Endurance International Group Holdings, Inc.
Form 10-Q
November 03, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
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	46-3044956
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
10 Corporate Drive, Suite 300 Burlington, Massachusetts	01803
(Address of Principal Executive Offices)	(Zip Code)

(781) 852-3200
(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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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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, 2017, there were 143,491,288 shares of the issuer's common stock, $0.0001 par value per share, outstanding.

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

	December 31, 2016	September 30, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 53,596	$ 70,521
Restricted cash	3,302	2,647
Accounts receivable	13,088	13,984
Prepaid domain name registry fees	55,444	55,742
Prepaid expenses and other current assets	28,678	29,170
Total current assets	154,108	172,064
Property and equipment—net	95,272	88,557
Goodwill	1,859,909	1,862,489
Other intangible assets—net	612,057	496,036
Deferred financing costs	4,932	3,645
Investments	15,857	15,230
Prepaid domain name registry fees, net of current portion	10,429	10,874
Other assets	3,710	2,204
Total assets	$ 2,756,274	$ 2,651,099
Liabilities, redeemable non-controlling interest and stockholders' equity		
Current liabilities:		
Accounts payable	$ 16,074	$ 13,397
Accrued expenses	67,722	75,573
Accrued interest	27,246	14,546
Deferred revenue	355,190	368,613
Current portion of notes payable	35,700	33,945
Current portion of capital lease obligations	6,690	3,166
Deferred consideration—short term	5,273	4,319
Other current liabilities	2,890	3,605
Total current liabilities	516,785	517,164
Long-term deferred revenue	89,200	90,904
Notes payable—long term, net of original issue discounts of $25,853 and $26,880 and deferred financing costs of $43,342 and $39,194, respectively	1,951,280	1,920,258
Capital lease obligations—long term	512	1,485
Deferred tax liability	39,943	46,203
Deferred consideration—long term	7,444	3,493
Other liabilities	8,974	9,889
Total liabilities	2,614,138	2,589,396
Redeemable non-controlling interest	17,753	—
Commitments and contingencies (Note 17)		
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; 134,793,857 and 138,074,911 shares issued at December 31, 2016 and September 30, 2017, respectively; 134,793,857 and 138,074,911 outstanding at December 31, 2016 and September 30,	14	14

2017, respectively		
Additional paid-in capital	868,228	917,655
Accumulated other comprehensive loss	(3,666)	(991)
Accumulated deficit	(740,193)	(854,975)
Total stockholders' equity	124,383	61,703
Total liabilities, redeemable non-controlling interest and stockholders' equity	$ 2,756,274	$ 2,651,099

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2017	2016	2017
Revenue	$291,193	$295,222	$819,019	$882,617
Cost of revenue	149,427	158,865	438,980	454,197
Gross profit	141,766	136,357	380,039	428,420
Operating expense:				
Sales and marketing	75,341	66,276	234,944	211,154
Engineering and development	23,988	19,882	67,930	60,393
General and administrative	33,399	51,269	108,508	130,929
Transaction expenses	159	—	32,257	773
Total operating expense	132,887	137,427	443,639	403,249
Income (loss) from operations	8,879	(1,070)	(63,600)	25,171
Other income (expense):				
Other income (expense), net	(4,845)	(600)	6,565	(600)
Interest income	162	203	438	506
Interest expense	(41,208)	(35,848)	(112,573)	(121,022)
Total other expense—net	(45,891)	(36,245)	(105,570)	(121,116)
Loss before income taxes and equity earnings of unconsolidated entities	(37,012)	(37,315)	(169,170)	(95,945)
Income tax expense (benefit)	(7,387)	2,982	(121,220)	11,384
Loss before equity earnings of unconsolidated entities	(29,625)	(40,297)	(47,950)	(107,329)
Equity loss (income) of unconsolidated entities, net of tax	173	(33)	1,197	(72)
Net loss	$(29,798)	$(40,264)	$(49,147)	$(107,257)
Net (loss) income attributable to non-controlling interest	(1,206)	—	(14,326)	277
Excess accretion of non-controlling interest	3,145	—	3,145	7,247
Total net income (loss) attributable to non-controlling interest	1,939	—	(11,181)	7,524
Net loss attributable to Endurance International Group Holdings, Inc.	$(31,737)	$(40,264)	$(37,966)	$(114,781)
Comprehensive income (loss):				
Foreign currency translation adjustments	112	1,070	994	2,984
Unrealized gain (loss) on cash flow hedge, net of taxes of $(65) and $48, and $(889) and $(182) for the three and nine months ended September 30, 2016 and 2017, respectively	72	83	(1,866)	(309)
Total comprehensive loss	$(31,553)	$(39,111)	$(38,838)	$(112,106)
Basic net loss per share attributable to Endurance International Group Holdings, Inc.	$(0.24)	$(0.29)	$(0.29)	$(0.84)
Diluted net loss per share attributable to Endurance International Group Holdings, Inc.	$(0.24)	$(0.29)	$(0.29)	$(0.84)
Weighted-average common shares used in computing net loss per share attributable to Endurance International Group Holdings, Inc.:				
Basic	133,550,168	137,793,609	133,038,542	136,688,115
Diluted	133,550,168	137,793,609	133,038,542	136,688,115

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30, 2016	2017
Cash flows from operating activities:		
Net loss	$(49,147)	$(107,257)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation of property and equipment	46,942	40,733
Amortization of other intangible assets	105,679	104,554
Impairment of long lived assets	8,285	13,848
Impairment of investments	—	600
Amortization of deferred financing costs	4,322	5,403
Amortization of net present value of deferred consideration	2,426	504
Dividend from minority interest	50	100
Amortization of original issue discounts	2,116	2,791
Stock-based compensation	48,218	48,749
Deferred tax (benefit) expense	(124,547)	6,442
Loss on sale of assets	(168)	(317)
Gain from unconsolidated entities	(6,565)	(72)
Loss of unconsolidated entities	1,197	—
Financing costs expensed	—	5,487
Loss on early extinguishment of debt	—	992
Gain from change in deferred consideration	(33)	—
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	1,376	(872)
Prepaid expenses and other current assets	(9,206)	(510)
Accounts payable and accrued expenses	12,294	(7,309)
Deferred revenue	58,565	15,000
Net cash provided by operating activities	101,804	128,866
Cash flows from investing activities:		
Businesses acquired in purchase transactions, net of cash acquired	(889,634)	—
Cash paid for minority investment	(5,600)	—
Purchases of property and equipment	(29,317)	(32,095)
Proceeds from sale of assets	242	292
Purchases of intangible assets	(27)	(1,966)
(Withdrawals) deposits of principal balances in restricted cash accounts	(738)	655
Net cash used in investing activities	(925,074)	(33,114)
Cash flows from financing activities:		
Proceeds from issuance of term loan and notes, net of original issue discounts	1,056,178	1,693,007
Repayments of term loans	(42,775)	(1,733,147)
Proceeds from borrowing of revolver	49,500	—
Repayment of revolver	(83,000)	—
Payment of financing costs	(52,561)	(6,304)
Payment of deferred consideration	(43,080)	(5,408)
Payment of redeemable non-controlling interest	(33,425)	(25,000)

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Principal payments on capital lease obligations	(4,372)	(5,679)
Capital investment from minority partner	2,776	—
Proceeds from exercise of stock options	2,304	1,548
Net cash provided by (used in) financing activities	851,545	(80,983)
Net effect of exchange rate on cash and cash equivalents	1,843	2,156
Net increase in cash and cash equivalents	30,118	16,925
Cash and cash equivalents:		
Beginning of period	33,030	53,596
End of period	$63,148	$70,521
Supplemental cash flow information:		
Interest paid	$91,181	$118,276
Income taxes paid	$3,399	$3,958

See accompanying notes to consolidated financial statements.

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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.

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 were eliminated on consolidation.

Segment Information

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 two segments for reporting purposes: web presence and email marketing.

The web presence segment consists predominantly of the Company's web hosting brands and related products such as domain names, website security tools, website design tools and services, ecommerce tools and other services designed to grow the online presence of a small business. The email marketing segment consists of Constant Contact email marketing tools and the SinglePlatform digital storefront product, both of which the Company acquired in the February 2016 acquisition of Constant Contact, Inc. ("Constant Contact").

The Company has experienced a number of changes in its management structure during 2017, including a change in its chief executive officer. The Company considers the chief executive officer to be the Chief Operating Decision Maker, or CODM, for purposes of assessing reportable segments and reporting units. The new CODM is undertaking an assessment of the management and financial reporting structure of the Company and expects to make changes to that structure during the fourth quarter of 2017. These changes may impact the number and makeup of the Company's segments 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, revenue recognition for multiple-element arrangements, stock-based compensation, contingent consideration, derivative instruments, certain accruals, reserves and deferred taxes.

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Unaudited Interim Financial Information

The accompanying interim consolidated balance sheet as of September 30, 2017, and the related consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2016 and 2017, cash flows for the nine months ended September 30, 2016 and 2017, 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, 2017, results of operations for the three and nine months ended September 30, 2016 and 2017 and cash flows for the nine months ended September 30, 2016 and 2017. 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, 2017.

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.

Derivative Instruments and Hedging Activities

FASB ASC 815, Derivatives and Hedging, or ASC 815, provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Company’s objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

As required by ASC 815, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

In accordance with the FASB’s fair value measurement guidance in FASB Accounting Standards Update ("ASU") 2011-4, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

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

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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

Software Development Costs

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 $2.9 million and $9.3 million, respectively, during the three and nine months ended September 30, 2016, and $2.2 million and $8.4 million, respectively, during the three and nine months ended September 30, 2017.

Goodwill

Goodwill relates to amounts that arose in connection with the Company’s various business combinations 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 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. Additionally, the reorganization or change in the number of reporting units could result in the reassignment of goodwill between reporting units and may trigger an impairment assessment.

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. As of December 31, 2016, the Company determined it operates in two segments and that each segment is its own reporting unit, and as such, the Company has two reporting units, email marketing and web presence. 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.

As of December 31, 2016, the Company determined fair values for each of the reporting units based on consideration of the income approach, the market comparable approach and the market transaction approach. For purposes of the income approach, fair value is determined based on the present value of estimated future after-tax cash flows, discounted at an appropriate risk adjusted rate. The Company uses its internal forecasts to estimate future after-tax cash flows and include an estimate of long-term future growth rates based on its most recent views of the long-term outlook for each reporting unit. Actual results may differ from those assumed in our forecasts. The Company derived its discount rates using the weighted average cost of capital, using betas observed in its industry and published rates for industries relevant to our reporting units. The Company uses discount rates that are commensurate with the risks and uncertainty inherent in the respective business and its internally developed forecasts. Discount rates used in the

Company's reporting unit valuations ranged from 11.0% to 12.0%. For purposes of the market approach, the Company uses a valuation technique in which values are derived based on market prices of comparable publicly traded companies. The Company also uses a market based valuation technique in which values are determined based on relevant observable information generated by market transactions involving comparable businesses.

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The Company assesses each valuation methodology based upon the relevance and availability of the data at the time it performs the valuation and weights the methodologies appropriately.

The carrying values of the reporting units were determined through specific allocation of assets and liabilities to the reporting units, and an apportionment method relating to our debt, whereby debt that was incurred in order to finance the acquisition of assets or businesses of a reporting unit was allocated to that reporting unit. In prior years, the Company had only one reporting unit. Subsequent to the acquisition of Constant Contact, and as described in Note 19: Segment Information, the Company determined that there is a second reporting unit relating to email marketing. The Company has allocated the fair value of the goodwill acquired through its acquisitions to the applicable reporting unit, and allocated the fair value of the goodwill acquired through its acquisition of Constant Contact to its email marketing reporting unit.

As of the Company's assessment date for 2016, the estimated fair values of its reporting units exceeded their carrying values and the Company concluded, based on the first step of the process, that no impairment existed as of that date in either of
its reporting units.

As of September 30, 2017, the Company did not have a reporting unit for which it is reasonably likely that it will fail step one of a goodwill impairment test in the near term. However, if macroeconomic conditions worsen, the Company's current financial projections are not achieved, or the Company reorganizes or changes the number of its reporting units, it is possible that the Company may experience impairments for some of its intangible assets, which may require it to recognize impairment charges.

As of December 31, 2016, the carrying value of goodwill that was allocated to the email marketing reporting unit and the web presence reporting unit was $604.3 million and $1,255.6 million, respectively. As of December 31, 2016, the fair value of the web presence segment exceeded the carrying value of its net assets by 67% and the fair value of the email marketing segment exceeded the carrying value of its net assets by 35%.

As of September 30, 2017, the carrying value of goodwill that was allocated to the email marketing reporting unit and the web presence reporting unit was $604.3 million and $1,258.2 million, respectively.

The Company had goodwill of $1.9 billion as of December 31, 2016 and September 30, 2017, and no impairment charges have been recorded to date.

The Company has experienced a number of changes in its management structure during 2017, including a change in its chief executive officer. The Company considers the chief executive officer to be the Chief Operating Decision Maker, or CODM, for purposes of assessing reportable segments and reporting units. The new CODM is undertaking an assessment of the management and financial reporting structure of the Company and expects to make changes to that structure during the fourth quarter of 2017. These changes may impact the number and makeup of the Company's reporting units. In accordance with ASC 350, if the Company changes its reporting units, goodwill will be reallocated to the newly identified reporting units.

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 other than developed technology is recognized in accordance with their estimated projected cash flows. Developed technology is amortized on a straight line basis over the estimated useful economic life which has a weighted average useful life of 7 years.

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.

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During the three and nine months ended September 30, 2017, the Company recognized an impairment charge of $13.8 million relating to certain domain name intangible assets acquired in 2014, which was recorded in cost of revenue in the consolidated statements of operations and comprehensive loss. The impairment resulted from diminished cash flows associated with this intangible asset.

During the nine months ended September 30, 2016, the Company determined that a portion of an internally developed software tool would not meet its needs following the acquisition of Constant Contact, resulting in an impairment charge of $2.0 million which was recorded in engineering and development expense in the consolidated statements of operations and comprehensive loss. Additionally, during the nine months ended September 30, 2016, the Company recognized an impairment charge of $4.9 million relating to internally developed software and developed technology relating to Webzai Ltd. (“Webzai”) acquisition, which was recorded in engineering and development expense in the consolidated statements of operations and comprehensive loss.

In total, during the nine months ended September 30, 2016, the Company incurred impairment charges of $8.3 million, which includes the $2.0 million charge to abandon a portion of the internally developed software tool and a $4.9 million charge relating to the Webzai software and developed technology, both mentioned above, and a charge of $1.4 million to impair certain acquired IPR&D projects from the Webzai acquisition that were abandoned during the three months ended March 31, 2016.

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 in connection with business combinations 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. During the nine months ended September 30, 2016, the Company identified that the acquired fair value of the remaining IPR&D acquired in connection with its acquisition of Webzai was impaired as these projects were abandoned during the three months ended March 31, 2016. At that time, the Company recorded a $1.4 million impairment charge, which is reflected in engineering and development expense in the Company’s consolidated statements of operations and comprehensive loss. No such impairment loss was identified during the nine months ended September 30, 2017.

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.

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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 FASB 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, and other 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 the business necessitates a more timely analysis.

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 $0.5 million as of December 31, 2016 and September 30, 2017, respectively. The portion of deferred revenue that is expected to be refunded at December 31, 2016 and September 30, 2017 was $2.1 million and $2.0 million, respectively. Based on refund history, approximately 84% of all refunds happen in the same fiscal month that the contract starts or renews, and approximately 95% 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 estimated 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 nonrecognized tax benefits in the three and nine months ended September 30, 2016 and 2017.

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, 2016, the Company did not incur any interest and penalties related to unrecognized tax benefits. During the three and nine months ended September 30, 2017, the

Company recognized $0.1 million in interest and $0.1 million in penalties related to unrecognized tax benefits.
Stock-Based Compensation

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The Company may issue restricted stock units, 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, net of estimated forfeitures. 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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2017	2016	2017
	(unaudited) (in thousands, except share amounts and per share data)			
Net loss attributable to Endurance International Group Holdings, Inc.	$(31,737)	$(40,264)	$(37,966)	$(114,781)
Net loss per share attributable to Endurance International Group Holdings, Inc.:				
Basic net loss per share attributable to Endurance International Group Holdings, Inc.	$(0.24)	$(0.29)	$(0.29)	$(0.84)
Diluted net loss per share attributable to Endurance International Group Holdings, Inc.	$(0.24)	$(0.29)	$(0.29)	$(0.84)
Weighted-average common shares used in computing net loss per share attributable to Endurance International Group Holdings, Inc.:				
Basic	133,550,168	137,793,609	133,038,542	136,688,115
Diluted	133,550,168	137,793,609	133,038,542	136,688,115

The following number of weighted average potentially dilutive shares were excluded from the calculation of diluted loss per share because the effect of including such potentially dilutive shares would have been anti-dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2017	2016	2017
	(unaudited)			
Restricted stock awards and units	9,554,260	7,782,806	8,605,808	6,974,708
Options	12,050,726	10,593,596	10,673,967	10,947,661
Total	21,604,986	18,376,402	19,279,775	17,922,369

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Recent Accounting Pronouncements - Recently Adopted

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting. The guidance simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification of excess tax benefits in the consolidated statements of cash flows. The Company elected to early adopt the new guidance in the fourth quarter of fiscal year 2016 which required it to reflect any adjustments as of January 1, 2016, the beginning of the annual period that included the interim period of adoption.

The impact of the adoption resulted in the following:

• Due to the Company's net shortfall position upon the time of adoption, the new standard resulted in additional tax expense in our provision for income taxes rather than paid-in capital of $0.9 million for the year ended December 31, 2016. The Company's beginning retained earnings was not impacted by the early adoption as the Company had a full valuation allowance against the U.S. deferred tax assets as of December 31, 2015.

• As a result of prior guidance that required excess tax benefits reduce taxes payable prior to recognition as an increase in paid in capital, the Company had not recognized certain deferred tax assets (loss carry-forwards) that could be attributed to tax deductions related to equity compensation in excess of compensation recognized for financial reporting. As of January 1, 2016, the Company had generated federal and state net operating loss carry-forwards due to excess tax benefits of $1.5 million and $0.7 million, respectively.

• The Company elected to eliminate the forfeiture rate and adopted the new policy to account for forfeitures in the period that they are incurred, and applied this policy on a modified retrospective basis. The impact of eliminating the forfeiture rate increased the stock compensation recorded in 2016 by $0.9 million, which included an immaterial prior period adjustment that the Company recorded through the consolidated statement of operations and comprehensive loss for the year ended December 31, 2016.

In March 2016, the FASB issued ASU No. 2016-07, Investments—Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting. This new guidance removes the requirement for retroactive adjustment when an increase or decrease in the level of ownership qualifies an investment for the equity method. This amendment is effective for fiscal years beginning after December 15, 2016. The adoption of this standard did not have a material impact on the Company's financial position or results of operations.

Recent Accounting Pronouncements - Recently Issued

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. Since then, the FASB has also issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606), Principals versus Agent Considerations and ASU 2016-10, Revenue from Contracts with Customers (Topic 606), and Identifying Performance Obligations and Licensing, which further elaborate on the original ASU No. 2014-09. The core principle of these updates is to recognize revenue 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 "modified retrospective approach"). The Company has performed an initial assessment of ASU 2014-09, and expects that this new guidance will impact the timing of when certain sales incentive payments, primarily to external parties, are charged to expense as these payments must be deferred over the expected life of the related customer relationship. The Company also expects that a small portion of its revenue recognition will be impacted by this new guidance. The Company has completed an initial quantification of the changes from adoption of ASU 2014-09, and believes that the deferral of certain sales incentive payments may materially impact the timing of expenses in the initial periods following adoption, and that future revenues will not be materially impacted by this adoption. Further, the Company expects to adopt ASU 2014-09 under the modified retrospective approach.

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In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. This new standard enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information. This amendment is effective for annual periods beginning after December 15, 2017, and early adoption is permitted. The Company is currently evaluating the impact of its pending adoption of the new standard on its consolidated financial statements, but does not believe the adoption of this ASU will have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact of its pending adoption of the new standard on its consolidated financial statements, but expects that adoption will increase its assets and liabilities.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments. This new standard clarifies certain statement of cash flow presentation issues. This amendment is effective for annual periods beginning after December 15, 2017, and early adoption is permitted. The Company is currently evaluating the impact of its pending adoption of the new standard on its consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory. This new standard improves the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. This amendment is effective for annual periods beginning after December 15, 2018, and early adoption is permitted. The Company does not believe the adoption of this ASU will have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows: Restricted Cash. This new standard requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash. This amendment is effective for annual periods beginning after December 15, 2017, and early adoption is permitted. The Company does not believe the adoption of this ASU will have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment. This new standard eliminates the second step of the goodwill impairment test described in Note 2: Goodwill, and instead requires that the entity perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. This amendment is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and should be applied on a prospective basis. The Company is currently evaluating the impact of its pending adoption of the new standard on its consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718). This new standard provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This amendment is effective for annual or interim periods in fiscal years beginning after December 15, 2017, and should be applied prospectively to an award modified on or after the adoption date. The Company is currently evaluating the impact of its pending adoption of the new standard on its consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This new guidance better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to the designation and measurement guidance for qualifying hedging relationships and to the method of presenting hedge results. The amendments in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported, to allow users to better understand the results and costs of an entity's hedging program. This new guidance is effective for fiscal years beginning after December 15, 2019. The amended presentation and disclosure guidance is required only prospectively, while the measurement guidance should be applied to hedges existing at the time of adoption through a one-time cumulative-effect adjustment to accumulated other comprehensive income with respect to the elimination of the separate measurement of ineffectiveness with a corresponding adjustment to the opening balance of the retained earnings. The Company is currently evaluating the impact of its pending adoption of the new guidance on its consolidated financial statements.

3. Acquisitions

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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.

Constant Contact, Inc.

On February 9, 2016, the Company acquired all of the outstanding shares of common stock of Constant Contact for $32.00 per share in cash, for a total purchase price of approximately $1.1 billion. Constant Contact is a leading provider of online marketing tools that are designed for small organizations, including small businesses, associations and non-profits.

The aggregate purchase price of $1.1 billion, which was paid in cash at the closing, was allocated to intangible assets consisting of subscriber relationships, developed technology and trade names of $263.0 million, $83.0 million and $52.0 million, respectively, goodwill of $604.3 million, property and equipment of $39.6 million, and working capital of $184.2 million, offset by a net deferred tax liability of $125.1 million and deferred revenue of $25.2 million. The goodwill reflects the value of expected synergies.

Goodwill related to the acquisition, which is included in the Company's email marketing reporting unit, is not deductible for tax purposes.

Summary of Deferred Consideration Related to Acquisitions

Components of short-term and long-term deferred consideration as of December 31, 2016 and September 30, 2017, consisted of the following:

	December 31, 2016		September 30, 2017	
	Short-term	Long-term	Short-term	Long-term
	(in thousands)			
Mojoness, Inc. (Acquired in 2012)	$818	$—	$—	—
Verio (Acquired in 2015)	50	—	—	—
Social Booster (Acquired in 2016)	40	25	25	—
AppMachine (Acquired in 2016)	4,365	7,419	4,294	3,493
Total	$5,273	$7,444	$4,319	$3,493

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4. Property and Equipment and Capital Lease Obligations

Components of property and equipment consisted of the following:

	December 31, 2016	September 30, 2017
	(in thousands)	
Land	$790	$ 790
Building	5,517	6,242
Software	52,130	67,987
Computers and office equipment	143,091	148,460
Furniture and fixtures	10,892	10,840
Leasehold improvements	21,244	22,202
Construction in process	6,691	10,579
Property and equipment—at cost	240,355	267,100
Less accumulated depreciation	(145,083)	(178,543)
Property and equipment—net	$95,272	$ 88,557

Depreciation expense related to property and equipment for the three months ended September 30, 2016 and 2017 was $17.0 million and $13.6 million, respectively. Depreciation expense related to property and equipment for the nine months ended September 30, 2016 and 2017 was $46.9 million and $40.7 million, respectively.

Property under capital lease with a cost basis of $24.6 million was included in software as of September 30, 2017. The net carrying value of property under capital lease as of September 30, 2017 was $4.4 million.

5. Fair Value Measurements

The following valuation hierarchy is used for disclosure of the valuation 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, 2016 and September 30, 2017, the Company's financial assets or liabilities required to be measured on a recurring basis are accrued earn-out consideration payable in connection with the 2012 acquisition of certain assets of Mojoness, Inc., or Mojo, and the 2015 interest rate cap. The Company has classified its interest rate cap discussed in Note 6 below within Level 2 of the fair value hierarchy. The Company has classified its liabilities for contingent earn-out consideration related to Mojo 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, 2017, the Company paid $0.8 million related to the earn-out provisions for the Mojo acquisition, which constituted the final payment for this acquisition.

Basis of Fair Value Measurements

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	Balance	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Balance at December 31, 2016				
Financial assets:				
Interest rate cap (included in other assets)	$979	—	$ 979	$ —
Total financial assets	$979	$ —	$ 979	$ —
Financial liabilities:				
Contingent earn-out consideration (included in deferred consideration)	$818	—	—	$ 818
Total financial liabilities	$818	$ —	$ —	$ 818
Balance at September 30, 2017				
Financial assets:				
Interest rate cap (included in other assets)	$187	—	$ 187	$ —
Total financial assets	$187	$ —	$ 187	$ —

The following table summarizes the changes in the financial liabilities measured on a recurring basis using Level 3 inputs as of September 30, 2017:

	Amount (in thousands)
Financial liabilities measured using Level 3 inputs at December 31, 2016	$ 818
Payment of contingent earn-outs related to 2012 acquisition	(818)
Change in fair value of contingent earn-outs	—
Financial liabilities measured using Level 3 inputs at September 30, 2017	$ —

6. Derivatives and Hedging Activities

Risk Management Objective of Using Derivatives

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company may enter into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company’s derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company’s known or expected cash receipts and its known or expected cash payments principally related to the Company’s investments and borrowings.

Cash Flow Hedges of Interest Rate Risk

The Company entered into a three-year interest rate cap on December 9, 2015 as part of its risk management strategy. The objective of the interest rate cap, designated as a cash flow hedge, involves the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an upfront premium. Therefore, this derivative limits the Company’s exposure if the rate rises, but also allows the Company to benefit when the rate falls.

The effective portion of changes in the fair value of derivatives that qualify as cash flow hedges is recorded in Accumulated Other Comprehensive Income ("AOCI"), and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Amounts reported in AOCI related to derivatives will be reclassified to interest expense as interest payments are made on the Company’s variable-rate debt. Any ineffective portion of the change in fair value

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of the derivatives is recognized directly in earnings. There was no ineffectiveness recorded in earnings for the three and nine months ended September 30, 2017.

As of September 30, 2017, the Company had one interest rate cap with $500.0 million notional value outstanding that was designated as a cash flow hedge of interest rate risk. The fair value of the interest rate contract included in other assets on the consolidated balance sheet as of September 30, 2017 was $0.2 million, and the Company recognized $0.2 million and $0.3 million of interest expense in the Company's consolidated statement of operations for the three and nine months ended September 30, 2017, respectively. The Company recognized a $0.3 million loss, net of a tax benefit of $(0.2) million, in AOCI for the nine months ended September 30, 2017. The Company estimates that a cumulative amount of $1.6 million will be reclassified from AOCI to interest expense (as an increase to interest expense) in the next twelve months.

7. Goodwill and Other Intangible Assets

The following table summarizes the changes in the Company's goodwill balances from December 31, 2016 to September 30, 2017 for the Company's two reporting units:

	Web Presence Unit	Email Marketing Unit	Total
	Amount	Amount	Amount
	(in thousands)	(in thousands)	(in thousands)
Goodwill balance at December 31, 2016	$ 1,255,604	$ 604,305	$ 1,859,909
Goodwill related to 2016 acquisitions	—	—	—
Foreign translation impact	2,580	—	2,580
Goodwill balance at September 30, 2017	$ 1,258,184	$ 604,305	$ 1,862,489

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.

At December 31, 2016, other intangible assets consisted of the following:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life
	(dollars in thousands)			
Developed technology	$284,005	$ 111,348	$172,657	7 years
Subscriber relationships	659,662	345,070	314,592	7 years
Trade-names	133,805	57,789	76,016	8 years
Intellectual property	34,084	10,270	23,814	13 years
Domain names available for sale	29,954	4,976	24,978	Indefinite
Leasehold interests	314	314	—	1 year
Total December 31, 2016	$1,141,824	$ 529,767	$612,057	

During the nine months ended September 30, 2016, the Company wrote-off acquired in-process research and development of $1.4 million related to its acquisition of Webzai in 2014, as the Company had abandoned certain research and development projects in favor of other projects in the quarter ended March 31, 2016, when these projects were abandoned. Additionally, during the nine months ended September 30, 2016, the Company recorded an impairment charge of $4.4 million relating to developed technology from the Webzai acquisition, after evaluating it for impairment in accordance with ASC 350.

During the three and nine months ended September 30, 2017, the Company wrote down intellectual property, specifically, certain domain names that generated domain monetization revenue, to fair value and recorded a charge of $13.8 million which is included in cost of revenue. The impairment resulted from diminishing cash flows associated with these assets.

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At September 30, 2017, other intangible assets consisted of the following:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life
	(dollars in thousands)			
Developed technology	$285,858	$ 137,578	$148,280	7 years
Subscriber relationships	659,754	408,979	250,775	7 years
Trade-names	134,056	68,288	65,768	8 years
Intellectual property	34,315	26,670	7,645	5 years
Domain names available for sale	30,362	6,794	23,568	Indefinite
Leasehold interests	314	314	—	1 year
Total September 30, 2017	$1,144,659	$ 648,623	$496,036	

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 $38.0 million and $35.3 million for the three months ended September 30, 2016 and 2017, respectively. The Company’s amortization expense is included in cost of revenue in the aggregate amounts of $105.7 million and $104.6 million for the nine months ended September 30, 2016 and 2017, respectively.

8. Investments

As of December 31, 2016 and September 30, 2017, the Company’s carrying value of investments in privately-held companies was $15.9 million and $15.2 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, 2016 and 2017, the Company purchased $0.4 million and $0.4 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 December 31, 2016 and September 30, 2017, $0.1 million and $0.2 million, respectively, relating to the Company’s investment in BlueZone was included in accounts payable and accrued expense in the Company’s consolidated balance sheet. As of December 31, 2016 and September 30, 2017, $0.0 million and $0.8 million, respectively, relating to the Company’s investment in BlueZone was included in prepaid expenses in the Company’s consolidated balance sheet.

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 a 49% ownership interest in WZ (UK) Ltd ("WZ UK"), which is a provider of technology, sales and marketing services associated with web builder solutions. On January 6, 2016, the Company exercised an option to increase its stake in WZ UK from 49% to 57.5%. Refer to Note 14: Redeemable Non-controlling Interest, for further details.

In December 2014, the Company made an aggregate investment of $15.2 million to acquire a 40% ownership interest in AppMachine B.V. (“AppMachine”), which is a developer of software that allows users to build mobile applications for smart devices such as phones and tablets. The Company acquired the remaining 60% of AppMachine on July 27, 2016.

On March 3, 2016, the Company purchased a $0.6 million convertible promissory note from a business that provides web and mobile money management solutions, with the potential for subsequent purchases of additional convertible notes. During the three months ended September 30, 2017, the Company recognized an impairment expense of $0.6 million in other expense

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in the consolidated statement of operations and comprehensive loss, as the carrying amount of the investment was deemed unrecoverable.

On April 8, 2016, the Company made an investment of $5.0 million for a 33% equity interest in Fortifico Limited, a company providing a billing, CRM, and affiliate management solution to small and mid-sized businesses. During the year ended December 31, 2016, the Company incurred a charge of $4.7 million to impair the Company's 33% equity interest in Fortifico Limited, after determining that there were diminishing projected future cash flows on this investment.

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 statements of operations and comprehensive loss. The Company recognized net losses of $0.2 million and $0.0 million for the three months ended September 30, 2016 and 2017, respectively, and net loss (gain) of $1.2 million and $(0.1) million for the nine months ended September 30, 2016 and 2017, respectively.

From time to time, the Company may make new and follow-on investments and may receive distributions from investee companies. As of September 30, 2017, the Company was not obligated to fund any follow-on investments in these investee companies.

As of September 30, 2017, the Company did not have an equity method investment in which the Company’s proportionate share of the investees’ net income or loss exceeded 10% of the Company’s consolidated assets or income from continuing operations.

9. Notes Payable

At December 31, 2016 and September 30, 2017, notes payable, net of original issuance discount and deferred financing costs, consisted of the following:

	At December 31, 2016	At September 30, 2017
	(in thousands)	
2017 First Lien Term Loan	$—	$1,625,746
2013 First Lien Term Loan	985,640	—
Incremental First Lien Term Loan	674,860	—
Notes	326,480	328,457
Revolving credit facilities	—	—
Total notes payable	1,986,980	1,954,203
Current portion of notes payable	35,700	33,945
Notes payable - long term	$1,951,280	$1,920,258

2017 First Lien Term Loan Facility

In connection with the Company's June 14, 2017 refinancing of its then-outstanding term loans (the "2017 Refinancing"), the Company entered into its current first lien term loan facility (the "2017 First Lien") with an original balance of $1,697.3 million and a maturity date of February 9, 2023. As of September 30, 2017, the 2017 First Lien had an outstanding balance of:

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	At September 30, 2017
	(in thousands)
2017 First Lien Term Loan	$1,670,277
Unamortized deferred financing costs	(23,483)
Unamortized original issue discount	(21,048)
Net 2017 First Lien Term Loan	1,625,746
Current portion of 2017 First Lien Term Loan	(33,945)
2017 First Lien Term Loan - long term	$1,591,801

The 2017 First Lien was issued at a price of 99.75% of par and automatically bears interest at the bank's reference rate unless the Company gives notice to opt for LIBOR-based interest rate term loans. The interest rate for a LIBOR-based interest term loan is 4.00% per annum plus the greater of an adjusted LIBOR and 1.00%, and the interest rate for a reference rate term loan is 3.00% per annum plus the greatest of the prime rate, the federal funds effective rate plus 0.50%, an adjusted LIBOR for a one-month interest period plus 1.00%, and 2.00%.

The 2017 First Lien requires quarterly mandatory repayments of principal. During the nine months ended September 30, 2017, the Company made two mandatory repayments of $8.5 million each, and two voluntary prepayments for a total of $10.0 million.

Interest is payable on maturity of the elected interest period for a LIBOR-based interest 2017 First Lien loan, which can be one, two, three or six months. Interest is payable at the end of each fiscal quarter for a reference rate interest 2017 First Lien loan.

2013 First Lien Term Loan Facility

The Company had a prior first lien term loan facility (the "2013 First Lien") that originated in November 2013 with an original balance of $1,050.0 million and a maturity date of November 9, 2019. As of December 31, 2016 and September 30, 2017, the 2013 First Lien had an outstanding balance of:

	At December 31, 2016	At September 30, 2017
	(in thousands)	
2013 First Lien Term Loan	$985,875	$ —
Unamortized deferred financing costs	(235)	—
Net 2013 First Lien Term Loan	985,640	—
Current portion of 2013 First Lien Term Loan	21,000	—
2013 First Lien Term Loan - long term	$964,640	$ —

The 2013 First Lien automatically bore interest at the bank's reference rate unless the Company gave notice to opt for LIBOR based interest rate term loans. Prior to February 9, 2016, the interest rate for a LIBOR based interest term loan was 4.00% plus the greater of an adjusted LIBOR and 1.00%, and the interest rate for a reference rate term loan was 3.00% per annum plus the greatest of the prime rate, the federal funds effective rate plus 0.50%, an adjusted LIBOR for a one-month interest period plus 1.00%, and 2.00%. The 2013 First Lien bore interest at a LIBOR-based rate of 5.00% during this period.

In connection with the Company's February 9, 2016 acquisition of Constant Contact and the related financing of that transaction (the "Constant Contact Financing"), the applicable margin for a LIBOR based 2013 First Lien loan increased to 5.23% per annum starting on February 9, 2016 and to 5.48% per annum starting on February 28, 2016. The applicable margin on a reference rate 2013 First Lien loan increased to 4.23% per annum starting on February 9, 2016 and to 4.48% per annum starting on February 28, 2016.

The 2013 First Lien required quarterly mandatory repayments of principal, and as a result of the Constant Contact Financing, the Company was obligated to use commercially reasonable efforts to make voluntary repayments on the 2013 First Lien to effectively double the amount of each scheduled amortization payment under this facility. During the nine months ended September 30, 2017, the Company made mandatory repayments of $2.6 million and voluntary prepayments of $2.6

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million against the 2013 First Lien prior to the 2017 Refinancing. Interest was payable on maturity of the elected interest period for a LIBOR-based 2013 First Lien loan, which could be one, two, three or six months.

Interest was payable at the end of each fiscal quarter for a reference rate 2013 First Lien loan.

As part of the 2017 Refinancing, the Company refinanced the then-outstanding 2013 First Lien balance of $980.6 million.

Incremental First Lien Term Loan Facility

In connection with the Constant Contact Financing, the Company entered into an incremental first lien term loan facility (the "Incremental First Lien") with an original balance of $735.0 million and a maturity date of February 9, 2023. As of December 31, 2016 and September 30, 2017, the Incremental First Lien had an outstanding balance of:

	At December 31, 2016	At September 30, 2017
	(in thousands)	
Incremental First Lien Term Loan	$720,300	$ —
Unamortized deferred financing costs	(25,869)	—
Unamortized original issuance discount	(19,571)	—
Net Incremental First Lien Term Loan	674,860	—
Current portion of Incremental First Lien Term Loan	14,700	—
Incremental First Lien Term Loan - long term	$660,160	$ —

The Incremental First Lien was issued at a price of 97.0% of par (subject to the payment of an additional upfront fee of 1.0% on February 28, 2016) and had scheduled principal payments equal to 0.50% of the original principal per quarter, or $3.7 million, starting September 30, 2016.

The Incremental First Lien automatically bore interest at the bank's reference rate unless the Company gave notice to opt for LIBOR-based interest rate term loans. Interest was payable on maturity of the elected interest period for a LIBOR-based interest loan, which could be one, two, three or six months. Interest was payable at the end of each fiscal quarter for a reference rate loan term loan. The interest rate for a LIBOR-based interest term loan was 5.00% per annum plus the greater of an adjusted LIBOR and 1.00%, and the interest rate for a reference rate term loan was 4.00% per annum plus the greatest of the prime rate, the federal funds effective rate plus 0.50%, an adjusted LIBOR for a one-month interest period plus 1.00%, and 2.00%.

During the nine months ended September 30, 2017, the Company made $3.7 million in mandatory prepayments against the Incremental First Lien prior to the 2017 Refinancing.

As part of the 2017 Refinancing, the Company refinanced the then-outstanding Incremental First Lien balance of $716.6 million.

Revolving Credit Facility

The Company had a revolving credit facility of $125.0 million (the "Prior Revolver") that originated in November 2013 and had a maturity date of December 22, 2016. The Company could elect to draw down against the Prior Revolver using a LIBOR-rate interest loan or an alternate base rate interest loan. The interest rate for an alternate base rate revolver loan was 5.25% per annum plus the greatest of the prime rate, the federal funds effective rate plus 0.50%, an adjusted LIBOR for a one-month interest period plus 1.00%, and 2.50%. The interest rate for a LIBOR based revolver loan was 6.25% per annum plus the greater of an adjusted LIBOR and 1.50%. There was also a non-refundable fee (the "commitment fee"), equal to 0.50% of the daily unused principal amount of the revolver payable in arrears on the last day of each fiscal quarter.

In connection with the Constant Contact Financing, the Company entered into a new revolving credit facility (the “Current Revolver”), which increased the Company’s available revolving credit to $165.0 million and extended the maturity date to February 9, 2021. The Current Revolver had a "springing" maturity date of August 10, 2019, which is no longer applicable as a result of the 2017 Refinancing. As of December 31, 2016 and September 30, 2017, the Company did not have

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any balances outstanding under the Current Revolver, and the full amount of the facility, or $165.0 million, was unused and available.

The Company has the ability to draw down against the Current Revolver using a LIBOR-based interest loan or an alternate based interest loan. LIBOR-based interest revolver loans bear interest at a rate of 4.0% per annum (subject to a leverage-based step-down) plus an adjusted LIBOR for a selected interest period. Alternate base interest revolver loans bear interest at 3.0% (subject to a leverage-based step down) plus the greatest of the prime rate, the federal funds rate plus 0.50% and an adjusted LIBOR or a one-month interest period plus 1.00%. There is also a non-refundable commitment fee, equal to 0.50% of the daily unused principal amount (subject to a leverage-based step down), which is payable in arrears on the last day of each fiscal quarter. 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 revolver loan.

Senior Notes

In connection with the Constant Contact Financing, EIG Investors issued $350.0 million aggregate principal amount of senior notes (the "Notes") with a maturity date of February 1, 2024. The Notes were issued at a price of 98.065% of par and bear interest at the rate of 10.875% per annum. The Notes have been fully and unconditionally guaranteed, on a senior unsecured basis, by the Company and its subsidiaries that guarantee the 2017 First Lien and the Current Revolver (collectively with the Company's previously existing facilities, the "Senior Credit Facilities") (including Constant Contact and certain of its subsidiaries). As of December 31, 2016 and September 30, 2017, the Notes had an outstanding balance of:

	At December 31, 2016	At September 30, 2017
	(in thousands)	
Senior Notes	$350,000	$350,000
Unamortized deferred financing costs	(17,238)	(15,711)
Unamortized original issuance discount	(6,282)	(5,832)
Net Senior Notes	326,480	328,457
Current portion of Senior Notes	—	—
Senior Notes - long term	$326,480	$328,457

Interest on the Notes is payable twice a year, on August 1 and February 1.

On January 30, 2017, the Company completed a registered exchange offer for the Notes, as required under the registration rights agreement it entered into with the initial purchasers of the Notes. All of the $350.0 million aggregate principal amount of the original notes was validly tendered for exchange as part of this exchange offer.

Presentation of Debt Issuance Costs

The Company adopted ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, beginning on January 1, 2016, and retrospectively for all periods presented. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Unamortized balances of deferred financing costs and original issue discounts relating to the term loans and the Notes are presented as a reduction of the notes payable in the Company's consolidated balance sheets. The unamortized value of deferred financing costs associated with the Company's revolving credit facility were not affected by the ASU and continue to be presented as an asset on the Company’s consolidated balance sheets.

Maturity of Notes Payable

The maturity of the notes payable at September 30, 2017 is as follows:

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Amounts maturing in:	(in thousands)
(Remainder of) 2017	$ 8,486
2018	33,945
2019	33,945
2020	33,945
2021	33,945
Thereafter	1,876,011
Total	$ 2,020,277

Interest

The Company recorded $41.2 million and $35.8 million in interest expense for the three months ended September 30, 2016 and 2017, respectively, and $112.6 million and $121.0 million, for the nine months ended September 30, 2016 and 2017, respectively.

The following table provides a summary of interest rates and interest expense for the three and nine months ended September 30, 2016 and 2017:

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2017
	(percentage per annum)			
Interest rate—LIBOR	4.49%-6.48%	5.14%-5.32%	4.49%-7.75%	5.14%-6.68%
Interest rate—reference	6.50%	*	6.50%-8.75%	*
Interest rate—Senior Notes	10.875 %	10.875 %	10.875 %	10.875 %
Non-refundable fee—unused facility	0.50 %	0.50 %	0.50 %	0.50 %
	(dollars in thousands)			
Interest expense and service fees	$37,603	$ 32,551	$ 103,111	$ 105,371
Loss on extinguishment of debt	—	—	—	992
Deferred financing fees immediately expensed	—	—	—	5,487
Amortization of deferred financing fees	1,760	1,873	4,322	5,403
Amortization of original issue discounts	844	1,059	2,116	2,791
Amortization of net present value of deferred consideration	844	127	2,426	504
Other interest expense	157	238	598	474
Total interest expense	$41,208	$ 35,848	$ 112,573	$ 121,022

* The Company did not have debt bearing interest based on the reference rate for the three months and nine months ended September 30, 2017.

The Company concluded that the 2017 Refinancing was primarily a debt modification of the existing term loans in accordance with ASC 470-50, Debt: Modifications and Extinguishments, with extinguishment relating only to a few existing lenders that did not participate in the 2017 Refinancing. As a result, the Company capitalized $4.2 million of additional original issue discounts ("OID") and $0.9 million of deferred financing costs related to new lenders participating in the 2017 First Lien. These capitalized costs will be amortized over the remaining life of the loan using the effective interest method. Additionally, the Company recorded a charge during the nine months ended September 30, 2017, included in interest expense, of $1.0 million to write off OID and deferred financing costs related to the refinanced debt for lenders not participating in the 2017 First Lien. Lastly, the Company recorded a charge of $5.5 million for the nine months ended September 30, 2017, included in interest expense, for deferred financing costs incurred for the 2017 First Lien that related to existing lenders that carried over from the refinanced debt.

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Debt Covenants

The Senior Credit Facilities require that the Company complies with a financial covenant to maintain a maximum ratio of consolidated senior secured net indebtedness to an adjusted consolidated EBITDA measure.

The Senior Credit Facilities also contain covenants that limit the Company's ability to, among other things, incur additional debt or issue certain preferred shares; pay dividends on or make other distributions in respect of capital stock; make other restricted payments; make certain investments; sell or transfer certain assets; create liens on certain assets to secure debt; consolidate, merge, sell or otherwise dispose of all or substantially all of its assets; and enter into certain transactions with affiliates. These covenants are subject to a number of important limitations and exceptions.

Additionally, the Senior Credit Facilities require the Company to comply with certain negative covenants and specify certain events of default that could result in amounts becoming payable, in whole or in part, prior to their maturity dates.

With the exception of certain equity interests and other excluded assets under the terms of the Senior Credit Facilities, substantially all of the Company's assets are pledged as collateral for the obligations under the Senior Credit Facilities. The indenture with respect to the Notes contains covenants that limit the Company's ability to, among other things, incur additional debt or issue certain preferred shares; pay dividends on or make other distributions in respect of capital stock; make other restricted payments; make certain investments; sell or transfer certain assets; create liens on certain assets to secure debt; consolidate, merge sell or otherwise dispose of all or substantially all of its assets; and enter into certain transactions with affiliates. Upon a change of control as defined in the indenture, the Company must offer to repurchase the Notes at 101% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, up to, but not including, the repurchase date. These covenants are subject to a number of important limitations and exceptions.

The indenture also provides for events of default, which, if any of them occurs, may permit or, in certain circumstances, require the principal, premium, if any, interest and any other monetary obligations on all the then outstanding Notes to be due and payable immediately.

The Company was in compliance with all covenants at September 30, 2017.

10. Stockholders’ Equity
Voting Rights
All holders of common stock are entitled to one vote per share.
The following table presents the changes in total stockholders’ equity:

	Total Stockholders’ Equity (in thousands)
Balance at December 31, 2016	$ 124,383
Stock-based compensation	47,151
Reclassification of stock-compensation liability award	450
Stock option exercises	1,548
Foreign currency translation adjustment	2,984
Unrealized loss on derivative	(309)
Net loss attributable to non-controlling interest	277
Net loss attributable to Endurance International Group Holdings, Inc.	(114,781)
Balance at September 30, 2017	$ 61,703

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11. Stock-Based Compensation

2013 Stock Incentive Plan

The Amended and Restated 2013 Stock Incentive Plan (the “2013 Plan”) of the Company became effective upon the closing of its Initial Public Offering ("IPO"). The 2013 Plan provides for the grant of options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards to employees, officers, directors, consultants and advisors of the Company. Under the 2013 Plan, the Company may issue up to 38,000,000 shares of the Company’s common stock. At September 30, 2017, there were 13,547,029 shares available for grant under the 2013 Plan.

2011 Stock Incentive Plan

As of February 9, 2016, the effective date of the acquisition of Constant Contact, the Company assumed and converted certain outstanding equity awards granted by Constant Contact under the Constant Contact 2011 Stock Incentive Plan (“2011 Plan”) prior to the effective date of the acquisition (the “Assumed Awards”) into corresponding equity awards with respect to shares of the Company’s common stock. In addition, the Company assumed certain shares of Constant Contact common stock, par value $0.01 per share, available for issuance under the 2011 Plan (the “Available Shares”), which will be available for future issuance under the 2011 Plan in satisfaction of the vesting, exercise or other settlement of options and other equity awards that may be granted by the Company following the effective date of the acquisition of Constant Contact in reliance on the prior approval of the 2011 Plan by the stockholders of Constant Contact. The Assumed Awards were converted into 2,143,987 stock options and 2,202,846 restricted stock units with respect to the Company’s common stock and the Available Shares were converted into 10,000,000 shares of the Company’s common stock reserved for future awards under the 2011 Plan. At September 30, 2017, there were 9,183,916 shares available for grant under the 2011 Plan.

The Company calculated the fair value of the exchanged awards in accordance with the provisions of ASC 718 as of the acquisition date. The Company allocated the fair value of these awards between the pre-acquisition and post-acquisition stock-based compensation expense. The Company determined that the value of the awards under this plan was $22.3 million, of which $5.4 million was attributed to the pre-acquisition period and recognized as part of the purchase consideration for Constant Contact. The balance of $16.9 million has been attributed to the post-acquisition period, and will be recognized in the
Company’s consolidated statements of operations and comprehensive loss over the vesting period of the awards.

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 Plan and the 2011 Plan:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2017	2016	2017
	(in thousands)			
Cost of revenue	$1,643	$1,553	$4,116	$4,720
Sales and marketing	1,850	2,263	6,249	7,027
Engineering and development	4,164	1,807	6,369	4,707
General and administrative	7,149	13,956	31,484	32,295
Total stock-based compensation expense	$14,806	$19,579	$48,218	$48,749

2013 Stock Incentive Plan

The following table provides a summary of the Company’s stock options as of September 30, 2017 and the stock option activity for all stock options granted under the 2013 Plan during the nine months ended September 30, 2017:

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	Stock Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value(3) (in thousands)
Outstanding at December 31, 2016	9,607,431	$ 12.79		
Granted	728,287	$ 7.82		
Exercised	—	$ —		
Forfeited	(534,886)	$ 12.71		
Expired	(288,891)	$ 14.00		
Outstanding at September 30, 2017	9,511,941	$ 12.38	7.0	$ 297
Exercisable at September 30, 2017	6,344,460	$ 12.86	6.3	$ 1
Expected to vest after September 30, 2017 (1)	3,167,481	$ 11.42	8.5	$ —
Exercisable as of September 30, 2017 and expected to vest (2)	9,511,941	$ 12.38	7.0	$ 297

(1) This represents the number of unvested options outstanding as of September 30, 2017 that are expected to vest in the future.

(2) This represents the number of vested options as of September 30, 2017 plus the number of unvested options outstanding as of September 30, 2017 that are expected to vest in the future.

(3) The aggregate intrinsic value was calculated based on the positive difference, if any, between the estimated fair value of the Company's common stock on September 30, 2017 of $8.20 per share, or the date of exercise, as appropriate, and the exercise price of the underlying options.

Restricted stock units granted under the 2013 Plan generally vest monthly over a three- or four-year period, unless otherwise determined by the Company's board of directors. 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, 2017:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2016	100,369	$ 12.00
Granted	3,827,439	$ 7.92
Vested and unissued	(553,774)	$ 7.93
Canceled	(265,070)	$ 7.85
Non-vested at September 30, 2017	3,108,964	$ 7.94

Restricted stock awards granted under the 2013 Plan generally vest annually over a four-year period, unless otherwise determined by the Company's board of directors. 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 following table provides a summary of the Company's restricted stock award activity for the 2013 Plan during the nine months ended September 30, 2017:

	Restricted Stock Awards	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2016	7,332,537	$ 13.21
Granted	160,428	$ 8.15
Vested	(1,969,623)	$ 10.70
Canceled	(200,934)	$ 11.89
Non-vested at September 30, 2017	5,322,408	$ 14.03

2015 Performance Based Award

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The performance-based restricted stock award granted to the Company's former chief executive officer ("CEO") Hari Ravichandran during 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 (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 1st to June 30th during the Performance Period (each, a "Performance Year"), at a threshold, target or maximum level of the performance metric for the Performance Year. No Awards Shares were earned for the Performance Quarter ending September 30, 2017 because the threshold level for the performance metric was not met.

Any Award Shares that are earned during the Performance Period will vest on June 30, 2018, provided that Mr. Ravichandran is employed by the Company on such date. The requirement that he be employed by the Company on June 30, 2018 is waived in the event the executive's employment is terminated due to death, disability or by the Company without cause, if the executive terminates employment with the Company for good reason, or if the executive is employed by the Company on the date of a change in control (as such terms are defined in the executive's employment agreement). Upon the occurrence of any of the foregoing events, additional Award Shares may be earned, as provided for in the performance-based restricted stock agreement.

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, 2017, the Company recognized $4.0 million and $9.6 million, respectively, of stock-based compensation expense related to this performance-based award.

In April 2017, the Company announced that its board of directors and its CEO adopted a CEO transition plan whereby Mr. Ravichandran would remain as CEO and serve as a board member while the Company conducted a search to identify his successor. The Company's new President and CEO began employment with the Company on August 22, 2017. Mr. Ravichandran is expected to end his employment with the Company during the fourth quarter of 2017. In accordance with the terms of the 2015 Performance Based Award, upon separation of employment, Mr. Ravichandran will receive the Award Shares earned with respect to Performance Quarters completed prior to the separation, plus the greater of (a) the target number of Award Shares eligible to be earned in the Performance Quarter in which the separation occurs and (b) the number of Award Shares that would have been earned in the Performance Quarter in which the separation occurs as if Mr. Ravichandran had remained employed through the end of the Performance Quarter. Based on the expected end date of Mr. Ravichandran's employment, the Company has assumed an attribution period of 2.33 years, and that approximately 1,550,000 shares ultimately will vest under the 2015 Performance Based Award.

2016 Performance Based Awards

On February 16, 2016, the compensation committee of the board of directors of the Company approved the grant of performance-based restricted stock awards to the Company's chief financial officer ("CFO"), chief operating officer ("COO") and chief administrative officer ("CAO"). Based on the Company's achievement of Constant Contact revenue, adjusted EBITDA and cash flow metrics, these shares vested on March 31, 2017 and each executive earned the maximum number of shares subject to his or her award. The CFO earned 223,214 shares of the Company's stock, the COO earned 260,416 shares of the Company's stock, and the CAO earned 148,810 shares of the Company's stock. These earned shares vested on March 31, 2017. During the three and nine months ended September 30, 2017, the Company recognized $0.0 million and $1.2 million, respectively, of stock-based compensation expense related to these performance-based awards.

New CEO Award

On August 11, 2017, the Company and Jeffrey H. Fox entered into an employment agreement (the “Employment Agreement”) appointing Mr. Fox as the Company’s president and chief executive officer effective upon his employment start date (the “Effective Date”) of August 22, 2017. The Employment Agreement provides for Mr. Fox to receive, on the Effective Date, an equity award under the Company’s Amended and Restated 2013 Stock Incentive Plan with a total value of $10,375,000 as of August 11, 2017 (the “Grant Value”), split between an award of 1,032,500 restricted stock units (the “RSU Award”) and an option to purchase 612,419 shares of the Company’s common stock (the “Stock Option Grant”).

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Two Hundred Eighty-Two Thousand Five Hundred (282,500) of the restricted stock units subject to the RSU Award vested immediately on the Effective Date, but are subject to a requirement that Mr. Fox hold the shares underlying such restricted stock units until the earlier of the third anniversary of the Effective Date, his death or disability (as defined in the Employment Agreement) or a change in control of the Company (as defined in the Employment Agreement). The Company recorded a charge of $2.2 million for these immediately vested shares during the three and nine months ended September 30, 2017. The remaining 750,000 restricted stock units subject to the RSU Award will vest over a three-year period, with 250,000 of such restricted stock units vesting annually on the anniversary of the Effective Date. The Stock Option Grant will vest over a three-year period, with one-third of the total number of shares subject to the Stock Option Grant vesting on the first anniversary of the Effective Date and the remainder vesting in equal monthly installments thereafter.

2011 Stock Incentive Plan

The following table provides a summary of the Company’s stock options as of September 30, 2017 and the stock option activity for all stock options granted under the 2011 Plan during the nine months ended September 30, 2017:

	Stock Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value(3) (in thousands)
Outstanding at December 31, 2016	1,931,830	$ 8.73		
Granted/ Exchanged	14,724	$ 8.15		
Exercised	(263,067)	$ 5.89		
Forfeited	(502,142)	$ 10.11		
Expired	(84,708)	$ 10.24		
Outstanding at September 30, 2017	1,096,637	$ 8.64	4.0	$ 847
Exercisable at September 30, 2017	642,775	$ 8.31	3.2	$ 695
Expected to vest after September 30, 2017 (1)	453,862	$ 9.12	5.1	$ 153
Exercisable as of September 30, 2017 and expected to vest (2)	1,096,637	$ 8.64	4.0	$ 847

(1) This represents the number of unvested options outstanding as of September 30, 2017 that are expected to vest in the future.

(2) This represents the number of vested options as of September 30, 2017 plus the number of unvested options outstanding as of September 30, 2017 that are expected to vest in the future.

(3) The aggregate intrinsic value was calculated based on the positive difference, if any, between the estimated fair value of the Company’s common stock on September 30, 2017 of $8.20 per share, or the date of exercise, as appropriate, and the exercise price of the underlying options.

Unless otherwise determined by the Company’s board of directors, restricted stock units granted under the 2011 Plan generally vest annually over a three- or a four-year period. The following table provides a summary of the Company’s restricted stock unit activity for the 2011 Plan during the nine months ended September 30, 2017:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2016	1,473,655	$ 9.25
Granted/ Exchanged	1,226,157	$ 7.98
Vested	(602,930)	$ 7.64
Canceled	(550,287)	$ 8.50
Non-vested at September 30, 2017	1,546,595	$ 8.25

As of September 30, 2017 the Company has approximately $17.9 million of unrecognized stock-based compensation expense related to option awards that will be recognized over 2.2 years and approximately $35.6 million of unrecognized stock-

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based compensation expense related to restricted stock awards to be recognized that will be recognized over 2.2 years for the 2013 Stock Incentive Plan.

As of September 30, 2017 the Company has approximately $1.6 million of unrecognized stock-based compensation expense related to option awards that will be recognized over 2.1 years and approximately $10.7 million of unrecognized stock-based compensation expense related to restricted stock awards to be recognized that will be recognized over 2.4 years for the 2011 Stock Incentive Plan.

12. Accumulated Other Comprehensive Income

The following table presents the components of accumulated other comprehensive loss (in thousands):

	Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Cash Flow Hedges	Total
	(in thousands)		
Balance at December 31, 2016	$(2,395)	$(1,271)	$(3,666)
Other comprehensive income (loss)	2,984	(309)	2,675
Balance at September 30, 2017	$589	$(1,580)	$(991)

13. Variable Interest Entity

The Company, through a subsidiary formed in China, has entered into various agreements with Shanghai Xiao Lan Network Technology Co., Ltd ("Shanghai Xiao") and its shareholders that allow the Company to effectively control Shanghai Xiao, making it a variable interest entity ("VIE"). Shanghai Xiao has a technology license that allows it to provide local hosting services to customers located in China.

The shareholders of Shanghai Xiao cannot transfer their equity interests without the approval of the Company, and as a result, are considered de facto agents of the Company in accordance with ASC 810-10-25-43. The Company and its de facto agents acting together have the power to direct the activities that most significantly impact the entity's economic performance and they have the obligation to absorb losses and the right to receive benefits from the entity. In situations where a de facto agency relationship is present, one party is required to be identified as the primary beneficiary. The factors considered include the presence of a principal/agent relationship, the relationship and significance of activities to the reporting entity, the variability associated with the VIE's anticipated economics and the design of the VIE. The analysis is qualitative in nature and is based on weighting the relative importance on each of the factors in relation to the specifics of the VIE arrangement. Upon the execution of the agreements with Shanghai Xiao and its shareholders, the Company performed an analysis and concluded that the Company is the party that is most closely associated with Shanghai Xiao, as it is the most exposed to the variability of the VIE's economics and therefore is the primary beneficiary of the VIE.

As of September 30, 2017, the financial position and results of operations of Shanghai Xiao are consolidated within, but are not material to, the Company's consolidated financial position or results of operations.

14. Redeemable Non-controlling Interest

In connection with a 2014 equity investment in WZ UK, on January 6, 2016, the Company exercised its option to increase its stake in WZ UK from 49% to 57.5%, thereby acquiring a controlling interest, in exchange for a payment of approximately $2.1 million to the other shareholders of WZ UK. The agreement related to the transaction provides for a put option for the then NCI shareholders to put the remaining equity interest to the Company within pre-specified put periods. As the NCI is subject to a put option that is outside the control of the Company, it was deemed a redeemable non-controlling interest and is not recorded in permanent equity, and is 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. The difference between the $10.8 million fair value of the redeemable NCI and the $30.0 million value that was expected to be paid upon exercise of the put option was being accreted over the period commencing January 6, 2016 and up to the first put option period, which commenced on the 24-month

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anniversary of the acquisition date, August 14, 2016. Adjustments to the carrying amount of the redeemable non-controlling interest were charged to additional paid-in capital.

In January 2016, the Company obtained a controlling interest in Resume Labs Limited for $1.5 million and Pseudio Limited for $1.5 million.

The agreements related to these transactions provided for put options for the NCI shareholders of each company to put the remaining equity interest to the Company within pre-specified put periods. As the NCI for these entities were subject to put options that were outside the control of the Company, they are deemed redeemable non-controlling interests and were also not recorded in permanent equity, and were presented as part of the mezzanine redeemable non-controlling interest on the consolidated balance sheet.

On May 16, 2016, the Company amended the put option with respect to WZ UK to allow it to acquire an additional equity interest in WZ UK earlier than August 2016. Pursuant to this amended option, on the same date the Company acquired an additional 20% stake in WZ UK for $15.4 million, thus increasing its ownership interest from 57.5% to 77.5%.

On July 13, 2016, WZ UK completed a restructuring pursuant to which Pseudio Limited and Resume Labs became wholly-owned subsidiaries of WZ UK. As a result of the restructuring, WZ UK became the 100% owner of Pseudio Limited and Resume Labs Limited. Immediately subsequent to the restructuring, the Company acquired additional equity in WZ UK for $18.0 million, bringing the Company's aggregate stake in WZ UK to 86.4%. The restructuring significantly reduced the amount of the potential redemption amount payable to the minority shareholders of WZ UK, and gave the Company the flexibility to reduce investments in this business. Based on these reduced investments, the estimated value of the non-controlling interest was below the expected redemption amount of $25.0 million, which resulted in $14.2 million of excess accretion that reduced income available to common shareholders for the period starting on the date of the restructuring through the redemption date of July 1, 2017. The Company recognized excess accretion of $0.0 million and $7.2 million for the three and nine months ended September 30, 2017, respectively, which is reflected in net loss attributable to accretion of non-controlling interest in the Company's consolidated statements of operations and comprehensive loss. Prior to the third quarter of 2016, the Company did not have any accretion amounts in excess of fair value. On July 7, 2017, the Company redeemed the remaining redeemable non-controlling interest for $25.0 million.

The following table presents changes in this redeemable non-controlling interest:

	Redeemable noncontrolling Interest (in thousands)
Balance as of December 31, 2016	$ 17,753
Accretion in excess of fair value	7,247
Payment of redeemable non-controlling interest	(25,000)
Balance as of September 30, 2017	$ —

The Company starts accreting non-controlling interest to its redeemable value from the date the redemption of the non-controlling interest becomes probable through the earliest redemption date. If the non-controlling interest is redeemable at an amount higher than its fair value, the excess accretion is taken into consideration in the calculation of loss per share.

15. Income Taxes

The Company files income tax returns in the United States for federal income taxes and in various state jurisdictions. 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, it 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 utilized. The Company is currently under audit in India for fiscal years ended March 31, 2014, 2015 and 2016 and Israel for the fiscal years ended December 31, 2012, 2013, 2014 and 2015.

The statutes of limitations in the Company's other tax jurisdictions, United Kingdom, Netherlands and Brazil, remain open for various periods between 2012 and the present. However, carryforward attributes from prior years may still be adjusted upon examination by tax authorities if they are used in an open period. The Company does not expect material changes as a result of the India and Israel audits.

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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. During the quarter ended September 30, 2017, management has concluded that the Company's material tax positions require the recording of an ASC 740-10 reserve, with interest and penalties, for uncertain income tax positions as of September 30, 2017. The Company has unrecognized tax positions at December 31, 2016 and September 30, 2017 of $0.0 million and $1.1 million 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 ("NOL") incurred from the Company's inception to September 30, 2017;
- Expiration of various federal, state and foreign tax attributes;
- Reversals of existing temporary differences;
- Composition and cumulative amounts of existing temporary differences; and
- Forecasted profit before tax.

Prior to the February 2016 acquisition of Constant Contact, the Company maintained a valuation allowance against certain deferred tax assets. The acquisition of Constant Contacted resulted in a significant increase in deferred tax liabilities, which far exceeded pre-acquisition deferred tax assets. The Company, with the significant deferred tax liabilities resulting from Constant Contact acquisition, scheduled out the reversal of the consolidated U.S. deferred tax assets and liabilities, and determined that these reversals would be sufficient to realize a significant portion of deferred tax assets that existed at the date of acquisition, and provided a valuation allowance against those deferred tax assets that were not likely to be realized. The deferred tax liabilities supporting the realizability of these deferred tax assets in the acquisition will reverse in the same period, are in the same jurisdiction and are of the same character as the temporary differences that gave rise to these deferred tax assets. After completing the scheduling analysis, the Company determined that it should maintain valuation allowances on several of the legacy state net operating loss carryforwards expected to expire unused. The reversal of valuation allowances following this scheduling analysis resulted in the recording of a tax benefit of $73.6 million during the quarter ended March 31, 2016.
For the year ended December 31, 2016, the Company updated the scheduling of the reversal of the consolidated U.S. deferred tax assets and liabilities. Following the acquisition, deferred tax liabilities have decreased and the Company generated additional pre-tax losses. As of December 31, 2016, the scheduling of the reversal of the consolidated U.S. deferred tax assets and liabilities generated sufficient income to utilize U.S. deferred tax assets with the exception of certain federal credits and state net operating loss and credit carryforwards. Accordingly, the Company increased its valuation allowance by $10.0 million during the last three quarters of fiscal year 2016.
The Company updated the scheduling of the reversal of the consolidated U.S. deferred tax assets and liabilities for the period ended September 30, 2017, as the deferred tax liabilities have continued to decrease and the Company generated additional pre-tax losses. As of September 30, 2017, the Company has determined that the reversal of temporary differences will no longer generate sufficient income to utilize certain of its consolidated deferred tax assets in the United States. Accordingly, the Company recorded an increase of $10.4 million to its valuation allowance during the quarter ended September 30, 2017, mostly related to the different book and tax treatment of goodwill.
For the three months ended September 30, 2016 and 2017, the Company recognized a tax benefit of $7.4 million and a tax expense of $3.0 million, respectively, in the consolidated statements of operations and comprehensive loss. The income tax expense for the three months ended September 30, 2017 was primarily attributable to a federal and state deferred tax expense of $1.9 million due primarily to the different book and tax treatment of goodwill, federal and state current income taxes of $0.2 million, a foreign current tax expense of $0.7 million, and a foreign deferred tax expense of $0.2 million. The income tax benefit for the three months ended September 30, 2016 was primarily attributable to a federal and state deferred tax benefit of $9.1 million, a benefit for federal and state current income taxes of $0.1 million, partially offset by a $1.6 million deferred tax expense for the reversal of the valuation

allowance, and a foreign current tax expense of $0.3 million.

For the nine months ended September 30, 2016 and 2017, the Company recognized tax benefit of $121.2 million and a tax expense of $11.4 million, respectively, in the consolidated statements of operations and comprehensive loss. The income tax expense for the nine months ended September 30, 2017 was primarily attributable to a federal and state deferred tax expense of $7.3 million related to the differences in accounting treatment of goodwill under U.S. GAAP and tax accounting for goodwill, federal and state current income taxes of $2.6 million, a foreign current tax expense of $2.3 million, offset by a foreign deferred tax benefit of $0.8 million. The income tax benefit for the nine months ended September 30, 2016 was primarily attributable to a $72.8 million reversal of the valuation allowance, a federal and state deferred tax benefit of $49.7 million, which includes the identification and recognition of $7.3 million of U.S. federal research and development credits, and a foreign deferred tax benefit of $2.1 million, partially offset by a provision for federal and state current income taxes of $1.4 million and foreign current tax expense of $2.0 million.

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 the application of valuation allowances against U.S. and foreign assets, as well as state income taxes and certain expenses that were non-deductible.

As of December 31, 2016, the Company had NOL carry-forwards available to offset future U.S. federal taxable income of approximately $142.7 million and future state taxable income of approximately $125.6 million. These NOL carry-forwards expire on various dates through 2036.

As of December 31, 2016, the Company had NOL carry-forwards in foreign jurisdictions available to offset future foreign taxable income by approximately $96.8 million. The Company has loss carry-forwards that begin to expire in 2021 in India totaling $2.5 million and in China totaling $0.3 million. The Company has loss carry-forwards that begin to expire in 2020 in the Netherlands totaling $10.7 million. The Company also has loss carry-forwards in the United Kingdom, Israel and Singapore of $81.1 million, $1.9 million, and $0.3 million, respectively, which have an indefinite carry-forward period.

In addition, the Company has $3.4 million of U.S. federal capital loss carry-forwards and $1.4 million in state capital loss carry-forwards, generally expiring through 2021. As of December 31, 2016, the Company had U.S. tax credit carryforwards available to offset future U.S. federal and state taxes of approximately $20.3 million and $12.2 million, respectively. These credit carryforwards expire on various dates through 2036.

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 in 2011. 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 its IPO, to December 31, 2014. The Company concluded that there was not a Section 382 ownership change during this period and therefore any NOLs generated through December 31, 2014, are not subject to any new Section 382 limitations on NOL carry-forwards. On November 20, 2014, the Company completed a follow-on offering of 13,000,000 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 performed an analysis of the impact of this offering and determined that no Section 382 change in ownership had occurred.

On March 11, 2015, the Company completed 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 completed an analysis of its ownership changes in the first half of 2016, which resulted in no ownership-change for tax purposes within the meaning of the Internal Revenue Code Section 382(g).

16. Severance and Other Exit Costs

The Company continues to evaluate its data center, sales and marketing, support and engineering operations and the general and administrative function in an effort to optimize its cost structure. As a result, the Company may incur charges for employee severance, exiting facilities and restructuring data center commitments and other related costs.

2017 Restructuring Plan

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In January 2017, the Company announced plans to close certain offices as part of a plan to consolidate certain web presence customer support operations, resulting in severance costs (the "2017 Restructuring Plan"). These severance charges were associated with the elimination of approximately 660 positions, primarily in customer support. Additionally, the Company implemented additional restructuring plans to create operational efficiencies and synergies related to the Constant Contact acquisition, which resulted in additional severance charges for the elimination of approximately 50 positions. In connection with these plans, the Company incurred severance costs of $3.9 million and $12.8 million, and paid $3.0 million and $6.8 million, during the three and nine months ended September 30, 2017, respectively. The Company had a remaining accrued severance liability of $6.0 million as of September 30, 2017.

In connection with the 2017 Restructuring Plan, the Company closed offices in Orem, Utah and relocated certain employees to our Tempe, Arizona office. During the three and nine months ended September 30, 2017, the Company incurred facility charges of $0.3 million and $0.9 million, respectively. The Company made payments of $0.3 million and $0.3 million during the three and nine months ended September 30, 2017, and had a remaining accrued facility liability of $0.6 million as of September 30, 2017.

The Company expects to incur severance charges related to the 2017 Restructuring Plan through December 31, 2017, and expects to complete severance payments related to this plan during the year ended December 31, 2018.

2016 Restructuring Plan

In connection with the Company's acquisition of Constant Contact on February 9, 2016, the Company implemented a plan to create operational efficiencies and synergies resulting in severance costs and facility exit costs (the "2016 Restructuring Plan").

The severance charges were associated with the elimination of approximately 265 positions across the business. The Company did not incur additional severance costs during the three and nine months ended September 30, 2017. The Company paid $0.2 million and $1.6 million of severance costs during the three and nine months ended September 30, 2017, respectively. There is no severance accrual remaining as of September 30, 2017.

The 2016 Restructuring Plan included the closure of offices in San Francisco, California, Delray Beach, Florida, New York, New York, Miami, Florida, the United Kingdom and Brazil, and the relocation of certain employees to our Austin, Texas office. The Company also closed a portion of the Constant Contact offices in Waltham, Massachusetts. During the three and nine months ended September 30, 2017, the Company recorded an adjustment to the Waltham facilities charge for future lease payments of $0.3 million and $0.8 million, respectively, due to a change in estimated sublease income. The Company paid $1.3 million and $3.7 million of facility costs related to the 2016 Restructuring Plan during the three and nine months ended September 30, 2017, respectively, and had a remaining accrued facility liability of $5.8 million as of September 30, 2017.

The Company incurred all employee-related charges associated with the 2016 Restructuring Plan during the year ended December 31, 2016, and expects severance payments related to the 2016 Restructuring Plan to be completed during the year ended December 31, 2017.

Other than the adjustment mentioned above, the Company completed facility-related charges associated with the 2016 Restructuring Plan during the year ended December 31, 2016, and expects to complete facility exit cost payments related to this plan during the year ended December 31, 2022.

Activity of Combined Restructuring Plans

The following table provides a summary of the aggregate activity for the nine months ended September 30, 2017 related to the Company's combined restructuring plans' severance accrual:

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	Employee Severance (in thousands)		
	Web presence segment	Email marketing segment	Total
Balance at December 31, 2016	$633	$ 926	$1,559
Severance charges	8,804	4,083	12,887
Cash paid	(4,530)	(3,899)	(8,429)
Balance at September 30, 2017	$4,907	$ 1,110	$6,017

The following table provides a summary of the aggregate activity for the nine months ended September 30, 2017 related to the Company’s combined restructuring plans' facilities exit accrual:

	Facilities (in thousands)		
	Web presence segment	Email marketing segment	Total
Balance at December 31, 2016	$273	$ 8,747	$9,020
Facility adjustments	915	783	1,698
Sublease income received	532	—	532
Cash paid	(973)	(3,719)	(4,692)
Balance at September 30, 2017	$747	$ 5,811	$6,558

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2017	2016	2017
	(in thousands)			
Cost of revenue	$3,127	$449	$8,729	$3,892
Sales and marketing	1,189	1,011	6,357	3,260
Engineering and development	1,014	271	4,256	1,349
General and administrative	1,047	2,758	4,300	6,083
Total restructuring charges	$6,377	$4,489	$23,642	$14,584

17. 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. The Company is not presently involved in any such legal proceeding or subject to any such claim that, in the opinion of its management would have a material adverse effect on its business, operating results or financial condition. However, the results of such legal proceedings or claims cannot be predicted with certainty, and regardless of the outcome, can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources and other factors. Neither the ultimate outcome of the matters listed below nor an estimate of any probable losses or any reasonably possible losses (other than the SEC investigations reserve discussed below) can be assessed at this time.

The Company received a subpoena dated December 10, 2015 from the Boston Regional Office of the SEC, requiring the production of certain documents, including, among other things, documents related to its financial reporting, including operating and non-GAAP metrics, refund, sales and marketing practices and transactions with related parties. The Company is fully cooperating with the SEC’s investigation. The Company is also in discussions with the Boston Regional Office regarding a potential resolution of its investigation, and has reserved $8.0 million in connection with a potential resolution of both this investigation and the Constant Contact investigation discussed below. The Company can make no assurances as to whether the investigation will be resolved by agreement and/or the

time or resources that will need to be devoted to this investigation or its final outcome, or the impact, if any, of this investigation or any related legal or regulatory proceedings on the Company’s business, financial condition, results of operations and cash flows.
On May 4, 2015, Christopher Machado, a purported holder of the Company’s common stock, filed a civil action in the United States District Court for the District of Massachusetts against the Company and its former chief executive officer and former chief financial officer, captioned Machado v. Endurance International Group Holdings, Inc., et al., Civil Action

No. 1:15-cv-11775-GAO. The plaintiff filed an amended complaint on December 8, 2015, and a second amended complaint on March 18, 2016. The Company moved to dismiss the second amended complaint, but before the court ruled on the Company's motion, with the Company's assent, the plaintiff filed a third amended complaint on June 30, 2017. In the third amended complaint, plaintiffs Christopher Machado and Michael Rubin allege claims for violations of Section 10(b) and 20(a) of the Exchange Act, and Sections 11, 12(a)(2), and 15 of the Securities Act, on behalf of a purported class of purchasers of the Company’s securities between October 25, 2013 and December 16, 2015, including persons or entities who purchased or acquired the Company's shares pursuant or traceable to the registration statement and prospectus issued in connection with the Company's October 25, 2013 initial public offering. The plaintiffs challenge as false or misleading certain of the Company’s disclosures about the total number of subscribers, average revenue per subscriber, the number of customers paying over $500 per year for the Company’s products and services, and the average number of products sold per subscriber. The plaintiffs seek, on behalf of themselves and the purported class, compensatory damages, rescissory damages as to class members who purchased shares pursuant to the offering and the plaintiffs' costs and expenses of litigation. The Company moved to dismiss the third amended complaint on August 29, 2017. The plaintiffs' memorandum in opposition to the Company's motion to dismiss was filed on October 30, 2017 and the Company's reply memorandum is due on December 14, 2017. The Company and the individual defendants intend to deny any liability or wrongdoing and to vigorously defend all claims asserted. The Company cannot, however, make any assurances as to the outcome of the proceeding.

Constant Contact

On February 9, 2016, the Company acquired all of the outstanding shares of common stock of Constant Contact.

On December 10, 2015, Constant Contact received a subpoena from the Boston Regional Office of the SEC, requiring the production of documents pertaining to Constant Contact’s sales, marketing, and customer retention practices, as well as periodic public disclosure of financial and operating metrics. The Company is fully cooperating with the SEC’s investigation. As discussed above, the Company is in discussions with the Boston Regional Office regarding a potential resolution of its investigation, and has reserved $8.0 million during the three and nine months ended September 30, 2017 in connection with a potential resolution of both this investigation and the Endurance investigation discussed above. The Company can make no assurances as to whether the investigation will be resolved by agreement and/or the time or resources that will need to be devoted to this investigation or its final outcome, or the impact, if any, of this investigation or any related legal or regulatory proceedings on the Company’s business, financial condition, results of operations and cash flows.

On August 7, 2015, a purported class action lawsuit, William McGee v. Constant Contact, Inc., et al, was filed in the United States District Court for the District of Massachusetts against Constant Contact and two of its former officers. An amended complaint, which named an additional former officer as a defendant, was filed December 19, 2016. The lawsuit asserts claims under Sections 10(b) and 20(a) of the Exchange Act, and is premised on allegedly false and/or misleading statements, and non-disclosure of material facts, regarding Constant Contact’s business, operations, prospects and performance during the proposed class period of October 23, 2014 to July 23, 2015. This litigation remains in its early stages. The Company and the individual defendants intend to vigorously defend all claims asserted. The Company cannot, however, make any assurances as to the outcome of this proceeding.

In August 2012, RPost Holdings, Inc., RPost Communications Limited and RMail Limited, or collectively, RPost, filed a complaint in the United States District Court for the Eastern District of Texas that named Constant Contact as a defendant in a lawsuit. The complaint alleged that certain elements of Constant Contact’s email marketing technology infringe five patents held by RPost. RPost seeks an award for damages in an unspecified amount and injunctive relief. In February 2013, RPost amended its complaint to name five of Constant Contact’s marketing partners as defendants. Under Constant Contact’s contractual agreements with these marketing partners, it is obligated to indemnify them for claims related to patent infringement. Constant Contact filed a motion to sever and stay the claims against its partners and multiple motions to dismiss the claims against it. In January 2014, the case was stayed pending the resolution of certain state court and bankruptcy actions involving RPost, to which Constant Contact is not a party. The case continues to be stayed pending the state court and bankruptcy actions. Meanwhile, RPost asserted the same patents asserted against Constant Contact in litigation against Go Daddy. In June 2016, Go Daddy succeeded in invalidating all of those RPost patents. On July 7, 2016, RPost appealed the District Court order to the United States Court of

Appeal for the Federal Circuit. On November 14, 2016, Endurance filed an amicus brief in the Federal Circuit in support of GoDaddy’s position. The case was argued on May 3, 2017, and the Federal Circuit issued an order without opinion affirming the district court’s decision that the RPost patents are invalid. On June 5, 2017, RPost filed a Combined Petition for Panel Rehearing and Rehearing En Banc. On July 6, 2017, the Federal Circuit invited GoDaddy to respond to RPost’s Petition, and on August 8, 2017, the Federal Circuit denied RPost's peition for panel rehearing and rehearing en banc. RPost has until November 9, 2017 to file a write of certiorari with the Supreme Court. If RPost does not file a writ of certiorari or the Supreme Court does not take this case, all claims asserted by RPost against Constant Contact in December 2012 will remain invalid except for one claim from one patent. Constant Contact has notified

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RPost that it believes the remaining claim is invalid in light of the other litigation that RPost lost. RPost has refused to dismiss its case against Constant Contact until it has exhausted all of its appeals.

On December 11, 2015, a putative class action lawsuit relating to the Constant Contact acquisition, captioned Irfan Chawdry, Individually and On Behalf of All Others Similarly Situated v. Gail Goodman, et al. Case No. 11797, and on December 21, 2015, a putative class action lawsuit relating to the acquisition captioned David V. Myers, Individually and On Behalf of All Others Similarly Situated v. Gail Goodman, et al. Case No. 11828 (together, the "Complaints") were filed in the Court of Chancery of the State of Delaware, naming Constant Contact, each of Constant Contact's directors, Endurance and Paintbrush Acquisition Corporation as defendants. The Complaints generally alleged, among other things, that in connection with the acquisition the directors of Constant Contact breached their fiduciary duties owed to the stockholders of Constant Contact by agreeing to sell Constant Contact for purportedly inadequate consideration, engaging in a flawed sales process, omitting material information necessary for stockholders to make an informed vote, and agreeing to a number of purportedly preclusive deal protection devices. The Complaints sought, among other things, to rescind the acquisition, as well as an award of plaintiffs' attorneys' fees and costs in the action. The Complaints were consolidated on January 12, 2016. On December 5, 2016, plaintiff Myers filed a consolidated amended complaint (the "Amended Complaint"), which named as defendants the former Constant Contact directors and Morgan Stanley & Co. LLC ("Morgan Stanley"), Constant Contact's financial advisor for the acquisition. The Amended Complaint generally alleged breach of fiduciary duty by the former directors, and aiding and abetting the alleged breach by Morgan Stanley. The Constant Contact defendants filed a motion to dismiss the Amended Complaint on December 15, 2016 and an opening brief in support of the motion to dismiss on March 17, 2017. Plaintiff Myers filed an opposition brief to the motion to dismiss on May 17, 2017, and the Constant Contact defendants' reply brief was filed on June 19, 2017. Oral argument took place on October 16, 2017 and the court gave the plaintiff 30 days to consider whether to withdraw the case or move forward and receive a decision on the motion to dismiss. On November 2, 2017, the court entered a Stipulation and Order dismissing the case.

18. Related Party Transactions

The Company has various agreements in place with related parties. Below are details of material related party transactions that occurred during the nine months ended September 30, 2016 and 2017.

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, and an office space lease. These entities are owned directly or indirectly by family members of the Company's former chief executive officer, who is also a holder of more than 5.0% of the Company's capital stock.

The following table presents the amounts of related party transactions recorded in the consolidated statements of operations and comprehensive loss for the periods presented relating to services provided by Tregaron and its affiliates under these agreements:

As of December 31, 2016, approximately $1.3 million was included in accounts payable and accrued expense relating to services provided by Tregaron. As of September 30, 2017, approximately $1.5 million was included in accounts payable and accrued expense relating to services provided by Tregaron.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2017	2016	2017
	(in thousands)		(in thousands)	
Cost of revenue	$3,000	$3,100	$9,400	$9,100
Sales and marketing	150	500	350	1,000
Engineering and development	300	200	900	850
General and administrative	100	50	200	150
Total related party transaction expense, net	$3,550	$3,850	$10,850	$11,100

Innovative Business Services, LLC:

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The Company also has agreements with Innovative Business Services, LLC (“IBS”), which provides multi-layered third-party security and website performance applications that are sold by the Company. IBS is indirectly majority owned by a director of the Company and by the Company’s former chief executive officer, who is a holder of more than 5.0% of the Company's capital stock. During the quarter ended March 31, 2017, the Company’s principal agreement with this entity was amended to permit the Company to purchase a specific IBS website performance product at no charge, and in exchange, to increase the revenue share to IBS on certain website performance products. The Company records revenue on the sale of IBS products on a net basis, since the Company views IBS as the primary obligor to deliver these services. As a result, the revenue share paid by the Company to IBS is recorded as contra-revenue. Further, IBS pays the Company a fee on sales made by IBS directly to customers of the Company. The Company records these fees as revenue.

The following table presents the amounts of related party transactions recorded in the consolidated statements of operations and comprehensive loss for the periods presented relating to services provided by IBS and its affiliates under these agreements:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2017	2016	2017
	(in thousands)		(in thousands)	
Revenue	$(900)	$(1,050)	$(2,200)	$(2,150)
Revenue (contra)	1,800	1,850	5,900	4,050
Total related party transaction impact to revenue	$900	$800	$3,700	$1,900
Cost of revenue	150	150	500	350
Total related party transaction expense, net	$1,050	$950	$4,200	$2,250

As of December 31, 2016 and September 30, 2017, approximately $0.2 million and $0.1 million, respectively, was included in prepaid expenses and other current assets relating to the Company’s agreements with IBS.

As of December 31, 2016 and September 30, 2017, approximately $1.1 million and $1.2 million, respectively was included in accounts payable and accrued expense relating to the Company’s agreements with IBS.

As of December 31, 2016 and September 30, 2017, approximately $0.6 million and $0.7 million, respectively, was included in accounts receivable relating to the Company’s agreements with IBS.

Goldman, Sachs & Co.:

The Company entered into a three-year interest rate cap on December 9, 2015 with a subsidiary of Goldman, Sachs & Co. ("Goldman"). Goldman is a significant shareholder of the Company. Refer to Note 5: Fair Value Measurements, for further details.

Goldman Sachs Lending Partners LLC, a subsidiary of Goldman, was one of the joint bookrunners and joint lead arrangers for the 2017 Refinancing. In that capacity, Goldman Sachs Lending Partners LLC received an arrangement fee of $0.5 million, and was reimbursed for an immaterial amount of expenses.

19. Segment Information

Operating segments are defined as components of an enterprise that engage in business activities for which discrete financial information is available and regularly reviewed by the chief operating decision maker. The Company's chief executive officer is the Company's chief operating decision maker.

On February 9, 2016, the Company acquired Constant Contact and evaluated the criteria in ASC 280-10-50-11 contemporaneously with this acquisition. Based on the Company's original evaluation, the Company believed that it met the qualitative aggregation criteria in ASC 280-10-50-11, and that the economic characteristics of the Constant Contact and legacy businesses were similar. In particular, at the time of this evaluation, the Company expected that the gross margin of Constant Contact and its legacy business would be similar. However, beginning with the second quarter of 2016, the Company recognized that the legacy business did not meet expectations and as such resulted in lower legacy gross margin than originally

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anticipated. This was expected to reverse in the near term, however, it continued into the third and fourth quarter of 2016. As such, during the Company's annual assessment of segments, and due to the resulting 2016 legacy performance, the Company determined it had two reportable segments:

• Email marketing, which includes the products and services acquired as part of the Constant Contact acquisition in February 2016. The services included in this segment are primarily email marketing, and to a lesser extent, event marketing, survey tools and the Single Platform digital storefront product.

• Web presence, which consists of all of the Company's web hosting and related services such as domain names, website security, website design tools and services, ecommerce services and other services and tools to expand the online presence of a small business.

The Company measures profitability of these segments based on revenue, gross profit, and adjusted EBITDA. The accounting policies of each segment are the same as those described in the summary of significant accounting policies; please refer to Note 2: Summary of Significant Accounting Policies, for further details. The following tables contain financial information for each reportable segment for the three months and nine months ended September 30, 2016 and 2017:

	Three Months Ended September 30, 2016			Three Months Ended September 30, 2017		
	Web presence	Email marketing	Total	Web presence	Email marketing	Total
	(in thousands)			(in thousands)		
Revenue	$195,275	$95,918	$291,193	$193,696	$101,526	$295,222
Gross profit	$89,059	$52,707	$141,766	$71,071	$65,286	$136,357
Net loss	$(19,886)	$(9,912)	$(29,798)	$(42,466)	$2,202	$(40,264)
Interest expense, net (1)	18,244	22,802	41,046	15,131	20,514	35,645
Income tax (benefit) expense	(1,435)	(5,952)	(7,387)	1,659	1,323	2,982
Depreciation	9,173	7,837	17,010	10,338	3,233	13,571
Amortization of other intangible assets	19,729	18,253	37,982	16,577	18,770	35,347
Stock-based compensation	12,703	2,103	14,806	17,912	1,668	19,580
Restructuring expenses	541	5,836	6,377	3,806	682	4,488
Transaction expenses and charges	159	—	159	—	—	—
SEC investigations reserve	—	—	—	5,249	2,751	8,000
Loss (gain) of unconsolidated entities (2)	5,018	—	5,018	(33)	—	(33)
Impairment of other long-lived assets (3)	—	—	—	14,448	—	14,448
Adjusted EBITDA	$44,246	$40,967	$85,213	$42,621	$51,143	$93,764

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	Nine Months Ended September 30, 2016			Nine Months Ended September 30, 2017		
	Web presence	Email marketing	Total	Web presence	Email marketing	Total
	(in thousands)			(in thousands)		
Revenue	$589,364	$229,655	$819,019	$584,217	$298,400	$882,617
Gross profit	$265,610	$114,429	$380,039	$240,239	$188,181	$428,420
Net income (loss)	$2,787	$(51,934)	$(49,147)	$(99,232)	$(8,025)	$(107,257)
Interest expense, net (1)	53,337	58,798	112,135	52,304	68,212	120,516
Income tax (benefit) expense	(90,033)	(31,187)	(121,220)	16,203	(4,819)	11,384
Depreciation	27,248	19,694	46,942	30,101	10,632	40,733
Amortization of other intangible assets	59,252	46,427	105,679	48,857	55,697	104,554
Stock-based compensation	37,778	10,440	48,218	43,357	5,392	48,749
Restructuring expenses	1,501	22,141	23,642	9,842	4,742	14,584
Transaction expenses and charges	31,273	984	32,257	—	773	773
SEC investigations reserve	—	—	—	5,249	2,751	8,000
(Gain) loss of unconsolidated entities (2)	(5,368)	—	(5,368)	(72)	—	(72)
Impairment of other long-lived assets (3)	8,285	—	8,285	14,448	—	14,448
Adjusted EBITDA	$126,060	$75,363	$201,423	$121,057	$135,355	$256,412

	As of December 31, 2016			As of September 30, 2017		
	Web presence	Email marketing	Total	Web presence	Email marketing	Total
	(in thousands)			(in thousands)		
Total assets	$1,507,977	$1,248,297	$2,756,274	$1,422,268	$1,228,831	$2,651,099

(1) Interest expense includes impact of amortization of deferred financing costs, original issuance discounts and interest income. For the nine months ended September 30, 2017, it also includes $6.5 million of deferred financing costs and OID immediately expensed upon the 2017 Refinancing.

(2) The loss (gain) of unconsolidated entities is reported on a net basis for the three and nine months ended September 30, 2016. The three months ended September 30, 2016 includes a loss of $4.8 million on our investment in AppMachine. This loss was generated on July 27, 2016, when we increased our ownership stake in AppMachine from 40.0% to 100.0%, which required a revaluation of our existing investment to its implied fair value. The three months ended September 30, 2016 also includes a net loss of $0.2 million from our proportionate share of net loses from unconsolidated entities. The nine months ended September 30, 2016 includes a gain of $11.4 million on our investment in WZ UK Ltd. This gain was generated on January 6, 2016, when we increased our ownership stake in WZ UK Ltd. from 49.0% to 57.5%, which required a revaluation of our existing investment to its implied fair value. This $11.4 million gain was partially offset by our proportionate shares of net losses from unconsolidated entities of $1.2 million.

(3) The impairment of other long-lived assets for the three and nine months ended September 30, 2016 includes $6.3 million of impairment charges related to developed and in-process technology related to the Webzai acquisition, and $2.0 million of internally developed software that was abandoned. The impairment of other long-lived assets for the three and nine months ended September 30, 3017 includes $13.8 million related to certain domain name intangible assets, and $0.6 million to write off a debt investment in a privately held entity.

20. Subsequent Events

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The Company evaluated all subsequent events occurring through November 3, 2017, to determine if any such events should be reflected in these financial statements. There were no material recognized subsequent events recorded in the September 30, 2017 financial statements.

21. Supplemental Guarantor Financial Information

In February 2016, EIG Investors Corp., a wholly-owned subsidiary of the Company (the “Issuer”), issued $350.0 million aggregate principal amount of its 10.875% Senior Notes due 2024 (the “Original Notes”) (refer to Note 9: Notes Payable in the consolidated financial statements), which it exchanged for new 10.875% Senior Notes due 2024 (the “Exchange Notes” and together with the Original Notes, collectively, the “Notes”) pursuant to a registration statement on Form S-4. The registered exchange offer for the Notes was completed on January 30, 2017. The Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by the Company, and the following wholly-owned subsidiaries: The Endurance International Group, Inc., Bluehost Inc., FastDomain Inc., Domain Name Holding Company, Inc., Endurance International Group – West, Inc., HostGator.com LLC, A Small Orange, LLC, Constant Contact, Inc., and SinglePlatform, LLC, (collectively, the “Subsidiary Guarantors”), subject to certain customary guarantor release conditions. The Company’s other domestic subsidiaries and its foreign subsidiaries (collectively, the “Non-Guarantor Subsidiaries”) have not guaranteed the Notes.

The Company sold two immaterial guarantors, CardStar, Inc. and CardStar Publishing, LLC (collectively, "CardStar"), during the quarter ended December 31, 2016. CardStar was released and discharged from the guarantee as a result of the sale and no longer guarantees the debt of the Company as of December 1, 2016. Proceeds from the sale of CardStar were approximately $0.1 million.

The following tables present supplemental condensed consolidating balance sheet information of the Company (“Parent”), the Issuer, the Subsidiary Guarantors and the Non-Guarantor Subsidiaries as of December 31, 2016 and September 30, 2017, supplemental condensed consolidating results of operations for the three months and nine ended September 30, 2016 and 2017, and cash flow information for the nine months ended September 30, 2016 and 2017:

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Condensed Consolidating Balance Sheets
December 31, 2016
(in thousands)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets:						
Current assets:						
Cash and cash equivalents	$3	$4	$39,034	$ 14,555	$—	$ 53,596
Restricted cash	—	—	2,620	682	—	3,302
Accounts receivable	—	—	10,148	2,940	—	13,088
Prepaid domain name registry fees	—	—	31,044	24,697	(297)	55,444
Prepaid expenses & other current assets	—	81	17,996	10,601	—	28,678
Total current assets	3	85	100,842	53,475	(297)	154,108
Intercompany receivables, net	31,665	799,953	(690,761)	(140,857)	—	—
Property and equipment, net	—	—	82,901	12,371	—	95,272
Goodwill	—	—	1,683,121	176,788	—	1,859,909
Other intangible assets, net	—	—	592,095	19,962	—	612,057
Investment in subsidiaries	92,068	1,299,562	40,651	—	(1,432,281)	—
Other assets	—	5,911	23,153	5,864	—	34,928
Total assets	$123,736	$2,105,511	$1,832,002	$ 127,603	$(1,432,578)	$ 2,756,274
Liabilities, redeemable non-controlling interest and stockholders' equity:						
Current liabilities:						
Accounts payable	$—	$—	$13,801	$ 2,273	$—	$ 16,074
Accrued expenses and other current liabilities	—	27,208	60,760	9,890	—	97,858
Deferred revenue	—	—	295,208	60,925	(943)	355,190
Current portion of notes payable	—	35,700	—	—	—	35,700
Current portion of capital lease obligations	—	—	6,690	—	—	6,690
Deferred consideration, short-term	—	—	4,415	858	—	5,273
Total current liabilities	—	62,908	380,874	73,946	(943)	516,785
Deferred revenue, long-term	—	—	77,649	11,551	—	89,200
Notes payable	—	1,951,280	—	—	—	1,951,280
Capital lease obligations	—	—	512	—	—	512
Deferred consideration	—	—	7,419	25	—	7,444
Other long-term liabilities	—	(745)	48,233	1,429	—	48,917
Total liabilities	—	2,013,443	514,687	86,951	(943)	2,614,138
Redeemable non-controlling interest	—	—	17,753	—	—	17,753
Equity	123,736	92,068	1,299,562	40,652	(1,431,635)	124,383
Total liabilities and equity	$123,736	$2,105,511	$1,832,002	$ 127,603	$(1,432,578)	$ 2,756,274

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Condensed Consolidating Balance Sheets
September 30, 2017
(in thousands)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets:						
Current assets:						
Cash and cash equivalents	$461	$1	$54,881	$ 15,178	$—	$ 70,521
Restricted cash	—	—	2,472	175	—	2,647
Accounts receivable	—	—	10,817	3,167	—	13,984
Prepaid domain name registry fees	—	—	29,367	26,390	(15)	55,742
Prepaid expenses & other current assets	32	28	18,040	11,070	—	29,170
Total current assets	493	29	115,577	55,980	(15)	172,064
Intercompany receivables, net	32,723	680,824	(566,701)	(146,846)	—	—
Property and equipment, net	—	—	73,717	14,840	—	88,557
Goodwill	—	—	1,685,981	176,508	—	1,862,489
Other intangible assets, net	—	—	483,397	12,261	378	496,036
Investment in subsidiaries	28,476	1,311,664	43,652	—	(1,383,792)	—
Other assets	—	3,831	21,684	6,438	—	31,953
Total assets	$61,692	$1,996,348	$1,857,307	$ 119,181	$(1,383,429)	$ 2,651,099
Liabilities, redeemable non-controlling interest and stockholders' equity:						
Current liabilities:						
Accounts payable	$—	$—	$11,577	$ 1,820	$—	$ 13,397
Accrued expenses and other current liabilities	—	14,596	68,949	10,179	—	93,724
Deferred revenue	—	—	315,534	53,104	(25)	368,613
Current portion of notes payable	—	33,945	—	—	—	33,945
Current portion of capital lease obligations	—	—	3,166	—	—	3,166
Deferred consideration, short-term	—	—	4,294	25	—	4,319
Total current liabilities	—	48,541	403,520	65,128	(25)	517,164
Deferred revenue, long-term	—	—	81,155	9,749	—	90,904
Notes payable	—	1,920,258	—	—	—	1,920,258
Capital lease obligations	—	—	1,485	—	—	1,485
Deferred consideration	—	—	3,493	—	—	3,493
Other long-term liabilities	—	(927)	56,367	652	—	56,092
Total liabilities	—	1,967,872	546,020	75,529	(25)	2,589,396
Equity	61,692	28,476	1,311,287	43,652	(1,383,404)	61,703
Total liabilities and equity	$61,692	$1,996,348	$1,857,307	$ 119,181	$(1,383,429)	$ 2,651,099

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Condensed Consolidating Statements of Operations and Comprehensive Loss
Three months ended September 30, 2016
(in thousands)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$—	$—	$ 258,366	$ 34,213	$ (1,386)	$ 291,193
Cost of revenue	—	—	127,750	23,191	(1,514)	149,427
Gross profit	—	—	130,616	11,022	128	141,766
Operating expense:						
Sales and marketing	—	—	62,737	12,614	(10)	75,341
Engineering and development	—	—	21,802	2,186	—	23,988
General and administrative	—	67	29,640	3,692	—	33,399
Transaction costs	—	—	159	—	—	159
Total operating expense	—	67	114,338	18,492	(10)	132,887
(Loss) income from operations	—	(67)	16,278	(7,470)	138	8,879
Interest expense and other income, net	—	40,206	5,738	(53)	—	45,891
(Loss) income before income taxes and equity earnings of unconsolidated entities	—	(40,273)	10,540	(7,417)	138	(37,012)
Income tax (benefit) expense	—	(13,971)	6,401	183	—	(7,387)
(Loss) income before equity earnings of unconsolidated entities	—	(26,302)	4,139	(7,600)	138	(29,625)
Equity loss (income) of unconsolidated entities, net of tax	31,875	5,573	7,772	110	(45,157)	173
Net (loss) income	$(31,875)	$(31,875)	$ (3,633)	$ (7,710)	$ 45,295	$ (29,798)
Net loss attributable to non-controlling interest	—	—	1,939	—	—	1,939
Net (loss) income attributable to Endurance International Group Holdings, Inc.	$(31,875)	$(31,875)	$ (5,572)	$ (7,710)	$ 45,295	$ (31,737)
Comprehensive income (loss):						
Foreign currency translation adjustments	—	—	—	112	—	112
Unrealized gain on cash flow hedge, net of taxes	—	72	—	—	—	72
Total comprehensive (loss) income	$(31,875)	$(31,803)	$ (5,572)	$ (7,598)	$ 45,295	$ (31,553)

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Condensed Consolidating Statements of Operations and Comprehensive Loss
Nine months ended September 30, 2016
(in thousands)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$—	$—	$ 720,149	$ 101,913	$ (3,043)	$ 819,019
Cost of revenue	—	—	374,010	68,548	(3,578)	438,980
Gross profit	—	—	346,139	33,365	535	380,039
Operating expense:						
Sales and marketing	—	—	179,714	55,256	(26)	234,944
Engineering and development	—	—	55,583	12,347	—	67,930
General and administrative	—	187	97,694	10,627	—	108,508
Transaction costs	—	—	32,257	—	—	32,257
Total operating expense	—	187	365,248	78,230	(26)	443,639
(Loss) income from operations	—	(187)	(19,109)	(44,865)	561	(63,600)
Interest expense and other income, net	—	109,547	(3,839)	(138)	—	105,570
(Loss) income before income taxes and equity earnings of unconsolidated entities	—	(109,734)	(15,270)	(44,727)	561	(169,170)
Income tax (benefit) expense	—	(40,840)	(80,037)	(343)	—	(121,220)
(Loss) income before equity earnings of unconsolidated entities	—	(68,894)	64,767	(44,384)	561	(47,950)
Equity loss (income) of unconsolidated entities, net of tax	38,528	(30,366)	45,581	202	(52,748)	1,197
Net (loss) income	$ (38,528)	$ (38,528)	$ 19,186	$ (44,586)	$ 53,309	$ (49,147)
Net loss attributable to non-controlling interest	—	—	(11,181)	—	—	(11,181)
Net (loss) income attributable to Endurance International Group Holdings, Inc.	$ (38,528)	$ (38,528)	$ 30,367	$ (44,586)	$ 53,309	$ (37,966)
Comprehensive income (loss):						
Foreign currency translation adjustments	—	—	—	994	—	994
Unrealized loss on cash flow hedge, net of taxes	—	(1,866)	—	—	—	(1,866)
Total comprehensive (loss) income	$ (38,528)	$ (40,394)	$ 30,367	$ (43,592)	$ 53,309	$ (38,838)

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Condensed Consolidating Statements of Operations and Comprehensive Loss
Three months ended September 30, 2017
(in thousands)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$—	$—	$ 266,985	$ 30,019	$ (1,782)	$ 295,222
Cost of revenue	—	—	139,044	21,155	(1,334)	158,865
Gross profit	—	—	127,941	8,864	(448)	136,357
Operating expense:						
Sales and marketing	—	—	61,376	4,900	—	66,276
Engineering and development	—	—	17,412	2,470	—	19,882
General and administrative	—	56	50,353	1,465	(605)	51,269
Transaction costs	—	—	—	—	—	—
Total operating expense	—	56	129,141	8,835	(605)	137,427
(Loss) income from operations	—	(56)	(1,200)	29	157	(1,070)
Interest expense and other income, net	—	35,661	756	(172)	—	36,245
(Loss) income before income taxes and equity earnings of unconsolidated entities	—	(35,717)	(1,956)	201	157	(37,315)
Income tax (benefit) expense	—	(13,201)	15,494	689	—	2,982
(Loss) income before equity earnings of unconsolidated entities	—	(22,516)	(17,450)	(488)	157	(40,297)
Equity loss (income) of unconsolidated entities, net of tax	40,422	17,906	456	—	(58,817)	(33)
Net (loss) income	$(40,422)	$(40,422)	$ (17,906)	$ (488)	$ 58,974	$ (40,264)
Net loss attributable to non-controlling interest	—	—	—	—	—	—
Net (loss) income attributable to Endurance International Group Holdings, Inc.	$(40,422)	$(40,422)	$ (17,906)	$ (488)	$ 58,974	$ (40,264)
Comprehensive income (loss):						
Foreign currency translation adjustments	—	—	—	1,070	—	1,070
Unrealized gain on cash flow hedge, net of taxes	—	83	—	—	—	83
Total comprehensive (loss) income	$(40,422)	$(40,339)	$ (17,906)	$ 582	$ 58,974	$ (39,111)

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Condensed Consolidating Statements of Operations and Comprehensive Loss
Nine months ended September 30, 2017
(in thousands)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$—	$—	$ 788,806	$ 98,321	$ (4,510)	$ 882,617
Cost of revenue	—	—	392,447	65,392	(3,642)	454,197
Gross profit	—	—	396,359	32,929	(868)	428,420
Operating expense:						
Sales and marketing	—	—	195,392	15,765	(3)	211,154
Engineering and development	—	—	51,053	9,340	—	60,393
General and administrative	—	166	123,736	7,632	(605)	130,929
Transaction costs	—	—	773	—	—	773
Total operating expense	—	166	370,954	32,737	(608)	403,249
(Loss) income from operations	—	(166)	25,405	192	(260)	25,171
Interest expense and other income, net	—	120,313	1,150	(347)	—	121,116
(Loss) income before income taxes and equity earnings of unconsolidated entities	—	(120,479)	24,255	539	(260)	(95,945)
Income tax (benefit) expense	—	(44,512)	54,744	1,152	—	11,384
Loss before equity earnings of unconsolidated entities	—	(75,967)	(30,489)	(613)	(260)	(107,329)
Equity loss (income) of unconsolidated entities, net of tax	106,999	31,033	543	—	(138,647)	(72)
Net (loss) income	$ (106,999)	$ (107,000)	$ (31,032)	$ (613)	$ 138,387	$ (107,257)
Net loss attributable to non-controlling interest	—	—	7,524	—	—	7,524
Net (loss) income attributable to Endurance International Group Holdings, Inc.	$ (106,999)	$ (107,000)	$ (38,556)	$ (613)	$ 138,387	$ (114,781)
Comprehensive income (loss):						
Foreign currency translation adjustments	—	—	—	2,984	—	2,984
Unrealized loss on cash flow hedge, net of taxes	—	(309)	—	—	—	(309)
Total comprehensive (loss) income	$ (106,999)	$ (107,309)	$ (38,556)	$ 2,371	$ 138,387	$ (112,106)

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Condensed Consolidating Statement of Cash Flows
Nine months ended September 30, 2016
(in thousands)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash (used in) provided by operating activities	$ —	$ (54,904)	$ 187,068	$ (30,360)	$ —	$ 101,804
Cash flows from investing activities:						
Businesses acquired in purchase transaction, net of cash acquired	—	—	(889,634)	—	—	(889,634)
Purchases of property and equipment	—	—	(25,362)	(3,955)	—	(29,317)
Cash paid for minority investments	—	—	(5,600)	—	—	(5,600)
Proceeds from sale of property and equipment	—	—	240	2	—	242
Proceeds from note receivable	—	—	—	—	—	—
Proceeds from sale of assets	—	—	—	—	—	—
Purchases of intangible assets	—	—	(10)	(17)	—	(27)
Net withdrawals of principal balances in restricted cash accounts	—	—	(347)	(391)	—	(738)
Net cash used in investing activities	—	—	(920,713)	(4,361)	—	(925,074)
Cash flows from financing activities:						
Proceeds from issuance of notes payable and draws on revolver	—	1,105,678	—	—	—	1,105,678
Repayment of notes payable and revolver	—	(125,775)	—	—	—	(125,775)
Payment of financing costs	—	(52,561)	—	—	—	(52,561)
Payment of deferred consideration	—	—	(42,411)	(669)	—	(43,080)
Payment of redeemable non-controlling interest liability	—	—	(33,425)	—	—	(33,425)
Principal payments on capital lease obligations	—	—	(4,372)	—	—	(4,372)
Proceeds from exercise of stock options	2,304	—	—	—	—	2,304
Capital investments from minority partner	—	—	—	2,776	—	2,776
Intercompany loans and investments	(2,313)	(872,490)	840,305	34,498	—	—
Net cash (used in) provided by financing activities	(9)	54,852	760,097	36,605	—	851,545
Net effect of exchange rate on cash and cash equivalents	—	—	—	1,843	—	1,843
Net (decrease) increase in cash and cash equivalents	(9)	(52)	26,452	3,727	—	30,118
Cash and cash equivalents:						
Beginning of period	12	67	21,286	11,665	—	33,030
End of period	$ 3	$ 15	$ 47,738	$ 15,392	$ —	$ 63,148

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Condensed Consolidating Statement of Cash Flows
Nine months ended September 30, 2017
(in thousands)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash (used in) provided by operating activities	$ (32)	$ (72,687)	$ 204,768	$ (3,183)	$ —	$ 128,866
Cash flows from investing activities:						
Purchases of property and equipment	—	—	(28,140)	(3,955)	—	(32,095)
Proceeds from sale of property and equipment	—	—	292	—	—	292
Purchases of intangible assets	—	—	(1,932)	(34)	—	(1,966)
Net deposits of principal balances in restricted cash accounts	—	—	148	507	—	655
Net cash used in investing activities	—	—	(29,632)	(3,482)	—	(33,114)
Cash flows from financing activities:						—
Proceeds from issuance of term loan and notes, net of original issue discounts	—	1,693,007	—	—	—	1,693,007
Repayment of term loans	—	(1,733,147)	—	—	—	(1,733,147)
Payment of financing costs	—	(6,304)	—	—	—	(6,304)
Payment of deferred consideration	—	—	(4,550)	(858)	—	(5,408)
Payment of redeemable non-controlling interest liability	—	—	(25,000)	—	—	(25,000)
Principal payments on capital lease obligations	—	—	(5,679)	—	—	(5,679)
Proceeds from exercise of stock options	1,548	—	—	—	—	1,548
Intercompany loans and investments	(1,058)	119,128	(124,060)	5,990	—	—
Net cash provided by (used in) financing activities	490	72,684	(159,289)	5,132	—	(80,983)
Net effect of exchange rate on cash and cash equivalents	—	—	—	2,156	—	2,156
Net increase (decrease) in cash and cash equivalents	458	(3)	15,847	623	—	16,925
Cash and cash equivalents:						
Beginning of period	3	4	39,034	14,555	—	53,596
End of period	$ 461	$ 1	$ 54,881	$ 15,178	$ —	$ 70,521

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.

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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," "expect," "likely," "may," "might," "plan," "potential," "predict," "project," "seek," "should," "strategy," "target," "would," and similar 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. We serve approximately 5.1 million subscribers globally with a comprehensive suite of products and services that help SMBs get online, get found and grow their businesses. Historically, our products focused largely on web hosting and other basic web presence solutions such as domains, but over time we have expanded to offer security, site backup, premium domains, search engine optimization, or SEO, and search engine marketing, or SEM, Google Adwords, mobile solutions, social media enablement, website analytics, email marketing and productivity and e-commerce tools, among others.

During the past several years, we launched additional products and services, including website builders, virtual private network (VPN) solutions, mobile site builders and new hosting brands, both to address market trends and to expand the product gateways through which new subscribers initially reach us. We refer to these products and services as "gateway products." Many of the gateway products had higher subscriber acquisition costs and higher subscriber churn than we anticipated. In response to these results, we have reduced or eliminated marketing investments for most of our gateway products and have narrowed our gateway investments to our website builder product.

On February 9, 2016, we acquired Constant Contact, Inc., or Constant Contact, a leading provider of online marketing tools that are designed for small organizations, for a total purchase price of approximately $1.1 billion. Since the fourth quarter of 2016, we have reported our financial results in two reportable segments, web presence and email marketing. The web presence segment generally consists of the products we historically sold prior to the acquisition of Constant Contact, including web hosting, domains, and related web presence products and services, and the email marketing segment consists of the products and services historically offered by Constant Contact, principally email marketing solutions, but also including event marketing, survey tools and our SinglePlatform digital storefront product.

During the three months ended September 30, 2017, we continued to implement our priorities for 2017, which include:

- Investing in key brands that generally attract subscribers with high long-term revenue potential, including Constant Contact, Bluehost and HostGator, or that address specific market opportunities, including our website builder product and international brands such as BigRock;

- Upgrading the product, customer support and user experience for our key web hosting brands and our website builder product, including through greater centralization of our customer support organization; and
- Continuing various initiatives to expand revenue streams though expansion of our international business, cross-selling products between our two segments and other product initiatives.

We continue to see an impact from our de-emphasis of certain non-strategic brands. These non-strategic brands are principally hosting brands, but also include our cloud backup brands and discontinued gateway products such as our VPN solution. Subscriber counts are decreasing in these brands, and we are managing them to optimize cash flow rather than to acquire new subscribers. These brands had a negative impact on cash billings, changes in deferred revenue, revenue and subscriber growth during the three and nine months ended September 30, 2017.

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We also continue to be affected by competitive pressures across our business, including from competitors who have invested more heavily in brand awareness and product and technology research and development than we have. In particular, we have seen increased competition for new subscribers through our marketing channels, which has resulted in higher costs to acquire new subscribers in 2017 as compared to 2016. Our focus in 2017 on acquiring subscribers with higher long-term revenue potential, which tend to be more expensive to acquire, has also contributed to increased subscriber acquisition costs.

Summary of Third Quarter 2017 Results

Our financial results for the three and nine months ended September 30, 2017, and particularly year over year changes during those periods as compared to the corresponding periods in 2016, were significantly impacted by our acquisition of Constant Contact, including in the following key respects:

- Full nine month impact in the 2017 period. We began including Constant Contact in our financial results on February 10, 2016 and the inclusion of Constant Contact for the entire nine months ended September 30, 2017 was a factor in many of the year over year differences between that period and the comparable period in 2016, especially for our email marketing segment.
- Purchase accounting adjustment. Purchase accounting adjustments represent the reduction of post-acquisition revenues from the write-down of deferred revenue to fair value as of the acquisition date. The purchase accounting adjustment related to the Constant Contact acquisition, which we refer to as the "Constant Contact purchase accounting adjustment," reduced email marketing segment revenue by approximately $0.6 million and $14.8 million, respectively, for the three and nine months ended September 30, 2016.
- Changes in our debt service obligations. In connection with the Constant Contact acquisition in February 2016, we increased our debt by $1,085.0 million, which significantly increased our debt service obligations. Further, we refinanced our term loans in June 2017, which we refer to as the "2017 Refinancing," to reduce our future interest payments and extend maturities on a portion of our term loans.
- Cost efficiencies from 2016 restructuring plan. Cost efficiencies resulting from the restructuring plan we implemented in connection with the Constant Contact acquisition, which we refer to as the "2016 Constant Contact restructuring plan," were a significant factor in many of our year over year changes for our email marketing segment.

In addition, our financial results for the three and nine months ended September 30, 2017 were affected by the following:

- Our initiatives to consolidate our customer support operations, primarily the transition of customer support formerly based in Orem, Utah to our support center in Tempe, Arizona, which resulted in us incurring duplicate customer support costs and restructuring charges during the period;
- Our reallocation of certain corporate overhead and other costs from the email marketing segment to the web presence segment as we moved email marketing segment resources from roles dedicated to email marketing to roles dedicated to web presence or to functions shared by both segments; and
- Our recording of an investigations reserve of $8.0 million, which we refer to as the "SEC investigations reserve," during the three months ended September 30, 2017 in connection with ongoing discussions with the staff of the Securities and Exchange Commission ("SEC") to resolve potential claims arising from the investigations initiated against Endurance and Constant Contact in December 2015. This investigations reserve is included in general and administrative expenses for the three and nine months ended September 30, 2017. The amount of the reserve may change as discussions progress.

A tax benefit recorded during the nine months ended September 30, 2016 also had a significant impact on certain year over year changes in our financial results. Immediately following the acquisition of Constant Contact, we scheduled out the reversal of deferred tax assets and liabilities, and determined that these reversals would be sufficient to realize a significant portion of our domestic deferred tax assets which existed as of the acquisition date. Our total tax benefit recorded for this period was $121.2 million. We have provided valuation allowances against deferred tax assets throughout 2017, which has significantly impacted the year over year comparisons of our net loss.

The factors discussed above, as well as reduced investments in gateway and other non-strategic products as compared to the periods ended September 30, 2016, had a material effect on our financial results for the periods ended September 30, 2017. Year over year revenue, net income (loss) and net cash provided by operating activities are summarized below (in thousands):

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2017	2016	2017
Revenue	$291,193	$295,222	$819,019	$882,617
Net loss	$(29,798)	$(40,264)	$(49,147)	$(107,257)
Net cash provided by operating activities	$36,189	$46,444	$101,804	$128,866

Revenue grew from $291.2 million for the three months ended September 30, 2016 to $295.2 million for the three months ended September 30, 2017. Substantially all of this growth was due to our email marketing segment, specifically growth in revenues from existing Constant Contact subscribers. Web presence segment revenue decreased slightly year over year.

Revenue grew from $819.0 million for the nine months ended September 30, 2016 to $882.6 million for the nine months ended September 30, 2017. Substantially all of this growth was due to our email marketing segment, specifically the impact of a full nine months of Constant Contact contribution in the 2017 period, the negative impact of the Constant Contact purchase accounting adjustment during the 2016 period, and growth in revenues from existing Constant Contact subscribers. Web presence segment revenue decreased slightly year over year.

Net loss increased from $29.8 million for the three months ended September 30, 2016 to a net loss of $40.3 million for the three months ended September 30, 2017. This increase in net loss was due primarily to a $10.4 million increase in our income tax provision as we are providing a valuation allowance against our deferred tax assets in the 2017 period, the $8.0 million SEC investigations reserve, increased impairment charges in the 2017 period as we reduced certain domain name assets to fair value and recorded a related charge of $13.8 million, and increased charges for stock-based compensation, which were primarily related to the shortened service period for certain performance based stock awards granted to our former CEO. These increases in our net loss have been partially offset by increased profitability of our email marketing segment and lower interest expense as a result of the 2017 Refinancing.

Net loss increased from $49.1 million for the nine months ended September 30, 2016 to $107.3 million for the nine months ended September 30, 2017. This increase in net loss was due primarily to the determination that we should provide a valuation allowance against certain deferred tax assets, which caused us to record a tax provision of $11.4 million for the 2017 period as compared to a tax benefit of $121.2 million for the 2016 period, which increased net loss by $132.6 million. Additionally, we incurred higher interest charges of $8.4 million in the 2017 period due to a full nine months of interest on the debt incurred to acquire Constant Contact, we recorded an $8.0 million SEC investigations reserve, and we incurred higher impairment charges of $6.2 million and reduced gains of $7.2 million related to certain equity investments. These increases in net loss were partially offset by the inclusion of Constant Contact for a full nine months in the 2017 period, reduced transaction costs relative to the 2016 period, and lower marketing costs for our web presence segment due to our reduced marketing investments in gateway and other non-strategic products.

Net cash provided by operating activities increased from $36.2 million for the three months ended September 30, 2016 to $46.4 million for the three months ended September 30, 2017. This increase was due primarily to improved profitability of our email marketing segment and reduced payments of interest following our 2017 Refinancing. These increases in cash flow were partially offset by other changes in working capital, mainly decreases in cash billings, which lead to a decrease in deferred revenue. This decrease in cash billings was mainly the result of our decision to direct marketing investments away from gateway products and other non-strategic brands and towards our key brands, which we believe generate higher lifetime revenue and a better potential return on our marketing investments.

Net cash provided by operating activities increased from $101.8 million for the nine months ended September 30, 2016 to $128.9 million for the nine months ended September 30, 2017. This increase was primarily due to a $37.6 million decrease in acquisition transaction cost payments, mainly related to expenses paid in the 2016 period to acquire Constant Contact, a decrease in severance and other restructuring costs of $8.5 million due to the substantial completion of the Constant Contact restructuring plan during 2016, and increased operating cash flow from the inclusion of Constant Contact for a full nine months in the 2017 period. These factors were partially offset by higher payments of interest expense of $27.1 million in the 2017 period due to a full nine months of increased debt incurred to acquire Constant Contact, and $6.5 million of financing fees paid in 2017 as part of the 2017 Refinancing.

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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 ("ARPS");
- adjusted EBITDA; and
- free cash flow.

Adjusted EBITDA and free cash flow are non-GAAP financial measures. 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. 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. In addition, there are limitations in using non-GAAP financial measures because they are not prepared in accordance with GAAP and exclude expenses that may have a material impact on our reported financial results. For example, adjusted EBITDA excludes interest expense, which 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 from, or as a substitute for, the directly comparable financial measures prepared in accordance with GAAP. We urge you to review the additional information about adjusted EBITDA and free cash flow shown below, including the reconciliations of these non-GAAP financial measures to their comparable GAAP financial measures, and not to rely on any single financial measure to evaluate our business.

The following table summarizes our key metrics by segment for the periods presented (in thousands, except ARPS):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2017	2016	2017
Consolidated metrics:				
Total subscribers	5,439	5,122	5,439	5,122
Average subscribers for the period	5,460	5,170	5,296	5,247
ARPS	$17.78	$19.03	$17.18	$18.69
Adjusted EBITDA	$85,213	$93,764	$201,423	$256,412
Web presence segment metrics:				
Total subscribers	4,893	4,599	4,893	4,599
Average subscribers for the period	4,911	4,643	4,821	4,714
ARPS	$13.25	$13.91	$13.58	$13.77
Adjusted EBITDA	$44,246	$42,621	$126,060	$121,057
Email marketing segment metrics:				
Total subscribers	546	523	546	523
Average subscribers for the period	549	527	475	533
ARPS	$58.27	$64.26	$53.75	$62.16
Adjusted EBITDA	$40,967	$51,143	$75,363	$135,355

Total Subscribers

We define total subscribers as the approximate number of subscribers 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. Subscribers of more than one brand, and subscribers with more than one distinct billing relationship or subscription with us, 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, or do not meet, this definition of total subscribers. These adjustments sometimes result from process inconsistencies across our multiple

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billing systems, and we expect to continue to report adjustments in future periods as we continue our efforts to improve and standardize our subscriber count process.

Over time, we have expanded our marketing strategy globally to better target customers who are primarily seeking domain names, but who may have the potential to purchase a wider range of additional products and services from us once they are on our platform. As part of this effort, we offer to domain name customers a bundle that includes email, basic hosting, or other products and services in addition to a domain name. We include these customers in our total subscriber count as "light web presence" subscribers, which are further discussed below. As is customary in the industry, these packages are often significantly discounted for the initial term, with price increases applying on renewal. Although our goal with programs designed to attract domain focused subscribers is to expand our marketing funnel and achieve positive marketing yields through renewal at full price and sales of additional products, we may not be successful in achieving these outcomes.

Our subscriber base also includes customers who subscribe to email service, domain privacy or certain other non-hosting subscription services which are generally lower-priced than our hosting packages. In the discussion below, we refer to these subscribers and subscribers on-boarded through the domain-focused programs described above as “light web presence” subscribers. As of September 30, 2017, light web presence subscribers accounted for approximately 444,237 of our total subscribers.

The table below shows approximate figures for sources of subscriber changes by segment from September 30, 2016 to September 30, 2017 (all numbers in thousands):

	Web presence # Subscribers	Email marketing # Subscribers	Total # Subscribers
Total Subscribers September 30, 2016	4,893	546	5,439
Light web presence subscribers	49	—	49
Adjustments	(26)	—	(26)
Core subscriber increase (decrease)	(317)	(23)	(340)
Total Subscribers September 30, 2017	4,599	523	5,122

The decrease in total subscribers from September 30, 2016 to September 30, 2017 was driven primarily by subscriber losses in our non-strategic brands in our web presence segment, which are further discussed in the "Overview" section above. In the aggregate, the portfolio of key web presence brands that we are targeting for investment during 2017 (including, among others, HostGator, Bluehost, and certain international brands) showed positive net subscriber adds for the twelve, nine, and three months ended September 30, 2017. However, these positive net adds for these periods were outweighed by the negative impact of subscriber losses in non-strategic brands, including non-strategic hosting brands, our cloud backup solution and discontinued gateway products such as our VPN product. We expect total subscribers in our web presence segment to continue to decrease for the foreseeable future, due primarily to the impact of subscriber churn in non-strategic brands. We also expect total subscribers in our email marketing segment to decrease for the foreseeable future. We believe this decrease is due primarily to the impact of competition in our email marketing segment.

If we are not successful in addressing the factors that have contributed to our declining total subscriber count, we may not be able to return to or maintain positive subscriber growth in the future, which could result in a material adverse effect on our business and financial results.

Average Revenue per Subscriber

We calculate average revenue per subscriber, or ARPS, 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, divided by the number of months in the period. 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.

The following table reflects the calculation of ARPS by segment (all data in thousands, except ARPS data):

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2017	2016	2017
Consolidated revenue	$291,193	$295,222	$819,019	$882,617
Consolidated total subscribers	5,439	5,122	5,439	5,122
Consolidated average subscribers for the period	5,460	5,170	5,296	5,247
Consolidated average revenue per subscriber (ARPS)	$17.78	$19.03	$17.18	$18.69
Web presence revenue	$195,275	$193,696	$589,364	$584,217
Web presence subscribers	4,893	4,599	4,893	4,599
Web presence average subscribers for the period	4,911	4,643	4,821	4,714
Web presence average revenue per subscriber (ARPS)	$13.25	$13.91	$13.58	$13.77
Email marketing revenue	$95,918	$101,526	$229,655	$298,400
Email marketing subscribers	546	523	546	523
Email marketing average subscribers for the period	549	527	475	533
Email marketing average revenue per subscriber (ARPS)	$58.27	$64.26	$53.75	$62.16

For the three months ended September 30, 2016 and 2017, consolidated ARPS increased from $17.78 to $19.03, respectively. This increase in ARPS was driven primarily by increases in ARPS from our email marketing segment, and to a lesser extent, increased ARPS from our web presence segment. For the nine months ended September 30, 2016 and 2017, consolidated ARPS increased from $17.18 to $18.69, respectively. This increase in ARPS was driven primarily by our email marketing segment, and to a much lesser extent, a slight increase in ARPS from our web presence segment.

Web presence ARPS increased from $13.25 for the three months ended September 30, 2016 to $13.91 for the three months ended September 30, 2017. This increase was the result of a reduction in the number of subscribers to our lower-priced gateway and cloud backup products and slight increases in prices for some of our brands. Web presence ARPS increased slightly from $13.58 for the nine months ended September 30, 2016 to $13.77 for the nine months ended September 30, 2017. This increase resulted from the same factors that contributed to the year over year increase for the three months ended September 30, 2017.

Email marketing ARPS increased from $58.27 for the three months ended September 30, 2016 to $64.26 for the three months ended September 30, 2017. This increase was primarily due to increased sales to existing customers, in addition to modest price increases. In addition, the Constant Contact purchase accounting adjustment, which reduced email marketing segment revenue for the three months ended September 30, 2016 by $0.6 million and resulted in a negative impact on ARPS of approximately $0.36 during that period, also contributed to the increase. Email marketing ARPS increased from $53.75 for the nine months ended September 30, 2016 to $62.16 for the nine months ended September 30, 2017. This increase was due in part to the inclusion of Constant Contact for the full nine months in the 2017 period, as well as to the impact of the Constant Contact purchase accounting adjustment, which reduced email marketing segment revenue for the nine months ended September 30, 2016 by $14.8 million and resulted in a negative impact on ARPS of approximately $3.45 during that period. Other factors contributing to the year over year increase in ARPS were additional sales to existing customers and modest price increases.

ARPS does not represent an exact measure of the average amount a subscriber spends with us each month, because our calculation of ARPS includes all of our revenue, including revenue generated by non-subscribers, in the numerator. We have three principal sources of non-subscriber revenue:

- Revenue from domain-only customers. We cannot separately quantify revenue attributable to domain-only customers, who are customers that only purchase a domain name from us. Our subscriber definition does not include domain-only customers, which results in generally higher overall ARPS as our revenue used to compute ARPS includes revenue from domain-only customers. Although we cannot separately quantify revenue attributable to domain-only customers, we can measure the total amount of our revenue from domains. Our total revenue from domains, all of which was in

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our web presence segment, was $31.8 million and $31.3 million for the three months ended September 30, 2016 and 2017, respectively, and $97.0 million and $93.1 million for the nine months ended September 30, 2016 and 2017, respectively.

- Domain monetization revenue. This consists principally of revenue from our BuyDomains brand, which provides premium domain name products and services, and, to a lesser extent, revenue from advertisements placed on unused domains (often referred to as "parked" pages) owned by us or our customers.

- Revenue from marketing development funds. Marketing development funds are the amounts that certain of our partners pay us to assist in and incentivize our marketing of their products.

A portion of our revenue is generated from customers that resell our services. We refer to these customers as "resellers." We consider these resellers (rather than the end user customers of these resellers) to be subscribers under our total subscribers definition, because we do not have a billing relationship with the end users and cannot determine the number of end users acquiring our services through a reseller. A majority of our reseller revenues is for the purchase of domains and is included in the figures shown above for total revenue from domains. Our reseller revenues, excluding the portion included in total revenue from domains, for the three months ended September 30, 2016 and 2017 were $6.8 million and $8.1 million, respectively and for the nine months ended September 30, 2016 and 2017 were $19.9 million and $24.9 million, respectively.

The table below quantifies, on a consolidated basis and by segment, domain monetization and marketing development fund revenue for the respective periods (all data in thousands, except ARPS data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2017	2016	2017
Consolidated				
Marketing development fund revenue	$3,052	$2,753	$9,440	$8,696
Marketing development funds - contribution to ARPS	$0.19	$0.38	$0.20	$0.18
Domain monetization revenue	$6,386	$7,120	$22,436	$20,722
Domain monetization revenue - contribution to ARPS	$0.39	$0.46	$0.47	$0.44
Web presence				
Marketing development fund revenue	$2,286	$1,981	$7,262	$6,392
Marketing development funds - contribution to ARPS	$0.16	$0.14	$0.17	$0.15
Domain monetization revenue	$6,386	$7,120	$22,436	$20,722
Domain monetization revenue - contribution to ARPS	$0.43	$0.51	$0.52	$0.49
Email marketing				
Marketing development fund revenue	$766	$772	$2,178	$2,304
Marketing development funds - contribution to ARPS	$0.47	$0.49	$0.51	$0.48

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP financial measure that we calculate as net income (loss), excluding the impact of interest expense (net), income tax expense (benefit), depreciation, amortization of other intangible assets, stock-based compensation, restructuring expenses, transaction expenses and charges, SEC investigations reserve, (gain) loss of unconsolidated entities, and impairment of other long-lived assets. We view adjusted EBITDA as a performance measure and believe it helps investors evaluate and compare our core operating performance from period to period.

The following table reflects the reconciliation of net loss calculated in accordance with GAAP to adjusted EBITDA for the periods presented (all data in thousands):

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2017	2016	2017
Consolidated				
Net loss	$(29,798)	$(40,264)	$(49,147)	$(107,257)
Interest expense, net (1)	41,046	35,645	112,135	120,516
Income tax expense (benefit)	(7,387)	2,982	(121,220)	11,384
Depreciation	17,010	13,571	46,942	40,733
Amortization of other intangible assets	37,982	35,347	105,679	104,554
Stock-based compensation	14,806	19,580	48,218	48,749
Restructuring expenses	6,377	4,488	23,642	14,584
Transaction expenses and charges	159	—	32,257	773
SEC investigations reserve	—	8,000	—	8,000
Loss (gain) of unconsolidated entities (2)	5,018	(33)	(5,368)	(72)
Impairment of other long-lived assets (3)	—	14,448	8,285	14,448
Adjusted EBITDA	$85,213	$93,764	$201,423	$256,412

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2017	2016	2017
Web presence				
Net income (loss)	$(19,886)	$(42,466)	$2,787	$(99,232)
Interest expense, net (1)	18,244	15,131	53,337	52,304
Income tax expense (benefit)	(1,435)	1,659	(90,033)	16,203
Depreciation	9,173	10,338	27,248	30,101
Amortization of other intangible assets	19,729	16,577	59,252	48,857
Stock-based compensation	12,703	17,912	37,778	43,357
Restructuring expenses	541	3,806	1,501	9,842
Transaction expenses and charges	159	—	31,273	—
SEC investigations reserve	—	5,249	—	5,249
Loss (gain) of unconsolidated entities (2)	5,018	(33)	(5,368)	(72)
Impairment of other long-lived assets (3)	—	14,448	8,285	14,448
Adjusted EBITDA	$44,246	$42,621	$126,060	$121,057

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2017	2016	2017
Email marketing				
Net income (loss)	$(9,912)	$2,202	$(51,934)	$(8,025)
Interest expense, net (1)	22,802	20,514	58,798	68,212
Income tax expense (benefit)	(5,952)	1,323	(31,187)	(4,819)
Depreciation	7,837	3,233	19,694	10,632
Amortization of other intangible assets	18,253	18,770	46,427	55,697
Stock-based compensation	2,103	1,668	10,440	5,392
Restructuring expenses	5,836	682	22,141	4,742
SEC investigations reserve	—	2,751	—	2,751
Transaction expenses and charges	—	—	984	773
Adjusted EBITDA	$40,967	$51,143	$75,363	$135,355

(1) Interest expense includes impact of amortization of deferred financing costs, original issuance discounts ("OID") and interest income. For the nine months ended September 30, 2017, it also includes $6.5 million of deferred financing costs and OID immediately expensed upon refinancing of our term loan in June 2017.

(2) The loss (gain) of unconsolidated entities is reported on a net basis for the three and nine months ended September 30, 2016. The three months ended September 30, 2016 includes a loss of $4.8 million on our investment in AppMachine. This loss was generated on July 27, 2016, when we increased our ownership stake in AppMachine from 40.0% to 100.0%, which required a revaluation of our existing investment to its implied fair value. The three months ended September 30, 2016 also includes a net loss of $0.2 million from our proportionate share of net losses from unconsolidated entities. The nine months ended September 30, 2016 includes a gain of $11.4 million on our investment in WZ UK Ltd. This gain was generated on January 6, 2016, when we increased our ownership stake in WZ UK Ltd. from 49.0% to 57.5%, which required a revaluation of our existing investment to its implied fair value. This $11.4 million gain was partially offset by our proportionate shares of net losses from unconsolidated entities of $1.2 million.

(3) The impairment of other long-lived assets for the three and nine months ended September 30, 2016 includes $6.3 million of impairment charges related to developed and in-process technology related to the Webzai acquisition, and $2.0 million of internally developed software that was abandoned. The impairment of other long-lived assets for the three and nine months ended September 30, 3017 includes $13.8 million related to certain domain name intangible assets, and $0.6 million to write off a debt investment in a privately held entity.

Adjusted EBITDA on a consolidated basis increased from $85.2 million for the three months ended September 30, 2016 to $93.8 million for the three months ended September 30, 2017. This increase in adjusted EBITDA was primarily a result of the adjusted EBITDA increase in our email marketing segment, as discussed below. Adjusted EBITDA on a consolidated basis increased from $201.4 million for the nine months ended September 30, 2016 to $256.4 million for the nine months ended September 30, 2017, primarily as a result of including Constant Contact for a full nine months during the 2017 period and the overall improving profitability of the email marketing segment.

Adjusted EBITDA for our web presence segment decreased from $44.2 million for the three months ended September 30, 2016 to $42.6 million for the three months ended September 30, 2017. This decrease was primarily due to a slight decline in revenue, along with higher support and data center labor costs which adversely impacted gross profit by $5.7 million, along with increased engineering costs of $2.4 million, comprised mostly of labor related increases. Additionally, allocations of costs from our email marketing segment to the web presence segment negatively impacted web presence Adjusted EBITDA by $2.9 million. These decreases in adjusted EBITDA were partially offset by reduced marketing expense due to our reduced expenditures on gateway products and other non-strategic brands and re-allocation of a portion of that spend to our key brands.

Adjusted EBITDA for our web presence segment decreased from $126.1 million for the nine months ended September 30, 2016 to $121.1 million for the nine months ended September 30, 2017. This decrease was attributable to a slight decline in revenue, along with higher support and data center labor costs which adversely impacted gross profit by $15.3 million, which includes $3.8 million of duplicate customer support costs due to the transition of customer support from Utah to Arizona. Additionally, increases in engineering and general and administrative costs negatively impacted Adjusted EBITDA by $13.1 million and increased allocations of costs from our email marketing segment reduced web presence Adjusted EBITDA by $5.8 million. These decreases in Adjusted EBITDA were partially offset by a $29.2 million decrease in sales and marketing expenses, which primarily consisted of reduced expenditures on gateway products and other non-strategic brands and re-allocation of a portion of that spend to our key brands.

Adjusted EBITDA for our email marketing segment increased from $41.0 million for the three months ended September 30, 2016 to $51.1 million for the three months ended September 30, 2017. This increase is due primarily to $5.6 million of additional revenues from Constant Contact, due primarily to increased sales to existing customers and to modest price increases, and lower costs resulting from restructuring actions implemented following the acquisition. Additionally, the email marketing segment has benefited from a $2.9 million increase in costs allocated from the email marketing segment to the web presence segment.

Adjusted EBITDA for our email marketing segment increased from $75.4 million for the nine months ended September 30, 2016 to $135.4 million for the nine months ended September 30, 2017. The increase was primarily due to the $14.8 million negative impact of the Constant Contact purchase accounting adjustment during the 2016 period and to the inclusion of Constant Contact for a full nine months in the 2017 period. A $5.8 million increase in costs allocated from the email marketing segment to the web presence segment was also a factor, with the balance of the improvement related primarily to cost savings from the 2016 Constant Contact restructuring plan.

Free Cash Flow

For a discussion of free cash flow, see Liquidity and Capital Resources.

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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 automatically renew a subscription at the end of the subscription period. Due to factors such as discounted introductory pricing, our renewal fees may be higher than our initial subscription. Our web presence segment sells more subscriptions with 12 month terms than with any other term length, while our email marketing segment sells subscriptions that are mostly one-month terms. 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.
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 operating our 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.
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.
Operating Expense
We classify our operating expense into three categories: sales and marketing, engineering and development, and general and administrative. In 2016, we started breaking out transaction expenses due to the significance of the costs incurred to acquire Constant Contact.
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. 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

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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.

General and Administrative

General and administrative expense includes the cost of employees engaged in corporate functions, such as finance, human resources, legal and compliance, 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. General and administrative expense includes stock-based compensation expense for employees engaged in general and administrative activities.

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 original issue discounts 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. We expect our interest expense to increase in future periods, as compared to our interest expense in previous years, as a result of the financing transactions we entered into in connection with our acquisition of Constant Contact. Other income (expense) also includes gains or losses recognized on investments in unconsolidated entities.

Income Tax Expense (Benefit)

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.

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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,
- business combinations,
- derivative instruments,
- depreciation and amortization,
- income taxes,
- stock-based compensation arrangements, and
- segment information.

Except for the pending changes that may impact goodwill as described below, there have been no material changes to our critical accounting policies since December 31, 2016. 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 24, 2017.

Goodwill

In accordance with Accounting Standards Update No. 2011-08, Intangibles - Goodwill and Other (Topic 350) Testing Goodwill for Impairment, we are 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. We have determined that we currently have two reporting units, and each unit is its own reporting segment. As a result of changes in our management structure during 2017, including the change in our chief executive officer, we are evaluating our management and internal financial reporting structure and may make changes to that structure during the fourth quarter of 2017. These changes may impact the number and makeup of the our reporting units. In accordance with Topic 350, if we change our reporting units, goodwill will be reallocated to the newly identified reporting units.

Segment Information

As a result of changes in our management structure during 2017, including the change in our chief executive officer, we are evaluating our management and internal financial reporting structure and may make changes to that structure during the fourth quarter of 2017. These changes may impact the number and makeup of our segments for reporting purposes.

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Results of Operations

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2017	2016	2017
Revenue	$291,193	$295,222	$819,019	$882,617
Cost of revenue	149,427	158,865	438,980	454,197
Gross profit	141,766	136,357	380,039	428,420
Operating expense:				
Sales and marketing	75,341	66,276	234,944	211,154
Engineering and development	23,988	19,882	67,930	60,393
General and administrative	33,399	51,269	108,508	130,929
Transaction expenses	159	—	32,257	773
Total operating expense	132,887	137,427	443,639	403,249
Income (loss) from operations	8,879	(1,070)	(63,600)	25,171
Other income (expense):				
Other income (expense)	(4,845)	(600)	6,565	(600)
Interest income	162	203	438	506
Interest expense	(41,208)	(35,848)	(112,573)	(121,022)
Total other expense—net	(45,891)	(36,245)	(105,570)	(121,116)
Loss before income taxes and equity earnings of unconsolidated entities	(37,012)	(37,315)	(169,170)	(95,945)
Income tax expense (benefit)	(7,387)	2,982	(121,220)	11,384
Loss before equity earnings of unconsolidated entities	(29,625)	(40,297)	(47,950)	(107,329)
Equity loss (income) of unconsolidated entities, net of tax	173	(33)	1,197	(72)
Net loss	$(29,798)	$(40,264)	$(49,147)	$(107,257)
Total net income (loss) attributable to non-controlling interest	1,939	—	(11,181)	7,524
Net loss attributable to Endurance International Group Holdings, Inc.	$(31,737)	$(40,264)	$(37,966)	$(114,781)

Comparison of Three Months Ended September 30, 2016 and 2017

Revenue

	Three Months Ended September 30,		Change	
	2016	2017	Amount	%
	(dollars in thousands)			
Revenue	$291,193	$295,222	$4,029	1%

Revenue increased by $4.0 million, or 1%, from $291.2 million for the three months ended September 30, 2016 to $295.2 million for the three months ended September 30, 2017. This increase is attributable to $5.6 million in additional revenue from our email marketing segment, offset by a $1.6 million decrease in revenue from our web presence segment, each of which are further discussed below.

Web presence segment revenue decreased by $1.6 million, or 1%, from $195.3 million for the three months ended September 30, 2016 to $193.7 million for the three months ended September 30, 2017. This decrease was the result of lower revenue from the non-strategic brands discussed in the "Overview" section above, partially offset by growth in most of our key web hosting brands, in which we continue to make considerable marketing investments.

Email marketing segment revenue increased by $5.6 million, or 6%, from $95.9 million for the three months ended September 30, 2016 to $101.5 million for the three months ended September 30, 2017. This increase was primarily due to

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increased sales to existing subscribers, which includes an approximately $1.3 million increase related to increased pricing, and to a lesser extent, the negative $0.6 million impact of the Constant Contact purchase adjustment during the three months ended September 30, 2016.

Our revenue is generated primarily from our products and services delivered on a subscription basis, which include web hosting, domains, website builders, email marketing, search engine marketing and other similar services. We also generate non-subscription revenue through domain monetization and marketing development funds. Non-subscription revenue increased from $9.4 million, or 3% of total revenue for the three months ended September 30, 2016 to $9.9 million, or 3% of total revenue for the three months ended September 30, 2017, due primarily to a slight increase in domain monetization revenue.

Cost of Revenue

	Three Months Ended September 30,					
	2016		2017		Change	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(dollars in thousands)					
Cost of revenue	$149,427	51 %	$158,865	54 %	$9,438	6%

Cost of revenue increased by $9.4 million, or 6%, from $149.4 million for the three months ended September 30, 2016 to $158.9 million for the three months ended September 30, 2017. This increase was primarily due to a $13.8 million impairment charge incurred by our web presence segment, which was partially offset by decreased cost of revenue from our email marketing segment.

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 any related impairments to those assets. The following table sets forth the significant non-cash components of cost of revenue:

	Three Months Ended September 30,	
	2016	2017
	(in thousands)	
Amortization expense	$ 37,982	$ 35,347
Depreciation expense	$ 12,512	$ 11,603
Stock-based compensation expense	$ 1,643	$ 1,553
Impairment charges	$ —	$ 13,848

Cost of revenue for our web presence segment increased by $16.4 million, or 15%, from $106.2 million for the three months ended September 30, 2016 to $122.6 million for the three months ended September 30, 2017. This increase was primarily due to an impairment charge of $13.8 million relating to certain domain name intangible assets, increased labor related costs of $2.7 million (which includes $0.9 million of duplicate support costs incurred as we transitioned customer support operations from Utah to Arizona), higher domain registration costs of $1.0 million, increased depreciation of $1.0 million and other cost increases of $1.1 million. These cost increases were partially offset by lower amortization expense of $3.2 million.

Cost of revenue for our email marketing segment decreased by $7.0 million, or 16%, from $43.2 million for the three months ended September 30, 2016 to $36.2 million for the three months ended September 30, 2017. This decrease was primarily due to reduced restructuring costs of $3.1 million and lower depreciation of $2.0 million, with the balance relating primarily to cost savings from the 2016 Constant Contact restructuring plan.

Gross Profit

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	Three Months Ended September 30,					
	2016		2017		Change	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(dollars in thousands)					
Gross profit	$141,766	49 %	$136,357	46 %	$(5,409)	(4)%

Gross profit decreased by $5.4 million, or 4%, from $141.8 million for the three months ended September 30, 2016 to $136.4 million for the three months ended September 30, 2017. This decrease was primarily due to a $18.0 million decrease from our web presence segment, due mostly to a $13.8 million impairment charge relating to domain name intangible assets, partially offset by improved gross profit from our email marketing segment, which experienced a $12.6 million increase in gross profit. Our gross profit as a percentage of revenue decreased by three percentage points year over year, from 49% for the three months ended September 30, 2016 to 46% for the three months ended September 30, 2017.

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,	
	2016	2017
	(dollars in thousands)	
Revenue	$291,193	$295,222
Gross profit	$141,766	$136,357
Gross profit as % of revenue	49 %	46 %
Amortization expense as % of revenue	13 %	12 %
Depreciation expense as % of revenue	4 %	4 %
Impairment charges	*	5 %
Stock-based compensation expense as % of revenue	1 %	*

*Less than 1%.

Web presence segment gross profit decreased by $18.0 million, or 20%, from $89.1 million for the three months ended September 30, 2016 to $71.1 million for the three months ended September 30, 2017. This decrease was primarily due to the slight decline in web presence segment revenue, and to an increase in cost of revenue, as described above. Our web presence gross profit as a percentage of revenue decreased by nine percentage points year over year, from 46% for the three months ended September 30, 2016 to 37% for the three months ended September 30, 2017. The impairment charge was responsible most of this decrease.

Email marketing segment gross profit increased by $12.6 million, or 24%, from $52.7 million for the three months ended September 30, 2016 to $65.3 million for the three months ended September 30, 2017. This increase was primarily due to increased sales to existing subscribers, and decreased cost of revenue as described above. Our email marketing gross profit as a percentage of revenue increased by nine percentage points year over year, from 55% for the three months ended September 30, 2016 to 64% for the three months ended September 30, 2017.

Operating Expenses

	Three Months Ended September 30,					
	2016		2017		Change	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(dollars in thousands)					
Sales and marketing	$75,341	26 %	$66,276	22 %	$(9,065)	(12)%
Engineering and development	23,988	8 %	19,882	7 %	(4,106)	(17)%

General and administrative	33,399	11 %	51,269	17 %	17,870	54 %
Transaction expenses	159	— %	—	— %	(159)	(100)%
Total	$132,887	46 %	$137,427	47 %	$4,540	3 %

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Sales and Marketing. Sales and marketing expense decreased by $9.1 million, or 12%, from $75.3 million for the three months ended September 30, 2016 to $66.3 million for the three months ended September 30, 2017. Email marketing segment sales and marketing costs declined by $1.4 million, while web presence segment sales and marketing expenses declined by $7.7 million.

Sales and marketing expense for our web presence segment decreased by $7.7 million, or 15%, from $52.6 million for the three months ended September 30, 2016 to $44.9 million for the three months ended September 30, 2017. This decrease was primarily due to a $9.5 million reduction in marketing expense primarily due to our reduced expenditures on our gateway products and other non-strategic brands, partially offset by increased restructuring costs of $0.9 million, an increase of $0.6 million in corporate sales and marketing costs allocated to the web presence segment and a $0.3 million increase in stock-based compensation.

Sales and marketing expense for our email marketing segment decreased by $1.4 million, or 6%, from $22.7 million for the three months ended September 30, 2016 to $21.3 million for the three months ended September 30, 2017. The decrease was due primarily to a $2.1 million reduction in labor costs due to cost savings from restructuring actions, a $1.2 million reduction in depreciation expense, a $1.1 million reduction in restructuring charges and a decrease of $0.6 million in corporate sales and marketing costs allocated to the email marketing segment. These cost improvements were partially offset by a $3.6 million increase in other marketing costs, primarily advertising costs incurred to promote the Constant Contact brand.

Engineering and Development. Engineering and development expense decreased by $4.1 million, or 17%, from $24.0 million for the three months ended September 30, 2016 to $19.9 million for the three months ended September 30, 2017. Email marketing segment engineering and development expenses decreased by $5.2 million and web presence segment engineering and development expenses increased by $1.1 million.

Engineering and development expense for our web presence segment increased by $1.1 million, or 10%, from $10.5 million for the three months ended September 30, 2016 to $11.6 million for the three months ended September 30, 2017. This increase is primarily related to increased labor costs and increased allocations of corporate engineering and development costs to the web presence segment of $2.5 million as we devoted additional resources towards improvements in our web presence products, as well as other cost increases of $0.9 million. These cost increases were partially offset by lower stock-based compensation of $2.3 million.

Engineering and development expense for our email marketing segment decreased by $5.2 million, or 38%, from $13.5 million for the three months ended September 30, 2016 to $8.3 million for the three months ended September 30, 2017. This decrease was primarily the result of a reduction in labor costs and decreased allocations of corporate engineering and development costs to the email marketing segment that totaled $3.1 million, a $1.0 million reduction in depreciation, a $0.7 million reduction of restructuring costs and $0.4 million of other cost decreases.

General and Administrative. General and administrative expense increased by $17.9 million, or 54%, from $33.4 million for the three months ended September 30, 2016 to $51.3 million for the three months ended September 30, 2017. Web presence segment general and administrative expenses increased by $15.8 million, while email marketing segment general and administrative expenses decreased by $2.1 million. Included in these increases is the SEC investigations reserve of $8.0 million.

General and administrative expense for our web presence segment increased by $15.8 million, or 66%, from $23.8 million for the three months ended September 30, 2016 to $39.6 million for the three months ended September 30, 2017. This increase was attributable to a $7.1 million increase in stock-based compensation, primarily related to a shortened service period for certain performance based stock awards granted to our former CEO, a $5.2 million allocation of the SEC investigations reserve to the web presence segment, a $2.0 million increase in restructuring charges and an increase of $1.4 million in allocations of corporate general and administrative expenses to the web presence segment.

General and administrative expense for our email marketing segment increased by $2.1 million, or 22%, from $9.5 million for the three months ended September 30, 2016 to $11.6 million for the three months ended September 30, 2017. This increase was primarily the result of a $2.8 million allocation of the SEC investigations reserve to the email marketing segment, and a $1.2 million increase in other costs, primarily labor costs. These cost increases were partially offset by a $1.4 million decrease in allocations of corporate general and administrative expenses to the email marketing segment, and a $0.5 million decrease in depreciation.

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Transaction Expenses. Transaction expenses decreased by $0.2 million, or 100%, from $0.2 million for the three months ended September 30, 2016 to $0.0 million for the three months ended September 30, 2017. This decrease was due to our reduction in acquisitions following the purchase of Constant Contact.

Other Expense, Net

	Three Months Ended September 30,		Change	
	2016	2017	Amount	%
	(dollars in thousands)			
Other expense, net	$(45,891)	$(36,245)	$(9,646)	(21)%

Other expense, net decreased by $9.6 million, or 21%, from $45.9 million for the three months ended September 30, 2016 to $36.2 million for the three months ended September 30, 2017. The decrease is attributable to $5.4 million of reduced net interest expense, primarily due to the lower interest rates resulting from the 2017 Refinancing. In addition, other expense, net decreased by $4.2 million, primarily due to a loss on an investment of $4.8 million incurred during the 2016 period relating to our AppMachine acquisition.

Income Tax Expense (Benefit)

	Three Months Ended September 30,		Change	
	2016	2017	Amount	%
	(dollars in thousands)			
Income tax expense (benefit)	$(7,387)	$2,982	$10,369	(140)%

Prior to the February 2016 acquisition of Constant Contact, we maintained a valuation allowance against certain deferred tax assets. The acquisition of Constant Contact resulted in a significant increase in deferred tax liabilities, which far exceeded pre-acquisition deferred tax assets. With the significant deferred tax liabilities resulting from the Constant Contact acquisition, we scheduled out the reversal of the consolidated U.S. deferred tax assets and liabilities, and determined that these reversals would be sufficient to realize a significant portion of deferred tax assets that existed at the date of acquisition, and provided a valuation allowance against those deferred tax assets that were not likely to be realized. The deferred tax liabilities supporting the realizability of these deferred tax assets in the acquisition will reverse in the same period, are in the same jurisdiction and are of the same character as the temporary differences that gave rise to these deferred tax assets. After completing the scheduling analysis, we determined that we should maintain valuation allowances on several of the legacy state net operating loss carryforwards expected to expire unused. The reversal of valuation allowances following this scheduling analysis resulted in the recording of a tax benefit of $73.6 million during the quarter ended March 31, 2016, an additional tax benefit of $13.9 million during the quarter ended June 30, 2016, and an additional tax benefit of $7.4 million in the quarter ended September 30, 2016.

For the year ended December 31, 2016, we updated the scheduling of the reversal of the consolidated U.S. deferred tax assets and liabilities. Following the acquisition, deferred tax liabilities have decreased and we have generated additional pre-tax losses. As of December 31, 2016, the scheduling of the reversal of consolidated U.S. deferred tax assets and liabilities generated sufficient income to utilize U.S. deferred tax assets with the exception of certain Federal credits and state net operating loss and credit carryforwards. Accordingly, we increased our valuation allowance by $10.0 million during the last three quarters of fiscal year 2016.

For the three months ended September 30, 2017, we updated the scheduling of the reversal of the consolidated U.S. deferred tax assets and liabilities, as the deferred tax liabilities have continued to decrease and the Company generated additional pre-tax losses. As of September 30, 2017, the Company has determined that the reversal of temporary differences will no longer generate sufficient income to utilize certain of its consolidated deferred tax assets in the U.S. Accordingly, the Company recorded an increase of $10.4 million to its valuation allowance during the quarter ended September 30, 2017, mostly related to the different book and tax treatment of goodwill.

For the three months ended September 30, 2016 and 2017, the Company recognized tax benefit of $7.4 million and a tax expense of $3.0 million, respectively, in the consolidated statements of operations and comprehensive loss. The income tax expense for the three months ended September 30, 2017 was primarily attributable to a federal and state deferred tax expense

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of $1.9 million due primarily to the different book and tax treatment of goodwill, federal and state current income taxes of $0.3 million, a foreign current tax expense of $0.7 million, and foreign deferred tax expense of $0.2 million. The income tax benefit for the three months ended September 30, 2016 was primarily attributable to a federal and state deferred tax benefit of $9.1 million, a benefit for federal and state current income taxes of $0.1 million, partially offset by a $1.6 million deferred tax expense for the reversal of the valuation allowance, and a foreign current tax expense of $0.3 million.

Comparison of Nine Months Ended September 30, 2016 and 2017

Revenue

	Nine Months Ended September 30,		Change	
	2016	2017	Amount	%
	(dollars in thousands)			
Revenue	$819,019	$882,617	$63,598	8%

Revenue increased by $63.6 million, or 8%, from $819.0 million for the nine months ended September 30, 2016 to $882.6 million for the nine months ended September 30, 2017. This increase is attributable to growth from our email marketing segment of $68.7 million, partially offset by $5.1 million in reduced revenue from our web presence segment.

Web presence segment revenue decreased by $5.1 million, or 1%, from $589.4 million for the nine months ended September 30, 2016 to $584.2 million for the nine months ended September 30, 2017. This decrease is the result of $7.6 million in lower revenues, primarily from our non-strategic brands. This decrease was partially offset by $2.5 million in revenues from acquisitions that were not included in the full nine months of the 2016 period.

Email marketing segment revenue increased by $68.7 million, or 30%, from $229.7 million for the nine months ended September 30, 2016 to $298.4 million for the nine months ended September 30, 2017. This increase was primarily due to the inclusion of Constant Contact for a full nine months during the 2017 period, which increased revenue by $41.1 million, and the negative $14.8 million impact of the Constant Contact purchase adjustment during the nine months ended September 30, 2016. The remaining increase of $12.8 million is primarily related to higher revenues from existing customers of Constant Contact, including modest price increases.

Our revenue is generated primarily from our products and services delivered on a subscription basis, which include web hosting, domains, website builders, search engine marketing and other similar services. We also generate non-subscription revenue through domain monetization and marketing development funds. Non-subscription revenue decreased from $31.9 million, or 4% of total revenue, for the nine months ended September 30, 2016 to $29.4 million, or 3% of revenue, for the nine months ended September 30, 2017, due primarily to a decrease in domain monetization revenue. All of our domain monetization revenue and substantially all of our marketing development fund revenue is within our web presence segment.

Cost of Revenue

	Nine Months Ended September 30,					
	2016		2017		Change	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(dollars in thousands)					
Cost of revenue	$438,980	54 %	$454,197	51 %	$15,217	3%

Cost of revenue increased by $15.2 million, or 3%, from $439.0 million for the nine months ended September 30, 2016 to $454.2 million for the nine months ended September 30, 2017. Web presence segment cost of revenue increased by $20.2 million, and email marketing segment cost of revenue decreased by $5.0 million.

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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:

	Nine Months Ended September 30,	
	2016	2017
	(dollars in thousands)	
Amortization expense	$105,679	$104,554
Depreciation expense	$36,818	$34,501
Impairment charges	$—	$13,848
Stock-based compensation expense	$4,116	$4,720

Cost of revenue for our web presence segment increased by $20.2 million, or 6%, from $323.8 million for the nine months ended September 30, 2016 to $344.0 million for the nine months ended September 30, 2017. This increase was primarily due to an impairment charge of $13.8 million relating to certain domain name intangible assets, as well as duplicate support costs of $3.9 million incurred during the customer support transition from Utah to Arizona, increased data center costs of $4.2 million, increased restructuring costs of $2.5 million related primarily to the customer support transition, a $2.6 million increase in depreciation, a $2.1 million increase in domain registration costs, a $1.0 million increase in stock-based compensation and a small increase in allocations of corporate overhead expenses to the web presence segment. These increases were partially offset by a $10.4 million decrease in amortization expense.

Cost of revenue for our email marketing segment decreased by $5.0 million, or 4%, from $115.2 million for the nine months ended September 30, 2016 to $110.2 million for the nine months ended September 30, 2017. This decrease was primarily due to reduction of costs, partially offset by the inclusion of Constant Contact for the full nine months in the 2017 period, and lower restructuring costs of $7.4 million. Constant Contact cost of revenue for the pre-acquisition 2016 period was $11.6 million.

Gross Profit

	Nine Months Ended September 30,							
	2016			2017			Change	
	Amount	% of Revenue		Amount	% of Revenue		Amount	%
	(dollars in thousands)							
Gross profit	$380,039	46	%	$428,420	49	%	$48,381	13%

Gross profit increased by $48.4 million, or 13%, from $380.0 million for the nine months ended September 30, 2016 to $428.4 million for the nine months ended September 30, 2017. Email marketing gross profit increased by $73.8 million, and web presence gross profit decreased by $25.4 million. Our gross profit as a percentage of revenue increased by three percentage points from 46% for the nine months ended September 30, 2016 to 49% for the nine months ended September 30, 2017, mainly due to the acquisition of Constant Contact, since Constant Contact products generally have a higher gross profit percentage as compared to our other products. The following table sets forth gross profit and the significant non-cash components of cost of revenue as a percentage of revenue:

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	Nine Months Ended September 30,	
	2016	2017
	(dollars in thousands)	
Revenue	$819,019	$882,617
Gross profit	$380,039	$428,420
Gross profit % of revenue	46 %	49 %
Amortization expense % of revenue	13 %	12 %
Depreciation expense % of revenue	4 %	4 %
Impairment charges % of revenue	*	2 %
Stock-based compensation expense % of revenue	*	*

*Less than 1%.

Web presence segment gross profit decreased by $25.4 million, or 10%, from $265.6 million for the nine months ended September 30, 2016 to $240.2 million for the nine months ended September 30, 2017. This decrease was primarily due to the $20.2 million increase in cost of revenue as described above, combined with the $5.1 decline in revenue. Our web presence gross profit as a percentage of revenue decreased by 4% year over year, from 45% for the nine months ended September 30, 2016 to 41% for the nine months ended September 30, 2017. This decrease in gross profit percentage is primarily attributable to the impairment of domain name related intangible assets, which impacted gross profit percentage by 2%, and the duplicate support costs associated with the customer support transition from Utah to Arizona, which impacted gross profit percentage by 1%.

Email marketing segment gross profit increased by $73.8 million, or 64%, from $114.4 million for the nine months ended September 30, 2016 to $188.2 million for the nine months ended September 30, 2017. This increase was primarily due to the inclusion of Constant Contact for a full nine months during the 2017 period, and the Constant Contact purchase accounting adjustment, which adversely impacted gross profit for the nine months ended September 30, 2016 by $14.8 million. Gross profit earned by Constant Contact for the pre-acquisition 2016 period was $29.4 million. Our email marketing segment gross profit as a percentage of revenue increased by 13% year over year, from 50% for the nine months ended September 30, 2016 to 63% for the nine months ended September 30, 2017. This increase was primarily the result of the Constant Contact purchase accounting adjustment, which impacted gross profit percentage by 6%, with the balance of the increase primarily related to cost savings from the 2016 Constant Contact restructuring plan.

Operating Expense

	Nine Months Ended September 30,					
	2016		2017		Change	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(dollars in thousands)					
Sales and marketing	$234,944	29 %	$211,154	24 %	$(23,790)	(10)%
Engineering and development	67,930	8 %	60,393	7 %	(7,537)	(11)%
General and administrative	108,508	13 %	130,929	15 %	22,421	21 %
Transaction expense	32,257	4 %	773	— %	(31,484)	(98)%
Total	$443,639	54 %	$403,249	46 %	$(40,390)	(9)%

Sales and Marketing. Sales and marketing expense decreased by $23.8 million, or 10%, from $234.9 million for the nine months ended September 30, 2016 to $211.2 million for the nine months ended September 30, 2017. Web presence segment sales and marketing expenses decreased by $23.7 million, while email marketing segment sales and marketing expense remained relatively flat.

Sales and marketing expense for our web presence segment decreased by $23.7 million, or 15%, from $161.4 million for the nine months ended September 30, 2016 to $137.7 million for the nine months ended September 30, 2017. This decrease was primarily due to a reduction of $29.3 million in marketing expense due to our reduced expenditures on gateway and cloud backup products. This decrease was partially offset by $2.1 million of higher stock-based compensation, an increase of $1.8 million in allocations of corporate sales and marketing expenses to the web presence segment, and $1.7 million of increased restructuring costs.

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Sales and marketing expense for our email marketing segment was essentially flat at $73.5 million for the nine months ended September 30, 2016 and 2017. Although total sales and marketing expenses did not change, the email marketing segment increased promotional marketing spend by $10.4 million in the 2017 period, and these increases were partially offset by lower restructuring charges of $4.9 million, lower depreciation of $2.3 million, decreased allocations of corporate sales and marketing expenses of $1.8 million and lower stock-based compensation of $1.4 million. Constant Contact sales and marketing expenses for the pre-acquisition period in 2016 were $16.4 million. As a percentage of revenue, email marketing sales and marketing expenses were 25% for the nine months ended September 30, 2017 as compared to 37% for the year ended December 31, 2015, the last full fiscal year prior to the acquisition. This decrease in percentage is primarily attributable to the cost savings achieved through the 2016 Constant Contact restructuring plan.

Engineering and Development. Engineering and development expense decreased by $7.5 million, or 11%, from $67.9 million for the nine months ended September 30, 2016 to $60.4 million for the nine months ended September 30, 2017. Web presence segment engineering and development expenses increased by $1.3 million, while email marketing segment engineering and development expenses decreased by $8.8 million.

Engineering and development expense for our web presence segment increased by $1.3 million, or 4%, from $32.8 million for the nine months ended September 30, 2016 to $34.0 million for the nine months ended September 30, 2017. This increase is attributable to higher labor and program spending of $8.0 million, an increase of $2.4 million in allocations of corporate engineering and development expenses to the web presence segment and $0.7 million of other cost increases. These increases were mostly offset by an $8.3 million reduction in charges for impairment to long-lived assets, which were incurred during the nine months ended September 30, 2016 and did not recur in the 2017 period, and lower stock-based compensation of $1.5 million.

Engineering and development expense for our email marketing segment decreased by $8.9 million, or 25%, from $35.2 million for the nine months ended September 30, 2016 to $26.3 million for the nine months ended September 30, 2017. This decrease was primarily related to a $2.4 million reduction in restructuring charges, a $2.4 million decrease in allocations of corporate engineering and development expenses to the email marketing segment, a $2.2 million reduction in labor and program spending and lower depreciation of $1.9 million. Engineering and development expenses for the email marketing segment for the 2016 period do not include the pre-acquisition period, which would have increased the 2016 expenses by $7.0 million. As a percentage of revenue, email marketing engineering and development expenses were 9% for the nine months ended September 30, 2017, as compared to 16% for the year ended December 31, 2015, the last full fiscal year prior to the acquisition. This decrease in percentage is primarily attributable to the cost savings achieved through the 2016 Constant Contact restructuring plan.

General and Administrative. General and administrative expense increased by $22.4 million, or 21%, from $108.5 million for the nine months ended September 30, 2016 to $130.9 million for the nine months ended September 30, 2017. Web presence general and administrative expenses increased $19.3 million, and the email marketing segment general and administrative expenses increased by $3.1 million.

General and administrative expense for our web presence segment increased by $19.3 million, or 24%, from $79.4 million for the nine months ended September 30, 2016 to $98.7 million for the nine months ended September 30, 2017. This increase was primarily related to the $5.2 million SEC investigations reserve allocated to the web presence segment, increased stock-based compensation of $3.9 million, increased restructuring costs of $3.9 million and a $1.2 million increase in allocations of corporate general and administrative expenses to the web presence segment. The balance of the increase, or $5.1 million, is primarily related to increased labor costs.

General and administrative expense for our email marketing segment increased by $3.1 million, or 11%, from $29.1 million for the nine months ended September 30, 2016 to $32.2 million for the nine months ended September 30, 2017, primarily due to the $2.8 million SEC investigations reserve allocated to the email marketing segment.

Transaction Expenses. Transaction expenses decreased by $31.5 million, or 98%, from $32.3 million for the nine months ended September 30, 2016 to $0.8 million for the nine months ended September 30, 2017. The period-over-period decrease was primarily attributable to costs related to our acquisition of Constant Contact in February 2016.

Other Expense, Net

	Nine Months Ended September 30,		Change	
	2016	2017	Amount	%
	(dollars in thousands)			
Other expense, net	$(105,570)	$(121,116)	$15,546	15%

Other expense, net increased by $15.5 million, or 15%, from $105.6 million for the nine months ended September 30, 2016 to $121.1 million for the nine months ended September 30, 2017. The increase is primarily due to a $8.4 million increase in interest expense, including service fees, which includes $6.5 million of charges incurred during the nine months ended September 30, 2017 to expense certain deferred financing costs and original issue discount (OID) in connection with our 2017 Refinancing, as well as the full nine months' impact during the 2017 period of increased interest expense to finance the Constant Contact acquisition, partially offset by decreases in interest rates in the nine months ended September 30, 2017 as a result of our 2017 Refinancing. In addition, other expense, net for 2016 was offset by a gain on the consolidation of WZ UK of $11.4 million, partially offset by a loss on consolidation of AppMachine of $4.8 million, neither of which recurred in the 2017 period.

Income Tax Expense (Benefit)

	Nine Months Ended September 30,		Change	
	2016	2017	Amount	%
	(dollars in thousands)			
Income tax expense (benefit)	$(121,220)	$11,384	$132,604	(109)%

For the nine months ended September 30, 2016 and 2017, we recognized a tax benefit of $121.2 million and a tax expense of $11.4 million, respectively, in the consolidated statements of operations and comprehensive loss. The income tax expense for the nine months ended September 30, 2017 was attributable to a federal and state deferred tax expense of $7.3 million related to the differences in accounting treatment of goodwill under U.S. GAAP and tax accounting for goodwill, federal and state current tax expense of $2.6 million, and a foreign current tax expense of $2.3 million, partially offset by a foreign deferred tax benefit of $0.8 million.

The income tax benefit for the nine months ended September 30, 2016 was primarily attributable to a $72.8 million reversal of the valuation allowance, a federal and state deferred tax benefit of $49.7 million, which includes the identification and recognition of $7.3 million of U.S. federal research and development tax credits, and a foreign deferred tax benefit of $2.1 million, partially offset by a provision for federal and state current income taxes of $1.4 million and foreign current tax expense of $2.0 million.

Liquidity and Capital Resources

Sources of Liquidity

In November 2013, we entered into a first lien term loan facility of $1,050.0 million. On February 9, 2016, in connection with our acquisition of Constant Contact, we entered into a $735.0 million incremental first lien term loan facility and a new $165.0 million revolving credit facility (which replaced our previous revolving credit facility), and our wholly owned subsidiary, EIG Investors, issued $350.0 million aggregate principal amount of 10.875% senior notes due 2024. On June 14, 2017, we completed the 2017 Refinancing, which repaid both our first lien and incremental term loan facilities and replaced them with a new first lien term loan facility, which we refer to as the "2017 first lien term loan". We refer to the 2017 first lien term loan and the new revolving credit facility (together with our previously existing first lien term loan and incremental first lien term loan facilities, where the context requires) as the "Senior Credit Facilities" and to the 10.875% senior notes due 2024 as the "Notes".

2017 First Lien

In connection with the 2017 Refinancing, we entered into the 2017 first lien term loan, which was issued at a price of 99.75% of par, had an original balance of $1,697.3 million and a maturity date of February 9, 2023. The 2017 first lien term loan automatically bears interest at the bank's reference rate unless we give notice to opt for LIBOR based interest rate term

loans. The interest rate for a LIBOR based interest rate term loan is 4.00% plus the greater of an adjusted LIBOR and 1.00%, and the interest rate for a reference rate term loan is 3.00% per annum plus the greatest of the prime rate, the federal funds effective rate plus 0.50%, an adjusted LIBOR for a one-month interest period plus 1.00%, and 2.00%. The 2017 first lien term loan requires quarterly mandatory repayments of principal. During the nine months ended September 30, 2017, we made two mandatory repayment of $8.5 million each, and two voluntary prepayments of $5.0 million each.

Revolving Credit Facility

Loans under our $165.0 million revolving credit facility will bear interest at a rate of 4.0% per annum (subject to a leverage-based step-down) plus the greater of an adjusted LIBOR and 0%. This revolving credit facility has a maturity date of February 9, 2021. This revolving credit facility had a "springing" maturity date of August 10, 2019, which is no longer applicable as a result of the 2017 Refinancing.

Loans under the Senior Credit Facilities are also subject to a base rate option, with interest rate spreads of 1.0% per annum less than those applicable to LIBOR-based loans.

The Senior Credit Facilities have been fully and unconditionally guaranteed and secured by us and certain of our subsidiaries (including Constant Contact and its subsidiaries).

10.875% Senior Notes due 2024

The Notes will mature in February 2024, were issued at a price of 98.065% of par and will bear interest at the rate of 10.875% per annum. The Notes have been fully and unconditionally guaranteed on a senior unsecured basis, by us and our subsidiaries that guarantee the Senior Credit Facilities (including Constant Contact and its subsidiaries).

In connection with the issuance of the Notes, we entered into a registration rights agreement with the initial purchasers of the Notes, which provides the holders of the Notes certain rights relating to registration of the Notes under the Securities Act. On January 30, 2017, we completed a registered exchange offer for the Notes, as required under the registration rights agreement. All of the $350.0 million aggregate principal amount of the original notes was validly tendered for exchange as part of this exchange offer. The registration rights agreement also obligated us to use reasonable efforts to cause to become effective a registration statement providing for the registration of certain secondary transactions in the Notes by Goldman, Sachs & Co. and its affiliates. This registration statement became effective on December 29, 2016.

As of September 30, 2017, we had cash and cash equivalents totaling $70.5 million and negative working capital of $345.1 million, which included the $33.9 million current portion of the 2017 first lien term loan facility. In addition, we had approximately $1,959.5 million of long term indebtedness, including deferred financing costs, outstanding under our 2017 first lien term loan facility, which matures on February 9, 2023 and under our 10.875% Senior Notes due 2024. We also had $459.5 million of short-term and long-term deferred revenue, which is not expected to be payable in cash.

Debt Covenants

Senior Credit Facilities

The Senior Credit Facilities require that we comply with a financial covenant to maintain a maximum ratio of consolidated senior secured indebtedness to Bank Adjusted EBITDA (as defined below).

The Senior Credit Facilities contain covenants that limit our ability to, among other things, incur additional debt or issue certain preferred shares; pay dividends on or make other distributions in respect of capital stock; make other restricted payments; make certain investments; sell or transfer certain assets; create liens on certain assets to secure debt; consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and enter into certain transactions with affiliates. These covenants are subject to a number of important limitations and exceptions.

Additionally, the Senior Credit Facilities require us to comply with certain negative covenants and specify certain events of default that could result in amounts becoming payable, in whole or in part, prior to their maturity dates.

With the exception of certain equity interests and other excluded assets under the terms of the Senior Credit Facilities, substantially all of our assets are pledged as collateral for the obligations under the Senior Credit Facilities.

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Notes

The indenture with respect to the Notes contains covenants that limit our ability to, among other things, incur additional debt or issue certain preferred shares; pay dividends on or make other distributions in respect of capital stock; make other restricted payments; make certain investments; sell or transfer certain assets; create liens on certain assets to secure debt; consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and enter into certain transactions with affiliates. Upon a change of control as defined in the indenture, we or EIG Investors must offer to repurchase the Notes at 101% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, up to, but not including, the repurchase date. These covenants are subject to a number of important limitations and exceptions.

The indenture also provides for events of default, which, if any of them occurs, may permit or, in certain circumstances, require the principal, premium, if any, interest and any other monetary obligations on all the then outstanding Notes to be due and payable immediately.

We were in compliance with all covenants at September 30, 2017.

Secured Net Leverage Ratio

The Senior Credit Facilities require that we comply with a financial covenant to maintain a maximum ratio of consolidated senior secured net indebtedness on the date of determination to an adjusted consolidated EBITDA measure, which we refer to as Bank Adjusted EBITDA, for the most recently completed four quarters (which we refer to as trailing twelve months, or TTM). This net leverage ratio is tested as of the last day of each fiscal quarter and may not exceed 6.50 to 1.00 through December 31, 2016, 6.25 to 1.00 from March 31, 2017 through December 31, 2017, and 6.00 to 1.00 from March 31, 2018 and thereafter. As of September 30, 2017, we were in compliance with this covenant.

Our credit agreement defines the consolidated senior secured net indebtedness as of any date of determination as the aggregate amount of indebtedness of us and our restricted subsidiaries that is secured by a lien not expressly subordinated to the liens securing the Senior Credit Facilities, is determined on a consolidated basis in accordance with GAAP and consists only of indebtedness for borrowed money, unreimbursed obligations under letters of credit, obligations with respect to capital lease obligations and debt obligations evidenced by promissory notes and similar instruments, minus the aggregate amount of cash and permitted investments, excluding cash and permitted investments that are restricted.

Our credit agreement defines Bank Adjusted EBITDA as net income (loss) adjusted to exclude, among other things, interest expense, income tax expense (benefit), depreciation and amortization. Bank Adjusted EBITDA also adjusts net income (loss) by excluding certain non-cash foreign exchange gains (losses), certain gains (losses) from sale of assets, stock-based compensation, unusual and non-recurring expenses (including acquisition related costs, gains or losses on early extinguishment of debt, and loss on impairment of tangible or intangible assets). It also adjusts net income (loss) for revenue on a billed basis, changes in deferred domain costs, share of loss (profit) of unconsolidated entities, and certain integration related costs. Finally, it adjusts net income (loss) to give pro forma effect to acquisitions, debt incurrences, repayments of debt, other specified transactions and certain cost savings on a TTM basis.

We use Bank Adjusted EBITDA to monitor our secured net leverage ratio and our ability to undertake key investing and financing functions such as making investments and incurring additional indebtedness, which may be prohibited by the covenants under our credit agreement unless we comply with certain financial ratios and tests.

Bank Adjusted EBITDA is a supplemental measure of our liquidity and is not presented in accordance with GAAP. Bank Adjusted EBITDA is not a measurement of our financial performance under GAAP and should not be considered an alternative to revenue, net income (loss), cash flow, or any other performance measure derived in accordance with GAAP. Our presentation of Bank Adjusted EBITDA may not be comparable with similarly titled measures of other companies.

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As of September 30, 2017, our secured net leverage ratio on a TTM basis was 4.51 to 1.00 and was calculated as follows:

	For the three months ended,				
	December 31, 2016	March 31, 2017	June 30, 2017	September 30, 2017	TTM
	(in thousands except ratios)				
Net loss	$(32,082)	$(31,578)	$(35,415)	$(40,264)	$(139,339)
Interest expense	40,315	39,516	45,658	35,850	161,339
Income tax expense (benefit)	11,362	5,774	2,628	2,982	22,746
Depreciation	13,418	13,111	14,051	13,571	54,151
Amortization of other intangible assets	37,883	34,267	34,940	35,347	142,437
Stock-based compensation	10,049	12,924	16,245	19,580	58,798
Integration and restructuring costs	(1,750)	5,627	4,476	4,488	12,841
Transaction expenses and charges	27	580	193	—	800
Loss (gain) of unconsolidated entities	4,803	—	(39)	(33)	4,731
Impairment of long-lived assets	754	—	—	14,448	15,202
Gain on assets, not ordinary course	(85)	—	—	—	(85)
Legal advisory and related expenses	1,062	2,111	1,842	9,220	14,235
Billed revenue to GAAP revenue adjustment	(4,451)	15,130	1,123	(1,778)	10,024
Domain registration cost cash to GAAP adjustment	(1,005)	(2,177)	857	191	(2,134)
Currency translation	243	16	(63)	21	217
Bank Adjusted EBITDA	$80,543	$95,301	$86,496	$93,623	$355,963
Current portion of notes payable					33,945
Current portion of capital lease obligations					3,166
Notes payable - long term					1,920,259
Capital lease obligations - long term					1,485
Original issue discounts and deferred financing costs					66,074
Less:					
Unsecured notes					(350,000)
Cash					(70,521)
Certain permitted restricted cash					(175)
Net senior secured indebtedness					$1,604,233
Net leverage ratio					4.51
Maximum net leverage ratio					6.25

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Cash and Cash Equivalents

As of September 30, 2017, 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 $16.9 million from $53.6 million at December 31, 2016 to $70.5 million at September 30, 2017. Of the $70.5 million cash and cash equivalents we had at September 30, 2017, $21.9 million was held in foreign countries, which, due to tax and accounting reasons, we do not plan to repatriate in the near future. We used cash on hand at December 31, 2016 and cash flows from operations to purchase property and equipment, redeem a non-controlling interest in WZ UK Ltd. and to make our debt payments on our 2017 first lien term loan and (prior to the 2017 Refinancing) our term loan and incremental term loans, as described under "Financing Activities" below. Our future capital requirements will depend on many factors including, but not limited our growth rate, expansion of sales and marketing activities, the introduction of new and enhanced products and services, acquisitions and dispositions, market acceptance of our solutions and our gross profits and operating expenses. 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.

The following table shows our purchases of property and equipment, principal payments on capital lease obligations, depreciation, amortization and cash flows from operating activities, investing activities and financing activities for the stated periods:

	Nine Months Ended September 30,	
	2016	2017
	(dollars in thousands)	
Purchases of property and equipment	$ (29,317)	$ (32,095)
Principal payments on capital lease obligations	$ (4,372)	$ (5,679)
Depreciation	$ 46,942	$ 40,733
Amortization	$ 114,543	$ 113,252
Cash flows provided by operating activities	$ 101,804	$ 128,866
Cash flows used in investing activities	$ (925,074)	$ (33,114)
Cash flows provided by (used in) financing activities	$ 851,545	$ (80,983)

Capital Expenditures

Our capital expenditures on the purchase of property and equipment for the nine months ended September 30, 2016 and 2017 were $29.3 million and $32.1 million, respectively. The remaining balance payable on the capital leases is $4.7 million as of September 30, 2017. We expect our capital expenditures to increase over the next twelve months as we enhance our disaster recovery capabilities.

Depreciation

Our depreciation expense for the nine months ended September 30, 2016 and 2017 decreased slightly from $46.9 million to $40.7 million, respectively.

Amortization

Our amortization expense, which includes amortization of other intangible assets, amortization of deferred financing costs, amortization of net present value of deferred consideration and amortization of original issue discounts, decreased by $1.3 million from $114.5 million for the nine months ended September 30, 2016 to $113.3 million for the nine months ended September 30, 2017. This increase is primarily related to the additional amortization of deferred financing costs and original issue discounts as a result of the 2017 Refinancing.

Operating Activities

Cash provided by operating activities consists primarily of net income (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 subscription fees 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.

Net cash provided by operating activities increased from $101.8 million for the nine months ended September 30, 2016 to $128.9 million for the nine months ended September 30, 2017. This increase was primarily due to a $37.6 million decrease in acquisition transaction cost payments, mainly related to expenses paid in the 2016 period to acquire Constant Contact, a decrease in severance and other restructuring costs of $8.5 million due to the substantial completion of the Constant Contact restructuring plan during 2016, and increased operating cash flow from the inclusion of Constant Contact for a full nine months in the 2017 period. These increases in cash flow were partially offset by higher payments of interest expense of $27.1 million, primarily due to increased debt incurred to acquire Constant Contact.

Investing Activities

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

During the nine months ended September 30, 2017, net cash used in investing activities was $33.1 million. We used $32.1 million of cash to purchase property and equipment, net of proceeds from disposals of $0.3 million, and made a net deposit of $0.7 million of restricted cash with a payment processor.

During the nine months ended September 30, 2016, net cash used in investing activities was $925.1 million. We used $899.9 million of cash, net of cash acquired, for the purchase consideration for our acquisition of Constant Contact and our acquisition of a controlling interest in WZ UK and AppMachine. We also used $29.3 million of cash to purchase property and equipment, net of proceeds from disposals, and to make a net withdrawal of $0.7 million of restricted cash with a payment processor. In addition, we paid $5.0 million for a minority interest investment in Fortifico Limited, a company providing a billing, customer support and CRM solution to small and mid-sized businesses, and $0.6 million for a convertible promissory note from a business that provides web and mobile management solutions, with the potential for subsequent purchases of additional convertible notes.

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, 2017, cash flows used in financing activities was $81.0 million. We paid $1,733.1 million of principal payment related to our term loans, mainly as part of our 2017 Refinancing from which we received net proceeds from the 2017 first lien term loan of $1,693.0 million. In addition, we redeemed the balance of the non-controlling interest in our WZ UK, Ltd. subsidiary for $25.0 million, made $5.7 million of principal payments related to capital lease obligations, paid an aggregate of $5.4 million in deferred consideration for our final deferred payment for Mojoness, Inc. and for the first deferred payment for AppMachine, and paid $6.3 million of deferred financing costs related to the 2017 Refinancing. These payments were partially offset by $1.5 million of proceeds that we received from the exercise of stock options.

During the nine months ended September 30, 2016, cash flows provided by financing activities was $851.5 million. We received $1.1 billion from the issuance of the incremental first lien term loan and Notes to finance the acquisition of Constant Contact. Our net reduction of our revolving credit facility was $33.5 million, as we paid off our revolving credit facility with the proceeds from the new debt used to acquire Constant Contact. We also received $2.3 million of proceeds from the exercise of stock options. These items were partially offset by a $42.8 million principal payment related to our term loans and an $83.0 million aggregate repayment, including the $67.0 million that was paid with the proceeds from the new debt used to acquire Constant Contact, related to our revolving credit facility. In addition, we paid $52.6 million of financing costs, $4.4 million of principal payments related to capital lease obligations and a $43.1 million payment of deferred consideration.

Free Cash Flow

Free cash flow, or FCF, is a non-GAAP financial measure that we calculate as GAAP cash flow from operations less capital expenditures and capital lease obligations. We believe that FCF provides investors with an indicator of our ability to generate positive cash flows after meeting our obligations with regard to capital expenditures (including capital lease obligations).

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The following table reflects the reconciliation of cash flow from operations to free cash flow (“FCF”) (all data in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2017	2016	2017
Cash flow from operations	$36,189	$46,444	$101,804	$128,866
Less:				
Capital expenditures and capital lease obligations (1)	(9,832)	(14,571)	(33,689)	(37,774)
Free cash flow	$26,357	$31,873	$68,115	$91,092

(1) Capital expenditures during the three and nine months ended September 30, 2016 includes $1.5 million and $4.4 million, respectively, of principal payments under a two year capital lease for software. Capital expenditures during the three and nine months ended September 30, 2017 includes $1.8 million and $5.7 million, respectively, of principal payments under a three year capital lease for software. The remaining balance on the capital lease is $4.7 million as of September 30, 2017.

Free cash flow increased by $5.5 million from $26.4 million for the three months ended September 30, 2016 to $31.9 million for the three months ended September 30, 2017. This increase was due primarily to improved profitability of our email marketing segment and reduced payments of interest following our 2017 Refinancing. These increases in cash flow were partially offset by increased capital expenditures and capital lease obligation payments of $4.7 million and changes in working capital, mainly decreases in cash billings, which lead to a decrease in deferred revenue. This decrease in cash billings was mainly the result of our decision to direct marketing investments away from gateway products and other non-strategic brands and towards our key brands, which we believe generate higher lifetime revenue and a better potential return on our marketing investments.

Free cash flow increased by $23.0 million from $68.1 million for the nine months ended September 30, 2016 to $91.1 million for the nine months ended September 30, 2017. This increase was primarily due to a $37.6 million decrease in acquisition transaction cost payments, mainly related to expenses paid in the 2016 period to acquire Constant Contact, a decrease in severance and other restructuring costs of $8.5 million due to the substantial completion of the Constant Contact restructuring plan during 2016, and increased operating cash flow from the inclusion of Constant Contact for a full nine months in the 2017 period. These factors were partially offset by higher payments of interest expense of $27.1 million in the 2017 period due to increased debt incurred to acquire Constant Contact, and $6.5 million of financing fees paid in 2017 as part of the 2017 Refinancing.

Net Operating Loss Carry-Forwards

As of December 31, 2016, we had net operating loss ("NOL") carry-forwards available to offset future U.S. federal taxable income of approximately $142.7 million and future state taxable income of approximately $125.6 million. These NOL carry-forwards expire on various dates through 2036.

As of December 31, 2016, we had NOL carry-forwards in foreign jurisdictions available to offset future foreign taxable income by approximately $96.8 million. The Company has loss carry-forwards that begin to expire in 2021 in India totaling $2.5 million and in China totaling $0.3 million. The Company has loss carry-forwards that begin to expire in 2020 in the Netherlands totaling $10.7 million. The Company also has loss carry-forwards in the United Kingdom, Israel and Singapore of $81.1 million, $1.9 million, and $0.3 million, respectively, which have an indefinite carry-forward period.

In addition, we have $3.4 million of U.S. federal capital loss carry-forwards and $1.4 million in state capital loss-forwards, generally expiring through 2021. As of December 31, 2016, the Company had U.S. tax credit carryforwards available to offset future U.S. federal and state taxes of approximately $20.3 million and $12.2 million, respectively. These credit carryforwards expire on various dates through 2036.

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, we were subject to Section 382 limitations of $77.1 million against the balance of NOL carry-forwards generated prior to the change in control in 2011.

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 have

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completed an analysis of changes in its ownership from 2011, through our IPO, to December 31, 2014. We concluded that there was not a Section 382 ownership change during this period and therefore any NOLs generated through December 31, 2014, are not subject to any new Section 382 limitations on NOL carry-forwards. On November 20, 2014, we completed a follow-on offering of 13,000,000 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. We performed an analysis of the impact of this offering and determined that no Section 382 change in ownership had occurred.

On March 11, 2015, we completed a follow-on offering of our 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. We completed an analysis of our ownership changes in the first half of 2016, which resulted in no ownership change for tax purposes within the meaning of the Internal Revenue Code Section 382(g).

As of February 9, 2016, the date of our acquisition of Constant Contact, Constant Contact had approximately $60.2 million and $32.4 million of federal and state NOLs, respectively, and approximately $10.9 million of U.S. federal research and development credits and $9.2 million of state credits.

Contractual Obligations and Commitments

There have been no significant changes in our contractual obligations from those disclosed in our Annual Report on Form 10-K filed with the SEC on February 24, 2017, except as it relates to our long-term debt obligations. The following table summarizes these debt-related contractual obligations as of September 30, 2017:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in thousands)				
Long-term debt obligations:					
Principal payments on term loan facilities and notes	$2,020,277	$33,945	$67,890	$67,890	$1,850,552
Total principal payments relating to our long-term debt obligations	$2,020,277	$33,945	$67,890	$67,890	$1,850,552

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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 $70.5 million at September 30, 2017, 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, 2017, we had approximately $1,670.3 million outstanding under our 2017 first lien term loan facility, $0.0 million of indebtedness outstanding under our 2013 first lien term loan facility, $0.0 million outstanding under our incremental first lien term loan, $350.0 million outstanding under the Notes and $0.0 million outstanding under a revolving credit facility of $165.0 million.

The 2017 first lien term loan facility automatically bears interest at the bank's reference rate unless we give notice to opt for LIBOR based interest rate term loans. The interest rate for a LIBOR based interest term loan is 4.00% plus the greater of an adjusted LIBOR and 1.00%, and the interest rate for a reference rate term loan was 3.00% per annum plus the greatest of the prime rate, the federal funds effective rate plus 0.50%, an adjusted LIBOR for a one-month interest period plus 1.00%, or 2.00%.

Loans under the $165.0 million revolving credit facility bear interest at a rate of 4.0% per annum (subject to a leverage-based step-down) plus adjusted LIBOR for a selected interest period.

Loans under the revolving credit facility are also subject to a base rate option, with interest rate spreads of 1.0% per annum less than those applicable to LIBOR-based loans.

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 outstanding under our new first lien term loan facility of $1,670.3 million as of September 30, 2017, a 100 basis point increase in the adjusted LIBOR above the LIBOR floor would result in a $16.9 million increase in our aggregate interest payments over a 12-month period, and a 100 basis point decrease at the current LIBOR rate would result in a $16.9 million decrease in our interest payments.

We entered into a three-year interest rate cap on December 9, 2015 as part of our risk management strategy. This interest rate cap limits our exposure to interest rate increases on $500.0 million of our first lien term loan. If the LIBOR interest rates for this loan increase more than 66 basis points above the rates at September 30, 2017, our interest rate cap would begin to protect us on interest charges for $500.0 million of outstanding debt.

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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, 2017, 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, 2017, 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

During the three months ended September 30, 2017, there has not been any change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time we are involved in legal proceedings or subject to claims arising in the ordinary course of our business. We are not presently involved in any such legal proceeding or subject to any such claim that, in the opinion of our management, would have a material adverse effect on our business, operating results or financial condition. However, the results of such legal proceedings or claims cannot be predicted with certainty, and regardless of the outcome, can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors. Neither the ultimate outcome of the matters listed below nor an estimate of any probable losses or any reasonably possible losses (other than the SEC investigations reserve discussed below) can be assessed at this time.

Endurance

We received a subpoena dated December 10, 2015 from the Boston Regional Office of the SEC, requiring the production of certain documents, including, among other things, documents related to our financial reporting, including operating and non-GAAP metrics, refund, sales and marketing practices and transactions with related parties. We are fully cooperating with the SEC’s investigation. We are also in discussions with the Boston Regional Office regarding a potential resolution of its investigation, and have reserved $8.0 million in connection with a potential resolution of both this investigation and the Constant Contact investigation discussed below. We can make no assurances as to whether the investigation will be resolved by agreement and/or the time or resources that will need to be devoted to this investigation or its final outcome, or the impact, if any, of this investigation or any related legal or regulatory proceedings on our business, financial condition, results of operations and cash flows.

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 former chief executive officer and our former chief financial officer, captioned Machado v. Endurance International Group Holdings, Inc., et al., Civil Action No. 1:15-cv-11775-GAO. The plaintiff filed an amended complaint on December 8, 2015, and a second amended complaint on March 18, 2016. We moved to dismiss the second amended complaint, but before the court ruled on our motion, with our assent, the plaintiff filed a third amended complaint on June 30, 2017. In the third amended complaint, plaintiffs Christopher Machado and Michael Rubin allege claims for violations of Section 10(b) and 20(a) of the Exchange Act, and Sections 11, 12(a)(2), and 15 of the Securities Act, on behalf of a purported class of purchasers of our securities between October 25, 2013 and December 16, 2015, including persons or entities who purchased or acquired our shares pursuant or traceable to the registration statement and prospectus issued in connection with our October 25, 2013 initial public offering. The plaintiffs challenge as false or misleading certain of our disclosures about the total number of subscribers, average revenue per subscriber, the number of customers paying over $500 per year for our products and services, and the average number of products sold per subscriber. The plaintiffs seek, on behalf of themselves and the purported class, compensatory damages, rescissory damages as to class members who purchased shares pursuant to the offering and the plaintiffs' costs and expenses of litigation. We moved to dismiss the third amended complaint on August 29, 2017. The plaintiffs' memorandum in opposition to our motion to dismiss was filed on October 30, 2017, and our reply memorandum is due on December 14, 2017. We and the individual defendants intend to deny any liability or wrongdoing and to vigorously defend all claims asserted. We cannot, however, make any assurances as to the outcome of the proceeding.

Constant Contact

On December 10, 2015, Constant Contact received a subpoena from the Boston Regional Office of the SEC, requiring the production of documents pertaining to Constant Contact’s sales, marketing, and customer retention practices, as well as periodic public disclosure of financial and operating metrics. We are fully cooperating with the SEC’s investigation. As discussed above, we are in discussions with the Boston Regional Office regarding a potential resolution of its investigation, and have reserved $8 million in connection with a potential resolution of both this investigation and the Endurance investigation discussed above. We can make no assurances as to whether the investigation will be resolved by agreement and/or the time or resources that will need to be devoted to this investigation or its final outcome, or the impact, if any, of this investigation or any related legal or regulatory

proceedings on our business, financial condition, results of operations and cash flows.
On August 7, 2015, a purported class action lawsuit, William McGee v. Constant Contact, Inc., et al, was filed in the United States District Court for the District of Massachusetts against Constant Contact and two of its former officers. An amended complaint, which named an additional former officer as a defendant, was filed December 19, 2016. The lawsuit asserts claims under Sections 10(b) and 20(a) of the Exchange Act, and is premised on allegedly false and/or misleading

statements, and non-disclosure of material facts, regarding Constant Contact's business, operations, prospects and performance during the proposed class period of October 23, 2014 to July 23, 2015. This litigation remains in its early stages. We and the individual defendants intend to vigorously defend all claims asserted. We cannot, however, make any assurances as to the outcome of this proceeding.

In August 2012, RPost Holdings, Inc., RPost Communications Limited and RMail Limited, or collectively, RPost, filed a complaint in the United States District Court for the Eastern District of Texas that named Constant Contact as a defendant in a lawsuit. The complaint alleged that certain elements of Constant Contact's email marketing technology infringe five patents held by RPost. RPost seeks an award for damages in an unspecified amount and injunctive relief. In February 2013, RPost amended its complaint to name five of Constant Contact's marketing partners as defendants. Under Constant Contact's contractual agreements with these marketing partners, it is obligated to indemnify them for claims related to patent infringement. Constant Contact filed a motion to sever and stay the claims against its partners and multiple motions to dismiss the claims against it. In January 2014, the case was stayed pending the resolution of certain state court and bankruptcy actions involving RPost, to which Constant Contact is not a party. The case continues to be stayed pending the state court and bankruptcy actions. Meanwhile, RPost asserted the same patents asserted against Constant Contact in litigation against Go Daddy. In June 2016, Go Daddy succeeded in invalidating all of those RPost patents. On July 7, 2016, RPost appealed the District Court order to the United States Court of Appeal for the Federal Circuit. On November 14, 2016, Endurance filed an amicus brief in the Federal Circuit in support of GoDaddy's position. The case was argued on May 3, 2017, and the Federal Circuit issued an order without opinion affirming the district court's decision that the RPost patents are invalid. On June 5, 2017, RPost filed a Combined Petition for Panel Rehearing and Rehearing En Banc. On July 6, 2017, the Federal Circuit invited GoDaddy to respond to RPost's Petition, and on August 8, 2017, the Federal Circuit denied RPost's petition for panel rehearing and rehearing en banc. RPost has until November 9, 2017 to file a writ of certiorari with the Supreme Court. If RPost does not file a writ of certiorari or the Supreme Court does not take this case, all claims asserted by RPost against Constant Contact in December 2012 will remain invalid except for one claim from one patent. Constant Contact has notified RPost that it believes the remaining claim is invalid in light of the other litigation that RPost lost. RPost has refused to dismiss its case against Constant Contact until it has exhausted all of its appeals.

Legal Proceedings Related to the Constant Contact Acquisition

On December 11, 2015, a putative class action lawsuit relating to the Constant Contact acquisition, captioned Irfan Chawdry, Individually and On Behalf of All Others Similarly Situated v. Gail Goodman, et al. Case No. 11797, and on December 21, 2015, a putative class action lawsuit relating to the acquisition captioned David V. Myers, Individually and On Behalf of All Others Similarly Situated v. Gail Goodman, et al. Case No. 11828 (together, the "Complaints") were filed in the Court of Chancery of the State of Delaware, naming Constant Contact, each of Constant Contact's directors, Endurance and Paintbrush Acquisition Corporation as defendants. The Complaints generally alleged, among other things, that in connection with the acquisition the directors of Constant Contact breached their fiduciary duties owed to the stockholders of Constant Contact by agreeing to sell Constant Contact for purportedly inadequate consideration, engaging in a flawed sales process, omitting material information necessary for stockholders to make an informed vote, and agreeing to a number of purportedly preclusive deal protection devices. The Complaints sought, among other things, to rescind the acquisition, as well as an award of plaintiffs' attorneys' fees and costs in the action. The Complaints were consolidated on January 12, 2016. On December 5, 2016, plaintiff Myers filed a consolidated amended complaint (the "Amended Complaint"), which named as defendants the former Constant Contact directors and Morgan Stanley & Co. LLC ("Morgan Stanley"), Constant Contact's financial advisor for the acquisition. The Amended Complaint generally alleged breach of fiduciary duty by the former directors, and aiding and abetting the alleged breach by Morgan Stanley. The Constant Contact defendants filed a motion to dismiss the Amended Complaint on December 15, 2016 and an opening brief in support of the motion to dismiss on March 17, 2017. Plaintiff Myers filed an opposition brief to the motion to dismiss on May 17, 2017, and the Constant Contact defendants' reply brief was filed on June 19, 2017. Oral argument took place on October 16, 2017 and the court gave the plaintiff 30 days to consider whether to withdraw the case or move forward and receive a decision on the motion to dismiss. On November 2, 2017, the court entered a Stipulation and Order dismissing the case.

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.

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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 successfully carry out our strategic and operational initiatives within our planned timeframes and budget constraints, including initiatives to improve customer satisfaction and retention by upgrading our products and improving our customer support;
- our ability to cost-effectively attract, retain, and increase sales to subscribers, particularly subscribers with high long-term revenue potential;
- competition in the market for our products and services, as well as competition for referral and advertising sources;
- difficulties in managing multiple platforms or in integrating technologies, products and employees from companies we have acquired, or in migrating acquired subscribers from an acquired company's platforms to our platforms, any of which may result in subscriber dissatisfaction, an increase in subscriber churn, challenges and delays in rolling out new products to our customer base, difficulties cross-selling products and services to subscribers, compliance challenges and higher compliance costs, and our failure to realize the anticipated benefits from acquisitions;
- challenges with our recent senior management transitions, loss of key employees or difficulties recruiting new employees;
- rapid technological change, changing consumer preferences, frequent new product and service introductions, and evolving industry standards, including with respect to how our products and services are marketed to consumers, in how consumers find, purchase and use our products and services and in technology intended to block email marketing;
- the amount and timing of capital expenditures, such as investments in our hardware and software systems, as well as extraordinary expenses, such as litigation, regulatory or other dispute-related settlement payments;
- shortcomings or errors in, or misinterpretations of, our metrics, forecasts and data, including those that cause us to fail to anticipate or identify trends in our market;
- network security breaches or sabotage resulting in the unauthorized use or disclosure of, or access to, personally identifiable information or other confidential information;
- difficulties and costs arising from our international operations;
- changes in legislation or changes to interpretations of existing legislation and regulations by governmental authorities, including changes 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, and U.S. and international regulations governing email marketing and privacy, that could affect our business and our industry, or costs of or our failure to comply with applicable regulations;
- failures to comply with industry standards such as the payment card industry data security standards;
- litigation or governmental enforcement actions against us, including due to failures to comply with applicable law or regulation;
- terminations of, disputes with, or material changes to our relationships with third-party partners, including referral sources, outsourced service providers, product partners, data center providers, payment processors and landlords;
- economic conditions negatively affecting the SMB sector and changes in the growth rate of SMBs; and
- costs or liabilities associated with any past or future acquisitions, strategic investments or joint ventures.

Our financial results for 2016 were below our initial expectations as of the beginning of that year due to several factors, including higher than expected subscriber acquisition costs and subscriber churn associated with new gateway products, relatively flat growth in our core hosting business, and competitive pressures. It is possible that in one or more future periods, due to any of the factors listed above, a combination of those factors or other reasons, our operating results may again fall 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 add new subscribers, retain existing subscribers or increase sales to 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 grow our subscriber base, for a number of reasons, including, but not limited to:

- difficulties or delays in our plans to improve product, customer support and user experience in order to improve customer satisfaction and retention;

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- the possibility that our planned improvements to product, customer support and user experience, even if successfully implemented in a timely manner, do not result in the positive impact on customer satisfaction and retention that we expect;
- our inability to offer solutions that are adequately integrated and customizable to meet the needs of our subscriber base, including due to our failure to adequately improve our technology platforms or invest sufficiently in engineering and development, efficiently introduce new products, or successfully integrate acquired companies;
- difficulties or delays in our plans to increase the cross-selling of products across our brands due to challenges with billing, engineering or the fact that not all of our brands operate from the same control panel or other systems;
- increased competition in the SMB market, including greater marketing efforts or investments by our competitors in advertising and promoting their brands, and the inability of our subscribers to differentiate our solutions from those of our competitors or our inability to effectively communicate such distinctions;
- subscriber dissatisfaction causing our existing subscribers to cancel their subscriptions or stop referring prospective subscribers to us;
- increases in our subscriber churn rates or our failure to convert subscribers from introductory, discounted products to full priced solutions;
- our failure to develop or offer new or additional products and services in a timely manner that keeps pace with new technologies, competitor offerings and the evolving needs of our subscribers;
- perceived or actual security, integrity, reliability, quality or compatibility problems with our solutions, including related to unscheduled downtime, outages or network security breaches;
- our inability to maintain awareness of our brands, including due to fragmentation of our marketing efforts due to our historical approach of maintaining a portfolio of multiple brands rather than focusing our resources on a single brand or a few brands;
- our inability to provide a consistent user experience, timely and consistent product upgrade schedules and efficient roll-outs of new product offerings 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;
- 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;
- changes in, or a failure to manage, technology intended to block email marketing;
- 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 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;
- 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; and
- our inability to acquire or retain new subscribers through mergers and acquisitions, joint ventures or strategic investments.

In 2015, our total subscriber base increased; in 2016, excluding the effect of acquisitions and adjustments, our total subscriber base was essentially flat. Our total subscriber base decreased during the first nine months of 2017 and we expect that it will continue to decrease for the foreseeable future. The factors contributing to the decrease in our subscriber base are are discussed in "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations." If we are not successful in addressing these factors, including by improving subscriber satisfaction and retention, we may not be able to return to or maintain positive subscriber growth in the future, which could have a material adverse effect on our business and financial results.

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. We have made, and expect to continue to make, significant investments in initiatives designed to address these challenges, some or all of which may not succeed.

The cloud-based technology and online marketing tool industries are characterized by rapid and ongoing technological change, frequent new product and service introductions and evolving industry standards. The manner in which we market to our subscribers and potential subscribers must keep pace with technological change, legal requirements, market trends, and shifts in how our solutions are found, purchased and used by subscribers. For example, application marketplaces, mobile platforms, advertising and marketing efforts by competitors, and new search engines and search methods are changing the way in which consumers find, purchase and use our solutions. Our future success will depend on our ability to adapt to rapidly changing technologies, to adapt our solutions and marketing practices to evolving industry standards and to anticipate subscriber needs and preferences. If we are not able to offer compelling and innovative solutions, take advantage of new technology, adapt our marketing practices or anticipate changing trends, we may be unable to continue to attract new subscribers or sell additional solutions to our existing subscribers and our competitive position will be impaired. In addition, if existing technologies or systems, such as the domain name system which directs traffic on the Internet, become obsolete, or if we fail to anticipate and manage technologies that prevent or harm our offerings, such as technology intended to block email marketing, our revenue and operating results may be adversely affected.

We have made significant investments to support our strategic and operational initiatives and we may be required to incur additional engineering and development, marketing and other expenses to develop new solutions or enhancements, which may not succeed. For example, during 2016 we made substantial investments in new gateway product offerings, product marketing and other marketing efforts. The cost of attracting subscribers to our new gateway product offerings was higher than we expected, and the subscribers we attracted had higher churn rates than subscribers of our more established products. In response to these results, we significantly reduced our marketing investments on these gateway products during the remainder of 2016, and have since stopped marketing most of these products. In the future, we may invest in other initiatives that do not produce the anticipated results. Even if such investments are ultimately successful, we must recognize the costs of the investments earlier than we may be able to recognize the anticipated benefits, which may adversely affect our financial results.

We face significant competition for our solutions in the SMB market, which we expect will continue to intensify. 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 and online marketing tools 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 and competitors that may form strategic alliances with other competitors. Some of our competitors have greater resources, more brand recognition and consumer awareness, more diversified product offerings, greater international scope or larger subscriber bases than we do, or may partner with large Internet companies that can offer these resources. As a result, we may not be able to compete successfully against them. We believe we have lost ground in recent years to competitors who have invested greater resources than we have in brand awareness and in research and development. If these companies continue to devote greater resources to the development, promotion and sale of their brands, products and services, if the brands, products and services offered by these companies are more attractive to or better meet the evolving needs of SMBs, or if these companies respond more quickly to changing technologies, 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.

We have faced and expect to continue to face competition in our web presence segment, both domestically and internationally, from competitors in the domain, hosting and website builder markets such as GoDaddy, Wix, Squarespace, Weebly,Web.com and United Internet, as well as from large companies like Amazon, which offers cloud web hosting through Amazon Web Services; Google, which now offers a website building tool; and Facebook, which offers Facebook Pages for businesses and an Internet marketing platform. For our email marketing segment, we expect continued competition from MailChimp and other SMB-focused lower-cost email marketing vendors, as well as additional competition from larger companies such as Microsoft.

We believe that our business has been, and may continue to be, affected by changes in the behavior of consumers when searching for web presence and marketing solutions. In particular, consumers have increasingly been searching for these solutions using brand related search terms as opposed to unbranded search terms, such as hosting, website builders or email marketing. We believe this trend assists competitors who have invested more heavily in, and used a broader array of marketing channels in, building consumer awareness of their brand than we have. In addition, searches for specific products such as “cloud hosting,” “social media marketing,” and “ecommerce,” are growing, which we believe assists competitors who market more heavily in these and other specific product areas.

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 markets for cloud-based technologies and online marketing tools, and the rapid growth of some competitors that have already entered these markets, have made and may continue to make it difficult for us to maintain our market position.

In addition, in an attempt to gain market share, competitors may offer more 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

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discounted service offerings of our competitors. For example, our India domains business has been impacted in recent periods because we match heavily discounted domain and other offerings from competitors in that market. 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.

Our business and operations have become increasingly complex over the past several years due to acquisitions and organizational change. If we fail to manage complexity and change effectively, we may be unable to maintain compliance with applicable laws and regulations, effectively control costs, efficiently introduce new products or product upgrades, or produce accurate financial statements and other disclosures on a timely basis.

As a result of acquisitions and internal growth, we increased our revenue from $629.8 million in the year ended December 31, 2014 to $741.3 million in the year ended December 31, 2015 to $1.1 billion in the year ended December 31, 2016. During this time period, we completed numerous acquisitions, including the acquisition of the Directi web presence business in January 2014, which significantly expanded our international operations, and the acquisition of Constant Contact in February 2016.

Growth, complexity due to multiple acquisitions, and organizational change has placed, and will continue to place, a significant strain on our managerial, engineering, platform, network operations and security, sales and support, marketing, legal, compliance, finance and other resources. In particular, these factors have placed, and will continue to place, a significant strain on our ability to maintain effective internal financial and accounting controls and procedures, assess and implement compliance with applicable law and regulations, and efficiently roll out new products and product upgrades. Due to our history of acquisitions, we offer our products and services through numerous brands that operate from different control panels, billing systems and other systems. As a result, compliance assessments, compliance-related changes, and roll-outs of new products and product upgrades generally need to be implemented more than once. This level of complexity has sometimes resulted and may continue to result in additional compliance costs and risks and inefficiencies and delays in product roll-outs. In particular, as a result of our acquisitions, we have acquired multiple billing systems, many of which remain separate systems. Differences across billing systems make it challenging to accurately and consistently determine certain enterprise-wide operational metrics, such as total subscribers. Any delays, inconsistencies in data reporting, or other challenges associated with having multiple separate billing systems or with attempts to integrate those billing systems 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.

Any delays or other challenges associated with having multiple separate billing systems or with attempts to integrate those billing systems 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 our business intelligence system, which we use to generate certain operational and performance metrics. Our operational and performance metrics, which we voluntarily disclose, historically have not been subject to the same level of reporting controls as our financial statements and other financial information that we are required to disclose. We are working to improve our controls for these operational and performance metrics, but further errors with respect to these metrics could still occur. Errors of this type could result in inaccurate disclosures, negatively impact our business decisions and harm investors' view of us.

Our growing complexity over the past several years due to acquisitions and internal growth has put additional demands on 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.

Our U.S. and overseas operations and geographically dispersed workforce require substantial management effort, the allocation of significant management resources and significant investment in our infrastructure, including our information technology, operational, financial and administrative infrastructure and systems. We also need 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 organizational change in an effective manner, 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.

The rate of growth of the SMB market for our solutions could be significantly lower than our estimates. The success of our products depends on the expansion and reliability of the Internet infrastructure and the continued growth and acceptance of

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email as a communications tool. 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.
The rate of growth of the SMB market 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 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 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 (or evolution of existing technology such as social media or mobile messaging and "conversational commerce" applications such as WeChat) 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.
The future success of our email marketing product depends on the continued and widespread adoption of email as a primary means of communication. Security problems such as "viruses," "worms," and other malicious programs, reliability issues arising from outages and damage to the Internet infrastructure, or publicity about leaked emails of high-profile users could create the perception that email is not a safe and reliable means of communication. Use of email by businesses and consumers also depends on the ability of email providers to prevent unsolicited bulk email, or "spam," from overwhelming consumers' inboxes. If security problems become widespread or frequent or if email providers cannot effectively control spam, the use of email as a means of communication may decline as consumers find alternative ways to communicate. We could also be harmed if, in an attempt to limit unsolicited email, email providers restrict or limit emails sent by our customers using our email marketing product, including by categorizing these emails as "promotional" and directing these emails to an alternate or "tabbed" section of the recipient's inbox. In addition, if alternative communications tools, such as social media, text messaging or services like WeChat, gain widespread acceptance, the need for email may decrease. Any of these events could materially increase our expenses or reduce demand for our email marketing product and harm our business.
The international nature of our business exposes 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 and the Netherlands and have third-party support arrangements in India, China and the Philippines. 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 have incurred significant expenses and allocated significant resources, including finance, operational, legal and compliance resources, related to the establishment and expansion of our international operations. In 2017, we have increased our investment in our international business in order to take advantage of potentially higher growth rates in certain emerging markets and to better respond to an increasingly competitive environment in these markets.
Any international expansion efforts or other initiatives 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, some of which may favor local competitors, including laws related to employment or labor, 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 to 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;

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- 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, compliance 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 by our employees, business partners and other agents 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 sales, service, use 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, regulatory and economic climates, which could result in unpredictable or frequent changes in applicable regulations or in the general business environment that could negatively impact us; 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. 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 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 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, to stop referring new subscribers to us, or to seek to replace us as a provider of their cloud-based and online marketing solutions.

We must be able to maintain and 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, particularly if they frequently reoccur. 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 of the buildings in which our data centers are located, either by us in the case of the data center facility we own or by our landlords in the case of our co-located data center facilities;
- physical or electronic security breaches (see also "-Security and privacy incidents or fraud may harm our business");

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- 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 platforms are complex, we have experienced outages in the course of ongoing maintenance or when new versions, enhancements and updates to applications, software or systems are released by us or third parties. For instance, in December 2016, in the course of a network core upgrade at our Provo data center, a configuration adjustment involving third party equipment resulted in an outage of approximately 16 hours that caused a loss of service to all VPS and dedicated hosting subscribers and some shared hosting subscribers of Bluehost, HostGator and certain other brands. The outage prevented us from processing new signups and affected our internal support and phone systems, impairing our ability to communicate with subscribers during its duration. 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.

Our systems supporting our web presence segment are not fully redundant, and we have not yet implemented a complete disaster recovery plan or a 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 web presence subscribers are hosted across five U.S.-based data centers, one of which is owned by us and the rest of which are co-located. Our owned data center hosts a significant portion of our subscribers. Accordingly, any failure or downtime in these data center facilities would affect a significant percentage of our subscribers. While we have a disaster recovery system that covers most of our email marketing subscribers, this system may not be able to recover all data and services in the event of a significant outage. 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 our major data centers would be extremely difficult and may not be possible at all. Closing any of these 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 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 six U.S.-based call centers. Our teams in each call center are trained to provide brand-specific support services for a discrete subset of our brands, which, along with staffing constraints in general, limits our ability to re-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 may be limited.

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. Our ability to re-route email and chat-based customer support to our own support centers is limited due to staffing constraints and differences in ticketing and chat software systems between our brands. Accordingly, a disruption at our third-party 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 adequate coverage to compensate us fully for losses that may occur.

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

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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' evolving needs and 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, errors or bugs in our software, or human error.

In 2017, we are focusing on improving our product, customer support and user experience in order to improve our levels of customer satisfaction and retention. If this initiative is not successful, and if we are unable to provide subscribers with quality service, this may result in subscriber dissatisfaction, billing disputes and litigation, higher subscriber churn, lower than expected renewal rates and impairments to our efforts to sell additional products and services 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, harms other subscribers' websites or disrupts servers supporting those websites, such as when a cybercriminal 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 or online 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.

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, Mojo Marketplace, BigRock, ResellerClub, Constant Contact and SinglePlatform, among others.

We believe that establishing and maintaining our brands is critical to our efforts to expand our subscriber base. If we do not build awareness of our key brands, we could be at a competitive disadvantage to companies whose brands are, or become, more recognizable than ours. For instance, we believe that our business has been, and may continue to be, affected by the increasing tendency of consumers to search for web presence and marketing solutions using brand related search terms as opposed to unbranded search terms such as hosting, website builders or email marketing. We believe this trend has assisted competitors who have invested more heavily in, and used a broader array of marketing channels in, building consumer awareness of their brand than we have. 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. We are focusing a portion of our 2017 marketing expenditures on increasing brand awareness for certain of our key brands, including through radio advertising, podcasts, and television advertising; however, these efforts may not be successful in counteracting the advantage held by competitors who have invested more heavily in their brands in the past, or who are willing or able to devote more resources than we can to brand awareness going forward.

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, if we introduce new services or enter into new business ventures that are not favorably received by such parties, or if our brands become associated with any fraudulent or deceptive conduct on the part of our subscribers, 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.

Security and privacy incidents or fraud may harm our business.

We collect, handle, store and transmit large amounts of sensitive, confidential, personal and proprietary information, including payment card information. Any physical or electronic security breach, virus, accident, human error by our own personnel or those of our partners, criminal activity or malfeasance (including by our own personnel), fraudulent service plan or product order, impersonation scam perpetrated against us, security events impacting our third party service providers, intentional misconduct by cyber criminals or similar intrusion, breach or disruption could result in unauthorized access to, usage or disclosure of, or loss of, confidential information, damage to our platforms, and 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. We have experienced security events such as these in the past and expect they will continue in the future. To date, none of these events have had a material effect on us, but we may experience larger and more serious incidents in the future. 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, including in foreign countries. In addition, we have acquired many other companies and businesses in the past and may continue to do so from time to time in the future, which may increase our risk of security or privacy breaches, including if we encounter challenges in the subscriber migration or integration process, or if we do not successfully identify security and privacy vulnerabilities through the due diligence we conduct on acquisition targets.

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 acquired, or believed to have been accessed or acquired, without authorization, and in some cases also develop proscriptive policies to protect against such unauthorized access or acquisition. Such notifications can result in private causes of action being filed against us, or government investigations into the adequacy of security controls or handling of any security event. Should we experience a loss of protected data, efforts to enhance controls, assure compliance and address response costs or penalties imposed by such regulatory regimes could increase our costs.

Organizations generally, and Internet-based organizations in particular, remain vulnerable to 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. We also rely on third parties to provide physical security for most of our data centers and other facilities. Any physical security breach to our data centers or other facilities could result in unauthorized access or damage to our systems.

Our employees, including our employee and contract 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 have in the past, and may in the future, 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 when their accounts are compromised and used maliciously by third parties. In addition, if third parties with which we work, such as vendors, partners or developers, violate applicable laws or our policies or disclose our confidential information due to human error or technical issues, such violations or incidents 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 security 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 or online marketing tools, 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, protect against breach of the credit card information we store and comply with payment card industry standards, 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, terminate their contracts with us or decline to serve as credit card processors for new joint ventures or brands, which would have an adverse effect on our financial condition.

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We could also incur significant fines or lose our ability to process payments using credit cards if we fail to follow payment card industry data security standards, or PCI DSS, even if there is no compromise of subscriber information. During the course of compliance reviews during 2016, we discovered control gaps in our current adherence to the PCI DSS 3.2 standard. We are engaged with the appropriate financial partners, and are currently working on agreed-upon remediation plans to achieve compliance in timeframes acceptable to them. If we are unable to complete the remediation process within the timeframes we have agreed upon with these parties, we may incur financial penalties, our payment networks may increase the processing fees they charge to us, or we may lose our ability to process credit cards, any of which could have a material adverse effect on our financial results. In addition, we may have difficulty negotiating competitive rates with payment networks for as long as the control gaps remain.

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 processors by the association. Under our contracts with our card processors, we are required to reimburse the processors 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 cover, in whole or in part, 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.

We have recently undergone a period of significant management transition, which could be disruptive to our business.

Since March 2017, we have undergone a number of senior management transitions, including the following senior executive transitions:

- On April 17, 2017, we announced that our board of directors and our former chief executive officer Hari Ravichandran adopted a CEO transition plan whereby Mr. Ravichandran would remain CEO for a transition period while we conducted a search to identify his successor.
- On August 22, 2017, Jeffrey H. Fox joined us as our new President and CEO, and Mr. Ravichandran concurrently resigned as CEO and as a Board member at that time.
- On March 1, 2017, Ronald LaSalvia resigned as our president and chief operating officer.
- On June 21, 2017, we and Katherine Andreasen mutually agreed that effective September 1, 2017, Ms. Andreasen would no longer serve as our chief administrative officer and chief people officer.
- On July 16, 2017, Kenneth Surdan resigned from his position as our chief product officer.

In addition to the senior executive changes listed above, there have also been other recent senior level departures, including within our engineering team, data security team and our international business. These departures have the potential to disrupt our operations for a number of reasons, including: insufficient management resources and leadership continuity to drive key business initiatives forward until we hire and integrate new executives into the organization; deterioration of morale and potential departures among employees who worked closely with the transitioning executives; difficulty attracting new employees due to the impression of instability that the transitions may create; and potential disputes with the transitioning executives over non-disclosure, non-competition and/or non-solicitation covenants.

These changes also increase our dependency on the members of the senior executive team who are remaining with us. These individuals are not contractually obligated to remain employed by us and may leave at any time. Such a departure could be particularly disruptive in light of other recent management transitions. In addition, the loss of any of these individuals 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.

We also have incurred and expect to continue to incur costs related to these management changes, including severance payments to departing executives, and recruitment costs, including sign-on bonuses, equity awards and potential relocation payments, related to the hiring of new executives.

Our growth will be adversely affected if we cannot continue to successfully retain, hire, train and manage our key employees, particularly engineering, development and other technical employees, who are often in high demand.

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. Our engineering, development and technology teams have undergone several management transitions and a significant amount of organizational change in recent years. For example, during the first nine months of 2017, our chief product officer and several other senior engineering employees left the company. These senior level transitions, combined with high demand from other technology companies for skilled engineering and technical employees, is likely to make it challenging to retain key employees or hire replacements if they leave. Difficulties retaining, hiring or motivating these employees may jeopardize our engineering and development initiatives and could impact our ability to effectively maintain and upgrade our platforms and remain competitive.

We also depend upon employees 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 employees from numerous technology, software and manufacturing companies, and we cannot ensure that we will be able to attract, integrate or retain additional qualified employees in the future or at compensation levels consistent with our existing compensation and salary structure. In particular, candidates making employment decisions, particularly in high-technology industries, often consider the value of any equity they may receive in connection with their employment. As a result, any significant volatility in the market price of our common stock or concerns by potential employees about the performance of our stock or the prospects of our company may adversely affect our ability to attract or retain highly skilled engineers and marketing personnel. In addition, the recent transitions in our senior management team could create an impression of instability and make it more difficult and expensive for us to attract and hire qualified employees, and competitors may take advantage of this instability by soliciting our employees.

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.

Our 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 an India-based third-party service provider 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. We may increase our use of this provider or other India-based providers in the future. 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 the 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, tax regimes and regulatory requirements, which are complex and burdensome and of which we may not always be aware, and distance and time zone differences can make resolving regulatory matters or implementing compliance initiatives challenging. Our Indian operations may also subject us to trade restrictions, reduced or inadequate

protection for intellectual property rights, security breaches, foreign currency exchange rate risk, 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.
Recent or potential future acquisitions, joint ventures and other strategic investments may not achieve the intended benefits or may disrupt our current plans and operations.
Acquisitions have historically been an important component of our growth strategy. In February 2016, we acquired Constant Contact, and in the past we have acquired the businesses and assets of numerous other companies. We have also made strategic investments in and entered into joint ventures with third parties, typically with small companies focused on developing or marketing products that may complement our own. Although we are not currently focused on acquisitions,

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strategic investments or joint venture transactions, it is possible that we will complete transactions of this type in the future. These transactions involve numerous risks, including the following risks, all of which we have experienced in connection with our past acquisitions, strategic investments or joint ventures:

- 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, including both cost synergies and revenue synergies from cross-selling products of the acquired company into our subscriber base, or vice versa;
- reliance on third parties for transition services prior to subscriber migration or difficulties in supporting and migrating acquired subscribers, if any, to our platforms, causing potential loss of such subscribers, unanticipated costs, disputes with the parties providing the transition services and damage to our reputation;
- disruption of our ongoing business and diversion of financial, management, operations and customer support resources from existing operations, including as a result of completing acquisitions and evaluating potential acquisitions;
- difficulties in applying our controls and risk management and compliance policies and practices to acquired companies and joint ventures;
- integration and support of redundant solutions or solutions that are outside of our core capabilities;
- the incurrence of additional debt or the issuance of equity securities, resulting in dilution to existing stockholders, in order to fund an acquisition;
- assumption of debt or other actual or contingent liabilities of the acquired company, including litigation risk or risks associated with other unforeseen or undisclosed liabilities, or exposure to successor liability for any legal violations of the acquired company;
- differences in the standards, procedures, policies, corporate culture and compensation structure of our company and the acquired company, resulting in difficulty assimilating or integrating the acquired organization and its talent, which could lead to unanticipated costs or inefficiencies, 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' 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, and costs associated with efforts to retain key employees;
- potential loss of the subscribers or partners of an acquired business due to the actual or perceived impact of the acquisition and related integration activities;
- potential loss of subscribers and revenue due to difficulties accessing the information we need to successfully bill acquired subscribers for subscription autorenewals, which can occur due to challenges in transferring merchant processing or PayPal accounts to our control, equipment failure, human error or other factors;
- difficulties associated with governance, management and control matters in majority or minority investments or joint ventures, 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;
- failure to properly conduct due diligence efforts, evaluate acquisitions or investments or identify liabilities or challenges associated with the companies, businesses or technologies we acquire;
- obligations to third parties that arise as a result of the change of control of the acquired 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
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accounting effects, including potential impairment charges related to long-lived assets, in process research and development, goodwill and other intangible assets and requirements that we record deferred revenue at fair value.

A key purpose of many of our smaller acquisitions, typically acquisitions of small hosting companies, has historically been to achieve subscriber growth, cost synergies and economies of scale by migrating customers of these companies to our platforms. However, for several of our most recent acquisitions of this type, migrations to our platforms have taken longer and been more disruptive to subscribers than we anticipated, and one of these migrations has not yet been started. If we are unable to improve upon our recent migration efforts and continue to experience unanticipated delays and subscriber disruption from migrations, we may not be able to achieve the expected benefits from these types of acquisitions, if we choose to pursue them in the future.

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During 2016, we recorded several impairment charges resulting in losses totaling $7.1 million related to our Webzai and AppMachine acquisitions, due to changing product development priorities and our revised expectations about the future expected cash flows from certain technology and capitalized software associated with these acquisitions. In addition, in the fourth quarter of 2016, we recorded an impairment charge resulting in a loss of $4.7 million related to our investment in Fortifico Limited, a company providing a billing, customer relationship management, and affiliate management solution. In the third quarter of 2017, we recorded a charge of $13.8 million in connection with certain domain name intangible assets that we acquired in 2014. It is possible that we will incur additional impairment charges in the future related to our minority investments, joint ventures or acquisitions.

We also 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 be no recourse, or inadequate recourse, against the sellers, in part due to contractual time limitations and limitations of liability, or we may need to pursue costly litigation against the sellers.

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

We have had a net loss in each year since inception. We had a net loss attributable to Endurance International Group Holdings, Inc. of $42.8 million for fiscal year 2014, $25.8 million for fiscal year 2015 and $72.8 million for fiscal year 2016, 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 have made and expect to continue to make significant expenditures to maintain, develop and expand our business. Our revenue and subscriber growth may be insufficient to achieve or maintain profitability. As further discussed in “Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations”, our total subscriber base decreased during the twelve months ended September 30, 2017, and revenue in our web presence segment declined slightly year over year. If we are not successful in addressing the factors that have contributed to these developments, we may not be able to either increase subscriber and revenue growth or maintain current subscriber and revenue levels, which could result in a material adverse effect on our business and financial results. We may incur significant losses in the future for these or a number of other 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.

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 and the indenture governing our 10.875% senior notes due 2024 (which we refer to as the "Notes") limit our ability to incur additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and our credit agreement and indenture may be amended with lender or noteholder consent, as applicable, although we may not be able to obtain this consent when needed.

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. To the extent any such new indebtedness is secured and is at higher interest rates than on our existing first lien term loan facility, the interest rates on our existing first lien term loan facility could increase as a result of the “most-favored nation” pricing provision in our existing credit agreement. 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 success depends in part on our strategic relationships and partnerships or other alliances with third parties on which we rely to acquire subscribers and to offer solutions to our subscribers and from which we license intellectual property to develop our own solutions.

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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 platforms also requires us to expend significant time and resources to ensure that each respective solution works with our platforms, 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 partners and other marketing partners to acquire subscribers. If these partners fail to promote our brands or to refer new subscribers to us, begin promoting competing brands in addition to or instead of ours, fail to comply with regulations, are forced to change their marketing practices 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, higher than expected subscriber acquisition costs, and loss of revenue. For instance, we believe that subscriber growth and subscriber acquisition costs at one of our hosting brands was negatively affected during 2016 because an important referral source began featuring several other web hosting options on their website, rather than just our brand. It is possible that in the future, this referral source will continue to add additional web hosting options or even remove us as an option, which could have a negative impact on us. Some of our third-party 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.

We also have relationships with product partners whose solutions, including shopping carts and security tools, we offer to our subscribers. 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.

Constant Contact relies on some of its partners to create integrations with third-party applications and platforms used by Constant Contact's customers. If we fail to encourage these partners to create such integrations or if we do not adequately facilitate these integrations from a technology perspective, demand for Constant Contact products could decrease, which could harm our business and operating results.

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 ownership 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 six data center facilities located in Massachusetts (three), Texas (two), and Utah (one). We own the Utah data center 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 data centers and engineer and architect the systems upon which our platforms run, 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 2017 through 2021. 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, the lease rates may be higher than those we pay under our existing agreements. In addition, the complexities and risks of data center migrations, even when we have adequate time to plan for them, can sometimes make it impractical to leave our current data center facilities, even when we may be able to obtain economic or other terms with a new data center provider that would be better for us over the long term. If we fail to increase our revenue by amounts sufficient to offset any increases in lease rates for our existing data center facilities, or cannot take advantage of potentially better terms with new data center providers because of migration challenges, 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, or if human error on our part results in damage to our subscribers’ businesses, 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 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.

Since our subscribers use our solutions to, among other things, maintain an online presence for their business, it is not uncommon for subscribers to allege that errors, defects, or other performance problems result in damage to their businesses. They could elect to cancel or not to renew their agreements, delay or withhold payments to us, or bring claims or file suit seeking significant compensation from us for the losses they or their businesses allege to have suffered. For instance, from time to time, our customer support personnel have inadvertently deleted subscriber data due to human error, technical problems or miscommunication with customers. These lost data cases have sometimes led to subscribers commencing litigation against us, settlement payments to subscribers, subscription cancellations, and negative social media attention. Although our subscriber agreements typically contain provisions designed to limit our exposure to specified claims, including data loss claims, existing or future laws or unfavorable judicial decisions could negate or diminish these limitations. Even if not successful, defending against claims brought against us can 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.

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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 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 or 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 provide certain of our product offerings, 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 or 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. In addition, in connection with the marketing, telemarketing or advertisement of our products and services by us or our affiliates or referral partners, we could be the target of claims relating to false, misleading or deceptive advertising or marketing practices, including under the auspices of the FTC and state consumer protection statutes.

In the European Union, or EU, and in other jurisdictions outside of the United States, we could be the target of similar claims under consumer protection laws, regulation of cloud services, ecommerce and distance selling regulation, advertising regulation, unfair competition rules or similar legislation. Online digital services may be subject to increased scrutiny in the near future given their rapid growth in recent years. For example, beginning in December 1, 2015, the UK Competition and Markets Authority, or the CMA, conducted a review of compliance with UK consumer protection laws in the cloud storage sector. As part of that effort, the CMA contacted a number of cloud storage companies, including our UK subsidiary, JDI Backup Ltd, or JDI Backup, requesting that information be provided on a voluntary basis. JDI Backup provided the CMA with the requested information and has changed its terms of service and disclosures to comply with undertakings it gave to the CMA.

If we are found to have breached any consumer protection, ecommerce and distance selling, advertising, unfair competition laws or similar legislation in any country or any laws regulating cloud services, we may be subject to enforcement actions that require us to change our business practices in a manner which may negatively impact revenue, as well as litigation, fines, penalties and adverse publicity that could cause our subscribers to lose trust in us, which could have an adverse effect on our reputation and business in a manner that harms our financial position. Among other things, our failure to implement any required consumer protection or regulatory disclosures on our various brand websites could subject us to adverse regulatory action, litigation or other adverse consequences. 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.

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 information collected from or about consumers or their devices, and the FTC and many state attorneys general are applying federal and state consumer protection laws, including in novel ways, to impose standards for the online collection, use and dissemination of data. Furthermore, 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 rapidly evolving privacy or security laws, policies (including our own stated privacy 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

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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 EU 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. These laws and regulations are subject to frequent revisions and differing interpretations, and have generally become more stringent over time.

The data privacy regime in the EU includes certain directives which, among other things, require EU member states to 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. We are also subject to the supervision of local data protection authorities in those jurisdictions where we are established or otherwise subject to applicable law, as well as to evolving EU laws on data export, as we may transfer personal data from the EU to other jurisdictions.

Future laws or regulations, or modifications to existing laws or regulations, could impair our ability to collect, transfer 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, transfer, 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, the new EU-wide General Data Protection Regulation, or GDPR, entered into force in May 2016 will become applicable on May 25, 2018, replacing the data protection laws of each EU member state. The GDPR will implement more stringent operational requirements for processors and controllers of personal data, including, for example, expanded disclosures about how personal information is to be used, limitations on retention of information, increased requirements to erase an individual's information upon request, mandatory data breach notification requirements and higher standards for data controllers to demonstrate that they have obtained valid consent for certain data processing activities. It also significantly increases penalties for non-compliance, including where we act as a service provider (e.g. data processor). 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, or enforcement actions (including 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. Under the GDPR, fines of up to 20,000,000 Euros or up to 4% of the total worldwide annual turnover of the preceding financial year may be assessed. 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.

In recent years, U.S. and European lawmakers and regulators have expressed concern over the use of third-party cookies, web beacons and similar technology for online behavioral advertising. In the EU, informed consent is required for the placement of a cookie on a user's device. The current European laws that cover the use of cookies and similar technology and marketing online or by electronic means are under reform. These laws are expected when implemented to alter rules on third-party cookies, web beacons and similar technology for online behavioral advertising and to impose stricter requirements on companies using these tools. 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.

Furthermore, the U.S. Controlling the Assault of Non Solicited Pornography and Marketing Act of 2003, or CAN SPAM Act, establishes certain requirements for commercial email messages and specifies penalties for the transmission of commercial email messages that are intended to deceive the recipient as to source or content. The CAN SPAM Act, among other things, obligates the sender of commercial emails to provide recipients with the ability to opt out of receiving future emails from the sender. In addition, some states and countries have passed laws regulating commercial email practices that are significantly more punitive and difficult to comply with than the CAN SPAM Act, such as Canada’s Anti-Spam Legislation, or CASL. Some portions of state laws of this type may not be pre-empted by the CAN SPAM Act. The ability of our subscribers’ customers to

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opt out of receiving commercial emails may minimize the effectiveness of our products, particularly Constant Contact's email marketing product. Moreover, non-compliance with the CAN SPAM Act carries significant financial penalties. If we were found to be in violation of the CAN SPAM Act, applicable state laws not pre-empted by the CAN SPAM Act, or similar foreign laws regulating the distribution of commercial email, whether as a result of violations by our subscribers or if we were deemed to be directly subject to and in violation of these requirements, we could be required to pay penalties, which would adversely affect our financial performance and significantly harm our business, and our reputation would suffer. We also may be required to change one or more aspects of the way we operate our business, which could impair our ability to attract and retain subscribers or could increase our operating costs.

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 help 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.

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 email providers, could require us to incur additional costs and restrict our business operations. In addition, 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. 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, have made, and in the future 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.

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, or if we become more visible or 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 or enter into a royalty agreement, 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.

In addition, some of our agreements with partners and others require us to indemnify those parties for third-party intellectual property infringement claims, which would increase the cost to us resulting from an adverse ruling on any such claim.

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, the data they store on our servers or the emails that they send.

Our role as a provider of cloud-based solutions, including website hosting services, domain registration services and email marketing, 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 or send using 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, third party rights, 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. We have in the past faced, and could in the future face, liability for copyright infringement due to technical mistakes in complying with the detailed DMCA take-down procedures.

•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, or publicity about our hosting of sites containing objectionable content, 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.

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 United States under the CDA. 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.

In addition, our email marketing subscribers could also use our email marketing products or website to transmit negative messages or website links to harmful applications, reproduce and distribute copyrighted material or the trademarks of others without permission, or report inaccurate or fraudulent data or information. Any such use of our email marketing products could damage our reputation and we could face claims for damages, copyright or trademark infringement, defamation, negligence or

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fraud. Moreover, our email marketing customers' promotion of their products and services through our email marketing products may not comply with federal, state and foreign laws.

We cannot predict whether our role in facilitating these activities would expose us to liability under these laws. Even if claims asserted against us do not result in liability, we may incur substantial costs in investigating and defending such claims. If we are found liable for our customers' activities, we could be required to pay fines or penalties, redesign business methods or otherwise expend resources to remedy any damages caused by such actions and to avoid future liability.

We could also face liability under the Stored Communications Act, or SCA, which generally regulates voluntary and compelled disclosures of stored wire and electronic communications and transactional records by electronic communication service providers and remote computing service providers, which we believe includes us. The SCA broadly prevents disclosure of such communications and records with certain exceptions. We regularly receive requests for customer data in the ordinary course of business from law enforcement, government entities or from civil subpoenas. While we have processes and procedures for responding to requests for customer data, we have in the past faced, and may in the future face, liability if we produce customer data in violation of the SCA. This could subject us to litigation, payment of damages, or reputational harm and take up management time and increase our costs of doing business.

We may face liability for disputes in connection with ownership or control of subscriber accounts, domain names or email contact lists or in connection with domain names we own, or for their misappropriation by third parties.

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, domain names or email contact lists. 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 security products 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.

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 which prohibit certain transactions with U.S. embargoed or sanctioned countries, governments, persons and entities. 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.

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 particular, as we enhance the systems we use to screen out prohibited transactions, we may identify additional instances of non-compliance. In addition, as a result of our acquisition activities, we have acquired, and we may acquire in the future, companies for which we could face potential liability or penalties for violations if they have not implemented sufficient compliance measures to prevent transactions with targets of U.S. and other applicable sanctions laws. 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 limitations or prohibitions on, or delays affecting, 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 (including our employees and business partners or agents acting on our behalf) 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 India, Brazil or 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 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. 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.

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. Additionally, the reorganization or change in the number of reporting units could result in the reassignment of goodwill between reporting units and may trigger an impairment assessment. 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. During 2016 and the first nine months of 2017, we recorded impairment charges related to in-process research and development, developed technology assets, internally developed software, our minority investment in Fortifico Limited, and domain name intangible assets, and it is possible we will record additional impairment charges in the future.

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 due to factors such as 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

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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 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.

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, 2017, we had approximately $2.0 billion of aggregate indebtedness, net of original issue discounts of $26.9 million and deferred financing costs of $39.2 million. Under our new first lien term loan facility entered into on June 14, 2017, which refinanced our prior first lien term loan facilities, we are required to repay approximately $8.5 million of principal at the end of each quarter and are required to pay accrued interest upon the maturity of each interest accrual period. We estimate that our interest payments on our new first lien term loan facility will be approximately $22.4 million for the fourth quarter of 2017. The interest accrual periods under our new first lien term loan facility and our revolving credit facility (which we refer to collectively as our "Senior Credit Facilities") are typically three months in duration, except for LIBOR-based revolver loans, which are generally one or three months in duration. The actual amounts of our debt servicing payments vary based on the amounts of indebtedness outstanding, whether we borrow on a LIBOR or base rate basis, the applicable interest accrual periods and the applicable interest rates, which vary based on prescribed formulas. We are also required to pay accrued interest on the Notes on a semi-annual basis. We paid approximately $38.1 million of interest on the Notes during the first nine months of 2017, and we do not expect to make any additional interest payments on the Notes for 2017.

We may be able to incur substantial additional debt in the future. The terms of our Senior Credit Facilities and the indenture governing the Notes permit us to incur additional debt subject to certain conditions. This high level of debt could have important consequences, including:

- making it more difficult for us to make payments on our indebtedness;
- 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 refinance, or resulting in our inability to refinance, all or a portion of our indebtedness at or before maturity, on favorable terms or at all, whether due to uncertain credit markets, our business performance, or other factors;
- 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 and placing us at a disadvantage compared to our competitors that are less highly leveraged;
- 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; 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

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indebtedness. If new debt is added to our current debt levels, the related risks that we now face, as described further herein, could intensify and we may not be able to meet all our debt obligations.

The terms of our Senior Credit Facilities and the indenture governing the Notes 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 the relevant agreements that could trigger an acceleration of our indebtedness that we may not be able to repay.

Our Senior Credit Facilities and the indenture governing the Notes require compliance with a set of financial and non-financial covenants. These covenants contain numerous restrictions on our ability to, among other things:

- incur additional debt;
- make restricted payments (including any dividends or other distributions in respect of our capital stock and any investments);
- sell or transfer assets;
- enter into affiliate transactions;
- create liens;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; 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 our Senior Credit Facilities and the Notes and could have a material adverse impact on our business. Our Senior Credit Facilities and the indenture governing the Notes also contain provisions that trigger repayment obligations, including in some cases upon a change of control, as well as various representations and warranties which, if breached, could lead to events of default. We cannot be certain that our future operating results will be sufficient to ensure compliance with the covenants in our Senior Credit Facilities or the indenture governing the Notes or to remedy any defaults under our Senior Credit Facilities or the indenture governing the Notes. In addition, in the event of any event of 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 Senior Credit Facilities and the Issuer of the Notes, is a holding company, and may not be able to generate sufficient cash to service all of its indebtedness.

EIG Investors Corp, or EIG Investors, the borrower under our Senior Credit Facilities and the issuer of the Notes, 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 Senior Credit Facilities and the Notes. The ability of our subsidiaries to make transfers and other distributions to EIG Investors is subject to, among other things, the terms of any debt instruments of those subsidiaries then in effect, applicable law, prevailing economic and competitive conditions and certain financial, business and other factors beyond our control. If transfers or other distributions from our subsidiaries to EIG Investors were eliminated, delayed, reduced or otherwise impaired, its ability to make payments on its obligations would be substantially impaired.

Furthermore, if EIG Investors' cash flows and capital resources are insufficient to fund its debt service obligations, we may be forced to reduce or delay investments and capital expenditures, seek additional capital, restructure or refinance EIG Investors' or our indebtedness, or sell assets. We may not be able to accomplish any of these alternatives on a timely basis, on satisfactory terms, or at all, which would limit EIG Investors' ability to meet its scheduled debt service obligations (including in respect of our Senior Credit Facilities or the Notes). Our ability to restructure or refinance our indebtedness will depend on the condition of the capital markets and the financial condition of EIG Investors and us at the time. Any refinancing of EIG Investors' debt could be at higher interest rates and may require EIG Investors to comply with more onerous covenants, which could further restrict our business operations. Our Senior Credit Facilities and the indenture governing the Notes will also restrict our ability to use the proceeds from asset sales. We may not be able to consummate those asset sales to raise capital or sell assets at prices that we believe are fair, and any proceeds that we receive may not be adequate to meet any debt service obligations then due. In addition, any failure to make payments of interest and principal on EIG Investors' outstanding indebtedness on a timely basis could result in an event of default that would trigger acceleration of our indebtedness and would likely result in a reduction of EIG Investors' credit rating, which could harm our ability to incur additional indebtedness.

EIG Investors may not be able to repurchase the Notes upon a change of control or pursuant to an asset sale offer, which would cause a default under the indenture governing the Notes and our Senior Credit Facilities.

Upon the occurrence of specific kinds of change of control events, EIG Investors will be required under the indenture governing the Notes to offer to repurchase all outstanding Notes at 101% of their principal amount plus accrued and unpaid interest, if any, unless the Notes have been previously called for redemption. The source of funds for any such purchase of the

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Notes will be EIG Investors’ available cash or cash generated from its subsidiaries’ operations or other sources, including borrowings, sales of assets or sales of equity. EIG Investors may not be able to repurchase the Notes upon a change of control because it may not have sufficient financial resources to purchase all of the Notes that are tendered upon a change of control. Further, the terms of our Senior Credit Facilities and any of EIG Investors' future debt agreements may restrict EIG Investors from repurchasing all of the Notes tendered by holders upon a change of control. Accordingly, EIG Investors may not be able to satisfy its obligations to purchase the Notes unless it is able to refinance or obtain waivers under our Senior Credit Facilities. EIG Investors’ failure to repurchase the Notes upon a change of control would cause an event of default under the indenture governing the Notes and a cross-default under our Senior Credit Facilities. Our Senior Credit Facilities also provide that a change of control is an event default that permits lenders to accelerate the maturity of borrowings thereunder. Any of EIG Investors’ future debt agreements may contain similar provisions.

In addition, in certain circumstances following a non-ordinary course asset sale as specified in the indenture governing the Notes, EIG Investors may be required to commence an offer to purchase the Notes with the proceeds from the asset sale at a price equal to 100% of their principal amount plus accrued and unpaid interest. Our Senior Credit Facilities and any of EIG Investors' future debt agreements may contain restrictions that would limit or prohibit EIG Investors from completing any such offer. EIG Investors’ failure to purchase any such Notes when required under the indenture would be an event of default and a cross-default under our Senior Credit Facilities.

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;
- 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 or regulatory proceedings 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 August 2015, a separate class action securities lawsuit was filed against Constant Contact. In the future we may be the target of additional securities litigation. Securities litigation could result in substantial costs and divert management’s attention and resources from our business.

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.

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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 38,000,000 shares of common stock that have been issued or reserved for future issuance under our Amended and Restated 2013 Stock Incentive Plan and 14,346,830 shares of common stock that have been issued or reserved for future issuance under our Constant Contact, Inc. Second Amended and Restated 2011 Stock Incentive Plan. Of these shares, as of September 30, 2017, a total of 26,429,431 shares of our common stock are subject to outstanding options, restricted stock units and restricted stock awards, of which 12,835,437 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 72,055,329 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, 2017, our directors, executive officers and their affiliates beneficially own, in the aggregate, 50.0% of our issued and outstanding common stock. Specifically, investment funds and entities affiliated with Warburg Pincus own, in the aggregate, 36.7% of our issued and outstanding common stock, and investment funds and entities affiliated with Goldman Sachs own, in the aggregate, approximately 10.7% 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 Warburg Pincus and 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;
- limiting the ability of our stockholders to call and bring business before special meetings;
- 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;
-

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;

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- 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.

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 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 are required to comply with laws and regulations applicable to public companies, including by maintaining adequate internal financial and accounting controls and procedures 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 are subject to 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 that impose various requirements on public companies. We need to devote a substantial amount of time and funds (including legal and accounting expenses) to comply with these requirements. 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 order 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

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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.

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 invest in our business. In addition, our ability to pay cash dividends is currently limited by the terms of our Senior Credit Facilities and the indenture governing the Notes, 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, 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 affiliates 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. The disclosure below relates solely to activities conducted by SAMIH and its affiliates. The disclosure does not relate to any activities conducted by us or by

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WP LLC and does not involve our management or WP LLC's management. Neither we nor WP LLC has had any involvement in or control over the disclosed activities of SAMIH or its affiliates, and neither we nor WP LLC has independently verified or participated in the preparation of the disclosure. Neither we nor WP LLC is representing as to the accuracy or completeness of the disclosure, nor do we or WP LLC undertake any 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 plc, or Santander UK, holds two savings accounts and one current account for two customers resident in the United Kingdom who are currently designated by the United States under the Specially Designated Global Terrorist, or SDGT, sanctions program. Revenues and profits generated by Santander UK on these accounts in the nine month period ended September 30, 2017 were negligible relative to the overall revenues and profits of Banco Santander SA.

We also understand that SAMIH's affiliates intend to disclose in their next annual or quarterly report that Santander UK holds two frozen current accounts for two UK nationals who are designated by the United States under the SDGT sanctions program. The accounts held by each customer have been frozen since their designation and have remained frozen through the nine month period ended September 30, 2017. The accounts are in arrears (£1,844.73 in debit combined) and are currently being managed by the Santander UK Collections & Recoveries department. No revenues or profits were generated by Santander UK on this account in the nine month period ended September 30, 2017.

ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit	Incorporated by Reference				Filed Herewith
		Form	File Number	Date of Filing	Exhibit Number	
2.1*	Agreement and Plan of Merger, dated October 30, 2015, by and among Constant Contact, Inc., the Registrant, 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 By-Laws of the Registrant	8-K	001-36131	January 30, 2017	3.1	
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	
4.4	Indenture (including form of Note), dated as of February 9, 2016, among EIG Investors Corp., the Registrant, the Endurance Guarantors party thereto and Wilmington Trust, National Association, as trustee	8-K	001-36131	February 10, 2016	4.1	
4.5	Exchange and Registration Rights Agreement, dated as of February 9, 2016, among EIG Investors Corp., the Registrant, the Endurance Guarantors party thereto, Goldman, Sachs & Co., Credit Suisse Securities (USA) LLC and Jefferies LLC	10-Q	001-36131	May 9, 2016	4.6	
10.1#		8-K	001-36131	August 14, 2017	10.1	

	Employment Agreement, dated as of August 11, 2017, by and between Endurance International Group Holdings, Inc. and Jeffrey H. Fox	
10.2#	Indemnification Agreement, dated as of August 22, 2017, by and between Endurance International Group Holdings, Inc. and Jeffrey H. Fox	X

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10.3#	Restricted Stock Unit Agreement between Endurance International Group Holdings, Inc. and Jeffrey H. Fox, dated August 22, 2017	X
10.4#	Stock Option Agreement between Endurance International Group Holdings, Inc. and Jeffrey H. Fox, dated August 22, 2017	X
10.5#	Separation and Release Agreement, dated as of July 16, 2017, by and between The Endurance International Group, Inc. and Kenneth Surdan	X
10.6	Third Amendment to Datacenter Lease dated as of August 7, 2017 between Digital 55 Middlesex, LLC and Constant Contact, Inc.	X
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
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 compensation plan, contract or agreement.

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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 3, 2017	By:	/s/ Marc Montagner
		Marc Montagner
		Chief Financial Officer
		(Principal Financial Officer)