agreement provided for a put option for the then non-controlling interest ( NCI ) shareholders to put the remaining equity interest to the Company within pre-specified put periods. As the NCI was subject to a put option that was outside the control of the Company, it was deemed a redeemable non-controlling interest and not recorded in permanent equity, and was presented as mezzanine redeemable non-controlling interest on the consolidated balance sheet, and was subject to the guidance of the Securities and Exchange Commission ( SEC ) under ASC 480-10-S99, *Accounting for Redeemable Equity Securities*.

## **Table of Contents**

The difference between the \$20.8 million initial fair value of the redeemable non-controlling interest and the value that was expected to be paid upon exercise of the put option was being accreted over the period commencing December 11, 2013 and up to the end of the first put option period, which commenced on the 18-month anniversary of the acquisition date. Adjustments to the carrying amount of the redeemable non-controlling interest were charged to additional paid-in capital.

Non-controlling interest arising from the application of the consolidation rules was classified within total stockholders equity with any adjustments charged to net loss attributable to non-controlling interest in a consolidated subsidiary in the consolidated statement of operations and comprehensive loss.

During the year ended December 31, 2014, the Company paid \$4.2 million to increase its investment in JDI Backup Ltd. and entered into an amendment to the put option with the NCI shareholders. During the year ended December 31, 2014, due to the Company's assessment of the financial performance and forecasted profitability of JDI Backup Ltd., the Company changed its estimate of the expected exercise amount of the put option. The change in estimate resulted in the fair value of the put option increasing to \$30.5 million as of December 31, 2014.

On January 13, 2015, the Company entered into an agreement to acquire the remaining interests owned by the NCI shareholders for \$30.5 million, which was originally payable in three equal installments on January 13, 2015, June 15, 2015 and September 15, 2015. During the nine months ended September 30, 2015, the Company entered into amendments to change the dates of the second installment from June 15, 2015 to April 10, 2015 and the date of the third installment from September 15, 2015 to July 2, 2015. The Company will continue to consolidate JDI Backup Ltd. for financial reporting purposes, however, because the Company now owns 100% of JDI Backup Ltd., commencing on January 13, 2015, the Company no longer records a non-controlling interest in the consolidated statement of operations and comprehensive loss.

## **12. Income Taxes**

The Company files federal and various state income tax returns in the United States. The Company also files in several foreign jurisdictions. In the normal course of business, the Company is subject to examination by tax authorities throughout the world. Since the Company is in a loss carry-forward position, the Company is generally subject to U.S. federal and state income tax examinations by tax authorities for all years for which a loss carry-forward is available. The Company is currently subject to tax examinations in Brazil, India and Singapore for 2014, the United Kingdom from 2010 through 2014 and Israel from 2012 through 2014.

The Company recognizes, in its consolidated financial statements, the effect of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. The Company has no unrecognized tax positions at December 31, 2014 and September 30, 2015 that would affect its effective tax rate. The Company does not expect a significant change in the liability for unrecognized tax benefits in the next 12 months.

The Company regularly assesses its ability to realize its deferred tax assets. Assessing the realization of deferred tax assets requires significant management judgment. In determining whether its deferred tax assets are more likely than not realizable, the Company evaluated all available positive and negative evidence, and weighted the evidence based on its objectivity. Evidence the Company considered included:

Net operating losses ( NOLs ) incurred from the Company's inception to September 30, 2015;

Expiration of various federal and state tax attributes;

Reversals of existing temporary differences;

Composition and cumulative amounts of existing temporary differences; and

Forecasted profit before tax.

As of September 30, 2015, the Company is in a cumulative pre-tax book loss position for the past three years. The Company has generated significant NOLs since inception, and as such, it has no U.S. carryback capacity. The Company has a history of expiring state NOLs. The Company scheduled out the future reversals of existing deferred tax assets and liabilities and concluded that these reversals did not generate sufficient future taxable income to offset the existing net operating losses. After consideration of the available evidence, both positive and negative, the Company has recorded a valuation allowance of \$69.3 million as of December 31, 2014. The provision for income taxes results from a combination of the activities of the Company's domestic and foreign subsidiaries.

For the three months ended September 30, 2014 and 2015, the Company recognized tax expense of \$0.3 million and \$5.4 million, respectively, in the consolidated statements of operations and comprehensive loss. The income tax expense for the three

## **Table of Contents**

months ended September 30, 2015 is primarily attributable to federal and state current income taxes of \$1.1 million, foreign current tax expense of \$0.7 million, federal and state deferred tax expense of \$3.0 million related to increases in deferred liabilities and a \$0.6 million expense to increase in the valuation allowance.

For the nine months ended September 30, 2014 and 2015, the Company recognized tax expense of \$4.8 million and \$9.1 million, respectively, in the consolidated statements of operations and comprehensive loss. The income tax expense for the nine months ended September 30, 2015 is primarily attributable to a provision for federal and state current income taxes of \$2.1 million, foreign current tax expense of \$1.4 million, federal and state deferred tax expense of \$5.2 million, foreign deferred tax expense of \$0.1 million related to increases in deferred liabilities, and attributable to a \$0.3 million increase in the valuation allowance.

The provision for income taxes shown on the consolidated statements of operations and comprehensive loss differs from amounts that would result from applying the statutory tax rates to income before taxes primarily because of state income taxes and certain permanent expenses that were not deductible, as well as the application of valuation allowances against U.S. and foreign assets.

As of December 31, 2014, the Company had NOL carry-forwards available to offset future U.S. federal taxable income of approximately \$158.9 million and future state taxable income by approximately \$158.5 million. These NOL carry-forwards expire on various dates through 2033. The Company has \$0.4 million of U.S. capital loss carry-forwards which will expire in 2018. Approximately \$0.8 million of the U.S. federal NOL carry-forward and \$0.2 million of the state NOL carry-forwards are from excess stock-based compensation, for which the benefit will be recorded to additional paid-in capital when recognized. As of December 31, 2014, the Company had NOL carry-forwards in foreign jurisdictions available to offset future foreign taxable income by approximately \$37.2 million. The Company has loss carry-forwards in India totaling \$2.7 million that expire in 2021. The Company also has loss carry-forwards in the United Kingdom of \$34.3 million which carry-on indefinitely.

Utilization of the NOL carry-forwards may be subject to an annual limitation due to the ownership percentage change limitations under Section 382 of the Internal Revenue Code ( Section 382 limitation ). Ownership changes can limit the amount of net operating loss and other tax attributes that a company can use each year to offset future taxable income and taxes payable. In connection with a change in control in 2011 the Company was subject to Section 382 limitations of \$77.1 million against the balance of NOL carry-forwards generated prior to the change in control. Through December 31, 2014 the Company accumulated the unused amount of Section 382 limitations in excess of the amount of NOL carry-forwards that were originally subject to limitation. Therefore these unused NOL carry-forwards are available for future use to offset taxable income. The Company has completed an analysis of changes in its ownership from 2011, through the IPO, to December 31, 2013. The Company concluded that there was not a Section 382 ownership change during this period and therefore any NOLs generated through December 31, 2013, are not subject to any new Section 382 limitations on NOL carry-forwards. On November 20, 2014, the Company completed a follow-on offering pursuant to which the Company sold an aggregate of 3,000,000 shares of common stock and the selling stockholders sold an aggregate of 11,950,000 shares of common stock. The Company did not receive any proceeds from the sale of shares by the selling stockholders. On March 6, 2015, the Company completed a follow-on offering pursuant to which the selling stockholders sold an aggregate of 13,800,000 shares of common stock. The Company did not receive any proceeds from the sale of shares by the selling stockholders. The Company has performed an analysis of the impact of this offering and determined that no Section 382 change in ownership has occurred. As a result, all unused NOL carry-forwards at December 31, 2014 are available to offset taxable income.

## **13. Severance and Other Exit Costs**

In connection with acquisitions, the Company may evaluate its data center, sales and marketing, support and engineering operations and the general and administrative function in an effort to eliminate redundant costs. As a result, the Company may incur charges for employee severance, exiting facilities and restructuring data center commitments and other related costs.

During the year ended December 31, 2014, the Company implemented plans to further integrate and consolidate its data center, support and engineering operations, resulting in severance and facility exit costs. The severance charges were associated with eliminating approximately 90 positions across primarily support, engineering operations and sales and marketing. The Company incurred severance costs of \$2.3 million in the year ended December 31, 2014 related to these restructuring activities. The employee-related charges associated with these restructurings were completed during the year ended December 31, 2014. As of September 30, 2015, the Company did not have any remaining accrued employee-severance related to these severance costs.

The Company had incurred facility costs associated with closing offices in Redwood City, California and Englewood, Colorado. At the time of closing these offices, the Company had remaining lease obligations of approximately \$3.0 million for these vacated facilities through March 31, 2018. The Company recorded a facilities charge for these future lease payments, less expected sublease income, of \$2.1 million during the year ended December 31, 2014.

**Table of Contents**

The following table provides a summary of the activity for the nine months ended September 30, 2015 related to the Company's facilities exit costs accrual:

	<b>Facilities (in thousands)</b>
Balance at December 31, 2014	\$ 1,855
Cash paid	(632)
Balance at September 30, 2015	\$ 1,223

During the three months ended September 30, 2015, the Company implemented plans to enhance operational efficiencies across the business, resulting in severance costs (the 2015 Restructuring Plan). The severance charges were associated with eliminating approximately 67 positions across the business. The Company incurred severance costs of \$1.2 million during the three months ended September 30, 2015 related to these restructuring activities. The Company expects employee-related charges associated with these restructurings to be completed during the year ended December 31, 2015. The Company has paid \$0.2 million of severance costs during the three months ended September 30, 2015 and accrued a severance liability of \$1.0 million as of September 30, 2015.

The following table provides a summary of the activity for the nine months ended September 30, 2015 related to the Company's 2015 Restructuring Plan severance accrual:

	<b>2015 Plan Employee Severance (in thousands)</b>
Balance at December 31, 2014	\$
Severance charges	1,194
Cash paid	(195)
Balance at September 30, 2015	\$ 999

The following table presents severance charges recorded in the consolidated statement of operations and comprehensive loss for the periods presented:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>
	<b>(in thousands)</b>			
Cost of revenue	\$ 217	\$ 380	\$ 507	\$ 380
Sales and marketing	153	288	268	288
Engineering and development	82	411	905	411
General and administrative	74	115	93	115

Total severance charges	\$ 526	\$ 1,194	\$ 1,773	\$ 1,194
-------------------------	--------	----------	----------	----------

#### 14. Commitments and Contingencies

From time to time, the Company is involved in legal proceedings or subject to claims arising in the ordinary course of its business, and is currently involved in securities litigation, as described in Legal Proceedings in Part II, Item 1 below. The Company is not presently a party to any legal proceedings that in the opinion of management, if determined adversely to the Company, would have a material adverse effect on its business, financial condition, operating results or cash flow. Regardless of the outcome, litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources and other factors.

#### 15. Related Party Transactions

The Company has various agreements in place with related parties. Below are details of related party transactions that occurred during the three and nine months ended September 30, 2014 and 2015.



**Table of Contents****Tregaron:**

The Company has contracts with Tregaron India Holdings, LLC and its affiliates, including Diya Systems (Mangalore) Private Limited, Glowtouch Technologies Pvt. Ltd. and Touchweb Designs, LLC, (collectively,

Tregaron ), for outsourced services, including email- and chat-based customer and technical support, network monitoring, engineering and development support and web design and web building services. These entities are owned directly or indirectly by family members of the Company's chief executive officer, who is also a director and stockholder of the Company.

During 2013 the Company expanded the services provided by Tregaron under the agreements to include support of a newly formed entity in India related to our acquisition of HostGator India. The Company inadvertently excluded the support of this Indian entity from its related party disclosures for 2013. The amount previously reported as expense for the Tregaron services for the year ended December 31, 2013 was \$7.3 million, which will be revised in providing prior period comparative amounts in the footnotes to the consolidated financial statements for the year ended December 31, 2015 to \$8.6 million.

In addition, the Company has revised amounts reported in the related party disclosures for the quarterly periods during 2014. The full year amounts for Tregaron for 2014 were correctly reported. The following table includes the revised amounts of related party transactions recorded in the consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2014 relating to services provided by Tregaron and its affiliates under these agreements:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	As Reported	As Revised		As Reported	As Revised	
	2014	2014	2015	2014	2014	2015
	(in thousands)					
Cost of revenue	\$ 2,300	\$ 1,900	\$ 2,500	\$ 4,700	\$ 5,300	\$ 7,500
Sales and marketing	200	200	300	400	400	600
Engineering and development	800	500	100	1,300	1,300	800
General and administrative	500	100	100	600	700	300
Total related party transaction expense	\$ 3,800	\$ 2,700	\$ 3,000	\$ 7,000	\$ 7,700	\$ 9,200

The amounts reflected in the consolidated statement of operations and comprehensive loss, consolidated balance sheet and consolidated statement of cash flows for the Tregaron services for all periods during 2013 and 2014 were correctly reflected and do not require revision.

As of December 31, 2014, approximately \$1.4 million was included in accounts payable and accrued expense relating to services provided by Tregaron. As of September 30, 2014 and 2015, approximately \$1.0 million and \$1.8 million, respectively, was included in accounts payable and accrued expense relating to services provided by Tregaron.

**Innovative Business Services, LLC:**

The Company also has agreements with Innovative Business Services, LLC, ( IBS ), which provides multi-layered third-party security applications that are sold by the Company. IBS is indirectly majority owned by the Company's chief executive officer and a director of the Company, each of whom are also stockholders of the Company. During

the year ended December 31, 2014, the Company's principal agreement with this entity was amended which resulted in the accounting treatment of expenses being recorded against revenue.

During 2013 the Company expanded the services provided by IBS under the agreements across all of its entities. The Company inadvertently excluded the expenses related to the expanded relationship with IBS from related party disclosures for 2013 and 2014. For the year ended December 31, 2013, the Company previously reported cost of services related to the IBS services of \$3.0 million, which will be revised to \$3.9 million in providing prior period comparative amounts in the footnote to the consolidated financial statements for the year ended December 31, 2015.

**Table of Contents**

In addition, the Company has revised amounts reported in certain quarterly periods and the annual period during 2014. The following table includes the revised amounts of related party transactions recorded in the consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2014 relating to services provided by IBS under these agreements:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	As Reported	As Revised		As Reported	As Revised	
	2014	2014	2015	2014	2014	2015
	(in thousands)					
Revenue	\$	\$ (100)	\$ (400)	\$	\$ (300)	\$ (800)
Revenue (contra)			1,700			5,200
Total related party transaction impact to revenue	\$	\$ (100)	\$ 1,300	\$	\$ (300)	\$ 4,400
Cost of revenue	1,400	1,400	200	3,400	4,100	500
Total related party transaction expense, net	\$ 1,400	\$ 1,300	\$ 1,500	\$ 3,400	\$ 3,800	\$ 4,900

For the year ended December 31, 2014, the Company previously reported net expenses related to the IBS services of \$5.4 million, which will be revised to \$4.8 million, in providing prior period comparative amounts in the footnotes to the consolidated financial statements for the year ended December 31, 2015.

The amounts reflected in the consolidated statement of operations and comprehensive loss, consolidated balance sheet and consolidated statement of cash flows for the IBS services for all periods during 2013 and 2014 were correctly reflected and do not require revision.

As of December 31, 2014, approximately \$0.9 million was included in accounts payable and accrued expense relating to the Company's agreements with IBS. As of September 30, 2014 and 2015, approximately \$0.9 million and \$1.1 million, respectively, was included in accounts payable and accrued expense relating to the Company's agreements with IBS.

As of December 31, 2014, approximately \$0.1 million was included in accounts receivable relating to the Company's agreements with IBS. As of September 30, 2014 and 2015, approximately \$0.1 million and \$0.3 million, respectively, was included in accounts receivable relating to the Company's agreements with IBS.

**16. Subsequent Events**

On October 30, 2015, Holdings entered into a definitive agreement pursuant to which it has agreed to acquire Constant Contact, Inc. ( "Constant Contact" ), a leading online marketing platform focused on helping small and medium-sized businesses ( "SMBs" ) and non-profits grow their enterprises through a suite of products such as email marketing, campaigns, event management and contact management. Pursuant to the agreement, Holdings has agreed to acquire all of Constant Contact's outstanding shares of common stock, excluding treasury shares or any shares for which appraisal rights have been properly exercised, for \$32.00 per share in cash, for a total enterprise value of approximately \$1.1 billion.

The closing of the acquisition of Constant Contact is subject to approval of the acquisition by Constant Contact's stockholders, expiration or early termination of the applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act), and other customary closing conditions.

The agreement to acquire Constant Contact contains certain termination rights for both Holdings and Constant Contact (including if the acquisition is not consummated by March 31, 2016) and further provides that, in connection with termination of the merger agreement under specified circumstances, (1) Holdings may be required to pay to Constant Contact a termination fee of \$72.0 million if (a) all the conditions to Holdings' obligation to close have been satisfied and Constant Contact stands ready, willing, and able to consummate the transaction, but Holdings does not consummate the transaction or (b) Holdings otherwise materially breaches or fails to perform any of its covenants or other agreements or if any of its representations or warranties are not true or correct, in each case, in a way that would give rise to a closing condition not being satisfied, and (2) Constant Contact may be required to pay to Holdings a termination fee of \$36.0 million under specified circumstances, including, but not limited to, a change in the Constant Contact board's recommendation of the acquisition of Constant Contact to the Constant Contact stockholders or in connection with Constant Contact's termination of the merger agreement to enter into a written definitive agreement for an alternative superior proposal (as defined in the merger agreement) from a third party.

**Table of Contents**

In connection with the agreement to acquire Constant Contact, EIG Investors has also obtained \$1.085 billion in financing commitments pursuant to a commitment letter, dated as of October 30, 2015, among Holdings, EIG Investors, Credit Suisse AG and an affiliate thereof and an affiliate of Goldman, Sachs & Co. (the "Debt Financing"). These commitments, in addition to existing cash balances and borrowings under the Company's existing credit facilities, are sufficient to finance the acquisition of Constant Contact and to refinance EIG Investors' existing revolving credit facility. The funding of the Debt Financing is contingent on the satisfaction of certain customary conditions set forth in the commitment letter and certain conditions under our existing credit facility. The acquisition of Constant Contact is not conditioned on the Holdings obtaining the proceeds of any financing, including the Debt Financing.

The transaction is expected to be completed in early 2016. However, no assurance can be given that the transaction will be completed.

On November 2, 2015, the Company acquired substantially all of the assets of Ecommerce, LLC, a web presence provider to small and medium-sized businesses. Total consideration for this acquisition was \$28.0 million, of which \$23.8 million was paid at closing. The Company is obligated to pay the remaining cash consideration of \$4.2 million on the first anniversary of the acquisition, less any amounts used to satisfy any obligation determined to be owed to the Company pursuant to any indemnity pursuant to the asset purchase agreement.

## **Table of Contents**

### **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*You should read the following discussion of our financial condition and results of operations together with our consolidated financial statements and the related notes and other financial information included elsewhere in this Quarterly Report on Form 10-Q.*

#### **Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed in the forward-looking statements. The statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements are often identified by the use of words such as, but not limited to, anticipate, believe, can, contemplate, continue; could, estimate, likely, may, might, plan, potential, predict, project, seek, should, strategy, target, will, or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in the section titled "Risk Factors" included under Part II, Item 1A below, among others. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

#### **Overview**

We are a leading provider of cloud-based platform solutions designed to help small and medium-sized businesses, or SMBs, succeed online. Leveraging our proprietary technology platform, we serve approximately 4.5 million subscribers globally with a comprehensive and integrated suite of over 150 products and services that help SMBs get online, get found and grow their businesses. The products and services available on our platform include domains, website builders, web hosting, email, security, storage, site backup, search engine optimization, or SEO, and search engine marketing, or SEM, social media services, website analytics, mobile device tools and productivity and e-commerce solutions.

We deliver these products and services to our subscribers through an integrated technology platform that enables the delivery of cloud-based products and services in an easy to use, intuitive and cost-effective manner. Over our 18 year history, we have honed and refined our platform to amass significant insights into the needs and aspirations of our subscribers. This allows us to engage our subscribers in timely and compelling ways, driving significant business value for them. We believe that our platform delivers cloud-based solutions quickly, reliably and securely. These strengths and capabilities help us attract and retain subscribers, who then demand products and services which we seek to upsell to them over a sustained period of time.

Our approach to addressing the needs of SMBs and meeting the challenges of serving the SMB market has enabled us to grow rapidly, to create long-term subscriber relationships and to build an attractive business model that generates substantial cash flow.

## Recent Developments

On October 30, 2015, we entered into a definitive agreement pursuant to which we agreed to acquire all of Constant Contact's outstanding shares of common stock, excluding treasury shares or any shares for which appraisal rights have been properly exercised, for \$32.00 per share in cash, for a total enterprise value of approximately \$1.1 billion. The acquisition of Constant Contact will combine two leaders in small business online products and services, creating a full suite of online marketing tools and end-to-end solutions for our customers.

The closing of the acquisition of Constant Contact is subject to approval of the acquisition by Constant Contact's stockholders, expiration or early termination of the applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, or the HSR Act, and other customary closing conditions.

The agreement to acquire Constant Contact contains certain termination rights for both us and Constant Contact (including if the acquisition is not consummated by March 31, 2016) and further provides that, in connection with termination of the merger agreement under specified circumstances, (1) we may be required to pay to Constant Contact a termination fee of \$72.0 million if (a) all the conditions to our obligation to close have been satisfied and Constant Contact stands ready, willing and able to consummate the transaction, but we do not consummate the transaction or (b) if we breach or fail to perform any of our covenants or other agreements

## **Table of Contents**

in a material way or if any of our representations or warranties are not true and correct, in each case, in a way that would give rise to a closing condition not being satisfied, and (2) Constant Contact may be required to pay to us a termination fee of \$36.0 million under specified circumstances, including, but not limited to, a change in the Constant Contact board's recommendation of the acquisition of Constant Contact to the Constant Contact stockholders or in connection with Constant Contact's termination of the merger agreement to enter into a written definitive agreement for a superior proposal (as defined in the merger agreement) from a third party.

In connection with the agreement to acquire Constant Contact, we have also obtained \$1.085 billion in financing commitments pursuant to a commitment letter, dated as of October 30, 2015, among Holdings, EIG Investors, Credit Suisse AG and an affiliate thereof and an affiliate of Goldman, Sachs & Co., or the Debt Financing. These commitments, in addition to existing cash balances and borrowings under our existing credit facilities, are sufficient to finance the acquisition of Constant Contact and to refinance our existing revolving credit facility. The funding of the Debt Financing is contingent on the satisfaction of certain customary conditions set forth in the commitment letter and certain conditions under our existing credit facility. The acquisition of Constant Contact is not conditioned on our obtaining the proceeds of any financing, including the Debt Financing.

The transaction is expected to be completed in early 2016. However, no assurance can be given that the transaction will be completed.

In connection with the pending transaction, we have incurred and currently expect to continue to incur, fees for professional services and other expenses in the fourth quarter of 2015, with additional transaction-related fees and expenses anticipated to be incurred prior to the expected closing in 2016.

For additional information regarding the pending transaction and the Debt Financing, please see the full text of the merger agreement, a copy of which is filed as exhibit 2.1 to our Current Report on Form 8-K filed with the SEC on November 2, 2015 and the section entitled "Risks Relating to Our Pending Acquisition of Constant Contact" contained in "Risk Factors" in Item 1A of this Quarterly Report on Form 10-Q.

## **Non-GAAP Financial Measures and Key Metrics**

In addition to our financial information presented in accordance with GAAP, we use certain non-GAAP financial measures described below to evaluate the operating and financial performance of our business, identify trends affecting our business, develop projections and make strategic business decisions. Generally, a non-GAAP financial measure is a numerical measure of a company's operating performance, financial position or cash flow that includes or excludes amounts that are included or excluded from the most directly comparable measure calculated and presented in accordance with GAAP. We monitor the non-GAAP financial measures described below, and we believe they are helpful to investors, because we believe they reflect the operating performance of our business and help management and investors gauge our ability to generate cash flow, excluding some recurring and non-recurring expenses that are included in the most directly comparable measures calculated and presented in accordance with GAAP.

Our non-GAAP financial measures may not provide information that is directly comparable to that provided by other companies in our industry, as other companies in our industry may calculate non-GAAP financial results differently, particularly related to adjustments for integration and restructuring expenses. In addition, there are limitations in using non-GAAP financial measures because they are not prepared in accordance with GAAP, may be different from non-GAAP financial measures used by other companies and exclude expenses that may have a material impact on our reported financial results. Furthermore, interest expense, which is excluded from some of our non-GAAP measures, has been and will continue to be for the foreseeable future a significant recurring expense in our business. The presentation of non-GAAP financial information is not meant to be considered in isolation or as a substitute for the



directly comparable financial measures prepared in accordance with GAAP. We urge you to review the reconciliations of our non-GAAP financial measures to the comparable GAAP financial measures included below, and not to rely on any single financial measure to evaluate our business.

### **Key Metrics**

We use a number of metrics, including the following key metrics, to evaluate the operating and financial performance of our business, identify trends affecting our business, develop projections and make strategic business decisions:

total subscribers;

average revenue per subscriber;

monthly recurring revenue retention rate; and

adjusted EBITDA.

**Table of Contents**

The following table summarizes these non-GAAP financial measures and key metrics for the periods presented (all data in thousands, except average revenue per subscriber and monthly recurring revenue retention rate):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>
<b>Financial and other metrics:</b>				
Total subscribers	3,841	4,482	3,841	4,482
Average subscribers for the period	3,794	4,438	3,693	4,275
Average revenue per subscriber	\$ 14.49	\$ 14.29	\$ 14.35	\$ 14.36
Monthly recurring revenue retention rate	*	*	*	*
Adjusted EBITDA	\$ 58,042	\$ 66,558	\$ 173,665	\$ 195,679

\* See disclosure below.

We are not reporting monthly recurring revenue, or MRR, retention rate figures in this Quarterly Report on Form 10-Q because we recently identified errors in our business intelligence system that impacted MRR as well as two of our other previously reported performance metrics, the number of products per subscriber and the number of subscribers paying us \$500 or more per year. We are in the process of recalculating and verifying revised numbers for these metrics using an upgraded version of the business intelligence system that we believe has corrected these errors. Based on the work we have done to date, we believe that our previously reported MRR figures will remain at 99% for at least the last four quarters, which is as far back as we have completed our preliminary assessment, and that our revised figures for both the number of subscribers paying us \$500 or more per year and the number of products per subscriber will be lower than our previously reported figures for those metrics. These are preliminary conclusions and are subject to change based on the final results of our recalculation and verification process. These errors only affect these three performance metrics and do not impact our GAAP financial results, our adjusted EBITDA, free cash flow or unlevered free cash flow metrics, ARPS, or total subscriber figures. We intend to provide updated information for MRR and these other performance metrics once it is available.

**Total Subscribers**

We define total subscribers as those that, as of the end of a period, are identified as subscribing directly to our products on a paid basis, excluding accounts that access our solutions via resellers or that purchase only domain names from us.

Historically, in calculating total subscribers, we included the number of end-of-period subscribers we added through business acquisitions as if those subscribers had subscribed with us since the beginning of the period presented. Since the first quarter of 2014, we have included subscribers we added through business acquisitions from the closing date of the relevant acquisition. Additionally, in the fourth quarter of 2014, we modified our definition of total subscribers to better reflect our expanding product mix by including paid subscribers to all of our subscription-based products, rather than limiting the definition to paid subscribers to our hosted web presence solutions. Subscribers of more than one brand are counted as separate subscribers. Total subscribers for a period reflects adjustments to add or subtract subscribers as we integrate acquisitions and/or are otherwise able to identify subscribers that meet the definition of total subscribers. Approximately 9% of the increase in total subscribers in the third quarter of 2015 consists of these adjustments.

Our total subscriber base increased from 3.8 million as of September 30, 2014 to approximately 4.5 million as of September 30, 2015. This increase in subscribers was driven primarily by word-of-mouth referrals, our referral and reseller network, on-boarding subscribers from fourth quarter 2014 and 2015 acquisitions and the inclusion, commencing with the fourth quarter of 2014, of subscribers to all of our subscription-based products (other than accounts that access our solutions via resellers or that purchase only domain names from us) rather than just subscribers to our web hosting solutions.

***Average Revenue per Subscriber***

Average revenue per subscriber, or ARPS, is a non-GAAP financial measure that we calculate as the amount of revenue we recognize in a period, including marketing development funds and other revenue not received from subscribers, divided by the average of the number of total subscribers at the beginning of the period and at the end of the period, which we refer to as average subscribers for the period. Historically, we adjusted the amount of revenue to include the revenue generated from subscribers we added through business acquisitions as if those acquired subscribers had been our subscribers since the beginning of the period presented. Since the first quarter of 2014, we have included the revenue we add through business acquisitions from the date of the relevant acquisition. We believe ARPS is an indicator of our ability to optimize our mix of products and services and pricing and sell products and services to new and existing subscribers. As we on-board new subscribers, we typically on-board them at introductory prices, which negatively impacts ARPS. Furthermore, ARPS can be impacted by our acquisitions since the acquired subscribers may have higher or lower than average ARPS.

**Table of Contents**

In calculating ARPS, we increase revenue for the purchase accounting adjustment, which represents the reduction of post-acquisition revenues from the write-down of deferred revenue to fair value as of the acquisition date.

Post-acquisition, deferred revenues are recognized at the reduced amount, until such time that the subscription is renewed. The impact generally normalizes within a year following the acquisition.

ARPS decreased from \$14.49 for the three months ended September 30, 2014 to \$14.29 for the three months ended September 30, 2015. ARPS may be impacted by such factors as introductory pricing on new subscribers, our ability to migrate and increase product attach rates for subscribers acquired through mergers and acquisitions and our ability to upsell existing subscribers.

For the nine months ended September 30, 2014 and 2015, ARPS increased from \$14.35 for the nine months ended September 30, 2014 to \$14.36 for the nine months ended September 30, 2015. We expect to see modest downward pressure on ARPS in the near term as we focus on onboarding new subscribers.

The following table reflects the reconciliation of ARPS to revenue calculated in accordance with GAAP (all data in thousands, except ARPS data):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>
Revenue	\$ 160,167	\$ 188,523	\$ 457,909	\$ 548,272
Purchase accounting adjustment	4,763	1,773	18,830	4,024
Adjusted revenue	\$ 164,930	\$ 190,296	\$ 476,739	\$ 552,296
Total subscribers	3,841	4,482	3,841	4,482
Average subscribers for the period	3,794	4,438	3,693	4,275
ARPS	\$ 14.49	\$ 14.29	\$ 14.35	\$ 14.36

**Monthly Recurring Revenue Retention Rate**

We believe that our ability to retain revenue from our subscribers is an indicator of the long-term value of our subscriber relationships and the stability of our revenue base. To assess our performance in this area, we measure our monthly recurring revenue, or MRR, retention rate which reflects both subscriber churn and additional revenue from existing subscribers due to renewals, upsells and price changes. We calculate MRR retention rate at the end of a period by taking the retained recurring value of subscription revenue of all active subscribers of our major brands at the end of the prior period and dividing it into the retained recurring value of subscription revenue for those same subscribers at the end of the period presented. MRR for a period is presented as a rolling average of MRR for the most recent four quarters. We believe MRR retention rate is an indicator of our ability to retain existing subscribers, upsell products and services to them and maintain subscriber satisfaction. MRR can be impacted by factors such as subscriber churn, new subscriber additions, increases in pricing and product uptake.

For the reasons described above under Key Metrics, we are not reporting our MRR retention rate at this time.

**Adjusted EBITDA**

Adjusted EBITDA is a non-GAAP financial measure that we calculate as net income (loss) plus (i) changes in deferred revenue, depreciation, amortization, stock-based compensation expense, loss of unconsolidated entities, net loss on sale of assets, expenses related to integration of acquisitions and restructurings, transaction expenses and charges, certain legal advisory expenses, interest expense and income tax expense, less (ii) earnings of unconsolidated entities, net gain on sale of assets and the impact of purchase accounting related to reduced fair value of deferred domain registration costs. Due to our history of acquisitions and financings, we have incurred and will continue to incur charges for integration, restructuring and transaction expenses that primarily relate to the process of acquiring another business and integrating that business into our support and/ or technical platforms. We believe that adjusting for these items is useful to investors in evaluating the post integration performance of our company. We manage our business based on the cash collected from our subscribers and the cash required to acquire and service those subscribers. We believe highlighting cash collected and cash spent in a given period provides insight to an investor to gauge the overall health of our business. Under GAAP, although subscription fees are paid in advance, we recognize the associated revenue over the subscription term, which does not fully reflect short-term trends in our operating results. In order to capture these trends and report our performance consistently with how we manage our business, we include the change in deferred revenue for the period in our calculation of adjusted EBITDA for that period.

**Table of Contents**

Adjusted EBITDA increased from \$58.0 million for the three months ended September 30, 2014 to \$66.6 million for the three months ended September 30, 2015 and increased from \$173.7 million for the nine months ended September 30, 2014 to \$195.7 million for the nine months ended September 30, 2015. These increases in adjusted EBITDA were primarily a result of our revenue growth and a reduction in marketing expenses as we reduced marketing spend for certain products, including cloud storage products, as our subscriber base became more familiar with these products. The impact of these factors was partially offset by increased investment in our data center and subscriber support infrastructure and increases in engineering and development expense and general and administrative expense.

The following table reflects the reconciliation of adjusted EBITDA to net loss calculated in accordance with GAAP:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>
	<b>(in thousands)</b>			
Net loss	\$ (9,443)	\$ (15,351)	\$ (48,044)	\$ (16,538)
Stock-based compensation	4,189	9,762	11,362	20,272
Gain on sale of assets	(365)	(191)	(291)	(155)
Loss (gain) of unconsolidated entities (1)	84	4,550	(26)	3,676
Amortization of other intangible assets	26,247	23,758	75,788	67,191
Amortization of deferred financing costs	19	21	57	62
Changes in deferred revenue (2)	12,015	6,640	61,932	29,204
Impact of reduced fair value of deferred domain registration costs	(4,255)	(442)	(16,592)	(1,645)
Transaction expenses and charges	1,786	1,461	3,906	4,602
Integration and restructuring expenses	5,166	7,770	16,337	11,513
Legal advisory expenses (3)		133		1,188
Depreciation	8,005	8,554	22,553	24,649
Income tax expense	289	5,397	4,776	9,082
Interest expense, net (excluding impact of amortization of deferred financing costs)	14,305	14,496	41,907	42,578
<b>Adjusted EBITDA</b>	<b>\$ 58,042</b>	<b>\$ 66,558</b>	<b>\$ 173,665</b>	<b>\$ 195,679</b>

- (1) The loss of unconsolidated entities is reported on a net basis for the nine months ended September 30, 2015. The nine months ended September 30, 2015 includes our proportionate share of net losses from unconsolidated entities of \$9.1 million, partially offset by the \$5.4 million gain for the redemption of our equity interest in World Wide Web Hosting (Site5).
- (2) Changes in deferred revenue were higher in the 2014 periods, primarily due to the purchase accounting adjustment related to the acquisition of Directi.
- (3) Consists of legal and related advisory expense associated with matters that are the subject of a class action lawsuit filed against us in May 2015.



**Table of Contents**

The following table provides a reconciliation of net interest expense included in the adjusted EBITDA table above to total other expense, net in our consolidated statements of operations and comprehensive loss:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>
	<b>(dollars in thousands)</b>			
Interest expense, net (excluding impact of amortization of deferred financing costs)	\$ 14,305	\$ 14,496	\$ 41,907	\$ 42,578
Amortization of deferred financing costs	19	21	57	62
Other income				(5,440)
 Total other expense, net in consolidated statements of operations and comprehensive loss	 \$ 14,324	 \$ 14,517	 \$ 41,964	 \$ 37,200

**Components of Operating Results****Revenue**

We generate revenue primarily from selling subscriptions for our cloud-based products and services. The subscriptions we offer are similar across all of our brands and are provided under contracts pursuant to which we have ongoing obligations to support the subscriber. These contracts are generally for service periods of up to 36 months and typically require payment in advance at the time of initiating the subscription for the entire subscription period. Typically, we also have arrangements in place to auto renew a subscription at the end of the subscription period. Due to factors such as introductory pricing, our renewal fees may be higher than our initial subscription. We sell more subscriptions with 12 month terms than with any other term length. We also earn revenue from the sale of domain name registrations, premium domains and non-term based products and services, such as certain online security products and professional technical services as well as through referral fees and commissions. We expect our revenue to increase in future periods as we expand our subscriber base, including through acquisitions, and the roll out of new subscriber acquisition channels such as web builders and mobile applications, and increase our average revenue per subscriber by selling additional products and services.

**Cost of Revenue**

Cost of revenue includes costs of operating our subscriber support organization, fees we pay to register domain names for our subscribers, costs of leasing and operating data center infrastructure, such as technical personnel costs associated with monitoring and maintaining our network operations, fees we pay to third-party product and service providers, and merchant fees we pay as part of our billing processes. We also allocate to cost of revenue the depreciation and amortization related to these activities and the intangible assets we have acquired, as well as a portion of our overhead costs attributable to our employees engaged in subscriber support activities. In addition, cost of revenue includes stock-based compensation expense for employees engaged in support and network operations. We expect cost of revenue to increase in absolute dollars in future periods as we expand our subscriber base, increase our levels of subscriber support, expand our domain name business and add data center capacity. Cost of revenue may increase or decrease as a percentage of revenue in a given period, depending on our ability to manage our infrastructure costs, in particular with respect to data centers and support, the amount of third-party product and services that we sell and as a result of our amortization expense related to acquisitions.



***Gross Profit***

Gross profit is the difference between revenue and cost of revenue. Gross profit has fluctuated from period to period in large part as a result of revenue and cost of revenue adjustments from purchase accounting impacts related to acquisitions, as well as revenue and cost of revenue impacts from growth in our business. With respect to revenue, the application of purchase accounting requires us to record purchase accounting adjustments for acquired deferred revenue, which reduces the revenue recorded from acquisitions for a period of time after the acquisition. The impact generally normalizes within a year following the acquisition. With respect to cost of revenue, the application of purchase accounting requires us to defer domain registration costs, which reduces cost of revenue, and record long-lived assets at fair value, which increases cost of revenue through an increase in amortization expense over the estimated useful life of the long-lived assets. In addition, our revenue and our cost of revenue have increased in recent years as our subscriber base has expanded. For a new subscriber that we bring on to our platform, we typically recognize revenue over the term of the subscription, even though we collect the subscription fee at the initial billing. As a result, our gross profit may be affected by the prices we charge for our subscriptions, as well as by the number of new subscribers and the terms of their subscriptions. We expect our gross profit to increase in absolute dollars in future periods while our gross profit margin may increase or decrease.

---

**Table of Contents**

***Operating Expense***

We classify our operating expense into three categories: sales and marketing, engineering and development, and general and administrative.

***Sales and Marketing.*** Sales and marketing expense primarily consists of costs associated with bounty payments to our network of online partners, SEM and SEO, general awareness and brand building activities, as well as the cost of employees engaged in sales and marketing activities. Sales and marketing expense also includes costs associated with sales of products as well as stock-based compensation expense for employees engaged in sales and marketing activities. We expect sales and marketing expense to increase in absolute dollars in future periods as we continue to expand our business and increase our sales efforts. We also expect sales and marketing expense to be our largest category of operating expense for the foreseeable future as we continue with our plans to develop and grow additional subscriber acquisition channels. Sales and marketing expense as a percentage of revenue may increase or decrease in a given period, depending on the cost of attracting new subscribers to our solutions, changes in how we invest in different subscriber acquisition channels, changes in how we approach search engine marketing and search engine optimization and the extent of general awareness and brand building activities we may undertake, as well as the efficiency of our sales and support personnel and our ability to sell more products and services to our subscribers and drive favorable returns on invested marketing dollars.

***Engineering and Development.*** Engineering and development expense includes the cost of employees engaged in enhancing our technology platform and our systems, developing and expanding product and service offerings, and integrating technology capabilities from our acquisitions. Engineering and development expense includes stock-based compensation expense for employees engaged in engineering and development activities. Our engineering and development expense does not include costs of leasing and operating our data center infrastructure, such as technical personnel costs associated with monitoring and maintaining our network operations and fees we pay to third-party product and service providers, which are included in cost of revenue. We expect our engineering and development expense as a percentage of our revenue to be broadly similar to current levels.

***General and Administrative.*** General and administrative expense includes the cost of employees engaged in corporate functions, such as finance, human resources, legal affairs and general management. General and administrative expense also includes all facility and related overhead costs not allocated to cost of revenue, as well as insurance premiums and professional service fees. We have incurred and will continue to incur expenses associated with being a publicly traded company and due to our expansion into international territories, including increased legal, corporate insurance, tax and accounting expenses, and the additional costs of maintaining compliance with Section 404 of the Sarbanes-Oxley Act and other regulations. General and administrative expense includes stock-based compensation expense for employees engaged in general and administrative activities. We expect that general and administrative expense will continue to increase in absolute dollars but decrease marginally as a percentage of revenue as we further expand our operations and continue to operate as a public company.

***Other Income (Expense)***

Other income (expense) consists primarily of costs related to, and interest paid on, our indebtedness. We include the cash cost of interest payments and loan financing fees, the amortization of deferred financing costs and the amortization of the net present value adjustment which we may apply to some deferred consideration payments related to our acquisitions in our calculation of interest expense. Interest income consists primarily of interest income earned on our cash and cash equivalents balances. Our interest expense may increase in future periods if we continue to finance acquisitions through the issuance of debt. Other income (expense) also includes gains or losses recognized on investments in unconsolidated entities.

***Income Tax Expense***

We estimate our income taxes in accordance with the asset and liability method, under which deferred tax assets and liabilities are recognized based on temporary differences between the assets and liabilities in our consolidated financial statements and the financial statements that are prepared in accordance with tax regulations for the purpose of filing our income tax returns, using statutory tax rates. This methodology requires us to record a valuation allowance against net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

## **Table of Contents**

### **Critical Accounting Policies and Estimates**

We prepare our consolidated financial statements in accordance with U.S. GAAP. The preparation of our consolidated financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expense during the reported periods. We base our estimates, judgments and assumptions on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results may differ from the estimates, judgments and assumptions made by our management. To the extent that there are differences between our estimates, judgments and assumptions and our actual results, our future financial statement presentation, financial condition, results of operations and cash flows may be affected.

We believe that our critical accounting policies and estimates are the assumptions and estimates associated with the following:

revenue recognition,

goodwill,

long-lived assets,

depreciation,

amortization,

income taxes, and

stock-based compensation arrangements.

There have been no material changes to our critical accounting policies since December 31, 2014. For further information on our critical accounting policies and estimates, see Note 2 to the consolidated financial statements appearing in Part I, Item 1 in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K filed with the Securities and Exchange Commission, or the SEC, on February 27, 2015.

**Table of Contents****Results of Operations**

The following tables set forth our results of operations for the periods presented (all data in thousands). The period-to-period comparison of financial results is not necessarily indicative of future results.

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>
	<b>(unaudited)</b>			
Revenue	\$ 160,167	\$ 188,523	\$ 457,909	\$ 548,272
Cost of revenue	97,416	110,773	279,218	316,684
Gross profit	62,751	77,750	178,691	231,588
Operating expense:				
Sales and marketing	34,761	37,523	114,610	109,791
Engineering and development	4,179	7,902	14,497	19,906
General and administrative	18,557	23,212	50,914	63,031
Total operating expense	57,497	68,637	180,021	192,728
Income (loss) from operations	5,254	9,113	(1,330)	38,860
Total other expense, net	(14,324)	(14,517)	(41,964)	(37,200)
Income (loss) before income taxes and equity earnings of unconsolidated entities	(9,070)	(5,404)	(43,294)	1,660
Income tax expense	289	5,397	4,776	9,082
Loss before equity earnings of unconsolidated entities	(9,359)	(10,801)	(48,070)	(7,422)
Equity (income) loss of unconsolidated entities, net of tax	84	4,550	(26)	9,116
Net loss	\$ (9,443)	\$ (15,351)	\$ (48,044)	\$ (16,538)
Net loss attributable to non-controlling interest	(1,545)		(7,413)	
Net loss attributable to Endurance International Group Holdings, Inc.	\$ (7,898)	\$ (15,351)	\$ (40,631)	\$ (16,538)

**Table of Contents****Comparison of Three Months Ended September 30, 2014 and 2015*****Revenue***

	<b>Three Months Ended September 30,</b>		<b>Change</b>	
	<b>2014</b>	<b>2015</b>	<b>Amount</b>	<b>%</b>
	<b>(dollars in thousands)</b>			
Revenue	\$ 160,167	\$ 188,523	\$ 28,356	18%

Revenue increased by \$28.3 million, or 18%, from \$160.2 million for the three months ended September 30, 2014 to \$188.5 million for the three months ended September 30, 2015. Of this increase, \$15.0 million is attributable to revenues, including growth and synergies, from the acquisitions of businesses that were not part of our business for most of the quarter ended September 30, 2014. The remaining balance of the increase, or \$13.3 million, is attributable primarily to the growth of our business, and to a lesser extent, other factors, including principally the \$4.3 million impact of the purchase accounting adjustment for the Directi acquisition.

***Cost of Revenue***

	<b>Three Months Ended September 30,</b>		<b>Change</b>	
	<b>2014</b>	<b>2015</b>	<b>Amount</b>	<b>%</b>
	<b>% of</b>	<b>% of</b>		
	<b>Amount</b>	<b>Revenue</b>	<b>Amount</b>	<b>Revenue</b>
	<b>(dollars in thousands)</b>			
Cost of revenue	\$ 97,416	61%	\$ 110,773	59%

Cost of revenue increased by \$13.4 million, or 14%, from \$97.4 million for the three months ended September 30, 2014 to \$110.8 million for the three months ended September 30, 2015. Domain registration costs increased by \$8.0 million partially due to the purchase accounting impact of Directi for the three months ended September 30, 2014 and inclusion of domain registration costs related to businesses that we acquired that were not part of our business for most of the quarter ended September 30, 2014. In addition, support expenses increased by \$3.1 million primarily due to acquisitions subsequent to September 30, 2014 and investment in new and existing brands, data center expenses increased by \$3.0 million primarily due to acquisitions, subscriber growth and price increases under certain of our data center contracts, stock-based compensation expense increased by \$0.5 million, merchant fees increased by \$1.0 million and depreciation expense increased by \$0.3 million. These increases were partially offset by a \$2.5 million decrease in amortization expense.

Our cost of revenue contains a significant portion of non-cash expenses, in particular amortization expense for the intangible assets we have acquired through our acquisitions and the acquisition by investment funds and entities affiliated with Warburg Pincus and Goldman, Sachs & Co. on December 22, 2011 of a controlling interest in us. The following table sets forth the significant non-cash components of cost of revenue.

<b>Three Months Ended September 30,</b>
<b>2014                      2015</b>

	<b>(dollars in thousands)</b>	
Amortization expense	\$ 26,247	\$ 23,758
Depreciation expense	\$ 7,474	\$ 7,801
Stock-based compensation expense	\$ 135	\$ 601

**Table of Contents****Gross Profit**

	Three Months Ended September 30,		2015		Change	
	2014	% of	2015	% of	Amount	%
	Amount	Revenue	Amount	Revenue	Amount	%
	(dollars in thousands)					

Gross profit	\$ 62,751	39%	\$ 77,750	41%	\$ 14,999	24%
--------------	-----------	-----	-----------	-----	-----------	-----

Gross profit increased by \$15.0 million, or 24%, from \$62.8 million for the three months ended September 30, 2014 to \$77.8 million for the three months ended September 30, 2015. Approximately \$12.5 million of the increase was primarily attributable to increases in our subscriber base, including acquired subscribers. Additionally, \$2.5 million was attributable to a net decrease in amortization expense. Our gross profit as a percentage of revenue increased by two percentage points from 39% for the three months ended September 30, 2014 to 41% for the three months ended September 30, 2015. This increase is primarily attributable to lower amortization of intangible assets, which decreased to 13% of revenue for the three months ended September 30, 2015 as compared to 16% for the three months ended September 30, 2014.

The following table sets forth gross profit and the significant non-cash components of cost of revenue as a percentage of revenue:

	Three Months Ended September 30,	
	2014	2015
	(dollars in thousands)	
Revenue	\$ 160,167	\$ 188,523
Gross profit	\$ 62,751	\$ 77,750
Gross profit % of revenue	39%	41%
Amortization expense % of revenue	16%	13%
Depreciation expense % of revenue	5%	4%
Stock-based compensation expense % of revenue	*	*

\* Less than 1%.

**Operating Expense**

	Three Months Ended September 30,		2015		Change	
	2014	% of	2015	% of	Amount	%
	Amount	Revenue	Amount	Revenue	Amount	%
	(dollars in thousands)					
Sales and marketing	\$ 34,761	22%	\$ 37,523	20%	\$ 2,762	8%
Engineering and development	4,179	3%	7,902	4%	3,723	89%
General and administrative	18,557	12%	23,212	12%	4,655	25%



Total	\$ 57,497	36%	\$ 68,637	36%	\$ 11,140	19%
-------	-----------	-----	-----------	-----	-----------	-----

***Sales and Marketing.*** Sales and marketing expense increased by \$2.8 million, or 8%, from \$34.7 million for the three months ended September 30, 2014 to \$37.5 million for the three months ended September 30, 2015. The increase in sales and marketing expense was primarily attributable to the launch of certain new hosting brands and new products. We expect to increase marketing expense in the near term by investing in new marketing programs to promote our new hosting brands and new products.

**Table of Contents**

**Engineering and Development.** Engineering and development expense increased by \$3.7 million, or 89%, from \$4.2 million for the three months ended September 30, 2014 to \$7.9 million for the three months ended September 30, 2015. Of this increase, \$1.7 million was due to an increase in payroll and benefits to support the growth in our business, \$0.4 million was due to an increase in stock-based compensation expense, of which \$0.2 million relates to incremental stock-based compensation expense related to modifications of awards in connection with 2015 restructuring activities, \$0.1 million was due to an increase in depreciation expense, \$0.8 million was due to an increase in integration and restructuring costs, and \$0.7 million was due to consulting costs incurred in connection with our restructuring activities.

**General and Administrative.** General and administrative expense increased by \$4.7 million, or 25%, from \$18.5 million for the three months ended September 30, 2014 to \$23.2 million for the three months ended September 30, 2015. The period-over-period increase consisted of a \$4.0 million increase in stock-based compensation, of which \$2.9 million is related to the grant of a performance-based restricted stock award to our chief executive officer and \$0.3 million relates to incremental stock-based compensation expense related to modifications of awards in connection with 2015 restructuring activities. The total increase in general and administrative expense also included \$0.1 million of additional legal advisory expenses, a \$0.5 million increase in transaction expenses and a \$0.1 million increase in depreciation expense.

**Other Income (Expense), Net**

	Three Months Ended		Change	
	September 30,	September 30,	Amount	%
	2014	2015		
	(dollars in thousands)			
Other income (expense), net	\$ (14,324)	\$ (14,517)	\$ (193)	(1)%

Other expense, increased by \$0.2 million, or 1%, from \$14.3 million for the three months ended September 30, 2014 to \$14.5 million for the three months ended September 30, 2015. This increase is primarily due to a \$0.1 million increase in interest expense related to amounts drawn down on our revolving credit facility during the three months ended September 30, 2015 as compared with the three months ended September 30, 2014 and a \$0.2 million increase of accretion of present value for the deferred consideration related to the Webzai, BuyDomains and Ace acquisitions. These increases were partially offset by a decrease in interest expense related to capital lease obligations.

**Income Tax Expense**

	Three Months Ended		Change	
	September 30,	September 30,	Amount	%
	2014	2015		
	(dollars in thousands)			
Income tax expense	\$ 289	\$ 5,397	\$ 5,108	1,767%

Income tax expense for the three months ended September 30, 2015 increased by \$5.1 million, or 1,767%, from \$0.3 million for the three months ended September 30, 2014 to \$5.4 million for the three months ended September 30, 2015. The increase consisted of a net increase in our deferred tax expense of \$3.8 million and a \$1.2 million increase in current tax expense. The increase in our deferred tax expense from September 30, 2014 to September 30, 2015 was primarily attributable to a \$2.5 million increase in federal, state and foreign deferred tax expense and a \$1.3 million

increase in the valuation allowance. In the three months ended September 30, 2015, we had nondeductible expenses primarily related to stock-based compensation, transaction costs and other foreign permanent differences.

**Table of Contents****Comparison of Nine Months Ended September 30, 2014 and 2015*****Revenue***

	<b>Nine Months Ended September 30,</b>		<b>Change</b>	
	<b>2014</b>	<b>2015</b>	<b>Amount</b>	<b>%</b>
	<b>(dollars in thousands)</b>			
<b>Revenue</b>	<b>\$ 457,909</b>	<b>\$ 548,272</b>	<b>\$ 90,363</b>	<b>20%</b>

Revenue increased by \$90.4 million, or 20%, from \$457.9 million for the nine months ended September 30, 2014 to \$548.3 million for the nine months ended September 30, 2015. Of this increase, \$37.1 million is attributable to revenues, including growth and synergies, from the acquisitions of businesses that were not part of our business for most of the nine months ended September 30, 2014. The remaining balance of the increase, or \$53.3 million, is attributable primarily to the growth of our business, and to a lesser extent, other factors, including principally the \$16.9 million impact of the purchase accounting adjustment for the Directi acquisition.

***Cost of Revenue***

	<b>Nine Months Ended September 30,</b>		<b>Change</b>	
	<b>2014</b>	<b>2015</b>	<b>Amount</b>	<b>%</b>
	<b>% of</b>	<b>% of</b>		
	<b>Amount</b>	<b>Revenue</b>	<b>Amount</b>	<b>Revenue</b>
	<b>(dollars in thousands)</b>			
<b>Cost of revenue</b>	<b>\$ 279,218</b>	<b>61%</b>	<b>\$ 316,684</b>	<b>58%</b>

Cost of revenue increased by \$37.5 million, or 13%, from \$279.2 million for the nine months ended September 30, 2014 to \$316.7 million for the nine months ended September 30, 2015. Of this increase, domain registration costs increased by \$28.2 million, partially due to the purchase accounting impact of Directi for the nine months ended September 30, 2014 and inclusion of domain registration costs related to businesses that we acquired that were not part of our business for most of the nine months ended September 30, 2014. In addition, support expenses increased by \$9.4 million due to acquisitions subsequent to September 30, 2014 and investment in new and existing brands, data center expenses increased by \$4.8 million due to acquisitions, subscriber growth and price increases under certain of our data center contracts, depreciation expense increased by \$1.3 million, stock-based compensation expense increased by \$1.0 million and merchant fees increased by \$1.4 million. These increases were partially offset by an \$8.6 million decrease in amortization expense.

Our cost of revenue contains a significant portion of non-cash expenses, in particular amortization expense for the intangible assets we have acquired through our acquisitions and the acquisition by investment funds and entities affiliated with Warburg Pincus and Goldman, Sachs & Co on December 22, 2011 of a controlling interest in us. The following table sets forth the significant non-cash components of cost of revenue.

<b>Nine Months Ended September 30,</b>
<b>2014                      2015</b>

	(dollars in thousands)	
Amortization expense	\$ 75,788	\$ 67,191
Depreciation expense	\$ 21,179	\$ 22,593
Stock-based compensation expense	\$ 381	\$ 1,360

**Gross Profit**

	Nine Months Ended September 30,				Change	
	2014		2015			
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(dollars in thousands)					
Gross profit	\$ 178,691	39%	\$ 231,588	42%	\$ 52,897	30%

**Table of Contents**

Gross profit increased by \$52.9 million, or 30%, from \$178.7 million for the nine months ended September 30, 2014 to \$231.6 million for the nine months ended September 30, 2015. Approximately \$44.3 million of the increase was primarily attributable to increases in our subscriber base, including acquired subscribers. Additionally, \$8.6 million was attributable to a net decrease in amortization expense. Our gross profit as a percentage of revenue increased by three percentage points from 39% for the nine months ended September 30, 2014 to 42% for the nine months ended September 30, 2015. This increase was primarily attributable to lower amortization of intangible assets, which decreased to 12% of revenue for the nine months ended September 30, 2015 as compared to 17% for the nine months ended September 30, 2014.

The following table sets forth gross profit and the significant non-cash components of cost of revenue as a percentage of revenue:

	Nine Months Ended September 30,	
	2014	2015
	(dollars in thousands)	
Revenue	\$ 457,909	\$ 548,272
Gross profit	\$ 178,691	\$ 231,588
Gross profit % of revenue	39%	42%
Amortization expense % of revenue	17%	12%
Depreciation expense % of revenue	5%	4%
Stock-based compensation expense % of revenue	*	*

\* Less than 1%.

**Operating Expense**

	Nine Months Ended September 30,				Change	
	2014		2015			
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(dollars in thousands)					
Sales and marketing	\$ 114,610	25%	\$ 109,791	20%	\$ (4,819)	(4)%
Engineering and development	14,497	3%	19,906	4%	5,409	37%
General and administrative	50,914	11%	63,031	11%	12,117	24%
Total	\$ 180,021	39%	\$ 192,728	35%	\$ 12,707	7%

**Sales and Marketing.** Sales and marketing expense decreased by \$4.8 million, or 4%, from \$114.6 million for the nine months ended September 30, 2014 to \$109.8 million for the nine months ended September 30, 2015. The decrease in sales and marketing expense was primarily attributable to lower introductory product marketing spend for certain products, including cloud storage products, as our subscriber base became more familiar with these products. We expect to increase marketing expense in the near term by investing in new marketing programs.

**Engineering and Development.** Engineering and development expense increased by \$5.4 million, or 37%, from \$14.5 million for the nine months ended September 30, 2014 to \$19.9 million for the nine months ended September 30, 2015. Of this increase, \$4.4 million was due to an increase in payroll and benefits to support the growth in our business, \$0.7 million was due to an increase in stock-based compensation expense, \$0.7 million was due to consulting costs incurred in connection with our restructuring activities and \$0.4 million was due to an increase in depreciation expense, partially offset by a \$0.8 million reduction in integration and restructuring costs.

**General and Administrative.** General and administrative expense increased by \$12.1 million, or 24%, from \$50.9 million for the nine months ended September 30, 2014 to \$63.0 million for the nine months ended September 30, 2015. The year-over-year increase consisted of a \$2.7 million increase in personnel and facilities related costs to support the growth of our business, a \$6.0 million increase in stock-based compensation, of which \$2.9 million is related to the grant of a performance-based restricted stock award to our chief executive officer. In addition the increase in general and administrative expense includes \$1.2 million of additional legal advisory expense, a \$1.2 million increase in transaction expenses, \$0.7 million of follow-on offering expenses incurred on behalf of the selling stockholders during the March 2015 follow-on offering and a \$0.3 million increase in depreciation expense.

**Table of Contents*****Other Income (Expense), Net***

	Nine Months Ended		Change	
	September 30,	September 30,	Amount	%
	2014	2015		
	(dollars in thousands)			

Other expense, net	\$ (41,964)	\$ (37,200)	\$ (4,764)	(11)%
--------------------	-------------	-------------	------------	-------

Other expense, net decreased by \$4.8 million, or 11%, from \$42.0 million for the nine months ended September 30, 2014 to \$37.2 million for the nine months ended September 30, 2015. This decrease is primarily due to a \$5.4 million gain as a result of the redemption of our equity interest in World Wide Web Hosting and a \$0.2 million decrease in interest expense related to capital lease obligations, which were partially offset by a \$0.5 million increase in interest expense related to amounts drawn down on our revolving credit facility during the nine months ended September 30, 2015 as compared with the nine months ended September 30, 2014 and \$0.5 million of accretion of present value for the deferred consideration related to the Webzai, BuyDomains and Ace acquisitions.

***Income Tax Expense***

	Nine Months Ended		Change	
	September 30,	September 30,	Amount	%
	2014	2015		
	(dollars in thousands)			

Income tax expense	\$ 4,776	\$ 9,082	\$ 4,306	90%
--------------------	----------	----------	----------	-----

Income tax expense for the nine months ended September 30, 2015 increased by \$4.3 million, or 90%, from \$4.8 million for the nine months ended September 30, 2014 to \$9.1 million for the nine months ended September 30, 2015. The increase consisted of a net increase in our deferred tax expense of \$3.9 million and a net increase in our current federal, state and foreign income tax expense of \$0.4 million. The net increase in our deferred tax expense from September 30, 2014 to September 30, 2015 was primarily attributable to a \$15.2 million increase in federal, state and foreign deferred tax expense, partially offset by a \$11.3 million decrease in provisions for the valuation allowance. In the nine months ended September 30, 2015, we had nondeductible expenses primarily related to stock-based compensation, transaction costs and other foreign permanent differences.

***Liquidity and Capital Resources******Sources of Liquidity***

We have funded our operations since inception primarily with cash flow generated by operations, borrowings under credit facilities and public offerings of our securities. In October 2013, we closed our IPO and received net proceeds of \$232.1 million, after deducting underwriting discounts and commissions and offering expenses payable by us. On November 25, 2013, we completed a debt refinancing and used a portion of the net proceeds from our IPO to reduce our overall indebtedness by \$148.8 million to \$1,050.0 million. We also increased our revolving credit facility, which matures on December 22, 2016, to \$125.0 million. As part of the refinancing, we paid off our second lien term loan and added an incremental first lien term loan, resulting in lower interest rates. In 2014 and through the first nine months of fiscal year 2015, we have used borrowings against our revolving credit facility to supplement our funding requirements for our acquisitions and minority investments. We expect to continue to use our revolving credit facility



for similar investing and financing activities. We currently pay 5.00% interest on our first lien term loan which is based on adjusted LIBOR plus 400 basis points, subject to a LIBOR floor of 1.00% and between 7.75% and 8.50% interest on our revolving credit facility borrowings. As of September 30, 2015, the LIBOR-based interest rates on our first lien term loan facility and revolving credit facility were 5.00% and 7.75%. Under our first lien term loan facility, we are required to make quarterly principal repayments of \$2.6 million.

As of September 30, 2015, we had cash and cash equivalents totaling \$34.2 million, restricted cash of \$1.2 million and negative working capital of \$344.9 million, which includes the \$10.5 million current portion of the first lien term loan facility and \$70.0 million drawn against our \$125.0 million revolving credit facility. In addition, we had approximately \$1,018.5 million of long term indebtedness outstanding under our first lien term loan facility, which matures on November 9, 2019. We also have \$357.9 million of short-term and long-term deferred revenue, which is not expected to be payable in cash. We believe that our current cash and cash equivalents and operating cash flows will be sufficient to meet our anticipated working capital and capital expenditure requirements, as well as our required principal and interest payments under our indebtedness, for at least the next 12 months, exclusive of the financing for the Constant Contact transaction.

## **Table of Contents**

### ***Acquiring Constant Contact***

In connection with the pending acquisition of Constant Contact, we entered into a commitment letter with Credit Suisse AG and an affiliate thereof and an affiliate of Goldman, Sachs & Co. as commitment parties. Pursuant to the commitment letter, the commitment parties have agreed to provide the Debt Financing. The commitment letter includes commitments to provide (1) a senior secured incremental term loan facility in a total principal amount of \$735.0 million (reduced to the extent necessary to satisfy the maximum secured leverage ratio condition for incremental facilities under our existing credit agreement (any such reduction, the Reallocated Amount)), (2) senior secured incremental revolving credit commitments in a total principal amount of \$50.0 million, (3) a senior secured revolving credit facility in a total principal amount of \$175.0 million to refinance our existing revolving credit facility as so increased, and (4) a senior unsecured bridge loan facility up to an aggregate total principal amount of \$350.0 million, *plus* any such Reallocated Amount. Such bridge loan commitment would also be reduced by the amount of notes, if any, issued in lieu thereof. The funding of the Debt Financing is contingent on the satisfaction of certain customary conditions set forth in the commitment letter and certain conditions under our existing credit facility.

### ***Debt Covenants***

The first lien term loan facility requires that we maintain one financial covenant, based on EBITDA coverage.

The first lien term loan facility also imposes restrictions on the payment of dividends, as well as reporting requirements. Additionally, the first lien term loan facility requires us to comply with certain negative covenants and specifies certain events of default that could result in amounts becoming payable, in whole or in part, prior to their maturity dates. We were in compliance with all covenants at September 30, 2015.

With the exception of certain excluded equity interests and certain restricted cash balances and bank deposits permitted under the terms of the first lien term loan facility, substantially all of our assets are pledged as collateral for the outstanding loan commitments.

### ***Cash and Cash Equivalents***

As of September 30, 2015, our cash and cash equivalents were primarily held for working capital purposes and for required principal and interest payments under our indebtedness. A majority of our cash and cash equivalents was held in operating accounts. Our cash and cash equivalents increased by \$1.8 million from \$32.4 million at December 31, 2014 to \$34.2 million at September 30, 2015. We used cash on hand at December 31, 2014 and cash flows from operations to fund our acquisition and minority investment activity described under financing and investing activities below. Our future capital requirements will depend on many factors including, but not limited to acquisitions, our growth rate, expansion of sales and marketing activities, the introduction of new and enhanced products and services, market acceptance of our solutions and our gross profits and operating expenses.

The following table shows our cash flows from operating activities, investing activities and financing activities for the stated periods:

	<b>Nine Months</b>
	<b>Ended</b>
	<b>September 30,</b>
<b>2014</b>	<b>2015</b>

	<b>(dollars in thousands)</b>	
Purchases of property and equipment	\$ (18,015)	\$ (23,267)
Principal payments on capital lease obligations	\$ (2,690)	\$ (2,827)
Depreciation	\$ 22,553	\$ 24,649
Amortization	\$ 75,850	\$ 67,741
Cash flows provided by operating activities	\$ 104,527	\$ 133,814
Cash flows used in investing activities	\$ (112,994)	\$ (100,144)
Cash flows used in financing activities	\$ (35,989)	\$ (30,689)

---

**Table of Contents**

***Capital Expenditures***

Our capital expenditures on the purchase of property and equipment for the nine months ended September 30, 2014 and 2015 were \$18.0 million and \$23.3 million, respectively. The higher capital expenditures in the nine months ended September 30, 2015 included an investment in data center infrastructure. In addition, our capital expenditures during the nine months ended September 30, 2014 and 2015 includes \$2.7 million and \$2.8 million, respectively, of principal payments under a three year capital lease for software of \$11.7 million beginning in January 2014. The remaining balance payable on the capital lease is \$5.3 million as of September 30, 2015. We expect to maintain our total capital expenditures in line with revenue growth as we expand our business.

***Depreciation***

Our depreciation expense for the nine months ended September 30, 2014 and 2015 increased from \$22.6 million to \$24.6 million, respectively. This increase was primarily due to expansion in our business by on-boarding acquisitions as well as investments in data center infrastructure and leasehold improvements. The leasehold improvements were associated with operating leases as we expanded and revamped our presence in Massachusetts.

***Amortization***

Our amortization expense, which includes amortization of other intangible assets, amortization of deferred financing costs and amortization of net present value of deferred consideration, decreased by \$8.1 million from \$75.8 million for the nine months ended September 30, 2014 to \$67.7 million for the nine months ended September 30, 2015. Of this decrease in amortization expense, \$12.3 million was primarily due to lower amortization expense related to acquisitions that occurred prior to September 30, 2014, partially offset by \$3.7 million of amortization expense related to intangible assets of businesses that have been acquired since October 1, 2014. In addition, partially offsetting the decrease was a \$0.5 million increase attributable to higher amortization expense of net present value of deferred consideration as a result of our acquisitions of Webzai in August 2014, BuyDomains in September 2014 and Ace in September 2015.

***Operating Activities***

Cash provided by operating activities consists primarily of net loss adjusted for certain non-cash items including depreciation, amortization, stock-based compensation expense and changes in deferred taxes, and the effect of changes in working capital, in particular in deferred revenue. As we add subscribers to our platform, we typically collect the entire subscription fee at the time of initial billing and recognize revenue over the terms of the subscriptions. Accordingly, we generate operating cash flows as we collect cash from our subscribers in advance of delivering the related products and services, and we maintain a significant deferred revenue balance. As we add subscribers and sell additional products and services, our deferred revenue balance increases, assuming the subscribers we add have a similar subscription term mix. The change in deferred revenue is affected by introductory pricing and the types of promotional offers that are made on subscription term. Our operating cash flows are net of transaction expenses and charges.

Net cash provided by operating activities was \$133.8 million for the nine months ended September 30, 2015 compared with \$104.5 million for the nine months ended September 30, 2014. Net cash provided by operating activities for the nine months ended September 30, 2015 consisted of net loss of \$16.5 million, non-cash charges of \$122.8 million and a net change of \$27.5 million in our operating assets and liabilities. The net change in our operating assets and liabilities included an increase in deferred revenue of \$29.2 million, which was \$32.7 million less than in the same period in 2014 and also included an increase in prepaid domain name registry fees of \$6.8 million.

Net cash provided by operating activities was \$104.5 million for the nine months ended September 30, 2014 which consisted of a net loss of \$48.1 million, offset by non-cash charges of \$111.4 million, a cash dividend of \$0.2 million from a minority investment and a net change of \$41.0 million in our operating assets and liabilities. The net change in our operating assets and liabilities included an increase in deferred revenue of \$61.9 million and an increase in prepaid domain name registry fees of \$21.6 million.

### ***Investing Activities***

Cash flows used in investing activities consists primarily of purchase of property and equipment, acquisition consideration payments, and changes in restricted cash balances.

During the nine months ended September 30, 2015 we used \$73.2 million of cash, net of cash acquired, for the purchase consideration of our acquisitions of Verio, World Wide Web Hosting and Ace. In addition, we used \$7.3 million to make an additional investment in our joint venture with WZ UK, Ltd. We also used \$23.2 million of cash to purchase property and equipment, net of

## **Table of Contents**

proceeds from disposals of \$0.1 million, and deposited \$0.1 million of restricted cash with a payment processor. In addition, during the nine months ended September 30, 2015 we received a \$3.5 million repayment on a note receivable related to our equity ownership in World Wide Web Hosting.

During the nine months ended September 30, 2014 we used \$76.1 million of cash, net of cash acquired, for the purchase consideration for our acquisitions of the web presence business of Directi, Webzai, the assets of the BuyDomains business of NameMedia, Inc. and our purchase of a domain name business. In addition, we used \$15.0 million to acquire a minority interest in Automattic, Inc. and \$3.9 million to invest in a joint venture with WZ UK, Ltd. and acquire a 49% interest in that company. We also used \$18.0 million to purchase property and equipment, net of proceeds from disposals of \$0.2 million. These were partially offset by a net return of \$0.1 million of restricted cash held by a payment processor.

## ***Financing Activities***

Cash flow from financing activities consists primarily of the net change in our overall indebtedness, payment of associated financing costs, payment of deferred consideration for our acquisitions and the issuance or repurchase of equity.

During the nine months ended September 30, 2015, cash flows used in financing activities was \$30.7 million, which included a payment of \$30.5 million under our agreement to increase our investment in JDI Backup Ltd. from 67% to 100%. We also paid \$10.6 million of deferred consideration during the nine months ended September 30, 2015, \$7.9 million of principal payments under our first lien term loan facility and \$2.8 million of principal payments related to capital lease obligations. These items were partially offset by \$1.1 million of proceeds we received from the exercise of stock options. During the nine months ended September 30, 2015, we borrowed in aggregate \$109.0 million against our revolving credit facility and repaid in aggregate \$89.0 million.

During the nine months ended September 30, 2014, cash flow provided by financing activities was \$36.0 million, which included \$81.5 million of deferred consideration paid during the period, the majority of which was for our Directi and HostGator acquisitions. We also paid \$7.9 million of principal payments under our first lien term loan facility, \$2.7 million of principal payments related to capital lease obligations and \$0.7 million of payments related to issuance costs from our IPO which were unpaid as of December 31, 2013. These items were partially offset by net borrowings against our revolving credit facility of \$61.0 million. During the nine months ended September 30, 2014, we borrowed \$107.0 million against our revolving credit facility and subsequently repaid \$46.0 million of the amount borrowed. In addition, during the nine months ended September 30, 2014 we entered into a three year capital lease agreement for \$11.7 million for software licenses which require principal payments of approximately \$0.9 million each quarter for the term of the lease.

We believe that our existing cash and cash equivalents, our cash flows from operations and use of our revolving credit facility will be sufficient to meet the maximum payment obligations related to our completed acquisitions and credit facility obligations for at least the next 12 months, excluding our acquisition of Constant Contact.

## ***Net Operating Loss Carry-Forwards***

As of December 31, 2014, we had net operating loss, or NOL, carry-forwards available to offset future U.S. federal taxable income of approximately \$158.9 million and future state taxable income by approximately \$158.5 million. These NOL carry-forwards expire on various dates through 2033. As of December 31, 2014, we had \$0.4 million of U.S. capital loss carry-forwards, which will expire in 2018. In addition, as of December 31, 2014, we had NOL carry-forwards in foreign jurisdictions available to offset future foreign taxable income by approximately \$37.2

million, including approximately \$2.7 million in NOL carry-forwards in India that expire in 2021 and approximately \$34.3 million of NOL carry-forwards in the United Kingdom that do not expire.

As of September 30, 2015, we are in a cumulative pre-tax book loss position for the past three years. We have generated significant NOLs since inception, and as such, we have no U.S. carryback capacity. After consideration of the available evidence, both positive and negative, we concluded that we will not be able to utilize our deferred tax assets and recorded a valuation allowance of \$69.3 million as of December 31, 2014. We reported positive pre-tax earnings for the nine months ended September 30, 2015. If we continue to generate positive pre-tax earnings, we may be required to reverse all or a portion of our valuation allowance, which will result in the recording of a deferred tax asset on our balance sheet and an offsetting credit to our statement of operations and comprehensive loss in the period that the allowance is reversed.

Utilization of the NOL carry-forwards can be subject to an annual limitation due to the ownership percentage change limitations under Section 382 of the Internal Revenue Code, or Section 382 limitation. Ownership changes can limit the amount of net operating loss and other tax attributes that a company can use each year to offset future taxable income and taxes payable. In connection with a change in control in 2011 we were subject to Section 382 annual limitations of \$77.1 million against the balance of NOL carry-forwards

## **Table of Contents**

generated prior to the change in control. Through December 31, 2014 we accumulated the unused amount of Section 382 limitations in excess of the amount of NOL carry-forwards that were originally subject to limitation. Therefore these unused NOL carry-forwards are available for future use to offset taxable income. We completed an analysis of changes in our ownership from 2011, through our IPO, to December 31, 2013 and concluded that there was not a Section 382 ownership change during this period and therefore any NOLs generated through December 31, 2013 will not be subject to any new Section 382 annual limitations on NOL carry-forwards. On November 20, 2014, we completed a follow-on offering pursuant to which we sold an aggregate of 3,000,000 shares of common stock, and the selling stockholders sold an aggregate of 11,950,000 shares of common stock. We did not receive any proceeds from the sale of shares by the selling stockholders. We have performed an analysis of the impact of this offering and determined that no Section 382 change in ownership has occurred. On March 6, 2015, we completed a follow-on offering pursuant to which the selling stockholders sold an aggregate 13,800,000 shares of common stock. We did not receive any proceeds from the sale of shares by the selling stockholders. We have performed an analysis of the impact of this offering and determined that no Section 382 change in ownership has occurred. As a result, all unused NOL carry-forwards at December 31, 2014 are available for future use to offset taxable income.

## **Contractual Obligations and Commitments**

As of October 31, 2015, we had outstanding indebtedness of \$1,029.0 million under our first lien term loan facility, which has a quarterly principal repayment of \$2.6 million. During the nine months ended September 30, 2015, we paid \$10.6 million of deferred consideration in connection with the Mojones Inc. and domain name business acquisitions. In connection with our acquisitions of Verio, World Wide Web Hosting and Ace we recorded \$2.5 million, \$4.6 million and \$29.0 million, respectively, of deferred consideration during the nine months ended September 30, 2015. On January 13, 2015 we entered an agreement to increase our investment in JDI Backup Ltd. to 100% for \$30.5 million. During the nine months ended September 30, 2015, we paid \$30.5 million under this agreement. In connection with our acquisition of Ace, we are no longer subject to the Master Services Agreement (the Agreement ) entered into with Ace Data Center, Inc. on February 28, 2014 and no longer committed to the estimated remaining financial obligation of \$86.0 million under the terms of the Agreement.

On October 30, 2015, we entered into a definitive agreement pursuant to which we agreed to acquire all of Constant Contact's outstanding shares of common stock, excluding treasury shares or any shares for which appraisal rights have been properly exercised, for \$32.00 per share in cash, for a total enterprise value of approximately \$1.1 billion. In connection with the agreement to acquire Constant Contact, we have also obtained \$1.085 billion in financing commitments pursuant to the Debt Financing.

On November 2, 2015 we acquired substantially all of the assets of Ecommerce, LLC for total consideration of \$28.0 million, of which \$23.8 million was paid at closing and we are obligated to pay the remaining \$4.2 million on the first anniversary of the acquisition.

There have been no other significant changes in our contractual obligations from those disclosed in our Annual Report on Form 10-K filed with the SEC on February 27, 2015.

## **Recently Issued Accounting Pronouncements**

For information on recent accounting pronouncements, see *Recent Accounting Pronouncements* in the notes to the consolidated financial statements appearing in Part I, Item 1 of this Quarterly Report on Form 10-Q.

## **Off-Balance Sheet Arrangements**



We do not have any special purpose entities or off-balance sheet arrangements.

### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **Quantitative and Qualitative Disclosure About Market Risk**

We have operations both within the United States and internationally, and we are exposed to market risk in the ordinary course of our business. These risks include primarily foreign exchange risk, interest rate and inflation.

##### ***Foreign Currency Exchange Risk***

A significant majority of our subscription agreements and our expenses are denominated in U.S. dollars. We do, however, have sales in a number of foreign currencies as well as business operations in Brazil and India and are subject to the impacts of currency fluctuations in those markets. The impact of these currency fluctuations is insignificant relative to the overall financial results of our company.

##### ***Interest Rate Sensitivity***

We had cash and cash equivalents of \$34.2 million at September 30, 2015, the majority of which was held in operating accounts for working capital purposes and other general corporate purposes which includes payment of principal and interest under our indebtedness. As of September 30, 2015, we had approximately \$1,029.0 million of indebtedness outstanding under our first lien term loan facility and \$70.0 million of indebtedness under a revolving credit facility of \$125.0 million.

## **Table of Contents**

The first lien term loan facility bears interest at a rate per annum equal to an applicable credit spread plus, at our option, (a) adjusted LIBOR or (b) an alternate base rate determined by reference to the greater of (i) the prime rate, (ii) the federal funds effective rate plus 0.50% and (iii) one-month adjusted LIBOR plus 1.00%. The term loan is subject to a floor of 1.00% per annum with an applicable credit spread for interest based on adjusted LIBOR of 4.00%.

Under our credit facility, our revolving credit loans that bear interest at the LIBOR reference rate are subject to a floor of 1.50% per annum with the applicable credit spread for interest based on adjusted LIBOR of 6.25%.

We are also required to pay a commitment fee of 0.50% per annum to the lenders based on the average daily unused amount of the revolving commitments.

Based on our aggregate indebtedness of \$1,029.0 million as of September 30, 2015, a 100-basis-point increase in the adjusted LIBOR rate above the LIBOR floor would result in a \$10.4 million increase in our aggregate interest payments over a 12-month period, and a 100-basis-point decrease at the current LIBOR rate would not result in a decrease in our interest payments.

## ***Inflation Risk***

We do not believe that inflation has a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability to do so could harm our business, financial condition and results of operations.

## **Item 4. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

As of September 30, 2015, our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based upon that evaluation of our disclosure controls and procedures as of September 30, 2015, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

### **Changes in Internal Control over Financial Reporting**

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended September 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

On May 4, 2015, Christopher Machado, a purported holder of our common stock, filed a civil action in the United States District Court for the District of Massachusetts against us and our chief executive officer and our chief financial officer, *Machado v. Endurance International Group Holdings, Inc., et al.*, Civil Action No. 1:15-cv-11775-GAO. The complainant in the action asserts claims on behalf of a purported class of purchasers of our securities between November 4, 2014 and April 27, 2015. The complaint asserts violations of Section 10(b) and 20(a) of the Securities Exchange Act of 1934, based on assertions that disclosures made by us during the class period concerning our organic growth rate, average revenue per subscriber, and financial accounting related to our international business were false or misleading. Plaintiff seeks, on behalf of himself and the purported class, compensatory damages and his costs and expenses of litigation.

## **Table of Contents**

### **ITEM 1A. Risk Factors**

*Our business, financial condition, results of operations and future growth prospects could be materially and adversely affected by the following risks or uncertainties. The risks and uncertainties described below are those that we have identified as material, but they are not the only risks and uncertainties we face. Our business is also subject to general risks and uncertainties that affect many other companies, including overall economic and industry conditions, as well as other risks not currently known to us or that we currently consider immaterial. If any of such risks and uncertainties actually occurs, our business, financial condition, results of operations and growth prospects could differ materially from the plans, projections and other forward-looking statements included in the section titled Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Quarterly Report on Form 10-Q and in our other public filings.*

#### **Risks Relating to Our Potential Acquisition of Constant Contact**

*Our pending acquisition of Constant Contact may not be consummated in a timely manner or at all, which may adversely affect our business, financial condition and stock price.*

Consummation of our planned acquisition of Constant Contact is subject to approval by Constant Contact's stockholders, as well as the satisfaction (or waiver, if applicable) of various other conditions, including (i) the expiration or termination of the applicable waiting periods under the HSR Act, (ii) the absence of any governmental order prohibiting the transaction, (iii) the accuracy of the representations and warranties in the merger agreement (subject to certain materiality qualifications), and (iv) compliance with or performance of the covenants and agreements in the merger agreement in all material respects. In addition, Endurance's obligation to consummate the acquisition is subject to the absence of a material adverse effect (as defined in the merger agreement) on Constant Contact. These conditions may not be satisfied on a timely basis or at all, or other events (such as stockholder litigation or other legal proceedings) may intervene or delay or prevent the closing of the acquisition.

Constant Contact also has the ability under the terms of the merger agreement to entertain bids for a certain period from other companies interested in acquiring its business. Constant Contact may choose to terminate the merger agreement if it enters into a written definitive agreement for an alternative superior proposal (as defined in the merger agreement) from a third party during this period.

In addition, we will not be able to consummate the acquisition of Constant Contact unless we are able to obtain debt financing in an amount sufficient to pay the transaction consideration and related transaction costs. While we have obtained commitments from various lenders to provide us this debt financing, the obligations of the lenders are subject to a number of customary conditions and certain conditions under our existing credit facility, and there can be no assurance that this debt financing will ultimately be available to us on the negotiated terms or at all. Our obligation to consummate the transaction is not subject to receipt of the proceeds of the debt financing.

If the acquisition is not completed for any reason, our ongoing business may be adversely affected and, without realizing any of the expected benefits of the acquisition, we would also be subject to a number of risks, which may adversely affect our business, financial condition and stock price. These risks include:

We could be required to pay to Constant Contact a termination fee of \$72.0 million if Constant Contact terminates the merger agreement due to certain breaches of representations and warranties or of covenants or other agreements made by us in the merger agreement or if the conditions to our obligation to close the

acquisition have been satisfied and Constant Contact stands ready, willing and able to consummate the transaction, but we do not consummate the transaction for any reason, including our inability to obtain the debt financing.

We could be subject to litigation related to the transaction or the failure to complete the transaction, which could subject us to significant liability for damages and result in the incurrence of substantial legal fees.

We could experience negative reactions from our customers, vendors, other business partners and employees, and other disruptions to our business.

## **Table of Contents**

The current market price of our stock may reflect an assumption that the pending acquisition will occur and failure to complete the acquisition could result in a decline in our stock price.

We have incurred and expect to continue to incur (whether or not the acquisition is consummated) regulatory costs, fees for professional services and other transaction-related fees and expenses prior to the expected closing in 2016.

***The pending acquisition could adversely affect the business and operations of our company and Constant Contact and may result in the departure of key personnel.***

The announcement of the acquisition of Constant Contact could cause disruptions and create uncertainty surrounding our and Constant Contact's businesses and affect our and Constant Contact's relationships with customers, vendors, other business partners and employees. Some of our and Constant Contact's customers, vendors and other business partners may delay or defer decisions, seek to change the terms on which they do business or end their relationships with the relevant company, which could negatively affect the revenue, earnings and cash flows of either or both companies, regardless of whether the acquisition is consummated. The uncertainty created by the pending acquisition may also impair our and Constant Contact's ability to attract, retain and motivate key personnel until the acquisition is completed, as current and prospective employees of either company may experience uncertainty about their future roles with us following the acquisition, or we may eliminate positions in an effort to integrate our businesses, which may lead to employees' voluntary departure or termination. If our ability to attract, retain or motivate key employees is impaired because of the acquisition, our ability to realize the anticipated benefits of the acquisition could be reduced or delayed.

***If completed, the acquisition of Constant Contact may not achieve the intended benefits or may disrupt our current plans and operations.***

We may not be able to successfully integrate our business with Constant Contact's business or realize the anticipated synergies from the proposed transaction in the anticipated amounts or within the anticipated timeframes or cost expectations or at all. The difficulties and risks associated with the integration of Constant Contact, which is likely to be complex and time-consuming, include:

the potential loss of Constant Contact customers, or difficulties or higher than anticipated costs in adding new Constant Contact customers, due to the actual or perceived impact of the acquisition and integration of Constant contact customers;

possible aggressive targeting of existing and potential Constant Contact customers by Constant Contact's competitors seeking to capitalize on potential customer concerns about the acquisition;

possible differences in the standards, controls, procedures, policies, corporate culture and compensation structures of our company and Constant Contact, which may lead to unanticipated delays, costs or inefficiencies, employee departures or difficulties consolidating the operations of the companies;

difficulties in implementing our integration plan, which may result in us failing to achieve the anticipated synergies from the transaction;

the potential loss of key employees and the costs associated with our efforts to retain key employees;

difficulties successfully managing relationships with our combined partner and vendor base;

the possibility that we may have failed to discover actual or contingent liabilities of Constant Contact during our due diligence investigation prior to our agreement to acquire Constant Contact for which we, as a successor or owner, may be responsible;

obligations that we may have to counterparties of Constant Contact that arise as a result of the change in control of Constant Contact; and

the potential that we or Constant Contact may be adversely affected by other economic, political, legislative, regulatory, business, competitive or other factors affecting our industry.

Thus, the integration may be unpredictable, or subject to delays or changed circumstances, and the acquired businesses may not perform in accordance with our expectations. We may fail to realize some or all of the anticipated benefits of the Constant Contact acquisition, such as cost and revenue synergies, operational efficiencies, the ability to cross-sell our products into Constant Contact's customer base and vice versa, and the ability to adapt Constant Contact's products to different segments of the SMB market

## **Table of Contents**

through our multi-brand strategy. The anticipated benefits and synergies we expect from the planned acquisition are based on projections and assumptions about the combined businesses of us and Constant Contact, which may not materialize as expected or may prove to be inaccurate. A failure to realize the expected cost and revenue synergies or operational efficiencies related to the acquisition could result in higher costs and lower combined revenue, adjusted revenue, adjusted EBITDA, unlevered free cash flow or free cash flow than expected and have an adverse effect on the combined company's financial results and prospects. Any such effect on our financial results may mean that we are not able to meet our expectations for combined adjusted revenue, adjusted EBITDA, unlevered free cash flow, free cash flow or other financial or operational metrics.

Our business may be negatively impacted following the acquisition if we are unable to effectively manage our expanded operations. The integration planning before the acquisition and the implementation of our integration plans following the acquisition will be costly, complex and time consuming and will require significant time and focus from management and may divert attention from the day-to-day operations of the combined business. Additionally, consummation of the acquisition could disrupt current plans and operations, which could delay the achievement of our strategic objectives.

***The regulatory approvals required in connection with the planned acquisition of Constant Contact may not be obtained or may require actions that could have an adverse effect on our operations.***

Consummation of the planned acquisition of Constant Contact is subject to, among other conditions, expiration or early termination of the applicable waiting periods under the HSR Act. The governmental agencies reviewing acquisitions in connection with the HSR Act have broad discretion in administering the governing regulations and we may not obtain the required regulatory approval in a timely manner or at all. In addition, as a condition to granting their approval, certain regulatory authorities may require us to agree to concessions or undertakings (including the divestiture of assets or businesses or the termination of relationships or contractual obligations) that could adversely affect our ability to integrate our operations with Constant Contact's operations or reduce the anticipated benefits of the acquisition.

***If completed, following the acquisition, we will have a substantial amount of debt, and the cost of servicing that debt could adversely affect our business.***

The indebtedness we expect to incur to fund our acquisition of Constant Contact will significantly increase our outstanding debt levels. This additional indebtedness will require us to dedicate a substantial portion of our cash flow to servicing this debt, thereby reducing the availability of cash to fund other business initiatives. If we are unable to generate sufficient funds to meet our obligations under our outstanding revolving credit facility and the additional facilities we enter into in connection with the acquisition, we may be required to refinance, restructure or otherwise amend some or all of our obligations, sell assets or raise additional cash through the sale of our common stock or convertible securities. We cannot assure you that we would be able to obtain refinancing on terms as favorable as our current financing or that any restructuring, sales of assets or issuances of equity can be accomplished or, if accomplished, would raise sufficient funds to meet our obligations. If we were able to raise additional funds through the issuance of equity or convertible securities, that issuance could also result in substantial dilution to existing stockholders.

## **Risks Related to Our Business and Our Industry**

***Our quarterly and annual operating results may be adversely affected due to a variety of factors, which could make our future results difficult to predict and could cause our operating results to fall below investor or analyst expectations.***



Our quarterly and annual operating results may be adversely affected due to a variety of factors that could affect our revenue or our expenses in any particular period. You should not rely on quarter-to-quarter comparisons of our operating results as an indication of future performance. Factors that may adversely affect our quarterly and annual operating results may include:

our ability to attract new subscribers and retain existing subscribers;

our ability to increase revenue from our existing subscribers;

our inability to raise the selling prices for our solutions or reductions in the selling prices for our solutions;

our ability to acquire subscribers in a cost-effective way;

our ability to drive growth through mergers and acquisitions;

our ability to maintain a high level of subscriber satisfaction;

competition in the market for our products and services, as well as competition for referral sources;

**Table of Contents**

rapid technological change, frequent new product and service introductions, and evolving industry standards, including with respect to how our products and services are marketed to consumers and in how consumers find, purchase and use our products and services;

difficulties in integrating technologies, products and employees from companies we have acquired or may acquire in the future or in migrating acquired subscribers from an acquired company's platforms to our platform;

difficulties and costs arising from our international operations and continued international expansion;

systems, data center and Internet failures and service interruptions;

network security breaches or sabotage resulting in the unauthorized use or disclosure of, or access to, personally identifiable information or other confidential information;

difficulties in distributing new products;

shortcomings in, or misinterpretations of, our metrics and data which cause us to fail to anticipate or identify trends in our market;

terminations of, disputes with, or material changes to our relationships with third-party partners, including referral sources, product partners, data center providers, payment processors and landlords;

a shift in subscriber demand to lower margin solutions, which could increase our cost of revenue;

costs or liabilities associated with any past or future acquisitions that we may make;

changes in legislation that affect our collection of sales and use taxes or changes to our business that subject us to taxation in additional jurisdictions;

changes in regulation or to regulatory bodies, such as the Internet Corporation for Assigned Names and Numbers, or ICANN, that could affect our business and our industry, or our failure to comply with such regulation; and

loss of key employees.

It is possible that in one or more future quarters, due to any of the factors listed above, a combination of those factors or other reasons, our operating results may be below our expectations and the expectations of research analysts and investors. In that event, our stock price could decline substantially.

***We may not be able to continue to add new subscribers or increase sales to our existing subscribers, which could adversely affect our operating results.***

Our growth is dependent on our ability to continue to attract and acquire new subscribers while retaining existing subscribers and expanding the products and services we sell to them. Growth in the demand for our products and services may be inhibited, and we may be unable to sustain growth in our subscriber base, for a number of reasons, including, but not limited to:

our failure to develop or offer new or additional products and services in a timely manner that keeps pace with new technologies and the evolving needs of our subscribers;

our inability to market our solutions in a cost-effective manner to new subscribers or to our existing subscribers and to increase our sales to existing subscribers, including due to changes in regulation, or changes in the enforcement of existing regulation that would impair our marketing practices, require us to change our sign-up processes or require us to increase disclosure designed to provide greater transparency as to how we bill and deliver our services;

our inability to acquire or retain new subscribers through mergers and acquisitions;

our inability to offer solutions that are adequately integrated and customizable to meet the needs of our highly diverse and fragmented subscriber base;

changes in search engine ranking algorithms or in search terms used by potential subscribers, either of which may have the effect of increasing our competitors' search engine rankings or increasing our marketing costs to offset lower search engine rankings;

failure of our third-party development partners, which provide a majority of our offerings, to continue to support existing products and to develop and support new products;

the inability of our subscribers to differentiate our solutions from those of our competitors or our inability to effectively communicate such distinctions;

## **Table of Contents**

our inability to maintain, or strengthen awareness of, our brands;

our inability to maintain a consistent user experience and timely and consistent product upgrade schedule for all of our subscribers due to the fact that not all of our brands, products, or services operate from the same control panel or other systems;

our inability to penetrate, or adapt to requirements of, international markets, including our inability to obtain or maintain the required licenses to operate in certain international markets;

our inability to enter into automatically renewing contracts with our subscribers or increase subscription prices;

the decisions by our subscribers to move the hosting of their Internet sites and web infrastructure to their own IT systems, into co-location facilities or to our competitors if we are unable to effectively market the scalability of our solutions;

subscriber dissatisfaction causing our existing subscribers to stop referring prospective subscribers to us; and

perceived or actual security, integrity, reliability, quality or compatibility problems with our solutions, including related to unscheduled downtime, outages or network security breaches.

A substantial amount of our revenue growth historically has been derived from increased sales of products and services to existing subscribers and from introductory subscriptions renewing at regular rates. Our costs associated with increasing revenue from existing subscribers are generally lower than costs associated with generating revenue from new subscribers. Therefore, a reduction in the rate of revenue increase from our existing subscribers, even if offset by an increase in revenue from new subscribers, could reduce our operating margins, and any failure by us to continue to attract and acquire new subscribers or increase our revenue from existing subscribers could have a material adverse effect on our operating results.

***The rate of growth of the small- and medium-sized business, or SMB, market for our solutions could be significantly lower than our estimates. If demand for our products and services does not meet expectations, our ability to generate revenue and meet our financial targets could be adversely affected.***

Although we expect continued demand in the SMB market for our cloud-based solutions, it is possible that the rate of growth may not meet our expectations, or the market may not continue to grow at all, either of which would adversely affect our business. Our expectations for future revenue growth are based in part on assumptions reflecting our industry knowledge and experience serving SMBs, as well as our assumptions regarding demographic shifts, growth in the availability and capacity of Internet infrastructure internationally and macroeconomic conditions. If any of these assumptions proves to be inaccurate, then our actual revenue growth could be significantly lower than our expected revenue growth.

Our ability to compete successfully depends on our ability to offer an integrated and comprehensive suite of products and services that enable our diverse base of subscribers to establish, manage and grow their businesses. Our web

presence and commerce offerings are predicated on the assumption that an online presence is, and will continue to be, an important factor in our subscribers' abilities to establish, expand, manage and monetize their businesses quickly, easily and affordably. If we are incorrect in this assumption, for example due to the introduction of a new technology or industry standard that supersedes the importance of an online presence or renders our existing or future solutions obsolete, then our ability to retain existing subscribers and attract new subscribers could be adversely affected, which could harm our ability to generate revenue and meet our financial targets.

In addition, we estimate that approximately 20% of our subscribers use our cloud-based solutions primarily for personal, group or not-for-profit use. We do not offer a complete suite of products and services that are tailored to the specific needs of these types of subscribers, and such subscribers may be less interested in purchasing additional products and services. As a result, we may not be able to increase revenue per subscriber for these subscribers at the same rate as for our other subscribers, which could negatively affect our growth and have an adverse effect on our operating results.

***Our business and operations have experienced rapid growth and organizational change in recent years, which has placed, and will continue to place, significant demands on our management and infrastructure, especially our billing systems and operational infrastructure. We have also made significant investments to support our growth strategy, which may not succeed. If we fail to manage our growth effectively, we may be unable to execute our business plan, maintain high levels of service, produce accurate financial statements on a timely basis or address competitive challenges adequately.***

As a result of acquisitions and internal growth, we increased our revenue from \$520.3 million in the year ended December 31, 2013 to \$629.8 million in the year ended December 31, 2014. We increased our revenue by \$90.4 million from \$457.9 million for the nine months ended September 30, 2014 to \$548.3 million for the nine months ended September 30, 2015.

## Table of Contents

Our growth has placed, and will continue to place, a significant strain on our managerial, engineering, network operations and security, sales and support, marketing, legal, compliance, finance and other resources. In particular, our growth has placed, and will continue to place, a significant strain on our ability to maintain effective internal financial and accounting controls and procedures. For example, as a result of our acquisitions, we have acquired multiple billing systems that we are in the process of integrating, and we may acquire and integrate additional billing systems with future acquisitions. Any delays or other challenges associated with billing system build-outs or integrations could lead to inaccurate disclosure, which could prevent us from producing accurate financial statements on a timely basis and harm our operating results, our ability to operate our business and our investors' view of us. In addition, we have identified in the past, and may in the future identify, errors in our systems, including the business intelligence system, which we use to generate certain operational and performance metrics. For example, in the third quarter of 2015, we identified errors in our business intelligence system that impacted three of our performance metrics, as described in Management's Discussion and Analysis of Financial Condition and Results of Operations above. Errors of this type could result in inaccurate disclosures, negatively impact our business decisions and harm investors' view of us.

In addition, as a result of our growth, the increase in the number of our total subscribers has required us to invest in and improve the security, scale and flexibility of our infrastructure and information technology systems, and the increase in the number of payment transactions that we process for our subscribers has increased the amount of customer data that we store. Any loss of data or disruption in our ability to provide our product offerings due to disruptions to, or the inflexibility or lack of scale of, our infrastructure or information technology systems could harm our business or our reputation.

We have also made significant investments in our growth strategy, which may not succeed. For example, we have incurred significant expenses relating to our increased investments in product marketing and other marketing efforts to acquire new subscribers and to sell additional products to existing subscribers, and we intend to continue investing in our product marketing and other marketing efforts. We have also incurred significant expenses and allocated significant resources, including finance, operational, legal and compliance resources, related to the growth and continued expansion of our international operations, and we expect that such expenses and resource allocation will increase in the future. If we do not achieve the benefits anticipated from these investments, or if the achievement of these benefits is delayed, our operating results may be adversely affected.

We intend to further expand our overall business, subscriber base, data center infrastructure, headcount and operations, both domestically and internationally with no assurance that our business or revenue will continue to grow. Creating an organization with expanded U.S. and overseas operations and managing a geographically dispersed workforce will require substantial management effort, the allocation of significant management resources and significant additional investment in our infrastructure, including our information technology, operational, financial and administrative infrastructure and systems. We will also have to continue to ensure that our operational, financial, compliance, risk and management controls and our reporting procedures are in effect throughout our organization, and make improvements as necessary. As such, we may be unable to manage our expenses effectively in the future, which may adversely affect our gross margins or operating expenses in any particular quarter. If we fail to manage our anticipated growth and organizational change in a manner that preserves the key aspects of our corporate culture, the quality of our solutions may suffer or fail to keep up with changes in the industry or technological developments, which could adversely affect our brands and reputation and harm our ability to retain and attract subscribers.

***Our recent or potential future acquisitions could be difficult to execute and integrate, divert the attention of key personnel, disrupt our business, dilute stockholder value and impair our financial results. We may not be able to complete anticipated acquisitions and may not realize the expected benefits from our acquisitions that we have completed or may complete in the future.***

Acquisitions are an important component of our growth strategy. We have in the past acquired, and expect in the future to acquire, businesses, assets and minority positions in other companies to increase our growth, enhance our ability to compete in our core markets or allow us to enter new markets. Our ability to execute these acquisitions depends on a number of factors, including the availability of target companies at prices and on terms acceptable to us, our ability to obtain the necessary equity, debt or other financing, and regulatory constraints. Our inability to complete anticipated acquisitions for these or other reasons may negatively impact our ability to achieve our long term growth targets.

In addition, acquisitions involve numerous risks, any of which could harm our business, including:

difficulties or delays in integrating the technologies, products, operations, billing systems, personnel or operations of an acquired business and realizing the anticipated benefits of the combined businesses;

reliance on third parties for transition services prior to subscriber migration or difficulties in supporting and migrating acquired subscribers, if any, to our platform, causing potential loss of such subscribers and damage to our reputation;

disruption of our ongoing business and diversion of financial, management, operations and customer support resources from existing operations;

**Table of Contents**

difficulties in applying our controls and risk management and compliance policies and practices to acquired companies;

integration and support of redundant solutions or solutions that are outside of our core capabilities;

the incurrence of additional debt in order to fund an acquisition, or assumption of debt or other liabilities, including litigation risk or risks associated with other unforeseen or undisclosed liabilities, of the acquired company, or exposure to successor liability for any legal violations of the acquired company;

to the extent an acquired company has a corporate culture or compensation arrangement different from ours, difficulty assimilating or integrating the acquired organization and its talent, which could lead to morale issues, increased turnover and lower productivity than anticipated, and could also adversely affect the culture of our existing organization;

the price we pay, or other resources that we devote, may exceed the value we realize, or the value we could have realized if we had allocated the purchase price or other resources to another opportunity, or unanticipated costs associated with pursuing acquisitions;

potential loss of an acquired business' strategic alliances and key employees, including those employees who depart prior to transferring to us, or without otherwise documenting, knowledge and information that are important to the efficient operation of the acquired business;

potential deployment by an acquired company of its top talent to other of its business units prior to our acquisition if we do not acquire the entirety of an acquired company's stock or assets;

difficulties associated with governance and control matters in minority investments and risk of loss of all or a substantial portion of our investment;

disruption of our business due to sellers, former employees, contractors or third-party service providers of an acquired company or business misappropriating our intellectual property, violating non-competition agreements, or otherwise causing harm to our company;

adverse tax consequences, including exposure of our entire business to taxation in additional jurisdictions, exposure to substantial penalties, fees and costs if an acquired company failed to comply, or is alleged by regulatory authorities to have failed to comply, with relevant tax rules and regulations prior to our acquisition, or substantial depreciation or deferred compensation charges; and



accounting effects, including potential impairment charges related to long-lived assets and requirements that we record deferred revenue at fair value.

We rely heavily on the representations and warranties provided to us by the sellers in our acquisitions, including as they relate to creation, ownership and rights in intellectual property, existence of open source software and compliance with laws and contractual requirements. If any of these representations and warranties are inaccurate or breached, we may incur liability for which there may not be adequate recourse against such sellers, in part due to contractual time limitations and limitations of liability, or we may need to pursue costly litigation against the sellers. Moreover, acquisitions frequently result in the recording of goodwill and other intangible assets which are subject to potential impairments in the future that could harm our financial results. We may also incur expenses related to completing acquisitions, or in evaluating potential acquisitions or technologies, which may adversely affect our profitability. In addition, if we finance acquisitions by issuing equity securities, our existing stockholders may be diluted.

If we fail to properly conduct due diligence efforts, evaluate acquisitions or investments or identify liabilities or challenges associated with the companies, businesses or technologies we acquire, we may not achieve the anticipated benefits of any such acquisitions and we may incur costs in excess of what we anticipate. The failure to successfully evaluate and execute acquisitions or investments or otherwise adequately address these risks could materially harm our business and financial results.

***The international nature of our business and our continued international expansion expose us to business risks that could limit the effectiveness of our growth strategy and cause our operating results to suffer.***

We currently maintain offices and conduct operations primarily in the United States, Brazil, India, Israel and the United Kingdom and have third-party support arrangements in China and Singapore. In addition, we have localized versions of our Bluehost and HostGator sites targeted to customers in several countries, including Brazil, Russia, India, China, Turkey and Mexico. We intend to continue to expand our international operations, including through mergers and acquisitions.

## **Table of Contents**

Any international expansion efforts that we undertake may not be successful. In addition, conducting operations in international markets or establishing international locations subjects us to new risks that we have not generally faced in the United States. These risks include:

localization of the marketing and deployment of our solutions, including translation into foreign languages and adaptation for local practices and regulatory requirements;

lack of familiarity with, burdens of, and increased expense relating to, complying with foreign laws, legal standards, regulatory requirements, tariffs and other barriers, including laws related to employment or labor, or laws regarding liability of online service providers for activities of subscribers, such as defamation, infringement or other illegal activities, and more stringent laws in foreign jurisdictions relating to the privacy and protection of personal data, as well as potential damage to our reputation as a result of our compliance or non-compliance with such requirements;

difficulties in identifying and managing local staff, systems integrators, technology partners, and other third-party vendors and service providers;

diversion of our management's attention and resources to explore, negotiate, or close acquisitions and to integrate, staff and manage geographically remote operations and employees;

longer than expected lead times for, or the failure of, an SMB market for our solutions to develop in the countries and regions in which we are opening offices and conducting operations;

our inability to effectively market our solutions to SMBs due to our failure to adapt to local cultural norms, technology standards, billing and collection standards or pricing models;

differing technology practices and needs that we are not able to meet, including an increased demand from our international subscribers that our cloud-based solutions be easily accessible and operational on smartphones and tablets;

difficulties in collecting payments from subscribers or in automatically renewing their contracts with us, especially due to the more limited availability and popularity of credit cards in certain countries;

difficulties in attracting new subscribers, especially in developing countries and regions and those where the Internet infrastructure is still in its early stages;

greater difficulty in enforcing contracts, including our terms of service and other agreements;

management, communication and integration problems resulting from cultural or language differences and geographic dispersion;

sufficiency of qualified labor pools and greater influence of organized labor in various international markets;

competition from companies with international operations, including large international competitors and entrenched local companies;

changes in global currency systems or fluctuations in exchange rates that may increase the volatility of or adversely affect our foreign-based revenue;

compliance with the U.S. Foreign Corrupt Practices Act of 1977, as amended, or the FCPA, economic sanction laws and regulations, including those administered by the U.S. Treasury Department's Office of Foreign Assets Control, or OFAC, export controls including the U.S. Commerce Department's Export Administration Regulations and other U.S., non-U.S. and local laws and regulations regarding international and multi-national business operations;

potentially adverse tax consequences, including the complexities of foreign value added tax (or other tax) systems, our inadvertent failure to comply with all relevant foreign tax rules and regulations due to our lack of familiarity with the jurisdiction's tax laws, and restrictions and withholdings on the repatriation of earnings;

uncertain political and economic climates; and

reduced or varied protection for intellectual property rights in some countries.

These factors have caused our international costs of doing business to exceed our comparable domestic costs and have caused the time and expense required to close our international acquisitions to exceed our comparable domestic costs. A negative impact from our international business efforts could adversely affect our business, operating results and financial condition as a whole.

In addition, our ability to expand internationally and attract and retain non-U.S. subscribers may be adversely affected by concerns about the extent to which U.S. governmental and law enforcement agencies may obtain data under the Foreign Intelligence Surveillance Act and Patriot Act and similar laws and regulations. Such non-U.S. subscribers may decide that the privacy risks of

## **Table of Contents**

storing data with a U.S.-based company outweigh the benefits and opt to seek solutions from a company based outside of the United States. In addition, certain foreign governments are beginning to require local storage of their citizens data. If we become subject to such requirements, it may require us to increase the number of non-U.S. data centers or servers we maintain, increase our costs or adversely affect our ability to attract, retain or cost-effectively serve non-U.S. subscribers.

***We have experienced system, software, Internet, data center and customer support center failures and have not yet implemented a complete disaster recovery plan, and any interruptions, delays or failures in our services could harm our reputation, cause our subscribers to seek reimbursement for services paid for and not received, cause our subscribers to stop referring new subscribers to us, or cause our subscribers to seek to replace us as a provider of their cloud-based solutions.***

We must be able to operate our applications and systems without interruption. Since our ability to retain and attract subscribers depends on the performance, reliability and availability of our services, as well as in the delivery of our products and services to subscribers, even minor interruptions in our service or losses of data could harm our reputation. Our applications, network, systems, equipment, power supplies, customer support centers and data centers are subject to various points of failure, including:

human error or accidents;

power loss;

equipment failure;

Internet connectivity downtime;

improper building maintenance by the landlords of the buildings in which our co-located data centers are located;

physical or electronic security breaches;

computer viruses;

fire, hurricane, flood, earthquake, tornado and other natural disasters;

water damage;

terrorism;

intentional bad acts, such as sabotage and vandalism;

pandemics; and

failure by us or our vendors to provide adequate service to our equipment.

We have experienced system failures, delays and periodic interruptions in service, or outages, due to factors including power and network equipment failures; storage system failures; power outages; and network configuration failures. In addition, because our cloud-based platform is complex, we have experienced outages when new versions, enhancements and updates to applications, software or systems are released by us or third parties. We will likely experience future outages that disrupt the operation of our solutions and harm our business due to factors such as these or other factors, including the accidental or intentional actions of Internet users, current and former employees and others; cooling equipment failures; other computer failures; or other factors not currently known to us or that we consider immaterial. While we have experienced increases in subscriber cancellations and decreases in our Net Promoter Scores, a customer satisfaction metric developed by Bain & Company, following such outages in the past, we cannot be certain these outcomes are entirely attributable to the outages, and we do not believe that such outages have had a material effect on our business, financial condition or results of operations.

Our systems are not fully redundant, and we have not yet implemented a complete disaster recovery plan or business continuity plan. Although the redundancies we do have in place will permit us to respond, at least to some degree, to failures of applications and systems, our data centers are vulnerable in the event of failure. Most of our subscribers are hosted across one of four U.S.-based facilities, including one owned data center and three co-located data centers. Our owned data center hosts approximately 40% of our subscribers. Accordingly, any failure or downtime in any one of these four U.S.-based data center facilities would affect a significant percentage of our subscribers, and any failure or downtime in our owned data center could affect a significant number of our subscribers. We do not yet have adequate structures or systems in place to recover from a data center's severe impairment or total destruction, and recovery from the total destruction or severe impairment of any of these four data centers would be extremely difficult and may not be possible at all. Closing any one of these four data centers without adequate notice could result in lengthy, if not permanent, interruptions in the availability of our solutions and loss of vast amounts of subscriber data.

Our data centers are also susceptible to impairment resulting from electrical power outages due to the amount of power and cooling they require to operate. Since we rely on third parties to provide our data centers with power sufficient to meet our needs, we

## **Table of Contents**

cannot control whether our data centers will have an adequate amount of electrical resources necessary to meet our subscriber requirements. We attempt to limit exposure to system downtime due to power outages by using backup generators and power supplies. However, these protections may not limit our exposure to power shortages or outages entirely. We also rely on third parties to provide Internet connectivity to our data centers and any discontinuation or disruption to our connectivity could affect our ability to provide services to our subscribers.

Our customer support centers are also vulnerable in the event of failure caused by total destruction or severe impairment. When calling our customer support services, most of our subscribers reach our customer support teams located in one of our four U.S.-based call centers. Our teams in each call center are trained to provide support services for a discrete subset of our brands, and they do not currently have complete capability to route calls from one call center to another call center. Accordingly, if any one of these call centers were to become non-operational due to severe impairment or total destruction, our ability to re-route calls to operational call centers or to provide customer support services to any subscribers of the brand or brands that the non-operational call center had formerly managed would be compromised. A significant portion of our email and chat-based customer support is provided by an India-based support team, which is employed by a third-party service provider. Although our email and chat-based customer support can be re-routed to our own centers, a disruption at our India customer support center could adversely affect our business.

Any of these events could materially increase our expenses or reduce our revenue, damage our reputation, cause our subscribers to seek reimbursement for services paid for and not received, cause our subscribers to stop referring new subscribers to us, and cause us to lose current and potential subscribers, which would have a material adverse effect on our operating results and financial condition. Moreover, the property and business interruption insurance we carry may not have coverage adequate to compensate us fully for losses that may occur.

***If we are unable to maintain a high level of subscriber satisfaction, demand for our solutions could suffer.***

We believe that our future revenue growth depends on our ability to provide subscribers with quality service that meets our stated commitments, meets or exceeds our subscribers' expectations and is conducive to our ability to continue to sell new solutions to existing subscribers. We are not always able to provide our subscribers with this level of service, and our subscribers occasionally encounter interruptions in service and other technical challenges, including as a result of outages or human error. If we are unable to provide subscribers with quality service, this may result in subscriber dissatisfaction, billing disputes and litigation, lower than expected renewal rates and impairments to our efforts to upsell to our subscribers, and we could face damage to our reputation, claims of loss, negative publicity or social media attention, decreased overall demand for our solutions and loss of revenue, any of which could have a negative effect on our business, financial condition and operating results.

In addition, we may from time to time fail to meet the needs of specific subscribers in order to best meet the service expectations of our overall subscriber base. For example, we may suspend a subscriber's website when it breaches our terms of service, is harming other subscribers' websites or disrupting servers supporting those websites, such as when a cyber criminal installs malware on a subscriber's website without that subscriber's authorization or knowledge. Although such service interruptions are not uncommon in a cloud-based environment, we risk subscriber dissatisfaction by interrupting one subscriber's service to prevent further attacks on or data breaches for other subscribers, and this could damage our reputation and have an adverse effect on our business.

---

**Table of Contents**

***We face significant competition for our solutions in the SMB market, which we expect will continue to intensify and which could require us to reduce our selling prices. As a result of such competitive pressures, we may not be able to maintain or improve our competitive position or market share.***

The SMB market for cloud-based technologies is highly competitive and constantly evolving. We expect competition to increase from existing competitors, who are also expanding the variety of solution-based services that they offer to SMBs, as well as potential new market entrants. Some of our competitors may have greater resources, more brand recognition and consumer awareness, more diversified product offerings, greater international scope and larger subscriber bases than we do. As a result, we may not be able to compete successfully against them. If these companies decide to devote greater resources to the development, promotion and sale of their products and services, or if the products and services offered by these companies are more attractive to or better meet the evolving needs of SMBs, greater numbers of SMBs may choose to use these competitors for creating an online presence and as a general platform for running online business operations. There are also relatively few barriers to entry in this market, especially for providers of niche services, which often have low capital and operating expenses and the ability to quickly bring products to market that meet specific subscriber needs. Accordingly, as this market continues to develop, we expect the number of competitors to increase. The continued entry of competitors into the cloud-based technologies market, and the rapid growth of some competitors that have already entered the market, may make it difficult for us to maintain our market position.

In addition, in an attempt to gain market share, competitors may offer aggressive price discounts or alternative pricing models, such as so-called freemium pricing in which a basic offering is provided for free with advanced features provided for a fee, on the services they offer, bundle several services at reduced prices, or increase commissions paid to their referral sources. These pricing pressures may require us to match these discounts and commissions in order to remain competitive, which would reduce our margins or cause us to fail to attract new subscribers that decide to purchase the discounted service offerings of our competitors. As a result of these factors, it is difficult to predict whether we will be able to maintain our average selling prices, pricing models and commissions paid to our referral sources. If we reduce our selling prices, alter our pricing models or increase commissions paid to our referral sources, it may become increasingly difficult for us to compete successfully, our profitability may be harmed and our operating results could be adversely affected.

***We must keep up with rapid and ongoing technological change, marketing trends and shifts in consumer demand to remain competitive in a rapidly evolving industry.***

The cloud-based technology industry is characterized by rapid and ongoing technological change, frequent new product and service introductions and evolving industry standards. Our future success will depend on our ability to adapt to rapidly changing technologies, to adapt our solutions to evolving industry standards and consumer needs and to improve the performance and reliability of our applications and services. We must anticipate subscriber needs, commit significant resources to anticipating those needs and offer solutions that meet changing subscriber demands quickly and effectively. We may fail to accurately predict market demand or subscriber preferences, or subscribers may require features and functionality that our current applications and services do not have or that our platform is not able to support. If we fail to develop solutions that satisfy subscriber preferences in a timely and cost-effective manner, our ability to retain existing subscribers and attract new subscribers will be adversely affected, our competitive position will be impaired and we may not achieve our anticipated revenue growth. In order to develop new solutions or enhancements to existing solutions that satisfy subscriber preferences, we may be required to incur significant technology, development, marketing and other expenses, and our revenue and operating results may be adversely affected.

In addition, the manner in which we market to our subscribers and potential subscribers must keep pace with technological change, marketing trends and shifts in how our solutions are found, purchased and used by subscribers and potential subscribers. For example, application marketplaces, mobile platforms and new search engines and search methods are changing the way in which consumers find, purchase and use our solutions. If we are not able to take advantage of such technologies or anticipate such trends, or if existing technologies or systems, such as the domain name system which directs traffic on the Internet, become obsolete, we may be unable to continue to attract new subscribers or sell additional solutions to our existing subscribers.

Our future success will depend on our ability to continue to identify and partner with or acquire third parties who offer and are able to adapt to new technologies and to develop compelling and innovative solutions that can be integrated with our platform and brought to market. If we or our third-party partners are unable to adapt to rapidly changing technologies and develop solutions that meet subscriber requirements, our revenue and operating results may be adversely affected.

***Security and privacy breaches may harm our business.***

We store and transmit large amounts of sensitive, confidential, personal and proprietary information, including payment card information. Any security breach, virus, accident, employee error, criminal activity or malfeasance, fraudulent service plan order, impersonation scam perpetrated against us, intentional misconduct by cyber criminals or similar intrusion, breach or disruption could



## **Table of Contents**

result in unauthorized access, usage or disclosure, or loss of, confidential information, damage to our platform, as well as interruptions, delays or cessation of service to our subscribers, each of which may cause damage to our reputation and result in increased security costs, litigation, regulatory investigations or other liabilities. The risk that these types of events could seriously harm our business is likely to increase as we expand the number of technology solutions and services that we offer and expand our operations in foreign countries.

In addition, many states and countries in which we have subscribers have enacted regulations requiring us to notify subscribers in the event that certain subscriber information is accessed, or believed to have been accessed, without authorization, and in some cases also develop proscriptive policies to protect against such unauthorized access. Such notifications can result in private causes of action being filed against us. Should we experience a loss of protected data, efforts to enhance controls, assure compliance and address penalties imposed by such regulatory regimes could increase our costs.

Organizations generally, and Internet-based organizations in particular, remain vulnerable to highly targeted attacks aimed at exploiting network and system applications or weaknesses. Techniques used to obtain unauthorized access to, or to sabotage, networks and systems often are not recognized until launched against a target. Cyber criminals are increasingly using powerful new tactics including evasive applications, proxies, tunneling, encryption techniques, vulnerability exploits, buffer overflows, distributed denial of service attacks, or DDoS attacks, botnets and port scans. For example, we are frequently the targets of DDoS attacks in which attackers attempt to block subscribers' access to our websites. If we are unable to avert a DDoS or other attack for any significant period, we could sustain substantial revenue loss from lost sales and subscriber dissatisfaction. We may not have the resources or technical sophistication to anticipate or prevent rapidly evolving types of cyber-attacks. Moreover, we may not be able to immediately detect that such an attack has been launched, if, for example, unauthorized access to our systems was obtained without our knowledge in preparation for an attack contemplated to commence in the future. Cyber attacks may target us, our subscribers, our partners, banks, credit card processors, delivery services, e-commerce in general or the communication infrastructure on which we depend.

Our support agents are often targeted by, and may be vulnerable to, e-mail scams, phishing, social media or similar attacks, as well as social engineering tactics used to perpetrate fraud. We have experienced and may in the future experience security attacks that cause our support agents to divulge confidential information about us or our subscribers, or to introduce viruses, worms or other malicious software programs onto their computers, allowing the perpetrators to, among other things, gain access to our systems or our subscribers' accounts. Our subscribers may also use weak passwords, accidentally disclose their passwords or store them on a mobile device that is lost or stolen, or otherwise compromise the security of their data, creating the perception that our systems are not secure against third-party access. In addition, if third parties with which we work, such as vendors or developers, violate applicable laws or our policies, such violations may also put our information and our subscribers' information at risk and could in turn have an adverse effect on our business and reputation.

If an actual or perceived security breach occurs, the market's perception of our security measures could be harmed and we could lose sales and current and potential subscribers. We might also be required to expend significant capital and resources to investigate, protect against or address these problems. Any significant violations of data privacy could result in the loss of business, litigation and regulatory investigations and penalties that could damage our reputation and adversely affect our operating results and financial condition. Furthermore, if a high profile security breach occurs with respect to another provider of cloud-based technologies, our subscribers and potential subscribers may lose trust in the security of these business models generally, which could harm our ability to retain existing subscribers or attract new ones. We cannot guarantee that our backup systems, regular data backups, security protocols, network protection mechanisms and other procedures currently in place, or that may be in place in the future, will be adequate to prevent network and service interruption, system failure, damage to one or more of our systems or data loss in the event of a

security breach or attack on our network.

***If we do not maintain a low rate of credit card chargebacks and protect against breach of the credit card information we store, we will face the prospect of financial penalties and could lose our ability to accept credit card payments from subscribers, which would have a material adverse effect on our business, financial condition and operating results.***

A majority of our revenue is processed through credit card transactions. Under current credit card industry practices, we are liable for fraudulent and disputed credit card transactions because we do not obtain the cardholder's signature at the time of the transaction, even though the financial institution issuing the credit card may have authorized the transaction. Although we focus on keeping our rate of credit card refunds and chargebacks low, if our refunds or chargebacks increase, our credit card processors could require us to maintain or increase reserves or terminate their contracts with us, which would have an adverse effect on our financial condition.

We could also incur significant fines or lose our ability to give subscribers the option of using credit cards to fund their payments or pay their fees to us if we fail to follow payment card industry data security standards, even if there is no compromise of

## **Table of Contents**

subscriber information. Although we believe we are in compliance with payment card industry data security standards and do not believe that there has been a compromise of subscriber information, we have not always been in full compliance with these standards. Accordingly, we could be fined, or our services could be suspended, for such failure to comply with payment card industry data security standards, which would cause us to not be able to process payments using credit cards. If we are unable to accept credit card payments, our financial condition, results of operations and cash flows would be adversely affected.

Our failure to limit fraudulent transactions conducted on our websites, such as through the use of stolen credit card numbers, could also subject us to liability or require us to increase reserves with our credit card processors. Under credit card association rules, penalties may be imposed at the discretion of the association. Any such potential penalties would be imposed on our credit card processor by the association. Under our contract with our processor, we are required to reimburse our processor for such penalties. Our current level of fraud protection, based on our fraudulent and disputed credit card transaction history, is within the guidelines established by the credit card associations. However, we face the risk that we may fail to maintain an adequate level of fraud protection or that one or more credit card associations may, at any time, assess penalties against us or terminate our ability to accept credit card payments from subscribers, which would have a material adverse effect on our business, financial condition and operating results.

In addition, we could be liable if there is a breach of the credit card or other payment information we store. Online commerce and communications depend on the secure transmission of confidential information over public networks. We rely on encryption and authentication technology that we have developed internally, as well as technology that we license from third parties, to provide security and authentication for the transmission of confidential information, including subscriber credit card numbers. However, we cannot ensure that this technology can prevent breaches of the systems that we use to protect subscriber credit card data. Although we maintain network security insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on reasonable terms, or at all. In addition, some of our third-party partners also collect information from transactions with our customers, and we may be subject to litigation or our reputation may be harmed if our partners fail to protect our subscribers' information or if they use it in a manner that is inconsistent with our practices.

Data breaches can also occur as a result of non-technical issues. Under our contracts with our card processors, if there is unauthorized access to, or disclosure of, credit card information that we store, we could be liable to the credit card issuing banks for their cost of issuing new cards and related expenses.

***Our growing operations in India, use of an India-based service provider and India-based workforce may expose us to risks that could have an adverse effect on our costs of operations and harm our business.***

We currently use India-based third-party service providers to provide certain outsourced services to support our U.S.-based operations, including email- and chat-based customer and technical support, billing support, network monitoring and engineering and development services. As our operations grow, we expect to increase our use of these and other India-based outsourced service providers. Although there are cost advantages to operating in India, significant growth in the technology sector in India has increased competition to attract and retain skilled employees and has led to a commensurate increase in compensation costs. In the future, we or our third-party service providers may not be able to hire and retain such personnel at compensation levels consistent with our existing compensation and salary structure in India. In addition, we employ our own India-based workforce. Our use of a workforce in India exposes us to disruptions in the business, political and economic environment in that region. Our operations in India require us to comply with local laws and regulatory requirements, which are complex and burdensome and of which we may not always be aware, and expose us to foreign currency exchange rate risk. Our Indian operations may also subject us to trade restrictions, reduced or inadequate protection for intellectual property rights, security breaches and

other factors that may adversely affect our business. Negative developments in any of these areas could increase our costs of operations or otherwise harm our business.

***We have a history of losses and may not be able to maintain profitability.***

We have had a net loss in each year since inception through 2014. We had a net loss of \$159.2 million for fiscal year 2013, a net loss of \$42.8 million for fiscal year 2014 and we may incur losses in the future. In connection with our acquisitions, we have recorded long-lived assets at fair value. We record amortization expense in each reporting period related to the long-lived assets, which impacts the amount of net loss or income we record in each reporting period.

We do not know if we will be able to achieve and maintain profitability in the near future or at all. We have made and expect to continue to make significant expenditures to develop and expand our business. Our recent growth in revenue and number of subscribers may not be sustainable, and our revenue may be insufficient to maintain profitability. We may incur significant losses in the future for a number of reasons, including interest expense related to our substantial indebtedness, and the other risks described in this report, and we may encounter unforeseen expenses, difficulties, complications and delays and other unknown events.

## **Table of Contents**

***We may need additional equity, debt or other financing in the future, which we may not be able to obtain on acceptable terms, or at all, and any additional financing may result in restrictions on our operations or substantial dilution to our stockholders.***

We may need to raise funds in the future, for example, to develop new technologies, expand our business, respond to competitive pressures, acquire businesses, or respond to unanticipated situations. We may try to raise additional funds through public or private financings, strategic relationships or other arrangements. Although our credit agreement limits our ability to incur additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and our credit agreement may be amended with the consent of our lenders.

Our ability to obtain debt or equity funding will depend on a number of factors, including market conditions, interest rates, our operating performance and investor interest. Additional funding may not be available to us on acceptable terms or at all. If adequate funds are not available, we may be required to reduce expenditures, including curtailing our growth strategies, foregoing acquisitions or reducing our product development efforts. If we succeed in raising additional funds through the issuance of equity or convertible securities, then the issuance could result in substantial dilution to existing stockholders. If we raise additional funds through the issuance of debt securities or preferred stock, these new securities would have rights, preferences and privileges senior to those of the holders of our common stock. In addition, any preferred equity issuance or debt financing that we may obtain in the future could have restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. Further, to the extent that we incur additional indebtedness or such other obligations, the risks associated with our substantial leverage described elsewhere in this report, including our possible inability to service our debt, would increase.

***Our business depends on establishing and maintaining strong brands. If we are not able to effectively promote our brands, or if the reputation of our brands is damaged, our ability to expand our subscriber base will be impaired and our business and operating results will be harmed.***

We market our solutions through various brands, including Bluehost, HostGator, iPage, Domain.com, A Small Orange, MOJO Marketplace, BigRock and ResellerClub, among others. We believe that establishing and maintaining our brands is critical to our efforts to expand our subscriber base. If we do not continue to build awareness of our brands, we could be placed at a competitive disadvantage to companies whose brands are, or become, more recognizable than ours. To attract and retain subscribers and to promote and maintain our brands in response to competitive pressures, we may have to substantially increase our financial commitment to creating and maintaining distinct brand loyalty among subscribers or eliminate certain of our brands. If subscribers, as well as our third-party referral marketing, distribution and reseller partners, do not perceive our existing solutions to be reliable and of high quality, or if we introduce new services or enter into new business ventures that are not favorably received by such parties, the value of our brands could be diminished, thereby decreasing the attractiveness of our solutions to such parties. As a result, our operating results may be adversely affected by decreased brand recognition and harm to our reputation.

***Our success depends in part on our strategic relationships and alliances with third parties on whom we rely to acquire subscribers and to offer solutions to our subscribers and from which we license intellectual property to develop our own solutions.***

In order to expand our business, we plan to continue to rely on third-party relationships and alliances, such as with referrers and promoters of our brands and solutions, as well as with our providers of solutions and services that we offer to subscribers. Identifying, negotiating, documenting and managing relationships with third parties in certain

cases requires significant time and resources, and it is possible that we may not be able to devote the time and resources we expect to such relationships. Integrating and customizing third parties' solutions with our platform also requires us to expend significant time and resources to ensure that each respective solution works with our platform, as well as with our other products and services. If any of the third parties on which we rely fails to perform as expected, breaches or terminates their agreement with us, or becomes engaged in a dispute with us, our reputation could be adversely affected and our business could be harmed.

We rely on third-party referral and reseller partners to acquire subscribers. If our third-party referral partners fail to promote our brands or to refer new subscribers to us, fail to comply with regulations, are forced to change their marketing efforts in response to new or existing regulations or cease to be viewed as credible sources of information by our potential subscribers, we may face decreased demand for our solutions and loss of revenue. Our third-party reseller partners purchase our solutions and resell them to their customer bases. These partners have the direct contractual relationships with our ultimate subscribers and, therefore, we risk the loss of both our third-party partners and their customers if our services fail to meet expectations or if our partners fail to perform their obligations or deliver the level of service to the ultimate subscriber that we expect.

Our ability to offer domain name services to our subscribers depends on certain third-party relationships. For example, certain of our subsidiaries are accredited by ICANN and various other registries as a domain name registrar. If we fail to comply with domain name registry requirements or if domain name registry requirements change, we could lose our accreditation, be required to increase our expenditures, comply with additional requirements or alter our service offerings, any of which could have a material adverse effect on our business, financial condition or results of operations.

## **Table of Contents**

We also have relationships with product partners whose solutions, including site builders, shopping carts and security tools, we offer to our subscribers. A majority of our offerings are provided by third parties. We may be unable to continue our relationship with any of these partners if, for example, they decline to continue to work with us or are acquired by third parties. In such an event, we may not be able to continue to offer these third-party tools to our subscribers or we may be forced to find an alternative that may be inferior to the solution that we had previously offered, which could harm our business and our operating results.

We also rely on software licensed from or hosted by third parties to offer our solutions to our subscribers. In addition, we may need to obtain future licenses from third parties to use intellectual property associated with the development of our solutions, which might not be available to us on acceptable terms, or at all. Any loss of the right to use any software or other intellectual property required for the development and maintenance of our solutions could result in delays in the provision of our solutions until equivalent technology is either developed by us, or, if available, is identified, obtained and integrated. Any errors or defects in third-party software could result in errors or a failure of our solutions which could harm our business and operating results. Further, we cannot be certain that the owners rights in their technologies will not be challenged, invalidated or circumvented.

***We rely on a limited number of data centers to deliver most of our services. If we are unable to renew our data center agreements on favorable terms, or at all, our operating margins and profitability could be adversely affected and our business could be harmed. In addition, our recent purchase of our largest data center subjects us to potential costs and risks associated with real property ownership.***

We currently serve most of our subscribers from four data center facilities located in Massachusetts (two), Texas and Utah. We own one of our data centers and occupy the remaining data centers pursuant to co-location service agreements with third-party data center facilities which have built and maintain the co-located data centers for us and other parties. Although we own the servers in these four data centers and engineer and architect the systems upon which our platform runs, we do not control the operation of the facilities we do not own.

The terms of our existing co-located data center agreements vary in length and expire over a period ranging from 2015 through 2018. The owners of these or our other co-located data centers have no obligation to continue such arrangements beyond their current terms, nor are they obligated to renew their agreements with us on terms acceptable to us, or at all.

Our existing co-located data center agreements may not provide us with adequate time to transfer operations to a new facility in the event of early termination or if we were unable to negotiate a short-term transition arrangement or renew these agreements on terms acceptable to us. If we were required to move our equipment to a new facility without adequate time to plan and prepare for such migration, we would face significant challenges due to the technical complexity, risk and high costs of the relocation. Any such migration would result in significant costs for us and significant downtime for large numbers of our subscribers. This could damage our reputation and cause us to lose current and potential subscribers, which would harm our operating results and financial condition.

If we are able to renew the agreements on our existing co-located data center facilities, we expect that the lease rates will be higher than those we pay under our existing agreements. If we fail to increase our revenue by amounts sufficient to offset any increases in lease rates for these facilities, our operating results may be materially and adversely affected.

We currently intend to continue to contract with third-party data center operators, but we could be forced to re-evaluate those plans depending on the availability and cost of data center facilities, the ability to influence and control certain design aspects of the data center, and economic conditions affecting the data center operator's ability to

add additional facilities.

With respect to the data center facility that we own, we are subject to risks, and may incur significant costs, related to our ownership of the facility and the land on which it is located, including costs or risks related to building repairs or upgrades and compliance with various federal, state and local laws applicable to real property owners, including environmental laws.

***If our solutions and software contain serious errors or defects, then we may lose revenue and market acceptance and may incur costs to defend or settle claims.***

Complex technology platforms, software applications and systems such as ours often contain errors or defects, such as errors in computer code or other systems errors, particularly when first introduced or when new versions, enhancements or updates are released. Because we also rely on third parties to develop many of our solutions, our products and services may contain additional errors or defects as a result of the integration of the third party's product. Despite quality assurance measures, internal testing and beta



## **Table of Contents**

testing by our subscribers, we cannot guarantee that our current and future solutions will not be free of serious defects, which could result in lost revenue or a delay in market acceptance. For example, in October 2014, we upgraded HostGator reseller servers with third-party software which conflicted with existing code. Certain resellers experienced website slowness as a result, with a subset of sites requiring additional database remediation.

Since our subscribers use our solutions to maintain an online presence for their business, errors, defects or other performance problems could result in damage to our subscribers and their businesses. They could elect to cancel or not to renew their agreements, delay or withhold payments to us, or seek significant compensation from us for the losses they or their businesses suffer. Although our subscriber agreements typically contain provisions designed to limit our exposure to certain claims, existing or future laws or unfavorable judicial decisions could negate or diminish these limitations. Even if not successful, a claim brought against us could be time-consuming and costly and could seriously damage our reputation in the marketplace, making it harder for us to acquire and retain subscribers.

***Because we are required to recognize revenue for our subscription-based services over the term of the applicable subscriber agreement, changes in our sales may not be immediately reflected in our operating results. In addition, we may not have adequate reserves in the event that our historical levels of refunds increase, which could adversely affect our liquidity and profitability.***

We recognize revenue from our subscribers ratably over the respective terms of their agreements with us in accordance with U.S. generally accepted accounting principles. These contracts are generally for service periods of up to 36 months. Accordingly, increases in sales during a particular period do not translate into corresponding increases in revenue during that same period, and a substantial portion of the revenue that we recognize during a quarter is derived from deferred revenue from our agreements with subscribers that we entered into during previous quarters. As a result, we may not generate net earnings despite substantial sales activity during a particular period, since we are not allowed under applicable accounting rules to recognize all of the revenue from these sales immediately, and because we are required to record a significant portion of our related operating expenses during that period. Conversely, the existence of substantial deferred revenue may prevent deteriorating sales activity from becoming immediately apparent in our reported operating results.

In connection with our domain registration services, as a registrar, we are required under our agreements with domain registries to prepay the domain registry for the term for which a domain is registered. We recognize this prepayment as an asset on our consolidated balance sheet and record domain revenue and the domain registration expense ratably over the term that a domain is registered. This cash payment to the domain registry may lead to fluctuations in our liquidity that is not immediately reflected in our operating results.

In addition, our standard terms of service permit our subscribers to seek refunds from us in certain instances, and we maintain reserves to provide such refunds. The amount of such reserves is based on the amount of refunds that we have provided in the past. If our actual level of refund claims exceeds our estimates and our refund reserves are not adequate to cover such claims, our liquidity or profitability could be adversely affected. Furthermore, if we experience an unexpected decline in our revenue, we may not be able to adjust spending in a timely manner to compensate for such shortfall, and any significant shortfall in revenue relative to planned expenditures could adversely affect our business and operating results.

***We depend on the experience and expertise of our senior management team, and the loss of any member of our senior management team could have an adverse effect on our business, financial condition and operating results.***

Our success and future performance depends in significant part upon the continued service of our senior management team, particularly Hari Ravichandran, our founder, president and chief executive officer. The members of our senior

management team are not contractually obligated to remain employed by us. Accordingly, and in spite of our efforts to retain our senior management team with long-term equity incentives, any member of our senior management team could terminate his or her employment with us at any time and go to work for one of our competitors after the expiration of his or her non-compete period. The replacement of members of our senior management team likely would involve significant time and expense, and the loss of any member of our senior management team could significantly delay, prevent the achievement of or make it more difficult for us to pursue and execute on our business objectives, and could have an adverse effect on our business, financial condition and operating results.

***Our growth will be adversely affected if we cannot continue to successfully retain, hire, train and manage our key employees.***

Our ability to successfully pursue our growth strategy will depend on our ability to attract, retain and motivate key employees across our business. In particular, we are dependent on our platform and software engineers, those who manage our sales and service employees, and, as we grow internationally, those employees managing our operations outside of the United States. We face intense competition for these and other employees from numerous technology, software and manufacturing companies, and we cannot ensure

## **Table of Contents**

that we will be able to attract, integrate or retain additional qualified employees in the future. If we are unable to attract new employees and retain our current employees, we may not be able to develop and maintain our services at the same levels as our competitors, and we may therefore lose subscribers and market share. Our failure to attract and retain qualified individuals could have an adverse effect on our ability to execute on our business objectives and, as a result, our ability to compete could decrease, our operating results could suffer and our revenue could decrease.

***We are subject to governmental regulation and other legal obligations, particularly related to privacy, data protection and information security, and we are subject to consumer protection laws that regulate our marketing practices and prohibit unfair or deceptive acts and practices. Our actual or perceived failure to comply with such obligations could harm our business. Compliance with such laws could also impair our efforts to maintain and expand our subscriber base, and thereby decrease our revenue.***

The U.S. Federal Trade Commission, or FTC, and various state and local governments and agencies regularly use their authority under laws prohibiting unfair and deceptive marketing and trade practices to investigate and penalize companies for practices related to the collection, use, handling, disclosure, and security of personal data of U.S. consumers.

We collect personally identifiable information and other data from our subscribers and prospective subscribers. We use this information to provide services to our subscribers, to support, expand and improve our business and, subject to each subscriber's or prospective subscriber's right to decline or opt-out, we may use this information to market other products and services to them. We may also share subscribers' personally identifiable information with certain third parties as authorized by the subscriber or as described in the applicable privacy policy.

The U.S. federal and various state and foreign governments have adopted or proposed guidelines or rules for the collection, distribution, use and storage of personal information of individuals, and the FTC and many state attorneys general are applying federal and state consumer protection laws to impose standards for the online collection, use and dissemination of data. However, these obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other requirements or our practices. Any failure or perceived failure by us to comply with privacy or security laws, policies, legal obligations or industry standards or any security incident that results in the unauthorized release or transfer of personally identifiable information or other subscriber data may result in governmental enforcement actions, litigation, fines and penalties and/or adverse publicity and could cause our subscribers to lose trust in us, which could have an adverse effect on our reputation and business.

In addition, several foreign countries and governmental bodies, including the countries of the European Union and Canada, have laws and regulations dealing with the collection and use of personal data obtained from their residents, which are often more restrictive than those in the United States. Laws and regulations in these jurisdictions apply broadly to the collection, use, storage, disclosure and security of personal information that identifies or may be used to identify an individual, such as names, contact information, and, in some jurisdictions, certain unique identifiers.

The data privacy regime in the European Union includes certain directives which, among other things, regulate the processing and movement of personal data, marketing and the use of cookies. Each EU member state has transposed the requirements of these directives into its own national data privacy regime, and therefore the laws differ from jurisdiction to jurisdiction.

If we fail to comply with applicable law, there is a risk that we could be held subject to legislation in countries where we reasonably thought the laws did not apply to us. In addition, such regulations and laws may be modified and new laws may be enacted in the future. Future laws or regulations, or modifications to existing laws or regulations, could impair our ability to collect and/or use user information that we use to provide targeted advertising to our users,

thereby impairing our ability to maintain and grow our subscriber base and increase revenue. Future restrictions on the collection, use, sharing or disclosure of our subscribers' data or additional requirements for obtaining the consent of subscribers for the use and disclosure of such information could require us to modify our solutions and features, possibly in a material manner, and could limit our ability to develop new services and features.

For example, within the European Union, legislators are currently considering implementing more stringent operational requirements for processors and controllers of personal data which could limit user profiling and require consent for additional processing activities and that would impose significant penalties for non-compliance. If our privacy or data security measures fail to comply with applicable current or future laws and regulations, we may be subject to litigation, regulatory investigations, enforcement notices requiring us to change the way we use personal data or our marketing practices, fines or other liabilities, as well as negative publicity and a potential loss of business. Moreover, if future laws and regulations limit our subscribers' or prospective subscribers' ability to use and share personal data or our ability to store, process and share personal data, demand for our solutions could decrease, our costs could increase, and our business, results of operations and financial condition could be harmed.

## **Table of Contents**

In recent years, U.S. and European lawmakers and regulators have expressed concern over the use of third-party cookies or web beacons for online behavioral advertising. In the European Union, informed consent is required for the placement of a cookie on a user's device. Any failure by us to comply with applicable requirements may result in governmental enforcement actions, litigation, fines and penalties or adverse publicity which could have an adverse effect on our reputation and business. Regulation of cookies and web beacons may lead to broader restrictions on our research activities, including efforts to understand users' Internet usage. Such regulations may have a chilling effect on businesses, such as ours, that collect and use online usage information in order to attract and retain customers and may increase the cost of maintaining a business that collects or uses online usage information, increase regulatory scrutiny and increase the potential for civil liability under consumer protection laws. In response to marketplace concerns about the usage of third-party cookies and web beacons to track user behaviors, providers of major browsers have included features that allow users to limit the collection of certain data in general or from specified websites, and some regulatory authorities have been advocating the development of browsers that block cookies by default. These developments could impair our ability to collect user information that helps us provide more targeted advertising to our users. If such technology is widely adopted, it could adversely affect our business, given our use of cookies and similar technologies to target our marketing.

We rely on third parties to carry out a number of services for us, including processing personal data on our behalf, and while we enter into contractual arrangements to ensure that they only process such data according to our instructions and have sufficient security measures in place, any security breach or non-compliance with our contractual terms or breach of applicable law by such third parties could result in governmental enforcement actions, litigation, fines and penalties or adverse publicity and could cause our subscribers to lose trust in us, which could have an adverse impact on our reputation and business.

In addition, in connection with the marketing and advertisement of our products and services by us or our affiliates, we could be the target of claims relating to false or deceptive advertising or marketing practices, including under the auspices of the FTC and state consumer protection statutes. In the European Union and in other international jurisdictions, we could be the target of similar claims under consumer protection laws, e-commerce and distance selling regulation, advertising regulation, unfair competition rules or similar legislation. We also rely on third parties to provide marketing and advertising of our products and services, and we could be liable for, or face reputational harm as a result of, their marketing practices if, for example, they fail to comply with applicable statutory and regulatory requirements.

New laws, regulations or standards or new interpretations of existing laws, regulations or standards, including those in the areas of data security, data privacy, consumer protection and regulation of Internet service providers, could require us to incur additional costs and restrict our business operations, and any failure by us to comply with applicable requirements may result in governmental enforcement actions, litigation, fines and penalties or adverse publicity, which could have an adverse effect on our reputation and business.

### ***Failure to adequately protect and enforce our intellectual property rights could substantially harm our business and operating results.***

We have devoted substantial resources to the development of our intellectual property, proprietary technologies and related processes. In order to protect our intellectual property, proprietary technologies and processes, we rely upon a combination of trademark, patent and trade secret law, as well as confidentiality procedures and contractual restrictions. These afford only limited protection, may not prevent disclosure of confidential information, may not provide an adequate remedy in the event of misappropriation or unauthorized disclosure, and may not now or in the future provide us with a competitive advantage. Despite our efforts to protect our intellectual property rights, unauthorized parties, including employees, subscribers and third parties, may make unauthorized or infringing use of

our products, services, software and other functionality, in whole or in part, or obtain and use information that we consider proprietary.

Policing our proprietary rights and protecting our brands and domain names is difficult and costly and may not always be effective. In addition, we may need to enforce our rights under the laws of countries that do not protect proprietary rights to as great an extent as do the laws of the United States and any changes in, or unexpected interpretations of, the intellectual property laws in any country in which we operate may compromise our ability to enforce our intellectual property rights. To the extent we expand our international activities, our exposure to unauthorized copying and use of our trademarks, products and proprietary information may increase.

We have registered, or applied to register, the trademarks associated with several of our leading brands in the United States and in certain other countries. Competitors may have adopted, and in the future may adopt, service or product names similar to ours, which could impede our ability to build our brands' identities and possibly lead to confusion. In addition, there could be potential trade name or trademark infringement claims brought by owners of other registered trademarks or trademarks that incorporate variations of the terms or designs of one of our trademarks.

## **Table of Contents**

Litigation or proceedings before the U.S. Patent and Trademark Office or other governmental authorities and administrative bodies in the United States and abroad may be necessary to enforce our intellectual property rights or to defend against claims of infringement or invalidity. Such litigation or proceedings could be costly, time-consuming and distracting to our management, result in a diversion of resources, the impairment or loss of portions of our intellectual property, and have a material adverse effect on our business and operating results. There can be no assurance that our efforts to enforce or protect our proprietary rights will be adequate or that our competitors will not independently develop similar technology. In addition, the legal standards relating to the validity, enforceability and scope of protection of intellectual property rights on the Internet are uncertain and still evolving. Our failure to meaningfully establish and protect our intellectual property could result in substantial costs and diversion of resources and could substantially harm our business and operating results.

### ***We could incur substantial costs as a result of any claim of infringement of another party's intellectual property rights.***

In recent years, there has been significant litigation in the United States and abroad involving patents and other intellectual property rights. Companies providing Internet-based products and services are increasingly bringing and becoming subject to suits alleging infringement of proprietary rights, particularly patent rights, and to the extent we face increasing competition and become increasingly visible as a publicly-traded company, or if we become more successful, the possibility of intellectual property infringement claims may increase. In addition, our exposure to risks associated with the use of intellectual property may increase as a result of acquisitions that we make or our use of software licensed from or hosted by third parties, as we have less visibility into the development process with respect to such technology or the care taken to safeguard against infringement risks. Third parties may make infringement and similar or related claims after we have acquired or licensed technology that had not been asserted prior to our acquisition or license.

Many companies are devoting significant resources to obtaining patents that could affect many aspects of our business. Since we do not have a significant patent portfolio, this may prevent us from deterring patent infringement claims, and our competitors and others may now and in the future have significantly larger and more mature patent portfolios than we have.

We have filed several patent applications in the United States and foreign counterpart filings for some of those applications. Although some of these applications have issued to registration, we cannot assure you that patents will issue from every patent application, or that we will prosecute every application to registration, that patents that issue from our applications will give us the protection that we seek, or that any such patents will not be challenged, invalidated or circumvented. Any patents that may issue in the future from our pending or future patent applications may not provide sufficiently broad protection and may not be enforceable in actions against alleged infringers.

The risk of patent litigation has been amplified by the increase in certain third parties, so-called non-practicing entities, whose sole business is to assert patent claims and against which our own intellectual property portfolio may provide little deterrent value. We could incur substantial costs in prosecuting or defending any intellectual property litigation and we have incurred such costs in the past. If we sue to enforce our rights or are sued by a third party that claims that our solutions infringe its rights, the litigation could be expensive and could divert our management's time and attention. Even a threat of litigation could result in substantial expense and time.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure. In addition, during the course of any such litigation, there could be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it

could have a substantial adverse effect on the price of our common stock.

Any intellectual property litigation to which we might become a party, or for which we are required to provide indemnification, may require us to do one or more of the following:

cease selling or using solutions that incorporate the intellectual property that our solutions allegedly infringe;

make substantial payments for legal fees, settlement payments or other costs or damages;

obtain a license, which may not be available on reasonable terms or at all, to sell or use the relevant technology; or

redesign the allegedly infringing solutions to avoid infringement, which could be costly, time-consuming or impossible.

If we are required to make substantial payments or undertake any of the other actions noted above as a result of any intellectual property infringement claims against us, our business or operating results could be harmed.



---

**Table of Contents**

***Our use of open source software could adversely affect our ability to sell our services and subject us to possible litigation.***

We use open source software, such as MySQL and Apache, in providing a substantial portion of our solutions, and we may incorporate additional open source software in the future. Such open source software is generally licensed by its authors or other third parties under open source licenses. If we fail to comply with these licenses, we may be subject to certain conditions, including requirements that we offer our solutions that incorporate the open source software for no cost; that we make available source code for modifications or derivative works we create based upon, incorporating or using the open source software; and/or that we license such modifications or derivative works under the terms of the particular open source license. In addition, if a third-party software provider has incorporated open source software into software that we license from such provider, we could be required to disclose any of our source code that incorporates or is a modification of such licensed software. If an author or other third party that distributes such open source software were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal expenses defending such allegations and could be subject to significant damages, enjoined from the sale of our solutions that contained the open source software, and required to comply with the foregoing conditions, which could disrupt the distribution and sale of some of our solutions. In addition, there have been claims challenging the ownership of open source software against companies that incorporate open source software into their products. As a result, we could be subject to suits by parties claiming ownership of what we believe to be open source software. Such litigation could be costly for us to defend, have a negative effect on our operating results and financial condition or require us to devote additional research and development resources to change our products.

***We could face liability, or our reputation might be harmed, as a result of the activities of our subscribers, the content of their websites or the data they store on our servers.***

Our role as a provider of cloud-based solutions, including website hosting services and domain registration services, may subject us to potential liability for the activities of our subscribers on or in connection with their websites or domain names or for the data they store on our servers. Although our subscriber terms of use prohibit illegal use of our services by our subscribers and permit us to take down websites or take other appropriate actions for illegal use, subscribers may nonetheless engage in prohibited activities or upload or store content with us in violation of applicable law or the subscriber's own policies, which could subject us to liability.

Several U.S. federal statutes may apply to us with respect to various subscriber activities:

The Digital Millennium Copyright Act of 1998, or DMCA, provides recourse for owners of copyrighted material who believe that their rights under U.S. copyright law have been infringed on the Internet. Under the DMCA, based on our current business activity as an online service provider that does not monitor, own or control website content posted by our subscribers, we generally are not liable for infringing content posted by our subscribers or other third parties, provided that we follow the procedures for handling copyright infringement claims set forth in the DMCA. Generally, if we receive a proper notice from, or on behalf of, a copyright owner alleging infringement of copyrighted material located on websites we host, and we fail to expeditiously remove or disable access to the allegedly infringing material or otherwise fail to meet the requirements of the safe harbor provided by the DMCA, the copyright owner may seek to impose liability on us. Technical mistakes in complying with the detailed DMCA take-down procedures could subject us to liability for copyright infringement.

The Communications Decency Act of 1996, or CDA, generally protects interactive computer service providers such as us, from liability for certain online activities of their customers, such as the publication of defamatory or other objectionable content. As an interactive computer services provider, we do not monitor hosted websites or prescreen the content placed by our subscribers on their sites. Accordingly, under the CDA, we are generally not responsible for the subscriber-created content hosted on our servers. However, the CDA does not apply in foreign jurisdictions and we may nonetheless be brought into disputes between our subscribers and third parties which would require us to devote management time and resources to resolve such matters and any publicity from such matters could also have an adverse effect on our reputation and therefore our business.

In addition to the CDA, the Securing the Protection of our Enduring and Established Constitutional Heritage Act, or the SPEECH Act, provides a statutory exception to the enforcement by a U.S. court of a foreign judgment that is less protective of free speech than the United States. Generally, the exception applies if the law applied in the foreign court did not provide at least as much protection for freedom of speech and press as would be provided by the First Amendment of the U.S. Constitution or by the constitution and law of the state in which the U.S. court is located, or if no finding of a violation would be supported under the First Amendment of the U.S. Constitution or under the constitution and law of the state in which the U.S. court is located. Although the SPEECH Act may protect us from the enforcement of foreign judgments in the United States, it does not affect the enforceability of the judgment in the foreign country that issued the judgment. Given our international presence, we may therefore, nonetheless, have to defend against or comply with any foreign judgments made against us, which could take up substantial management time and resources and damage our reputation.

## **Table of Contents**

Although these statutes and case law in the United States have generally shielded us from liability for subscriber activities to date, court rulings in pending or future litigation, or future legislative or regulatory actions, may narrow the scope of protection afforded us under these laws. Several court decisions arguably have already narrowed the scope of the immunity provided to interactive computer services in the U.S. under the Communications Decency Act. In addition, laws governing these activities are unsettled in many international jurisdictions, or may prove difficult or impossible for us to comply with in some international jurisdictions. Also, notwithstanding the exculpatory language of these bodies of law, we may be embroiled in complaints and lawsuits which, even if ultimately resolved in our favor, add cost to our doing business and may divert management's time and attention. Finally, other existing bodies of law, including the criminal laws of various states, may be deemed to apply or new statutes or regulations may be adopted in the future, any of which could expose us to further liability and increase our costs of doing business.

***We may face liability for, or become involved in, disputes in connection with ownership or control of subscriber accounts, websites or domain names or in connection with domain names we own.***

As a provider of cloud-based solutions, including as a registrar of domain names and related services, we from time to time become aware of disputes over ownership or control of subscriber accounts, websites or domain names. For example, disputes may arise as a result of a subscriber engaging a webmaster or other third party to help set up a web hosting account, register or renew a domain name, build a website, upload content, or set up email or other services.

We could face potential claims of tort law liability for our failure to renew a subscriber's domain, and we have faced such liability in the past. We could also face potential tort law liability for our role in the wrongful transfer of control or ownership of accounts, websites or domain names. The safeguards and procedures we have adopted may not be successful in insulating us against liability from such claims in the future. In addition, we face potential liability for other forms of account, website or domain name hijacking, including misappropriation by third parties of subscriber accounts, websites or domain names and attempts by third parties to operate accounts, websites or domain names or to extort the subscriber whose accounts, websites or domain names were misappropriated. Furthermore, our risk of incurring liability for a security breach on or in connection with a subscriber account, website or domain name would increase if the security breach were to occur following our sale to a subscriber of an SSL certificate that proved ineffectual in preventing it. Finally, we are exposed to potential liability as a result of our domain privacy service, wherein the identity and contact details for the domain name registrant are masked. Although our terms of service reserve the right to provide the underlying WHOIS information and/or to cancel privacy services on domain names giving rise to domain name disputes, including when we receive reasonable evidence of an actionable harm, the safeguards we have in place may not be sufficient to avoid liability, which could increase our costs of doing business.

Occasionally a subscriber may register a domain name that is identical or similar to another party's trademark or the name of a living person. Disputes involving registration or control of domain names are often resolved through the Uniform Domain Name Dispute Resolution Policy, or UDRP, ICANN's administrative process for domain name dispute resolution, or through litigation under the Anticybersquatting Consumer Protection Act, or ACPA, or under general theories of trademark infringement or dilution. The UDRP generally does not impose liability on registrars, and the ACPA provides that registrars may not be held liable for registering or maintaining a domain name absent a showing of bad faith, intent to profit or reckless disregard of a court order by the registrar. However, we may face liability if we fail to comply in a timely manner with procedural requirements under these rules. In addition, these processes typically require at least limited involvement by us and, therefore, increase our costs of doing business. Moreover, as the owner of domain name portfolios containing domains that we are providing for resale, we may face liability if one or more domain names in our portfolios is alleged to violate another party's trademark. While we screen the domains we acquire to mitigate the risk of third-party claims of trademark infringement, we may nonetheless inadvertently register or acquire domains that infringe or allegedly infringe third-party rights. Moreover, advertisements displayed on websites associated with domains registered by us may contain allegedly infringing

content placed by third parties. As a result, our involvement in domain name disputes may increase in the future.

***We are subject to export controls and economic sanctions laws that could impair our ability to compete in international markets and subject us to liability if we are not in full compliance with applicable laws.***

Our business activities are subject to various restrictions under U.S. export controls and trade and economic sanctions laws, including the U.S. Commerce Department's Export Administration Regulations and economic and trade sanctions regulations maintained by OFAC. Failure to comply with these laws and regulations could subject us to civil or criminal penalties, government investigations, and reputational harm. In addition, if our third-party resellers fail to comply with these laws and regulations in their dealings, we could face potential liability or penalties for violations. Furthermore, U.S. export control laws and economic sanctions laws prohibit certain transactions with U.S. embargoed or sanctioned countries, governments, persons and entities.

## **Table of Contents**

Although we take precautions and have implemented, and continue to seek to enhance, compliance measures to prevent transactions with U.S. sanction targets, from time to time we have identified, and we expect to continue to identify, instances of non-compliance with these laws, rules and regulations and transactions which we are required to block and report to OFAC. In addition, as a result of our acquisition activities, we have acquired, and it is likely that we will continue to acquire, companies for which we could face potential liability or penalties for violations if they have not implemented sufficient compliance measures to prevent transactions with U.S. sanction targets. Until we are able to fully integrate our compliance processes into the operations of such acquired companies, we are at an increased risk of transacting business with U.S. sanction targets. Our failure to comply with these laws, rules and regulations could result in negative consequences to us, including government investigations, penalties and reputational harm.

Changes in our solutions or changes in export and import regulations may create delays in the introduction and sale of our solutions in international markets, prevent our subscribers with international operations from deploying our solutions or, in some cases, prevent the export or import of our solutions to certain countries, governments or persons altogether. Any change in export or import regulations, shift in the enforcement or scope of existing regulations, or change in the countries, governments, persons or technologies targeted by such regulations, could result in decreased use of our solutions or decreased ability to export or sell our solutions to existing or potential subscribers with international operations. Any decreased use of our solutions or limitation on our ability to export or sell our solutions could adversely affect our business, financial condition and operating results.

### ***Due to the global nature of our business, we could be adversely affected by violations of anti-bribery laws.***

The global nature of our business requires us to comply with laws and regulations that prohibit bribery and corruption anywhere in the world. The FCPA, the U.K. Bribery Act 2010, or the Bribery Act, and similar anti-bribery laws in other jurisdictions where we do business generally prohibit companies and their intermediaries from making improper payments to government officials and other persons for the purpose of obtaining or retaining business or an improper business advantage. In addition, the FCPA requires public companies to maintain records that accurately and fairly represent their transactions and have an adequate system of internal accounting controls. We currently operate, and plan to expand our operations, in areas of the world that have a reputation for heightened risks of corruption and, in certain circumstances, compliance with anti-bribery laws may conflict with local customs and practices. We operate in several countries and sell our products to subscribers around the world, which requires our employees and business partners acting on our behalf to comply with all laws, including anti-corruption laws. In addition, changes in laws could result in increased regulatory requirements and compliance costs which could adversely affect our business, financial condition and results of operations. We cannot assure that our employees, business partners or other agents will not engage in prohibited conduct and expose us to the risk of liability under the FCPA, the Bribery Act, or other anti-bribery laws. If we are found to be in violation of the FCPA, the Bribery Act or other anti-bribery laws, we could suffer criminal and civil penalties, other sanctions, and reputational damage, which could have a material adverse effect on our business.

### ***Adverse economic conditions in the United States and international economies could harm our operating results.***

Unfavorable general economic conditions, such as a recession or economic slowdown in the United States or in one or more of our other major markets, could adversely affect the affordability of, and demand for, our solutions. The national and global economic downturn in recent years affected many sectors of the economy and resulted in, among other things, declines in overall economic growth, consumer and corporate confidence and spending; increases in unemployment rates; and uncertainty about economic stability. Changing macroeconomic conditions may affect our business in a number of ways, making it difficult to accurately forecast and plan our future business activities. In particular, SMB spending patterns are difficult to predict and are sensitive to the general economic climate, the economic outlook specific to the SMB industry, the SMB's level of profitability and debt and overall consumer

confidence. Our solutions may be considered discretionary by many of our current and potential subscribers and may be dependent upon levels of consumer spending. As a result, resellers and consumers considering whether to purchase our solutions may be influenced by macroeconomic factors that affect SMB and consumer spending.

To the extent conditions in the economy deteriorate, our business could be harmed as subscribers may reduce or postpone spending and choose to discontinue our solutions, decrease their service level, delay subscribing for our solutions or stop purchasing our solutions all together. In addition, our efforts to attract new subscribers may be adversely affected. Weakening economic conditions may also adversely affect third parties with which we have entered into relationships and upon which we depend in order to grow our business, which could detract from the quality or timeliness of the products or services such parties provide to us and could adversely affect our reputation and relationships with our subscribers.

In uncertain and adverse economic conditions, decreased consumer spending is likely to result in a variety of negative effects such as reduction in revenue, increased costs, lower gross margin percentages and recognition of impairments of assets, including goodwill and other intangible assets. Uncertainty and adverse economic conditions may also lead to a decreased ability to collect payment for our solutions and services due primarily to a decline in the ability of our subscribers to use or access credit, including

## **Table of Contents**

through credit cards and PayPal, which is how most of our subscribers pay for our services. We also expect to continue to experience volatility in foreign exchange rates, which could adversely affect the amount of expenses we incur and the revenue we record in future periods. If any of the above risks are realized, we may experience a material adverse effect on our business, financial condition and operating results.

### ***Impairment of goodwill and other intangible assets would result in a decrease in earnings.***

Current accounting rules provide that goodwill and other intangible assets with indefinite useful lives may not be amortized, but instead must be tested for impairment at least annually. These rules also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We have substantial goodwill and other intangible assets, and we would be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or intangible assets is determined. Any impairment charges or changes to the estimated amortization periods could have a material adverse effect on our financial results.

## **Risks Related to Our Substantial Indebtedness**

### ***Our substantial level of indebtedness could materially and adversely affect our financial condition.***

We now have, and expect to continue to have, significant indebtedness that could result in a material and adverse effect on our business. As of September 30, 2015, we had approximately \$1,099.0 million of aggregate indebtedness. Under our term loan facility, we are required to repay approximately \$2.6 million of principal at the end of each quarter and are required to pay accrued interest upon the maturity of each interest accrual period, which totaled \$39.3 million in the nine months ended September 30, 2015 and which we currently estimate at \$13.1 million per fiscal quarter for 2015. Interest accrual periods under our term loan facility are typically three months in duration. The actual amounts of our debt servicing payments vary based on the amounts of indebtedness outstanding, the applicable interest accrual periods and the applicable interest rates, which vary based on prescribed formulas.

This high level of debt could have important consequences, including:

increasing our vulnerability to general adverse financial, business, economic and industry conditions, as well as other factors that are beyond our control;

requiring us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions, research and development efforts and other general corporate purposes;

limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

restricting our ability to pay dividends on our capital stock or redeem, repurchase or retire our capital stock or indebtedness;

limiting our ability to borrow additional funds;

exposing us to the risk of increased interest rates as certain of our borrowings are, and may in the future be, at variable interest rates;

requiring us to sell assets or incur additional indebtedness if we are not able to generate sufficient cash flow from operations to fund our liquidity needs;

requiring us to refinance all or a portion of our indebtedness at or before maturity; and

making it more difficult for us to fund other liquidity needs.

The occurrence of any one of these events or our failure to generate sufficient cash flow from operations could have a material adverse effect on our business, financial condition, results of operations and ability to satisfy our obligations under our outstanding credit agreement.

***The terms of our credit agreement impose restrictions on our business, reducing our operational flexibility and creating default risks. Failure to comply with these restrictions, or other events, could result in default under this agreement that could trigger an acceleration of our indebtedness that we may not be able to repay.***

Our credit agreement requires compliance with a set of financial and non-financial covenants. These covenants contain numerous restrictions on our ability to incur additional debt, make restricted payments (including any dividends or other distributions



## **Table of Contents**

in respect of our capital stock), sell assets, enter into affiliate transactions and take other actions. As a result, we may be restricted from engaging in business activities that may otherwise improve our business or from financing future operations or capital needs. Failure to comply with the covenants, if not cured or waived, could result in an event of default that could trigger acceleration of our indebtedness, which would require us to repay all amounts owing under the credit agreement and could have a material adverse impact on our business. Our credit agreement also contains provisions that trigger repayment obligations or an event of default upon a change of control, as well as various representations and warranties which, if breached, could lead to an event of default. We cannot be certain that our future operating results will be sufficient to ensure compliance with the covenants in our credit agreement or to remedy any defaults under our credit agreement. In addition, in the event of any default and related acceleration, we may not have or be able to obtain sufficient funds to make any accelerated payments.

***EIG Investors, the borrower under our credit agreement, is a holding company, and therefore its ability to make any required payment on our credit agreement depends upon the ability of its subsidiaries to pay it dividends or to advance it funds.***

EIG Investors, the borrower under our credit agreement, has no direct operations and no significant assets other than the stock of its subsidiaries. Because it conducts its operations through its operating subsidiaries, EIG Investors depends on those entities to generate the funds necessary to meet its financial obligations, including its required obligations under our credit agreement. The ability of our subsidiaries to make transfers and other distributions to EIG Investors will be subject to, among other things, the terms of any debt instruments of such subsidiaries then in effect and applicable law. If transfers or other distributions from our subsidiaries to EIG Investors were eliminated, delayed, reduced or otherwise impaired, our ability to make payments on the obligations under our credit agreement would be substantially impaired.

## **Risks Related to Ownership of Our Common Stock**

***Our stock price has been and may in the future be volatile, which could cause holders of our common stock to incur substantial losses.***

The trading price of our common stock has been and may in the future be subject to substantial price volatility. As a result of this volatility, our stockholders could incur substantial losses. The market price of our common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including the factors listed below and other factors described in this Risk Factors section:

low trading volume, which could cause even a small number of purchases or sales of our stock to have an impact on the trading price of our common stock;

our limited trading history;

price and volume fluctuations in the overall stock market from time to time;

significant volatility in the market price and trading volume of comparable companies;

actual or anticipated changes in our earnings or any financial projections we may provide to the public, or fluctuations in our operating results or in the expectations of securities analysts;

ratings changes by debt ratings agencies;

short sales, hedging and other derivative transactions involving our capital stock;

announcements of technological innovations, new products, strategic alliances, or significant agreements by us or by our competitors;

litigation involving us;

investors' general perception of us;

changes in general economic, industry and market conditions and trends; and

recruitment or departure of key personnel.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. In May 2015, a class action securities lawsuit was filed against us, and in the future we may be the target of securities litigation. Securities litigation could result in substantial costs and divert management's attention and resources from our business.

---

**Table of Contents**

***If securities or industry analysts do not publish, or cease publishing, research or reports about us, our business or our market, or if they publish negative evaluations of our stock, the price of our stock and trading volume could decline.***

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts or other parties may publish about us, our business, our market or our competitors. We do not have any control over these parties. If one or more of the analysts covering our business downgrade their evaluations of our stock, the price of our stock could decline. If one or more of these analysts cease to cover our stock, we could lose visibility in the market for our stock, which in turn could cause our stock price to decline.

***Future sales of shares of our common stock could cause the market price of our common stock to drop significantly, even if our business is doing well.***

A substantial portion of our issued and outstanding common stock can be traded without restriction at any time, and the remaining shares of our issued and outstanding common stock can be sold subject to volume limitations and other requirements applicable to affiliate sales under the federal securities laws. As such, sales of a substantial number of shares of our common stock in the public market could occur at any time. These sales, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock. In addition, we have registered 18,000,000 shares of common stock that have been issued or reserved for future issuance under our 2013 Stock Incentive Plan, which we refer to as our 2013 Plan. Of these shares, as of September 30, 2015, a total of 13,431,086 shares of our common stock are subject to outstanding options, restricted stock units and restricted stock awards, of which 2,940,673 shares are exercisable or have vested. The exercise of these options or the vesting of restricted stock units and shares of restricted stock and the subsequent sale of the common stock underlying such options or upon the vesting of such restricted stock units and restricted stock awards could cause a decline in our stock price. These sales also might make it difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. We cannot predict the size of future issuances or the effect, if any, that any future issuances may have on the market price for our common stock.

In addition, holders of an aggregate of 72,188,532 shares of our common stock have rights, subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. Once we register these shares, they can be freely sold in the public market upon issuance, subject to any applicable vesting requirements.

***Insiders have substantial control over us, which could limit your ability to influence the outcome of key transactions, including a change of control.***

As of September 30, 2015, our directors, executive officers and their affiliates beneficially own, in the aggregate, 56.7% of our issued and outstanding common stock. Specifically, investment funds and entities affiliated with Warburg Pincus own, in the aggregate, 34.8% of our issued and outstanding common stock, and investment funds and entities affiliated with Goldman Sachs own, in the aggregate, approximately 11.2% of our issued and outstanding common stock. As a result, these stockholders, if they act together, could have significant influence over the outcome of matters submitted to our stockholders for approval. Our stockholders agreement contains agreements among the parties with respect to certain matters, including the election of directors, and certain restrictions on our ability to effect specified corporate transactions. If these stockholders were to act together, they could have significant influence over the management and affairs of our company. This concentration of ownership may have the effect of delaying or preventing a change in control of our company and might affect the market price of our common stock. In particular, the significant ownership interest of investment funds and entities affiliated with either Warburg Pincus or Goldman Sachs in our common stock could adversely affect investors' perceptions of our corporate governance practices.

***Anti-takeover provisions in our restated certificate of incorporation, our amended and restated bylaws and our stockholders agreement, as well as provisions of Delaware law, might discourage, delay or prevent a change in control of our company or changes in our management and, therefore, depress the trading price of our common stock.***

Our restated certificate of incorporation, our amended and restated bylaws, our stockholders agreement and Delaware law contain provisions that may discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your shares of our common stock. These provisions may also prevent or frustrate attempts by our stockholders to replace or remove our management. Our corporate governance documents include provisions:

authorizing blank check preferred stock, which could be issued without stockholder approval and with voting, liquidation, dividend and other rights superior to our common stock;

limiting the liability of, and providing indemnification to, our directors and officers;

**Table of Contents**

limiting the ability of our stockholders to call and bring business before special meetings; provided that for so long as investment funds and entities affiliated with either Warburg Pincus or Goldman Sachs, collectively, own a majority of our issued and outstanding capital stock, special meetings of our stockholders may be called by the affirmative vote of the holders of a majority of our issued and outstanding voting stock;

providing that any action required or permitted to be taken by our stockholders must be taken at a duly called annual or special meeting of such stockholders and may not be taken by any consent in writing by such stockholders; provided that for so long as investment funds and entities affiliated with either Warburg Pincus or Goldman Sachs, collectively, own a majority of our issued and outstanding capital stock, a meeting and vote of stockholders may be dispensed with, and the action may be taken without prior notice and without such meeting and vote if a written consent is signed by the holders of issued and outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at the meeting of stockholders;

requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors; provided that no advance notice shall be required for nominations of candidates for election to our board of directors pursuant to our stockholders agreement;

controlling the procedures for the conduct and scheduling of board of directors and stockholder meetings;

providing our board of directors with the express power to postpone previously scheduled annual meetings and to cancel previously scheduled special meetings;

establishing a classified board of directors so that not all members of our board are elected at one time;

establishing Delaware as the exclusive jurisdiction for specified types of stockholder litigation involving us or our directors;

providing that for so long as investment funds and entities affiliated with Warburg Pincus have the right to designate at least three directors for election to our board of directors, certain actions required or permitted to be taken by our stockholders, including amendments to our restated certificate of incorporation or amended and restated bylaws and certain specified corporate transactions, may be effected only with the affirmative vote of 75% of our board of directors, in addition to any other vote required by applicable law;

providing that for so long as investment funds and entities affiliated with Warburg Pincus have the right to designate at least one director for election to our board of directors and for so long as investment funds and entities affiliated with Goldman Sachs have the right to designate one director for election to our board of directors, in each case, a quorum of our board of directors will not exist without at least one director designee of each of Warburg Pincus and Goldman Sachs present at such meeting; provided that if a meeting

of our board of directors fails to achieve a quorum due to the absence of a director designee of Warburg Pincus or Goldman Sachs, as applicable, the presence of a director designee of Warburg Pincus or Goldman Sachs, as applicable, will not be required in order for a quorum to exist at the next meeting of our board of directors;

limiting the determination of the number of directors on our board of directors and the filling of vacancies or newly created seats on the board to our board of directors then in office; provided that for so long as investment funds and entities affiliated with either Warburg Pincus or Goldman Sachs have the right to designate at least one director for election to our board of directors, any vacancies will be filled in accordance with the designation provisions set forth in our stockholders agreement; and

providing that directors may be removed by stockholders only for cause by the affirmative vote of the holders of at least 75% of the votes that all our stockholders would be entitled to cast in an annual election of directors; provided that any director designated by investment funds and entities affiliated with either Warburg Pincus or Goldman Sachs may be removed with or without cause only by Warburg Pincus or Goldman Sachs, respectively, and for so long as investment funds and entities affiliated with either Warburg Pincus or Goldman Sachs, collectively, hold at least a majority of our issued and outstanding capital stock, our directors, other than a director designated by investment funds and entities affiliated with either Warburg Pincus or Goldman Sachs, respectively, may be removed with or without cause by the affirmative vote of the holders of a majority of our issued and outstanding capital stock.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prevents some stockholders holding more than 15% of our issued and outstanding common stock from engaging in certain business combinations without approval of the holders of substantially all of our issued and outstanding common stock. Since the investment funds and entities affiliated with Warburg Pincus and Goldman Sachs became holders of more than 15% of our issued and outstanding common stock in a transaction that was approved by our board of directors, the restrictions of Section 203 of the Delaware General Corporation law would not apply to a business combination transaction with any investment

## Table of Contents

funds or entities affiliated with either Warburg Pincus or Goldman Sachs. In addition, our restated certificate of incorporation expressly exempts investment funds and entities affiliated with either Warburg Pincus or Goldman Sachs from the applicability of Section 203 of the Delaware General Corporation Law. Any provision of our restated certificate of incorporation or amended and restated bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock and could also affect the price that some investors are willing to pay for our common stock.

The existence of the foregoing provisions and anti-takeover measures could limit the price that investors might be willing to pay in the future for shares of our common stock. They could also deter potential acquirers of our company, thereby reducing the likelihood that you could receive a premium for your common stock in an acquisition.

***We have incurred and expect to continue to incur increased costs as a result of operating as a public company, and our management is required to devote substantial time to compliance with our public company responsibilities and corporate governance practices. We also need to ensure that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis. Failure to maintain proper and effective internal controls could impair our ability to produce accurate and timely financial statements, which could harm our operating results, our ability to operate our business, and our investors' view of us.***

As a public company, we have incurred and expect to continue to incur significant legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of The NASDAQ Global Select Market and other applicable securities rules and regulations impose various requirements on public companies. Our management and other personnel need to devote a substantial amount of time to comply with these requirements. Moreover, these rules and regulations have increased our legal and financial compliance costs and have made some activities more time-consuming and costly. These rules and regulations have made it more difficult and more expensive for us to obtain director and officer liability insurance, which could make it more difficult for us to attract and retain qualified members of our board of directors.

One aspect of complying with these rules and regulations as a public company is that we are required to ensure that we have adequate financial and accounting controls and procedures in place. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. This is a costly and time-consuming effort that needs to be re-evaluated periodically.

Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, requires that we evaluate, test and document our internal controls and, as a part of that evaluation, documentation and testing, identify areas for further attention and improvement. In addition, despite being an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, we voluntarily began to comply with the auditor attestation requirements of Section 404 beginning with our Annual Report on Form 10-K filed with the SEC on February 27, 2015. In order to continue to comply with Section 404, we will need to continue to dedicate internal resources, and potentially recruit additional finance and accounting personnel or engage outside consultants, to assess and document the adequacy of internal control over financial reporting, continue steps to improve control processes as appropriate, validate through testing that controls are functioning as documented and implement and maintain a continuous reporting and improvement process for internal control over financial reporting. Implementing and maintaining any appropriate changes to our internal controls may distract our officers and employees, entail substantial costs to modify our existing processes and take significant time to complete. These changes may not, however, be effective in maintaining the adequacy of our internal controls. Thus, despite our efforts, there is a risk that in the future we will not be able to

conclude that our internal control over financial reporting is effective as required by Section 404. Any failure to maintain the adequacy of our internal controls, consequent inability to produce accurate financial statements on a timely basis, or identification and failure to remediate one or more material weaknesses could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements and make it more difficult for us to market and sell our solutions to new and existing subscribers.

***We are currently an emerging growth company, and the reduced disclosure requirements applicable to emerging growth companies may make our common stock less attractive to investors.***

We are currently an emerging growth company, as defined in the JOBS Act. For so long as we remain an emerging growth company, we are permitted to rely on exemptions from certain disclosure requirements that are applicable to other public companies that are not emerging growth companies. Although we have not relied on many of these exemptions, we have taken advantage of reduced disclosure obligations regarding executive compensation and exemptions from the requirements of holding a non-binding advisory vote on executive compensation. Some investors may find our common stock less attractive because we have relied on these exemptions, which may result in a less active trading market for our common stock and greater volatility in our stock price.



## **Table of Contents**

### ***Certain of our stockholders have the right to engage or invest in the same or similar businesses as us.***

Investment funds and entities affiliated with either Warburg Pincus or Goldman Sachs, together, hold a controlling interest in our company. Warburg Pincus, Goldman Sachs and their respective affiliates have other investments and business activities in addition to their ownership of our company. Warburg Pincus, Goldman Sachs and their respective affiliates have the right, and have no duty to abstain from exercising the right, to engage or invest in the same or similar businesses as us. To the fullest extent permitted by law, we have, on behalf of ourselves, our subsidiaries and our and their respective stockholders, renounced any interest or expectancy in, or in being offered an opportunity to participate in, any business opportunity that may be presented to Warburg Pincus, Goldman Sachs or any of their respective affiliates, partners, principals, directors, officers, members, managers, employees or other representatives, and no such person has any duty to communicate or offer such business opportunity to us or any of our subsidiaries or shall be liable to us or any of our subsidiaries or any of our or its stockholders for breach of any duty, as a director or officer or otherwise, by reason of the fact that such person pursues or acquires such business opportunity, directs such business opportunity to another person or fails to present such business opportunity, or information regarding such business opportunity, to us or our subsidiaries, unless, in the case of any such person who is a director or officer of ours, such business opportunity is expressly offered to such director or officer in writing solely in his or her capacity as a director or officer of ours.

### ***We may not pay any dividends on our common stock for the foreseeable future.***

We do not currently anticipate that we will pay any cash dividends to holders of our common stock in the foreseeable future. Instead, we expect to retain any earnings to maintain and expand our existing operations, including through mergers and acquisitions, and to invest in the growth of our business. In addition, our ability to pay cash dividends is currently limited by the terms of our credit agreement, and any future credit agreement may contain terms prohibiting or limiting the amount of dividends that may be declared or paid on our common stock. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, to realize any return on their investment.

## **ITEM 5. OTHER INFORMATION**

### **Disclosures of Iranian Activities under Section 13(r) of the Exchange Act**

Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, or ITRA, which added Section 13(r) to the Exchange Act, we are required to disclose in our annual or quarterly reports, as applicable, whether we or any of our affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with individuals or entities that are subject to sanctions under U.S. law. Disclosure is generally required even where the activities, transactions or dealings were conducted in compliance with applicable law.

Warburg Pincus LLC, or WP LLC, affiliates of which (i) beneficially own more than 10% of our outstanding common stock and/or are members of our board of directors and (ii) beneficially own more than 10% of the equity interests of, and have the right to designate members of the board of directors of, Santander Asset Management Investment Holdings Limited, or SAMIH, has informed us that, during the reporting period, Santander UK plc, or Santander UK, and Santander ISA Managers Limited, or SIML, each of which are affiliates of SAMIH and WP LLC, engaged in activities subject to disclosure pursuant to Section 219 of ITRA and Section 13(r) of the Exchange Act. As a result, we are required to provide disclosure as set forth below pursuant to Section 219 of ITRA and Section 13(r) of the Exchange Act. WP LLC has informed us that SAMIH has provided WP LLC with the information below relevant to Section 219 of ITRA and Section 13(r) of the Exchange Act.

At the time of the events described below, SAMIH and its non-U.S. affiliates, including Santander UK and SIML, may have been deemed to be under common control with us, but this statement is not meant to be an admission that common control existed or exists. We have no control over or involvement in the activities of SAMIH or its non-U.S. affiliates, including Santander UK and SIML, or any of its subsidiaries or predecessor companies, and we were not involved in the preparation of, nor have we independently verified, the information provided by SAMIH to WP LLC. The disclosure below does not relate to any activities conducted by us and does not involve us or our management. The disclosure relates solely to activities conducted by SAMIH and its non-U.S. affiliates, including Santander UK and SIML. We are not representing to the accuracy or completeness of the disclosure below, and we undertake no obligation to correct or update this information.

We understand that SAMIH's affiliates intend to disclose in their next annual or quarterly report that Santander UK holds frozen savings accounts and one current account for two customers resident in the United Kingdom who are currently designated by the United States for terrorism. The accounts held by each customer were blocked after the customer's designation and have remained blocked and dormant throughout the nine months ended September 30, 2015. Revenue generated by Santander UK on these accounts is negligible.

---

**Table of Contents**

We also understand that SAMIH's affiliates intend to disclose in their next annual or quarterly report that an Iranian national, resident in the United Kingdom, who is currently designated by the United States under the Iran Financial Sanctions Regulations and the Weapons of Mass Destruction Proliferators Sanctions Regulations, or the NPWMD sanctions program, holds a mortgage with Santander UK that was issued prior to any such designation. No further drawdown has been made or would be allowed under this mortgage although Santander UK continues to receive repayment installments. In the nine months ended September 30, 2015, total revenue in connection with the mortgage was approximately £2,928 while net profits were negligible relative to the overall profits of Santander UK. Santander UK does not intend to enter into any new relationships with this customer, and any disbursements will only be made in accordance with applicable sanctions. The same Iranian national also holds two investment accounts with SIML. The accounts have remained frozen during the nine months ended September 30, 2015. The investment returns are being automatically reinvested, and no disbursements have been made to the customer. Total revenue for Banco Santander, S.A. in connection with the investment accounts was approximately £161 while net profits in the nine months ended September 30, 2015 were negligible relative to the overall profits of Banco Santander, S.A.

We also understand that SAMIH's affiliates intend to disclose in their next annual or quarterly report that, during the quarterly period ended September 30, 2015, two additional Santander UK customers were designated by the United States for terrorism. First, a United Kingdom national designated by the United States under the Specially Designated Global Terrorist, or SDGT, sanctions program who is on the United States Specially Designated National, or SDN, list holds a bank account which generated revenue of approximately £ 183 during the quarterly period ended September 30, 2015. A stop was placed on the account. Net profits in the quarterly period ended September 30, 2015 were negligible relative to the overall profits of Banco Santander, S.A. Second, a United Kingdom national, also designated by the United States under the SDGT sanctions program and who is also on the United States SDN list, held a bank account. No transactions were made in the quarterly period ended September 30, 2015, and the account is blocked and in arrears.

**ITEM 6. EXHIBITS**

See the Exhibit Index immediately following the signature page of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ENDURANCE INTERNATIONAL GROUP HOLDINGS, INC.

Date: November 6, 2015

By: /s/ Marc Montagner  
Marc Montagner  
Chief Financial Officer  
  
(Principal Financial Officer)

**Table of Contents****EXHIBIT INDEX**

Exhibit Number	Description of Exhibit	Incorporated by Reference			Exhibit Number	Filed Herewith
		Form	File Number	Date of Filing		
2.1	Agreement and Plan of Merger, dated October 30, 2015, by and among Constant Contact, Inc., Endurance International Group Holdings, Inc., and Paintbrush Acquisition Corporation*	8-K	001-36131	November 2, 2015	2.1	
3.1	Restated Certificate of Incorporation of the Registrant	S-1/A	333-191061	October 23, 2013	3.3	
3.2	Amended and Restated Bylaws of the Registrant	S-1/A	333-191061	October 23, 2013	3.5	
4.1	Specimen certificate evidencing shares of common stock of the Registrant	S-1/A	333-191061	October 8, 2013	4.1	
4.2	Second Amended and Restated Registration Rights Agreement, dated as of October 24, 2013, by and among the Registrant and the other parties thereto	10-Q	001-36131	November 7, 2014	4.2	
4.3	Stockholders Agreement, dated as of October 24, 2013, by and among the Registrant and certain holders of the Registrant's common stock	10-Q	001-36131	November 7, 2014	4.3	
10.1#	Employment Agreement, dated as of August 3, 2015, by and between Endurance International Group Holdings, Inc. and Marc Montagner	8-K	001-36131	August 4, 2015	10.1	
10.2#	Amendment No. 2 to Ravichandran Employment Agreement, dated as of September 18, 2015, by and between the Registrant and Hari Ravichandran	8-K	001-36131	September 21, 2015	10.2	
10.3#	Performance-Based Restricted Stock Agreement between the Registrant and Hari Ravichandran, dated September 18, 2015	8-K	001-36131	September 21, 2015	10.1	
31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended					X

Edgar Filing: Endurance International Group Holdings, Inc. - Form 10-Q

31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended	X
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X
101.INS	XBRL Instance Document	X
101.SCH	XBRL Taxonomy Extension Schema Document	X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X

\* Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Endurance agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted schedule or exhibit upon request.

# Management contract or any compensatory plan, contract or agreement.