Endurance International Group Holdings, Inc.
Form 10-Q
August 08, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2016

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 x 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 x No ¨

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

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

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

As of July 29, 2016, there were 141,210,733 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, 2015	June 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 33,030	$ 75,592
Restricted cash	1,048	3,513
Accounts receivable	12,040	11,564
Prepaid domain name registry fees	55,793	55,020
Prepaid expenses and other current assets	15,675	37,742
Total current assets	117,586	183,431
Property and equipment net	75,762	105,241
Goodwill	1,207,255	1,836,912
Other intangible assets net	359,786	690,707
Deferred financing costs		5,748
Investments	27,905	34,513
Prepaid domain name registry fees, net of current portion	9,884	10,042
Other assets	4,322	4,752
Total assets	$ 1,802,500	$ 2,871,346
Liabilities, redeemable non-controlling interest and stockholders equity		
Current liabilities:		
Accounts payable	$ 12,280	$ 15,345
Accrued expenses	50,869	97,051
Deferred revenue	285,945	355,318
Current portion of notes payable	77,500	35,700
Current portion of capital lease obligations	5,866	6,539
Deferred consideration short term	51,488	50,575
Other current liabilities	3,973	3,685
Total current liabilities	487,921	564,213
Long-term deferred revenue	79,682	89,589
Notes payable long term, net of original issue discounts of $0 and $27,550, and deferred financing costs of $990 and $44,687, respectively	1,014,885	1,969,588
Capital lease obligations long term	7,215	3,673
Deferred tax liability	28,786	40,502
Deferred consideration long term	813	25

Other liabilities		3,524		7,436
Total liabilities		1,622,826		2,675,026
Redeemable non-controlling interest				28,208
Commitments and contingencies				
Stockholders equity:				
Preferred Stock par value $0.0001; 5,000,000 shares authorized; no shares issued or outstanding				
Common Stock par value $0.0001; 500,000,000 shares authorized; 132,024,558 and 133,488,404 shares issued at December 31, 2015 and June 30, 2016, respectively; 131,938,485 and 133,488,404 outstanding at December 31, 2015 and June 30, 2016, respectively		14		14
Additional paid-in capital		848,740		844,464
Accumulated other comprehensive loss		(1,718)		(2,774)
Accumulated deficit		(667,362)		(673,592)
Total stockholders equity		179,674		168,112
Total liabilities, redeemable non-controlling interest and stockholders equity	$	1,802,500	$	2,871,346

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 June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Revenue	$ 182,431	$ 290,713	$ 359,749	$ 527,826
Cost of revenue	104,937	153,077	205,911	289,553
Gross profit	77,494	137,636	153,838	238,273
Operating expense:				
Sales and marketing	37,224	80,309	72,268	159,603
Engineering and development	6,633	27,687	12,004	43,942
General and administrative	19,471	34,830	36,678	75,109
Transactions expenses	1,618	978	3,141	32,098
Total operating expense	64,946	143,804	124,091	310,752
Income (loss) from operations	12,548	(6,168)	29,747	(72,479)
Other income (expense):				
Other income	5,440		5,440	11,410
Interest income	117	142	209	276
Interest expense	(14,011)	(40,994)	(28,332)	(71,365)
Total other income (expense) net	(8,454)	(40,852)	(22,683)	(59,679)
Income (loss) before income taxes and equity earnings of unconsolidated entities	4,094	(47,020)	7,064	(132,158)
Income tax expense (benefit)	2,707	(13,931)	3,685	(113,833)
Income (loss) before equity earnings of unconsolidated entities	1,387	(33,089)	3,379	(18,325)
Equity loss of unconsolidated entities, net of tax	3,458	341	4,566	1,024
Net loss	$ (2,071)	$ (33,430)	$ (1,187)	$ (19,349)
Net loss attributable to non-controlling interest		(5,390)		(13,120)

Net loss attributable to Endurance International Group Holdings, Inc.	$	(2,071)	$	(28,040)	$	(1,187)	$	(6,229)
Comprehensive income (loss):								
Foreign currency translation adjustments		94		540		(522)		882
Unrealized loss on cash flow hedge, net of taxes of $0 and ($218), and $0 and ($824) for the three and six months ended June 30, 2015 and 2016, respectively				(427)				(1,938)
Total comprehensive loss	$	(1,977)	$	(27,927)	$	(1,709)	$	(7,285)
Basic and Diluted net loss per share attributable to Endurance International Group Holdings, Inc.	$	(0.02)	$	(0.21)	$	(0.01)	$	(0.05)
Weighted-average common shares used in computing net loss per share attributable to Endurance International Group Holdings, Inc.:								
Basic and Diluted		131,186,382		132,566,622		131,091,756		132,736,382

See accompanying notes to consolidated financial statements.

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Endurance International Group Holdings, Inc.

Consolidated Statements of Cash Flows

(unaudited)

(in thousands)

	Six Months Ended June 30, 2015	2016
Cash flows from operating activities:		
Net loss	$ (1,187)	$ (19,349)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation of property and equipment	16,095	29,932
Amortization of other intangible assets from acquisitions	43,433	67,697
Impairment of long lived assets		8,285
Amortization of deferred financing costs	41	2,562
Amortization of net present value of deferred consideration	281	1,582
Dividend from minority interest		50
Amortization of original issue discounts		1,272
Stock-based compensation	10,510	33,412
Deferred tax expense (benefit)	1,961	(117,462)
(Gain) loss on sale of assets	36	(225)
Gain from unconsolidated entities	(5,440)	(11,410)
Loss of unconsolidated entities	4,566	1,024
Loss from change in deferred consideration	1,083	21
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	193	1,546
Prepaid expenses and other current assets	(6,802)	(14,886)
Accounts payable and accrued expenses	8,898	26,517
Deferred revenue	22,564	55,047
Net cash provided by operating activities	96,232	65,615
Cash flows from investing activities:		
Businesses acquired in purchase transactions, net of cash acquired	(28,914)	(899,889)
Cash paid for minority investment		(5,600)
Purchases of property and equipment	(14,511)	(20,961)
Proceeds from note receivable	3,454	
Proceeds from sale of assets	64	252
Purchases of intangible assets	(8)	(27)
Deposits of principal balances in restricted cash accounts	(302)	(768)
Net cash used in investing activities	(40,217)	(926,993)

Cash flows from financing activities:

Proceeds from issuance of term loan and notes, net of original issue discounts		1,056,178
Repayments of term loans	(5,250)	(33,850)
Proceeds from borrowing of revolver	38,000	16,000
Repayment of revolver	(53,000)	(83,000)
Payment of financing costs		(51,727)
Payment of deferred consideration	(10,591)	(707)
Payment of redeemable non-controlling interest liability	(20,362)	
Principal payments on capital lease obligations	(1,873)	(2,896)
Capital investment from minority partner		1,000
Proceeds from exercise of stock options	652	1,328
Net cash provided by (used in) financing activities	(52,424)	902,326
Net effect of exchange rate on cash and cash equivalents	(437)	1,614
Net increase in cash and cash equivalents	3,154	42,562
Cash and cash equivalents:		
Beginning of period	32,379	33,030
End of period	$ 35,533	$ 75,592
Supplemental cash flow information:		
Interest paid	$ 28,111	$ 44,171
Income taxes paid	$ 2,417	$ 2,448

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 have been eliminated on consolidation. The Company has reviewed the criteria of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 280-10, *Segment Reporting,* and determined that the Company is comprised of two operating segments, and those segments meet the aggregation criteria to be treated as one reportable segment.

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.

Unaudited Interim Financial Information

The accompanying interim consolidated balance sheet as of June 30, 2016, and the related statements of operations and comprehensive loss for the three and six months ended June 30, 2015 and 2016, cash flows for the six months ended June 30, 2015 and 2016, 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 June 30, 2016, results of operations for the three and six months ended June 30, 2015 and 2016 and cash flows for the six months ended June 30, 2015 and 2016. 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, 2016.

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.

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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 risk, 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 ASU 2011-04, *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 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 $1.5 million and $2.8 million, during the three and six months ended June 30, 2015, respectively, and $3.8 million and $6.4 million, during the three and six months ended June 30, 2016, respectively.

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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, 2015, the Company determined that it had one reporting unit. Following the acquisition of Constant Contact, Inc. (Constant Contact), the Company determined it has two reporting units, Constant Contact , which consists of the goodwill pertaining to our acquisition of Constant Contact, and Flagship , which consists of the remaining goodwill balance of the Company. Historically, the Company has performed its annual impairment analysis during the fourth quarter of each year. The provisions of ASC 350 require that a two-step impairment test be performed for goodwill. In the first step, the Company compares the fair value of its reporting unit to which goodwill has been allocated to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that reporting unit, goodwill is considered not impaired and the Company is not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the Company must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit s goodwill. If the carrying value of a reporting unit s goodwill exceeds its implied fair value, then the Company would record an impairment loss equal to the difference.

At December 31, 2015, the Company had one reporting unit. The goodwill impairment assessment as of December 31, 2015 was based on then-current market capitalization. As of December 31, 2015, the fair value of the Company s reporting unit exceeded the carrying value of the reporting unit s net assets. Therefore, no impairment existed as of that date. For the six months ended June 30, 2016, the Company determined that there were no factors to indicate that the fair value of its reporting units could be impaired, therefore, no impairment testing was performed during this period.

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

The Company had goodwill of $1,207.3 million and $1,836.9 million as of December 31, 2015 and June 30, 2016, respectively, and no impairment charges have been recorded.

Long-Lived Assets

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

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

The Company evaluates long-lived intangible and tangible assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If indicators of impairment are present and undiscounted future cash flows are less than the carrying amount, the fair value of the assets is determined and compared to the carrying value. If the fair value is less than the carrying value, then the carrying value of the asset is reduced to the estimated fair value and an impairment loss is charged to expense in the period the impairment is identified.

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During the three months ended June 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 three months ended June 30, 2016, the Company recognized an impairment charge of $0.5 million relating to internally developed software from the acquisition of Webzai Ltd. (Webzai), and another impairment charge of $4.4 million relating to developed technology acquired in the Webzai acquisition, for a total impairment charge relating to this software of $4.9 million, which was recorded in engineering and development expense in the consolidated statements of operations and comprehensive loss. Refer to *Note 4: Property and Equipment and Capital Lease Obligations* and *Note 7: Goodwill and Other Intangible Assets*, for further details.

During the six months ended June 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 the $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. Refer to *Note 4: Property and Equipment and Capital Lease Obligations, Note 7: Goodwill and Other Intangible Assets*, and *Acquired In-Process Research and Development (IPR&D)* below, for further details.

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. No such impairment loss was identified for the three and six months ended June 30, 2015. In March 2016, the Company identified that the acquired fair value of the remaining IPR&D acquired in connection with its acquisition of Webzai, was impaired. At that time, the Company recorded a $1.4 million impairment charge, which is reflected in engineering and development expense during the six months ended June 30, 2016 in the Company s consolidated statements of operations and comprehensive loss.

Revenue Recognition

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

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

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

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

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

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

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

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

When multiple deliverables included in a multiple-element service arrangement are separated into different units of accounting, the total transaction amount is allocated to the identified separate units based on a relative selling price hierarchy. The Company determines the relative selling price for a deliverable based on vendor specific objective evidence (VSOE) of fair value, if available, or best estimate of selling price (BESP), if VSOE is not available. The Company has determined that third-party evidence of selling price (TPE) is not a practical alternative due to differences in its multi-brand offerings compared to competitors and the lack of availability of relevant third-party pricing information. The Company has not established VSOE for its offerings due to lack of pricing consistency, the introduction of new products, services and other factors. Accordingly, the Company generally allocates revenue to the deliverables in the arrangement based on the BESP. The Company determines BESP by considering its relative selling prices, competitive prices in the marketplace and management judgment; these selling prices, however, may vary depending upon the particular facts and circumstances related to each deliverable. The Company analyzes the selling prices used in its allocation of transaction amount, at a minimum, on a quarterly basis. Selling prices are analyzed on a more frequent basis if a significant change in 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 $0.5 million and $0.6 million as of December 31, 2015 and June 30, 2016, respectively. The portion of deferred revenue that is expected to be refunded at December 31, 2015 and June 30, 2016 was $1.8 million and $2.3 million, respectively. Based on refund history, approximately 80% of all refunds happen in the same fiscal month that the contract starts or renews, and approximately 92% 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 no unrecognized tax benefits in the three or six months ended June 30, 2015 and 2016.

The Company records interest related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the three and six months ended June 30, 2015 and 2016, the Company did not recognize any interest and penalties related to unrecognized tax benefits.

Stock-Based Compensation

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.

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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 income (loss) per share is computed by dividing net income (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 June 30, 2015	Three Months Ended June 30, 2016	Six Months Ended June 30, 2015	Six Months Ended June 30, 2016
	(unaudited)			
	(in thousands, except share amounts and per share data)			
Net loss attributable to Endurance International Group Holdings, Inc.	$ (2,071)	$ (28,040)	$ (1,187)	$ (6,229)
Net loss per share attributable to Endurance International Group Holdings, Inc.:				
Basic and diluted	$ (0.02)	$ (0.21)	$ (0.01)	$ (0.05)
Weighted-average common shares outstanding used in computing net loss per share attributable to Endurance International Group Holdings, Inc.				
Basic and diluted	131,186,382	132,566,622	131,091,756	132,736,382

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 June 30, 2015	Three Months Ended June 30, 2016	Six Months Ended June 30, 2015	Six Months Ended June 30, 2016
	(unaudited)			
Restricted stock awards and units	2,121,996	9,014,101	1,983,776	8,138,075
Options	6,732,235	11,194,982	6,090,140	9,972,490
Total	8,854,231	20,209,083	8,073,916	18,110,565

Recent Accounting Pronouncements

The Company adopted ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Cost* 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. The unamortized value of deferred financing costs associated with our revolving credit facility were not affected by the ASU and continue to be presented as an asset on the Company s consolidated balance sheets.

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

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes: Balance Sheet Classification of Deferred Taxes,* or ASU 2015-17. This new guidance requires that deferred tax liabilities and assets be classified as noncurrent in the balance sheet, in order to simplify the presentation of deferred income taxes. ASU 2015-17 is effective for annual reporting periods beginning after December 15, 2016. The Company adopted ASU 2015-17 as of January 1, 2016 and it did not have a material impact on its consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update 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.

In March 2016, the FASB issued Accounting Standards Update 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 Company is currently evaluating the impact of its pending adoption of the new standard on its consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting. This new standard simplifies the accounting tax aspects, eliminates complex accounting for excess tax deductions, permits higher withholdings for cashless exercises, and eliminates the requirement to estimate a forfeiture rate. This amendment is effective for annual periods beginning after December 15, 2016, 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.

3. Acquisitions

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

WZ (UK) Ltd.

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 and sales and marketing services associated with web builder solutions. The Company has an option to acquire additional equity interests from the shareholders of the non-controlling interest (NCI) in WZ UK. On January 6, 2016, the Company partially exercised this option, which increased its stake in WZ UK from 49% to 57.5%.

Upon the exercise of the option, the Company estimated the fair value of the assets and liabilities in accordance with the guidance for business combinations and estimated that the value of the NCI on January 6, 2016 was $10.8 million. The estimated aggregate purchase price of $22.2 million included a gain of $11.4 million that was calculated based on the implied fair value of the Company s 49% equity investment and the NCI of $10.8 million, which were allocated on a preliminary basis to goodwill of $21.6 million, intangible assets consisting of subscriber relationships of $4.9 million, and property, plant and equipment of $0.3 million, offset by deferred revenue of $3.3 million and negative working capital of $1.3 million. Goodwill related to the acquisition, which is part of the Company s Flagship reporting unit, is not deductible for tax purposes.

The Company recognized the $11.4 million gain in other income in the Company s consolidated statements of operations and comprehensive loss. As the NCI is subject to a put option that is outside the control of the Company, it is deemed a redeemable non-controlling interest and not recorded in permanent equity, and is being presented as mezzanine redeemable non-controlling interest on the consolidated balance sheet. The difference between the initial fair value of the redeemable non-controlling interest and the value expected to be paid on exercise, which is estimated to be $30.0 million, is being accreted over the period commencing January 6, 2016, and up to the end of the second call option period which is August 14, 2016. Adjustments to the carrying amount of the redeemable non-controlling interest are charged to additional paid-in capital.

On May 16, 2016, the Company amended the put option described above 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 the Company and the minority shareholders of Pseudio Limited and Resume Labs Limited sold their shares in these entities to WZ UK, in exchange for shares in WZ UK. Refer to *Note 17: Subsequent Events* for further details.

Constant Contact, Inc.

On October 30, 2015, the Company entered into a definitive agreement pursuant to which it agreed to acquire 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 acquisition closed on February 9, 2016.

The aggregate purchase price of $1.1 billion, which was paid in cash at the closing, is being allocated on a preliminary basis 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 $607.4 million, property and equipment of $40.7 million, and working capital of $184.0 million, offset by net a net deferred tax liability of $129.2 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 Constant Contact reporting unit, is not deductible for tax purposes.

The Company recorded revenue attributable to the 2016 acquisitions in the Company s consolidated statements of operations and comprehensive loss for the three and six months ended June 30, 2016, of $97.9 million and $139.7 million, respectively. The $32.1 million of transaction expenses in the Company s consolidated statements of operations and comprehensive loss included a $16.8 million charge related to the acceleration of the vesting of certain Constant Contact equity awards, and approximately $14.0 million in advisor, legal, and other acquisition-related fees.

For the intangible assets acquired in connection with all acquisitions completed during the three and six months ended June 30, 2016, developed technology has a weighted-useful life of 4.1 years, subscriber relationships have a weighted-useful life of 4.4 years and trade names have a weighted-useful life of 4.7 years.

Pro Forma Disclosure

The Company acquired Constant Contact on February 9, 2016, and the results of Constant Contact have been included in the results of the Company since February 10, 2016. The following unaudited information is presented as if the Constant Contact acquisition was completed as of January 1, 2015. The Company has not presented unaudited pro forma results for the quarterly periods following March 31, 2016, as Constant Contact is included for the entire fiscal periods after that date. The unaudited pro forma results are not necessarily indicative of the actual results that would have occurred had the transaction actually taken place at the beginning of the period indicated. Unaudited pro forma revenue for the three months ended June 30, 2015 was $273.2 million. Unaudited pro forma net loss attributable to Endurance International Group Holdings, Inc. for the three months ended June 30, 2015 was $25.8 million.

Unaudited pro forma revenue for the six months ended June 30, 2015 and 2016 is $540.1 million and $568.5 million, respectively. Unaudited pro forma net loss attributable to Endurance International Group Holdings, Inc. for the six months ended June 30, 2015 is $51.1 million and unaudited pro forma net income attributable to Endurance International Group Holdings, Inc. for the six months ended June 30, 2016 is $10.5 million.

The unaudited pro forma net income (loss) includes adjustments for additional interest expense related to the debt incurred in connection with the acquisition of Constant Contact.

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Pro forma revenue for the three and six months ended June 30, 2016 has been reduced by $0.5 million and $14.2 million, respectively, due to the application of purchase accounting for Constant Contact, which reduced the fair value of deferred revenue as of the closing date. Additionally, pro forma net income (loss) for the three and six months ended June 30, 2016 includes restructuring charges of approximately $4.9 million and $16.3 million, respectively, as the Company implemented plans to reduce the cost structure of the combined businesses.

Summary of Deferred Consideration Related to Acquisitions

Components of deferred consideration short-term and long-term as of December 31, 2015 and June 30, 2016, consisted of the following:

	December 31, 2015		June 30, 2016	
	Short-term	Long-term	Short-term	Long-term
	(in thousands)			
Mojoness, Inc. (Acquired in 2012)	$ 657	$ 813	$ 822	
Typepad Holdings LLC (Acquired in 2013)	2,800		2,800	
Webzai Ltd. (Acquired 2014)	2,848		2,971	
BuyDomains (Acquired in 2014)	4,283		4,467	
Verio (Acquired in 2015)	2,474		2,474	
World Wide Web Hosting (Acquired in 2015)	4,600		1,900	
Ace Data Center (Acquired in 2015)	29,626		30,901	
Ecommerce LLC (Acquired in 2015)	4,200		4,200	
Social Booster (Acquired in 2016)			40	25
Total	$ 51,488	$ 813	$ 50,575	$ 25

4. Property and Equipment and Capital Lease Obligations

Components of property and equipment consisted of the following:

	December 31, 2015	June 30, 2016
	(in thousands)	
Land	$ 713	$ 713
Building	5,091	5,143
Software	40,336	45,087
Computers and office equipment	97,332	129,848
Furniture and fixtures	5,914	10,684
Leasehold improvements	7,126	20,802
Construction in process	6,137	7,675
Property and equipment at cost	162,649	219,952
Less accumulated depreciation	(86,887)	(114,711)

Property and equipment net	$ 75,762	$ 105,241

Depreciation expense related to property and equipment for the three months ended June 30, 2015 and 2016 was $8.2 million and $16.8 million, respectively. Depreciation expense related to property and equipment for the six months ended June 30, 2015 and 2016 was $16.1 million and $29.9 million, respectively.

The Company evaluates long-lived assets such as property plant and equipment, 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. During the three months ended June 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. As a result, the Company recorded a $2.0 million impairment charge in engineering and development expense in the Company s consolidated statements of operations and comprehensive loss during the three and six months ended June 30, 2016. Additionally, in the three and six months ended June 30, 2016, the Company recorded an impairment charge of $0.5 million in engineering and development expense relating to internally developed software from the Webzai acquisition, which closed in August 2014, after evaluating it for impairment in accordance with ASC 360, Property, Plant and Equipment. This software is also linked to certain developed technology that was acquired as part of the Webzai acquisition and was also determined to be impaired. Refer to *Note 7: Goodwill and Other Intangible Assets*, for further details.

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Property under capital lease with a cost basis of $21.5 million was included in software as of June 30, 2016. The net carrying value of property under capital lease as of June 30, 2016 was $9.9 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, 2015 and June 30, 2016, 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 six months ended June 30, 2016, the Company paid $0.7 million related to the earn-out provisions for the Mojo acquisition.

Basis of Fair Value Measurements

	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, 2015:				
Financial assets:				
Interest rate cap (included in other assets)	$ 3,130		$ 3,130	$
Total financial assets	$ 3,130	$	$ 3,130	$
Financial liabilities:				

Contingent earn-out consideration	$ 1,470			$ 1,470
Total financial liabilities	$ 1,470	$	$	$ 1,470
Balance at June 30, 2016:				
Financial assets:				
Interest rate cap (included in other assets)	$ 368		$ 368	$
Total financial assets	$ 368	$	$ 368	$
Financial liabilities:				
Contingent earn-out consideration	$ 822			$ 822
Total financial liabilities	$ 822	$	$	$ 822

The following table summarizes the changes in the financial liabilities measured on a recurring basis using Level 3 inputs as of June 30, 2016:

	Amount (in thousands)
Financial liabilities measured using Level 3 inputs at December 31, 2015	$ 1,469
Payment of contingent earn-outs related to 2012 acquisition	(668)
Change in fair value of contingent earn-outs	21
Financial liabilities measured using Level 3 inputs at June 30, 2016	$ 822

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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 enters 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 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 of the derivatives is recognized directly in earnings. There was no ineffectiveness recorded in earnings for the three and six months ended June 30, 2016.

As of June 30, 2016, 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 contracts included in other assets on the consolidated balance sheet as of June 30, 2016 was $0.4 million, and the Company recognized interest expense of $29 in the Company s consolidated statement of operations for the three and six months ended June 30, 2016. The Company recognized a $1.9 million loss, net of a tax benefit of $0.8 million in AOCI for the period ending June 30, 2016, of which the Company estimates that $131,216 will be reclassified 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, 2015 to June 30, 2016 for the Company s two reporting units:

	Flagship Unit Amount	Constant Contact Unit Amount	Total Amount
		(in thousands)	

Goodwill balance at December 31, 2015	$ 1,207,255	$	$ 1,207,255
Goodwill related to 2015 acquisitions	38		38
Goodwill related to 2016 acquisitions	21,600	607,430	629,030
Foreign translation impact	589		589
Goodwill balance at June 30, 2016	$ 1,229,482	$ 607,430	$ 1,836,912

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.

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At December 31, 2015, other intangible assets consisted of the following:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life
		(dollars in thousands)		
Developed technology	$ 205,925	$ 80,795	$ 125,130	7 years
Subscriber relationships	397,791	256,461	141,330	5 years
Trade-names	81,792	42,080	39,712	6 years
Intellectual property	34,020	6,596	27,424	13 years
Domain names available for sale	27,859	3,107	24,752	Indefinite
Leasehold interests	314	314		1 year
In-process research and development	1,438		1,438	
Total December 31, 2015	$ 749,139	$ 389,353	$ 359,786	

During the six months ended June 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. Additionally, during the three and six months ended June 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. This developed technology is also linked to certain internally developed software that was developed at Webzai after its acquisition by the Company which was also determined to be impaired. Refer to *Note 4: Property and Equipment and Capital Lease Obligations*, for further details.

At June 30, 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	$ 281,742	$ 94,217	$ 187,525	7 years
Subscriber relationships	665,911	297,927	$ 367,984	7 years
Trade-names	133,920	49,454	$ 84,466	8 years
Intellectual property	34,085	8,476	$ 25,609	13 years
Domain names available for sale	29,283	4,160	$ 25,123	Indefinite
Leasehold interests	314	314	$	1 year
Total June 30, 2016	$ 1,145,255	$ 454,548	$ 690,707	

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 $22.1 million and $37.8 million for the three months ended June 30, 2015 and 2016, respectively. The Company s amortization expense is included in cost of revenue in the aggregate amounts of $43.4 million and $67.7 million for the six months ended June 30, 2015 and 2016, respectively.

8. Investments

As of December 31, 2015 and June 30, 2016, the Company s carrying value of investments in privately-held companies was $27.9 million and $34.5 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 June 30, 2015 and 2016, the Company purchased $0.3 million and $0.5 million, respectively, of products and services from BlueZone, which is included in cost of revenue in the Company s consolidated statements of operations and comprehensive loss. During the six months ended June 30, 2015 and 2016, the Company purchased $0.6 million and $0.8 million, respectively, of products and services from BlueZone, which is included in cost of revenue in the Company s consolidated statements of operations and comprehensive loss. As of December 30, 2015 and June 30, 2016, $0.1 million and $0.3 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.

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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, which is a provider of technology and sales marketing services associated with web builder solutions. The agreement provides for the acquisition of additional equity interests in WZ UK at the option of the Company. On January 6, 2016, the Company exercised an option to increase its stake in WZ UK from 49% to 57.5%. Refer to *Note 3: Acquisitions* and *Note 17: Subsequent Events,* 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. Under the terms of the investment agreement for AppMachine, the Company is obligated to purchase the remaining 60% of AppMachine in three tranches of 20% within specified periods if AppMachine achieves a specified minimum revenue threshold within a designated timeframe. The consideration for each of the three tranches is calculated as the product of AppMachine s revenue, as defined in the investment agreement, for the trailing twelve-month period prior to the applicable determination date times a specified multiple based upon year over year revenue growth multiplied by 20%. As of June 30, 2016, the Company has not recorded a liability related to the purchase obligation. Refer to *Note 17: Subsequent Events*, for further details.

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.

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.

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 $3.5 million and $0.3 million for the three months ended June 30, 2015 and 2016, respectively, and net losses of $4.6 million and $1.0 million for the six months ended June 30, 2015 and 2016, respectively, related to its investments.

From time to time, the Company may make new and follow-on investments and may receive distributions from investee companies. As of June 30, 2016, the Company was not obligated to fund any follow-on investments in these investee companies, other than AppMachine as described above.

As of June 30, 2016, 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

In November 2013, following its initial public offering (IPO), the Company repaid in full its November 2012 second lien term loan facility of $315.0 million and increased the first lien term loan facility (November 2013 First Lien) by $166.2 million to $1,050.0 million. The Company also increased its revolver loan capacity by $40.0 million to $125.0 million, none of which was drawn down at the time of the increase. The mandatory repayment of principal on the November 2013 First Lien was increased to approximately $2.6 million at the end of each quarter.

In connection with the acquisition of Constant Contact on February 9, 2016, the Company entered into a $735.0 million incremental first lien term loan facility and a new $165.0 million revolving credit facility (which replaced its existing $125.0 million revolving credit facility), and EIG Investors issued $350.0 million aggregate principal amount of 10.875% senior notes due 2024. The Company refers to the incremental first lien term loan facility and new revolving credit facility, together with its previously existing first lien term loan facility, as the Senior Credit Facilities, and to the 10.875% senior notes due 2024 as the Notes.

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Incremental First Lien Term Loan Facility

On February 9, 2016, the Company entered into an incremental first lien term loan amendment to its existing credit agreement. Pursuant to this amendment, the Company obtained a seven-year $735.0 million incremental first lien term loan facility, which is in addition to its existing first lien term loan facility. The full amount of this incremental first lien term loan facility was drawn immediately following the effectiveness of the amendment.

This incremental first lien term loan facility will mature in seven years, was issued at a price of 97% of par (subject to the payment of an additional upfront fee of 1.0% on February 28, 2016 under certain circumstances), bears interest at a rate of LIBOR plus 5.0% per annum, subject to a LIBOR floor of 1.0% per annum, and has scheduled amortization of 0.50% per quarter.

As a result of the most-favored nation pricing provision in the Company s existing credit agreement, the interest rate on its existing first lien term loan facility has increased to LIBOR plus 5.23% per annum (and was further stepped up to LIBOR plus 5.48% per annum on February 28, 2016 since certain circumstances materialized), subject to a LIBOR floor of 1.0% per annum. In addition, the Company is obligated to use commercially reasonable efforts to make voluntary prepayments on its existing first lien term loan facility to effectively double the amount of each scheduled amortization payment under that facility (which is 0.25% per quarter of the principal outstanding as of November 25, 2013).

Revolving Credit Facility

Also on February 9, 2016, the Company entered into a revolving facility amendment to its existing credit agreement. Pursuant to this amendment, the Company obtained a five-year $165.0 million revolving credit facility, which replaced its existing $125.0 million revolving credit facility. Loans under the facility will bear interest at a rate of LIBOR plus 4.0% per annum (subject to a leverage-based step-down), without a LIBOR floor. This revolving credit facility has a springing maturity date of August 10, 2019 unless the existing first lien term loan facility has been repaid in full or otherwise extended to at least 91 days after the maturity of the revolving credit facility.

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, on a senior unsecured basis, by the Company and certain of its subsidiaries (including Constant Contact and certain of its subsidiaries).

10.875% Senior Notes due 2024

On February 9, 2016, EIG Investors issued $350.0 million aggregate principal amount of Notes. 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 the Company and its subsidiaries that guarantee the Senior Credit Facilities (including Constant Contact and certain of its subsidiaries).

In connection with the issuance of the Notes, the Company agreed to assist the initial purchasers of the Notes in marketing the Notes. In addition, the Company 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.

Pursuant to the registration rights agreement, the Company will, among other obligations, use commercially reasonable efforts to file an exchange offer registration statement with respect to a registered offer, or the Exchange Offer, to exchange the Notes for substantially identical notes and consummate the Exchange Offer within 365 days after the issuance of the Notes. The Company will also use commercially reasonable efforts to cause to become effective a shelf registration statement to cover resales of the Notes by the beneficial owners thereof who satisfy certain conditions relating to the provision of information in connection with the shelf registration statement. A registration default will occur if, among other things, (1) the Company fails to consummate the Exchange Offer or have the shelf registration statement become effective on or before the date that is 365 days after the issue date or (2) the shelf registration statement becomes effective but thereafter ceases to be effective or usable in connection with the resale of Notes (subject to certain exceptions) during the periods specified in the registration rights agreement. If a registration default occurs with respect to the Notes, the annual interest rate of the Notes will be increased by 0.25% per annum and will increase again by 0.25% per annum 90 days thereafter until all registration defaults have been cured, up to a maximum amount of additional interest of 0.50% per annum. The Company will also use commercially 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.

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At December 31, 2015 and June 30, 2016, notes payable consisted of a first lien term loan facility with a principal amount outstanding of $1,026.4 million and $999.9 million, respectively, which bore interest at a LIBOR-based rate of 5.00% and 6.48%, respectively. The current portion of the first lien term loan as of December 31, 2015 and June 30, 2016 was $10.5 million and $21.0 million, respectively. As of December 31, 2015, notes payable included a bank revolver loan (2015 Revolver loan) of $67.0 million, consisting of a loan of $59.0 million which bore interest at a LIBOR-based rate of 7.75% and a loan of $8.0 million which bore interest at an alternate base rate of 8.50%. The amount outstanding under the 2015 Revolver loan as of December 31, 2015 was classified as current notes payable on the consolidated balance sheet.

In addition, as of June 30, 2016, the notes payable included $727.7 million, net of original issue discounts related to the incremental first lien term loan facility, which bore interest at a LIBOR-based rate of 6.0%. The current portion of the incremental first lien term loan as of June 30, 2016 was $14.7 million.

As of June 30, 2016, notes payable also included the $350.0 million of 10.875% senior notes due 2024, net of original issue discounts. There were no amounts outstanding under the revolving credit facility.

During the six months ended June 30, 2015 and 2016, the Company made aggregate mandatory repayments on the November 2013 First Lien of $5.3 million and $10.5 million, respectively. Also, during the six months ended June 30, 2016, the Company made a voluntary payment of $16.0 million on the November 2013 First Lien and two voluntary prepayments on the incremental first lien term loan facility for a total of $7.4 million. During the six months ended June 30, 2015 and 2016, the Company had drawn down an aggregate amount of $38.0 million and $16.0 million, respectively, on its Revolver loan, and repaid an aggregate amount of $53.0 million and $83.0 million, respectively, of the amounts drawn down, resulting in $35.0 million and $0.0 million, outstanding under the Revolver loan at June 30, 2015 and 2016, respectively. The maturity dates of the November 2013 First Lien, the incremental first lien term loan facility and the $350.0 million of 10.875% senior notes are November 9, 2019, February 9, 2023, and February 9, 2024, respectively. There is a springing maturity related to the revolving credit facility. If the Company s November 2013 First Lien has not been paid in full prior to August 10, 2019 and the final maturity has not been extended to May 11, 2021 or later, then the maturity date of the revolving credit facility is February 9, 2019.

Effective November 25, 2013, the interest rate for a LIBOR based interest loan was reduced to 4.00% plus the greater of the LIBOR rate or 1.00%. The interest rate for a reference rate loan was reduced to 3.00% per annum plus the greater of the prime rate, the federal funds effective rate plus 0.50%, an Adjusted LIBOR rate or 2.00%. Effective February 9, 2016, the interest rates for a revolver loan are subject to variability based on certain covenants.

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

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. The unamortized value of deferred financing costs associated with our revolving credit facility were not affected by the ASU and continue to be presented as an asset on the Company s consolidated balance sheets.

Future Debt Maturities

Aggregate principal payments, exclusive of any unamortized original discounts and deferred financing fees, due on long-term debt as of June 30, 2016 are as follows:

Maturity Date as of December 31,		**(in thousands)**
2016	$	17,850
2017	$	35,700
2018	$	35,700
2019	$	962,075
2020	$	14,700
Thereafter	$	1,011,500
Total	$	2,077,525

Interest

The Company recorded $14.0 million and $41.0 million in interest expense for the three months ended June 30, 2015 and 2016, respectively, and $28.3 million and $71.4 million, respectively, for the six months ended June 30, 2015 and 2016, respectively.

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The following table provides a summary of interest rates and interest expense for the three and six months ended June 30, 2015 and 2016:

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2016	Six Months Ended June 30, 2015	Six Months Ended June 30, 2016
	(dollars in thousands)			
Interest rate LIBOR	5.00%-7.75%	6.00%-7.75%	5.00%-7.75%	6.00%-7.75%
Interest rate reference	8.50%	7.50%-8.50%	8.50%	7.50%-8.50%
Interest rate Senior notes		10.875%		10.875%
Non-refundable fee unused facility	0.50%	0.50%	0.50%	0.50%
Interest expense and service fees	$ 13,703	$ 37,512	$ 27,679	$ 65,508
Amortization of deferred financing fees	$ 21	$ 1,651	$ 41	$ 2,562
Amortization of original issue discounts		$ 823		$ 1,272
Amortization of net present value of deferred consideration	$ 143	$ 799	$ 281	$ 1,582
Interest expense for capital lease obligations	$ 86	$ 140	$ 184	$ 297
Interest expense for deferred consideration promissory note	$ 70	$ 70	$ 140	$ 140
Other interest expense	$ (12)	$ (1)	$ 7	$ 4
Total interest expense	$ 14,011	$ 40,994	$ 28,332	$ 71,365

Debt Covenants

Senior Credit Facilities

The Senior Credit Facilities require that the Company complies with a financial covenant to maintain a maximum ratio of consolidated senior secured indebtedness to an EBITDA measure adjusted for bank purposes, as defined in the Company s existing credit agreement.

The Senior Credit Facilities 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. 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. The Company was in compliance with all covenants at June 30, 2016.

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.

Notes

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 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.

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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, December 31, 2015	$ 179,674
Stock-based compensation	33,412
Stock option exercises	1,328
Foreign currency translation adjustment	882
Unrealized loss on derivative	(1,938)
Minority interest accretion	(30,844)
Investment in Constant Contact	5,395
Income tax from the exercise of stock options	(448)
Net loss	(19,349)
Balance, June 30, 2016	$ 168,112

11. Stock-Based Compensation

2013 Stock Incentive Plan

The 2013 Stock Incentive Plan (the 2013 Plan) of the Company became effective upon the closing of its 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 June 30, 2016, 18,869,865 shares were 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 June 30, 2016, 10,927,604 shares were 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 was recognized in the Company s Consolidated Statement of Operations and Comprehensive Loss in the three months ending March, 31 2016.

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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 June 30, 2015	Three Months Ended June 30, 2016	Six Months Ended June 30, 2015	Six Months Ended June 30, 2016
	(in thousands)			
Cost of revenue	$ 646	$ 1,703	$ 759	$ 2,473
Sales and marketing	845	2,677	1,235	4,399
Engineering and development	487	1,441	704	2,205
General and administrative	4,561	9,203	7,812	24,335
Total stock-based compensation expense	$ 6,539	$ 15,024	$ 10,510	$ 33,412

2012 Restricted Stock Awards

The following table provides a summary of the 2012 restricted stock awards activity for the six months ended June 30, 2016 for restricted stock awards that were granted prior to the IPO, including the non-vested balance as of June 30, 2016:

	2012 Restricted Stock Awards
Non-vested at December 31, 2015	46,645
Vested	(40,222)
Canceled	
Non-vested at June 30, 2016	6,423

The following table provides a summary of the activity for the six months ended June 30, 2016 for the restricted stock units that were granted in connection with the IPO, including the non-vested balance as of June 30, 2016:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2015	22,158	$ 12.00
Vested and unissued	(22,158)	$ 12.00
Non-vested at June 30, 2016		

2013 Stock Incentive Plan

The following table provides a summary of the Company s stock options as of June 30, 2016 and the stock option activity for all stock options granted under the 2013 Plan during the six months ended June 30, 2016:

	Stock Options	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term (In Years)**	**Aggregate Intrinsic Value(3)** (in thousands)
Outstanding at December 31, 2015	6,950,858	$ 13.83		
Granted	3,403,840	$ 11.10		
Exercised		$		
Forfeited	(140,273)	$ 16.17		
Expired	(242,459)	$ 12.81		
Outstanding at June 30, 2016	9,971,966	$ 12.89	8.5	$
Exercisable at June 30, 2016	3,650,388	$ 13.00	7.6	$
Expected to vest after June 30, 2016 (1)	6,157,771	$ 12.84	9.0	$
Exercisable as of June 30, 2016 and expected to vest thereafter (2)	9,808,159	$ 12.90	8.5	$

(1) This represents the number of unvested options outstanding as of June 30, 2016 that are expected to vest in the future, which have been reduced using an estimated forfeiture rate.

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(2) This represents the number of vested options as of June 30, 2016 plus the number of unvested options outstanding as of June 30, 2016 that are expected to vest in the future, which have been reduced using an estimated forfeiture rate.

(3) The aggregate intrinsic value was calculated based on the positive difference, if any, between the estimated fair value of the Company s common stock on June 30, 2016 of $8.99 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 2013 Plan generally vest monthly over a four-year period. The following table provides a summary of the Company s restricted stock unit activity for the 2013 Plan during the six months ended June 30, 2016:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2015	220,765	$ 12.00
Vested and unissued	(60,198)	$ 12.00
Non-vested at June 30, 2016	160,567	$ 12.00

Unless otherwise determined by the Company s board of directors, restricted stock awards granted under the 2013 Plan generally vest annually over a four-year period. Performance-based restricted stock awards are earned based on the achievement of performance criteria established by the Company s Compensation Committee and Board of Directors. The following table provides a summary of the Company s restricted stock award activity for the 2013 Plan during the six months ended June 30, 2016:

	Restricted Stock Awards	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2015	4,849,290	$ 15.24
Granted	3,203,736	$ 10.46
Vested	(314,716)	$ 15.85
Canceled	(44,940)	$ 15.46
Non-vested at June 30, 2016	7,693,370	$ 13.22

2015 Performance Based Award

The performance-based restricted stock award granted to the Company s chief executive officer 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. For the second quarter of 2016, 307,815 Award Shares were earned for the Performance Quarter ending June 30, 2016 because the maximum performance level for the quarterly performance metric was met, and an additional 315,789 Award Shares were earned for the Performance Year ending June 30, 2016 because a performance level between the target and maximum for the annual performance metric was met.

Any Award Shares that are earned during the Performance Period will vest on June 30, 2018, provided the chief executive officer is employed by the Company on such date. The requirement that the chief executive officer 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 six months ended June 30, 2016, the Company recognized $0.0

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million and $7.9 million of stock-based compensation expense related to this performance-based award. The expense recognized for the three months ended June 30, 2016 was lower than our first quarter due to changes in assumptions regarding the vesting of the 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).

The CFO performance-based restricted stock award provides an opportunity to earn a fully vested right to up to 223,214 shares of the Company s stock, with a target of 178,571 shares. The COO performance-based restricted stock award provides an opportunity to earn a fully vested right to up to 260,416 shares of the Company s stock, with a target of 208,333 shares. The CAO performance-based restricted stock award provides an opportunity to earn a fully vested right to up to 148,810 shares of the Company s stock, with a target of 119,048 shares.

The shares subject to the performance-based restricted stock awards will be earned based on the Company s Constant Contact brand achieving a pre-established level of adjusted revenue (weighted 50%), adjusted EBITDA (weighted 25%) and adjusted free cash flow (weighted 25%), in each case for the twelve months ending December 31, 2016, assuming for this purpose that the Company s acquisition of Constant Contact had taken place on January 1, 2016 (the Performance Metric). Adjusted free cash flow is defined for this purpose as adjusted EBITDA, less (i) cash paid for restructuring charges and capital expenditures, plus or minus (ii) the change in working capital.

Each executive will earn from 0% to 125% of the target number of shares subject to their performance-based restricted stock award based on the level of achievement of the Performance Metric. Shares that are earned based on the achievement of the Performance Metric will vest on March 31, 2017 and any unearned shares as of that date will be forfeited.

These performance-based awards are evaluated quarterly to determine the probability of vesting and determine the amount of stock-based compensation to be recognized. During the three and six months ended June 30, 2016, the Company recognized $1.2 million and $1.7 million of stock-based compensation expense related to these performance-based awards.

2011 Stock Incentive Plan

The following table provides a summary of the Company s stock options as of June 30, 2016 and the stock option activity for all stock options granted under the 2011 Plan during the six months ended June 30, 2016:

	Stock Options	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term (In Years)**	**Aggregate Intrinsic Value(3)** (in thousands)
Outstanding at December 31, 2015				
Granted/ Exchanged	2,901,256	$ 8.28		
Exercised	(212,157)	$ 6.26		

Forfeited	(447,246)	$	7.90				
Outstanding at June 30, 2016	2,241,853	$	8.55	5.6	$	2,996
Exercisable at June 30, 2016	475,541	$	7.60	4.6	$	891
Expected to vest after June 30, 2016 (1)	1,359,113	$	8.64	5.6	$	1,789
Exercisable as of June 30, 2016 and expected to vest thereafter (2)	1,834,654	$	8.37	5.3	$	2,680

(1) This represents the number of unvested options outstanding as of June 30, 2016 that are expected to vest in the future, which have been reduced using an estimated forfeiture rate.

(2) This represents the number of vested options as of June 30, 2016 plus the number of unvested options outstanding as of June 30, 2016 that are expected to vest in the future, which have been reduced using an estimated forfeiture rate.

(3) The aggregate intrinsic value was calculated based on the positive difference, if any, between the estimated fair value of the Company s common stock on June 30, 2016 of $8.99 per share, or the date of exercise, as appropriate, and the exercise price of the underlying options.

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Unless otherwise determined by the Company s board of directors, restricted stock units granted under the 2011 Plan generally vest annually over a four-year period. The following table provides a summary of the Company s restricted stock unit activity for the 2011 Plan during the three months ended June 30, 2016:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2015		$
Granted/ Exchanged	3,074,084	$ 8.49
Vested	(982,824)	$ 7.69
Canceled	(239,802)	$ 7.77
Non-vested at June 30, 2016	1,851,458	$ 9.01

12. 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 is 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 is 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 is 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 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 provide 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 are subject to put options that are outside the control of the Company, they are deemed redeemable non-controlling interests and are also not recorded in permanent equity, and are 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 the Company and the minority shareholders of Pseudio Limited and Resume Labs Limited sold their shares in these entities to WZ UK, in exchange for shares in WZ UK. Refer to *Note 17: Subsequent Events,* for further details. Non-controlling interest arising from the application of the consolidation rules is classified within total stockholders equity with any adjustments charged to net loss attributable to non-controlling interest in a consolidated subsidiary in the consolidated statement of operations and comprehensive loss.

13. 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, the Company is generally subject to U.S. federal and state income tax examinations by tax authorities for all years for which a loss carry-forward is utilized. The Company is currently under audit in India for fiscal years ended March 31, 2014 and 2015 and Israel for the fiscal years ended December 31, 2012, 2013 and 2014.

The statutes of limitations in the Company s other tax jurisdictions remains open for various periods between 2011 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 audits.

The Company recognizes, in its consolidated financial statements, the effect of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. The Company has no unrecognized tax positions at December 31, 2015 and June 30, 2016 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.

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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 June 30, 2016;

Expiration of various federal and state tax attributes;

Reversals of existing temporary differences;

Composition and cumulative amounts of existing temporary differences; and

Forecasted profit before tax.

Prior to the 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 US deferred tax assets and liabilities as of March 31, 2016, and determined that these reversals would be sufficient to realize most domestic deferred tax assets. 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. As a result, the Company recorded a tax benefit of $74.4 million to reverse valuation allowances during the six months ended June 30, 2016.

For the three months ended June 30, 2015 and 2016, the Company recognized tax expense of $2.7 million and a tax benefit of $13.9 million, respectively, in the consolidated statements of operations and comprehensive loss. The income tax benefit for the three months ended June 30, 2016 was primarily attributable to a $0.9 million reversal of the valuation allowance, a federal and state deferred tax benefit of $11.6 million, a foreign deferred tax benefit of $1.5 million, and a benefit for federal and state current income taxes of $0.6 million, partially offset by a foreign current tax expense of $0.7 million. The income tax expense for the three months ended June 30, 2015 is primarily attributable to federal and state current income taxes of $0.8 million, foreign current tax expense of $0.3 million, U.S. deferred tax expense of $1.7 million related to the differences in the accounting treatment of goodwill under U.S. GAAP and the tax accounting for goodwill, partially offset by a $0.1 million reduction of the valuation allowance.

For the six months ended June 30, 2015 and 2016, the Company recognized tax expense of $3.7 million and a tax benefit of $113.8 million, respectively, in the consolidated statements of operations and comprehensive loss. The income tax benefit for the six months ended June 30, 2016 was primarily attributable to a $74.4 million reversal of the valuation allowance, a federal and state deferred tax benefit of $40.6 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 $2.2 million, partially offset by a provision for federal and state current income taxes of $1.5 million and foreign current tax expense of $1.8 million. The income tax expense for the six months ended June 30, 2015 is primarily attributable to a provision for federal and state current income taxes of $1.1 million, foreign current tax expense of

$0.7 million, U.S. deferred tax expense of $2.2 million related to the differences in the accounting treatment of goodwill under U.S. GAAP and the tax accounting for goodwill and foreign deferred tax expense of $0.1 million related to increases in deferred liabilities, partially offset by a $0.3 million reduction of the valuation allowance.

The provision for income taxes shown on the consolidated statements of operations and comprehensive loss differs from amounts that would result from applying the statutory tax rates to income before taxes primarily because of state income taxes and certain expenses that were non-deductible, as well as the application of valuation allowances against U.S. and foreign assets.

As of December 31, 2015, the Company had NOL carry-forwards available to offset future U.S. federal taxable income of approximately $97.8 million and future state taxable income of approximately $111.2 million. These NOL carry-forwards expire on various dates through 2034. Approximately $1.6 million of the U.S. federal NOL carry-forwards and $0.7 million of the state NOL carry-forwards are from excess stock-based compensation, for which the benefit will be recorded to additional paid-in capital when recognized. As of December 31, 2015, the Company had NOL carry-forwards in foreign jurisdictions available to offset future foreign taxable income by approximately $27.4 million. The Company has loss carry-forwards in India totaling $2.9 million that begin to expire in 2021. The Company also has loss carry-forwards in the United Kingdom, Israel and Singapore of $23.4 million, $0.9 million, and $0.2 million, respectively, which have an indefinite carry-forward period.

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, 2013, 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, 2013. The Company concluded that there was not a Section 382 ownership change during this period and therefore any NOLs generated through December 31, 2013, are not subject to any new Section 382 limitations on NOL carry-forwards. On November 20, 2014, the Company completed a follow-on offering 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).

As of the date of the Company s acquisition of Constant Contact, Constant Contact had approximately $57.7 million and $31.9 million of federal and state NOLs, respectively, and approximately $10.6 million of U.S. federal research and development credits and $9.6 million of state credits.

All of the acquired tax attributes (NOLs and tax credits) from the transaction are subject to a Section 382 ownership change as a result of the transaction. Although an ownership change was triggered, the Company does not expect that the limitations placed on its NOLs and research and development tax credits will result in a restriction on their use or the expiration of its NOLs and research and development tax credit carryforwards. However, future equity transactions could further limit the utilization of these tax attributes.

As a result, all unused NOL carry-forwards at December 31, 2015 are available for future use to offset taxable income.

14. Severance and Other Exit Costs

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

2014 Restructuring Plan

During the year ended December 31, 2014, the Company implemented plans to further integrate and consolidate its data center, support and engineering operations, resulting in severance and facility exit costs. The severance charges were associated with eliminating approximately 90 positions across primarily support, engineering operations and sales and marketing. The Company incurred severance costs of $2.3 million in the year ended December 31, 2014 related to these restructuring activities. The employee-related charges associated with these restructurings were completed during the year ended December 31, 2014. As of June 30, 2016, the Company did not have any remaining accrued employee-severance related to these severance costs.

The Company had incurred facility costs associated with closing offices in Redwood City, California and Englewood, Colorado. At the time of closing these offices, the Company had remaining lease obligations of approximately $3.0

million for these vacated facilities through March 31, 2018. The Company recorded a facilities charge for these future lease payments, less expected sublease income, of $2.1 million during the year ended December 31, 2014. During the six months ended June 30, 2016, the Company recorded an adjustment of $0.2 million relating to the lease agreement for the Englewood, Colorado facility. There were no adjustments during the three months ended June 30, 2016.

The following table provides a summary of the activity for the six months ended June 30, 2016 related to the Company s facilities exit costs accrual:

	Facilities (in thousands)
Balance at December 31, 2015	$ 479
Cash paid	(502)
Sublease income	190
Adjustments	186
Balance at June 30, 2016	$ 353

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2015 Restructuring Plan

During the year ended December 31, 2015, the Company implemented plans to enhance operational efficiencies across the business, resulting in severance costs (the 2015 Restructuring Plan). The severance charges were associated with eliminating approximately 67 positions across the business. The Company incurred severance costs of $2.1 million during the year ended December 31, 2015 related to the 2015 Restructuring Plan. The Company completed employee-related charges associated with the 2015 Restructuring Plans during the year ended December 31, 2015. The Company paid $0.9 million of severance costs during the six months ended June 30, 2016 and had a remaining accrued severance liability of $0.3 million as of June 30, 2016. The Company expects payments related to the 2015 Restructuring Plan be completed during the year ended December 31, 2016. The following table provides a summary of the activity for the six months ended June 30, 2016 related to the Company s 2015 Restructuring Plan severance accrual:

	2015 Plan Employee Severance (in thousands)	
Balance at December 31, 2015	$	1,201
Severance adjustments		(30)
Cash paid		(870)
Balance at June 30, 2016	$	301

2016 Restructuring Plan

In connection with the Company s acquisition of Constant Contact on February 9, 2016, during the three months ended March 31, 2016, the Company implemented plans to create operational efficiencies and synergies resulting in severance costs and facility exit costs (the 2016 Constant Contact Restructuring Plan).

The severance charges were associated with eliminating approximately 180 positions across the business. The Company incurred severance costs of $1.7 million and $9.7 million during the three and six months ended June 30, 2016, respectively, related to the 2016 Constant Contact Restructuring Plan. The Company expects to complete employee-related charges associated with the 2016 Constant Contact Restructuring Plan during the year ended December 31, 2016. The Company paid $5.2 million of severance costs during the six months ended June 30, 2016 and had a remaining accrued severance liability of $4.5 million as of June 30, 2016. The Company expects payments related to the 2016 Constant Contact Restructuring Plan to be completed during the year ended December 31, 2016.

The following table provides a summary of the activity for the six months ended June 30, 2016 related to the Company s 2016 Constant Contact Restructuring Plan severance accrual:

	2016 Constant Contact Plan Employee Severance (in thousands)	
Balance at December 31, 2015	$	

Severance charges		9,700
Cash paid		(5,224)
Balance at June 30, 2016	$	4,476

The Company s 2016 Constant Contact Restructuring Plan includes a plan to close offices in San Francisco, California, Delray Beach, Florida, New York, New York and the United Kingdom. The Company is also closing a portion of the Constant Contact offices in Waltham, Massachusetts. During the three and six months ended June 30, 2016, the Company recorded a facilities charge for future lease payments of $7.4 million and $15.0 million, respectively, less expected sublease income of $4.2 million and $8.4 million, respectively.

The following table provides a summary of the activity for the six months ended June 30, 2016 related to the Company s 2016 Constant Contact Restructuring Plan facilities exit costs accrual:

		Facilities (in thousands)
Balance at December 31, 2015	$	
Facilities exit charges, net of estimated sublease income		6,605
Cash paid		(640)
Balance at June 30, 2016	$	5,965

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2016 Restructuring and Relocation Plan

As a result of the acquisition of Constant Contact, during the six months ended June 30, 2016, the Company implemented additional plans to create operational efficiencies and synergies resulting in severance costs, facility exit costs, and relocation costs (the 2016 Restructuring and Relocation Plan).

The severance charges were associated with eliminating approximately 85 positions across the business. The Company incurred severance costs of $0.5 million during the three and six months ended June 30, 2016, respectively, related to the 2016 Restructuring and Relocation Plan. The Company expects to complete employee-related charges associated with the 2016 Restructuring and Relocation Plan during the year ended December 31, 2016. The Company paid $0.2 million of severance costs during the six months ended June 30, 2016 and had a remaining accrued severance liability of $0.3 million as of June 30, 2016. The Company expects payments related to the 2016 Restructuring and Relocation Plan to be completed during the year ending December 31, 2016.

The following table provides a summary of the activity for the six months ended June 30, 2016 related to the Company s 2016 Restructuring and Relocation Plan severance accrual:

	2016 Restructuring and Relocation Plan Employee Severance (in thousands)	
Balance at December 31, 2015	$	
Severance charges		561
Cash paid		(235)
Balance at June 30, 2016	$	326

The Company s 2016 Restructuring and Relocation Plan includes a plan to close offices in Porto Alegre, Brazil and Miami, Florida, and a plan to relocate certain employees to our Austin Office. The Company recorded a facilities and relocation charge of $0.2 million during the three and six months ended June 30, 2016, and paid $0.1 million of these related costs during the six months ended June 30, 2016.

The following table provides a summary of the activity for the six months ended June 30, 2016 related to the Company s 2016 Restructuring and Relocation Plan facilities, relocation and other exit costs accrual:

	Facilities (in thousands)	
Balance at December 31, 2015	$	
Facilities exit charges, net of estimated sublease income		243
Cash paid		(88)
Balance at June 30, 2016	$	155

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 June 30, 2016 (in thousands)	For the Six Months Ended June 30, 2016 (in thousands)
Cost of revenue	$ 2,137	$ 5,602
Sales and marketing	1,267	5,168
Engineering and development	1,224	3,242
General and administrative	1,035	3,253
Total restructuring charges	$ 5,663	$ 17,265

15. 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 can be assessed at this time.

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 chief executive officer and former chief financial officer, *Machado v. Endurance International Group Holdings, Inc.,* et al, Civil Action No. 1:15-cv-11775-GAO. In a second amended complaint, filed on March 18, 2016, the plaintiff alleged claims for violations of Section 10(b) and 20(a) of the Exchange Act, on behalf of a purported class of purchasers of the Company s securities between February 25, 2014 and February 29, 2016. Those claims challenged as false or misleading certain of the Company s disclosures about its total number of subscribers, average revenue per subscriber, the number of customers paying over $500 per year for the Company s products and services, the average number of products sold per subscriber, and customer churn. The plaintiff seeks, on behalf of himself and the purported class, compensatory damages and his costs and expenses of litigation. The Company filed a motion to dismiss on May 16, 2016, which remains pending. 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 this proceeding.

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 can make no assurances as to 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.

Constant Contact

On October 30, 2015, the Company entered into a definitive agreement pursuant to which it agreed to acquire all of the outstanding shares of common stock of Constant Contact. The acquisition closed on February 9, 2016. Constant Contact contingencies are noted below.

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, and periodic public disclosure of financial and operating metrics. The Company is fully cooperating with the SEC s investigation. The Company can make no assurances as to 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. 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. This litigation remains in its early stages. The Company believes it has meritorious defenses to any claim of infringement and intends to defend against the lawsuit vigorously.

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, or the Chawdry Complaint, 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, or the Myers Complaint (together with the Chawdry Complaint, the Complaints) filed in the Court of Chancery of the State of Delaware naming Constant Contact, each of Constant

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Contact s directors, Endurance and Paintbrush Acquisition Corporation as defendants. The Complaints generally allege, 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 seek, among other things, to rescind the acquisition, as well as award of plaintiffs attorneys fees and costs in the action. The defendants have not yet answered or otherwise responded to either of these Complaints. The defendants believe the claims asserted in the Complaints are without merit and intend to defend against these lawsuits vigorously.

16. Related Party Transactions

The Company has various agreements in place with related parties. Below are details of related party transactions that occurred during the six months ended June 30, 2015 and 2016.

Tregaron:

The Company has contracts with Tregaron India Holdings, LLC and its affiliates, including Diya Systems (Mangalore) Private Limited, Glowtouch Technologies Pvt. Ltd. and Touchweb Designs, LLC (collectively, Tregaron), for outsourced services, including email- and chat-based customer and technical support, network monitoring, engineering and development support and web design and web building services. These entities are owned directly or indirectly by family members of the Company s chief executive officer, who is also a director and stockholder of the Company.

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
	(in thousands)			
Cost of revenue	$ 2,600	$ 3,300	$ 5,000	$ 6,400
Sales and marketing	200	100	300	200
Engineering and development	300	300	700	600
General and administrative	100		200	100
Total related party transaction expense, net	$ 3,200	$ 3,700	$ 6,200	$ 7,300

As of December 31, 2015, approximately $1.9 million was included in accounts payable and accrued expense relating to services provided by Tregaron. As of June 30, 2016, approximately $2.0 million was included in accounts payable and accrued expense relating to services provided by Tregaron.

Innovative Business Services, LLC:

The Company also has agreements with Innovative Business Services, LLC (IBS), which provides multi-layered third-party security applications that are sold by the Company. IBS is indirectly majority owned by the Company s chief executive officer and a director of the Company, each of whom are also stockholders of the Company. During the year ended December 31, 2014, the Company s principal agreement with this entity was amended which resulted in the accounting treatment of expenses being recorded against revenue.

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 June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
	(in thousands)			
Revenue	$ (250)	$ (700)	$ (400)	$ (1,300)
Revenue (contra)	1,700	2,000	3,500	4,100
Total related party transaction impact to revenue	$ 1,450	$ 1,300	$ 3,100	$ 2,800
Cost of revenue	100	100	300	300
Total related party transaction expense, net	$ 1,550	$ 1,400	$ 3,400	$ 3,100

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As of December 31, 2015 and June 30, 2016, approximately $0.2 million and $0.0 million, respectively, was included in prepaid expenses and other current assets relating to the Company s agreements with IBS.

As of December 31, 2015 and June 30, 2016, approximately $1.1 million and $1.3 million, respectively was included in accounts payable and accrued expense relating to the Company s agreements with IBS.

As of December 31, 2015 and June 30, 2016, approximately $0.3 million and $1.4 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, Sachs & Co. is a significant shareholder of the Company. Refer to *Note 5: Fair Value Measurements,* for further details.

In connection with and concurrently with the acquisition of Constant Contact in February 2016, the Company entered into the $735.0 million incremental first lien term loan facility and the $165.0 million revolving credit facility, and EIG Investors Corp. issued Notes in the aggregate principal amount of $350.0 million. An affiliate of Goldman, Sachs & Co. provided loans in the aggregate principal amount of $312.4 million under the incremental first lien term loan facility and a commitment in the aggregate principal amount of $57.6 million under the revolving credit facility, and Goldman, Sachs & Co. acted as a book-running manager in the Company s offering of the Notes and purchased approximately $148.8 million worth of the Notes. The foregoing financing arrangements were provided in accordance with a commitment letter the Company entered into with an affiliate of Goldman, Sachs & Co. and certain other investment banks in November 2015. Refer to *Note 9: Notes Payable*, for further details.

Goldman, Sachs & Co. also served as a financial advisor in connection with the acquisition of Constant Contact and in the six months ended June 30, 2016, the Company paid approximately $8.6 million to Goldman, Sachs & Co. in connection with these services.

In connection with the issuance of the Notes, the Company agreed to assist the initial purchasers, including Goldman, Sachs & Co., in marketing the Notes. In the three months ended June 30, 2016, the Company incurred expenses on behalf of the initial purchasers of approximately $0.3 million. We expect to incur similar charges during the third quarter of fiscal year 2016.

17. Subsequent Events

On July 13, 2016, WZ UK completed a restructuring pursuant to which the Company and the minority shareholders of Pseudio Limited and Resume Labs Limited sold their shares in these entities to WZ UK, in exchange for shares in WZ UK. As a result of the restructuring, WZ UK became the 100% owner of Pseudio Limited and Resume Labs Limited and the Company s ownership of WZ UK was diluted from 77.5% to 76.4%. Immediately subsequent to the restructuring, the Company acquired an additional 10% stake in WZ UK on July 13, 2016 for $18 million, bringing the Company s aggregate stake in WZ UK to 86.4%. In connection with this investment, the Company and the minority shareholders of WZ UK also agreed to enter into a revised option agreement within 30 days of the investment, pursuant to which the Company will have the right to purchase additional shares in WZ UK.

On July 27, 2016, the Company acquired the remaining 60% equity interest in AppMachine, increasing the Company s stake to 100%. In connection with the acquisition, the parties terminated the prior investment agreement pursuant to which the Company was obligated to purchase the remaining shares in AppMachine in three tranches. The total consideration for the 60% equity interest was $22.5 million, of which $5.5 million was paid upon closing, and the remainder will be paid in annual installments over a period of four years, commencing with June 21, 2017. The purchase consideration of $22.5 million is subject to reduction in the event of certain indemnification claims by the Company. The Company estimates that a loss of approximately $5.0 million was generated as a result of the increase in our ownership stake in AppMachine from 40.0% to 100.0%, which required a revaluation of our existing investment to its implied fair value.

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

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

Forward-Looking Statements

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

Overview

We are a leading provider of cloud-based platform solutions designed to help small- and medium-sized businesses, or SMBs, succeed online. Leveraging our proprietary technology platform, we serve approximately 5.5 million subscribers globally with a comprehensive and integrated suite of over 150 products and services that help SMBs get online, get found and grow their businesses. 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 (SEO) and search engine marketing (SEM), Google Adwords, mobile solutions, social media enablement, website analytics, email marketing and productivity and e-commerce tools, among others. More recently, we have launched additional products and services, including website builders, mobile site builders, desktop security and virtual private network (VPN) solutions, both to satisfy existing subscriber needs and to expand the product gateways through which new subscribers initially reach us. We refer to these newer products and services as our gateway products .

In February 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. Constant Contact has achieved better than expected integration-related cost synergies during the first half of the year.

During the first half of 2016, we made significant investments in marketing for our gateway products and kept our marketing expenditures on our core hosting and web presence business flat relative to 2015 levels. The gateway products had higher subscriber acquisition costs and higher initial subscriber churn than we originally anticipated. In response to these results, we slowed our marketing of some of the gateway products during the second quarter of 2016, which negatively impacted net subscriber additions for the quarter. For the remainder of 2016, we plan to continue investing in gateway product marketing, but to reallocate our marketing dollars within the gateway product portfolio to products where we are seeing better results, particularly our site builder products.

Our core hosting and web presence business showed relatively slow growth during the first half of 2016 due to flat marketing expenditure levels, as well as to the relative maturity of the business. We are also seeing and responding to trends in the competitive landscape, including an increasing trend among consumers to search for web presence and marketing solutions using brand-related search terms, which we believe assists competitors who have focused more heavily than we have on building consumer awareness of their brand.

During the six months ended June 30, 2016, the Company incurred impairment charges of $8.3 million, consisting of a $2.0 million charge to abandon an internally developed software tool that we determined would no longer meet our needs following the acquisition of Constant Contact, a $4.9 million charge in connection with other internally developed software and technology related to the Webzai acquisition, and a $1.4 million charge to impair certain acquired in-process research and development projects that were abandoned during the three months ended March 31, 2016. Refer to *Note 2: Summary of Significant Accounting Policies Acquired In-Process Research and Development (IPR&D)*, *Note 4: Property and Equipment and Capital Lease Obligations,* and *Note 7: Goodwill and Other Intangible Assets*, to the consolidated financial statements appearing in Part I, Item 1 in this Quarterly Report on Form 10-Q, for further details.

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The acquisition of Constant Contact, our investments in our gateway products, increases in stock-based compensation and impairment charges have impacted our recent financial results. Changes in some key financial metrics are noted below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Financial GAAP metrics:				
Revenue	$ 182,431	$ 290,713	$ 359,749	$ 527,826
Net loss	$ (2,071)	$ (33,430)	$ (1,187)	$ (19,349)
Cash flow from operations	$ 46,009	$ 53,843	$ 96,232	$ 65,615

Our revenue grew from $182.4 million for the three months ended June 30, 2015 to $290.7 million for the three months ended June 30, 2016 and from $359.7 million for the six months ended June 30, 2015 to $527.8 million for the six months ended June 30, 2016. This growth in our revenue was due primarily to the Constant Contact acquisition and other acquisitions that closed since the three months ended June 30, 2015, and to a lesser extent to growth from our core hosting and web presence products.

Our net loss grew from $2.1 million for the three months ended June 30, 2015 to $33.4 million for the three months ended June 30, 2016, and from $1.2 million for the six months ended June 30, 2015 to $19.3 million for the six months ended June 30, 2016. These increases were primarily the result of increased costs incurred in connection with the acquisition of Constant Contact, including interest expense, transaction costs, amortization of intangible assets and restructuring costs; increased stock-based compensation expense, including expense related to a performance based grant of restricted stock to our CEO in the third quarter of 2015; increased marketing expenses, primarily related to new gateway product launches; and the impairment charges discussed above.

Cash provided by operations increased $7.8 million for the three months ended June 30, 2016, and decreased $30.6 million for the six months ended June 30, 2016. The increase for the three month period is primarily related to operating cash flows contributed by Constant Contact that are higher than the increased cash costs to pay interest expense and restructuring costs related to this acquisition, and higher marketing costs to promote gateway products. The decrease in cash flows for the six month period is primarily due to transaction and restructuring costs incurred to acquire Constant Contact, and higher marketing costs to promote gateway products exceeding the operating cash flows contributed by Constant Contact.

Recent Developments

WZ UK Restructuring

On July 13, 2016, WZ UK completed a restructuring pursuant to which we and the minority shareholders of Pseudio Limited and Resume Labs Limited sold our shares in these entities to WZ UK in exchange for shares in WZ UK. As a result of the restructuring, WZ UK became the 100% owner of Pseudio Limited and Resume Labs Limited and our ownership of WZ UK was diluted from 77.5% to 76.4%. Immediately subsequent to the restructuring, we acquired an additional 10% stake in WZ UK for $18.0 million, bringing our aggregate stake in WZ UK to 86.4%. In connection with this investment, we and the minority shareholders of WZ UK also agreed to enter into a revised option agreement within 30 days of the investment, pursuant to which we will have the right to purchase additional shares in WZ UK.

AppMachine Acquisition

On July 27, 2016, we acquired the remaining 60% equity interest in AppMachine, increasing our stake to 100%. In connection with the acquisition, the parties terminated the prior investment agreement pursuant to which we were obligated to purchase the remaining shares in AppMachine in three tranches. The total consideration for the 60% equity interest was $22.5 million, of which $5.5 million was paid upon closing, and the remainder will be paid in annual installments over a period of four years, with the first installment due on June 21, 2017. The purchase consideration of $22.5 million is subject to reduction in the event of certain indemnification claims by us. We estimate that a loss of approximately $5.0 million was generated as a result of the increase in our ownership stake in AppMachine from 40.0% to 100.0%, which required a revaluation of our existing investment to its implied fair value.

Non-GAAP Financial Measures

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

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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, our adjusted EBITDA measure 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 reconciliations of our non-GAAP financial measures to the comparable GAAP financial measures included below, and not to rely on any single financial measure to evaluate our business.

Changes to Non-GAAP Financial Measures

During the second quarter of 2016, we made the following changes to our non-GAAP financial measures in light of recent Compliance and Disclosure Interpretations (C&DIs) issued by the staff of the U.S. Securities and Exchange Commission and in an effort to simplify some of our non-GAAP measures:

Adjusted EBITDA. We have changed the definition of our adjusted EBITDA measure to net (loss) income, 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, (gain) loss of unconsolidated entities, and impairment of long-lived assets. This revised measure does not adjust for changes in deferred revenue, and includes the impact of the following items which were previously excluded: (gain) loss on sale of assets, integration expenses, legal advisory expenses and purchase accounting impact of reduced fair value of deferred domain registration costs. These changes are intended to both address the recent C&DIs and to simplify the presentation of adjusted EBITDA by reducing the number of adjustments. Please see Key Metrics Adjusted EBITDA below for additional information.

ARPS. We have changed our definition of average revenue per subscriber, or ARPS, such that it is now based on GAAP revenue, rather than revenue adjusted for the purchase accounting adjustment for acquisitions, which we have referred to in the past as adjusted revenue. Please see Key Metrics ARPS below for additional information.

Following the second quarter, we will no longer report adjusted EBITDA or ARPS using our previous definitions. Please see the Appendix to Exhibit 99.1 to our Form 8-K filed on August 2, 2016 for a presentation of our revised definitions of adjusted EBITDA and ARPS for prior periods, as well as a reconciliation of the revised definitions to previous definitions of adjusted EBITDA and ARPS.

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;

ARPS;

adjusted EBITDA; and

free cash flow.

The following table summarizes these non-GAAP financial measures and key metrics for the periods presented (in thousands, except ARPS):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Financial and other metrics:				
Total subscribers	4,394	5,480	4,394	5,480
Average subscribers for the period	4,272	5,463	4,205	5,274
ARPS	$ 14.23	$ 17.74	$ 14.26	$ 16.68
Adjusted EBITDA	$ 51,069	$ 76,928	$ 102,926	$ 116,210
Free cash flow	$ 37,804	$ 41,565	$ 79,848	$ 41,758

Figures for the six months ended June 30, 2016 include the impact of Constant Contact since February 10, 2016, the day after the closing of the acquisition.

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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.

Our total subscriber base increased from 4.4 million as of June 30, 2015 to 5.5 million as of June 30, 2016, an increase of approximately 1.1 million. Of this 1.1 million increase, approximately 723,000, or 67%, consisted of pre-acquisition subscriber bases of companies we acquired between June 30, 2015 and June 30, 2016, including approximately 566,000 subscribers acquired in our Constant Contact acquisition; approximately 45,000, or 4%, consisted of the adjustments described above; and approximately 318,000, or almost 29%, was attributable primarily to new product introductions and marketing efforts.

We experienced a lower net increase in total subscribers during the three and six months ended June 30, 2016, as compared to the three and six months ended June 30, 2015. We expect this trend to continue in the near term as we realign our marketing investments in our gateway products and continue to experience slower subscriber growth in our core hosting and web presence business due primarily to flat marketing expenditure levels. We expect low to flat subscriber growth for the balance of 2016.

Average Revenue per Subscriber

Average revenue per subscriber, or ARPS, is a non-GAAP financial measure that we calculate as the amount of revenue we recognize in a period, including marketing development funds and other revenue not received from subscribers, divided by the average of the number of total subscribers at the beginning of the period and at the end of the period, which we refer to as average subscribers for the period. We believe ARPS is an indicator of our ability to optimize our mix of products and services and pricing and sell products and services to new and existing subscribers. As we on-board new subscribers, we typically on-board them at introductory prices, which negatively impacts ARPS. Furthermore, ARPS can be impacted by our acquisitions due to acquisition-related purchase accounting charges and since the acquired subscribers may have higher or lower than average ARPS, and by adjustments to our total subscribers figure as described above.

Prior to the second quarter of 2016, when calculating ARPS, we increased revenue for the purchase accounting adjustment for acquisitions, which represents the reduction of post-acquisition revenues from the write-down of deferred revenue to fair value as of the acquisition date. Post-acquisition deferred revenues are recognized at the reduced amount, until such time as the subscription is renewed. The impact generally normalizes within a year following the acquisition. Starting in the second quarter of 2016, we will no longer adjust revenue for the purchase accounting impact when calculating ARPS.

ARPS does not represent an exact measure of the average amount a subscriber spends with us each month, since our calculation of ARPS is impacted by revenues generated by non-subscribers. We have three principal sources of non-subscriber revenue: revenue attributable to customers who purchase only a domain name from us and do not purchase any other products, or domain-only customers, domain monetization revenue, and marketing development funds.

Domain monetization revenue 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. Historically, the contribution of domain monetization activities to our revenue and adjusted revenue has been insignificant, but has increased since 2014 primarily due to our acquisition of BuyDomains in September 2014. Our domain monetization revenue was $9.6 million and $7.4 million for the three months ended June 30, 2015 and 2016, respectively, and its exclusion from our ARPS calculation would have resulted in ARPS being $0.75 and $0.45 lower for those periods, respectively. Our domain monetization revenue was $19.6 million and $16.0 million for the six months ended June 30, 2015 and 2016, respectively, and its exclusion from our ARPS calculation would have resulted in ARPS being $0.78 and $0.51 lower for those periods, respectively.

Marketing development funds are amounts that certain of our partners pay us to assist in and incentivize our marketing of their products. Our marketing development fund revenue was $3.2 million and $2.2 million for the three months ended June 30, 2015 and 2016, respectively, and its exclusion from our ARPS calculation would have resulted in ARPS being $0.25 and $0.13 lower for those periods, respectively. Our marketing development fund revenue was $5.5 million and $4.8 million for the six months ended June 30, 2015 and 2016, respectively, and its exclusion from our ARPS calculation would have resulted in ARPS being $0.22 and $0.15 lower for those periods, respectively.

Although we are able to measure the total amount of our revenue from domains, we are not able to further break down domain revenue into revenue from domain-only customers versus revenue from customers who purchase domains from us in addition to other products. Total revenue from domains was $31.3 million and $31.6 million for the three months ended June 30, 2015 and 2016, respectively. Total revenue from domains was $61.1 million and $65.2 million for the six months ended June 30, 2015 and 2016, respectively.

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. Additionally, a majority of our reseller revenues are for the purchase of domains and are included in the figures for adjusted revenue from domains shown above. Total revenue from resellers, excluding the portion that relates to domains, for the three months ended June 30, 2015 and 2016 was $6.7 million and $6.5 million, respectively. Total revenue from resellers, excluding the portion that relates to domains, for the six months ended June 30, 2015 and 2016 was $13.4 million and $13.1 million, respectively.

ARPS increased from $14.23 to $17.74 for the three months ended June 30, 2015 and 2016, respectively, and $14.26 to $16.68 for the six months ended June 30, 2015 and 2016, respectively. This increase in ARPS was driven primarily by the acquisition of Constant Contact, which has higher ARPS than the rest of our business, partially offset by positive adjustments to our total subscriber figure during the period, a decrease in domain monetization revenues, subscribers coming to our platform through new gateway products, some of which are lower priced than our core hosting and web presence offerings, and new subscribers joining us at low introductory prices for their first year with us.

ARPS excluding Constant Contact decreased from $14.23 to $13.32 for the three months ended June 30, 2015 and 2016, respectively, and $14.26 to $13.58 for the six months ended June 30, 2015 and 2016. This decrease in ARPS was driven by positive adjustments to our total subscriber figure during the period, a decrease in domain monetization and marketing development funds revenue, subscribers coming to our platform through new gateway products, some of which are lower priced than our core hosting and web presence offerings, and new subscribers joining us at low introductory prices for their first year with us. The calculation of ARPS with and without the impact of the Constant Contact acquisition is detailed below.

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2015	**2016**	**2015**	**2016**
Revenue	$ 182,431	$ 290,713	$ 359,749	$ 527,826
Total subscribers	4,394	5,480	4,394	5,480
Average subscribers for the period	4,272	5,463	4,205	5,274
	$ 14.23	**$ 17.74**	**$ 14.26**	**$ 16.68**

Average revenue per subscriber (ARPS) (revised definition)

Revenue attributable to Constant Contact	$	$ 94,672	$	$ 133,737
Revenue excluding Constant Contact	$ 182,431	$ 196,041	$ 359,749	$ 394,089
Total subscribers excluding Constant Contact	4,394	4,929	4,394	4,929
Average subscribers excluding Constant Contact	4,272	4,906	4,205	4,838
ARPS excluding Constant Contact (revised definition)	**$ 14.23**	**$ 13.32**	**$ 14.26**	**$ 13.58**
Revenue	$ 182,431	$ 290,713	$ 359,749	$ 527,826
Purchase accounting adjustment	$ 856	$ 1,869	$ 2,251	$ 17,712
Adjusted revenue	$ 183,287	$ 292,582	$ 362,000	$ 545,538
Average revenue per subscriber (ARPS) (previous definition)	**$ 14.30**	**$ 17.85**	**$ 14.35**	**$ 17.24**
Adjusted revenue excluding Constant Contact	$ 183,287	$ 197,404	$ 362,000	$ 397,637
ARPS excluding Constant Contact (previous definition)	**$ 14.30**	**$ 13.41**	**$ 14.35**	**$ 13.70**

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Adjusted EBITDA

Adjusted EBITDA is a non-GAAP financial measure that we now 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, (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.

During the second quarter of 2016, we changed our adjusted EBITDA measure, and following the second quarter, we will no longer present adjusted EBITDA as previously defined. Our previous definition of adjusted EBITDA was as follows: GAAP net income (loss) plus (i) changes in deferred revenue, depreciation, amortization, stock-based compensation expense, loss of unconsolidated entities, net loss on sale of assets, impairment of other intangibles, expenses related to integration of acquisitions and restructurings, transaction expenses and charges, certain legal advisory expenses, interest expense and income tax expense, less (ii) earnings and gains related to unconsolidated entities, net gain on sale of assets and the impact of purchase accounting related to reduced fair value of deferred domain registration costs.

The following table reflects a reconciliation of net loss calculated in accordance with GAAP to adjusted EBITDA and the previous definition of adjusted EBITDA (all data in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
	(in thousands)			
Net loss	**$ (2,071)**	**$ (33,430)**	**$ (1,187)**	**$ (19,349)**
Interest expense, net (including impact of amortization of deferred financing costs and original issuance discounts)	13,894	40,852	28,123	71,089
Income tax expense (benefit)	2,707	(13,931)	3,685	(113,833)
Depreciation	8,229	16,760	16,095	29,932
Amortization of other intangible assets	22,135	37,823	43,433	67,697
Stock-based compensation	6,539	15,024	10,510	33,412
Restructuring expenses		5,663		17,265
Transaction expenses and charges	1,618	978	3,141	32,098
(Gain) loss of unconsolidated entities (1)	(1,982)	341	(874)	(10,386)
Impairment of other long-lived assets		6,848		8,285
Adjusted EBITDA	**$ 51,069**	**$ 76,928**	**$ 102,926**	**$ 116,210**
(Gain) loss on sale of assets	(4)	(224)	36	(225)
Integration expenses	2,325	3,965	3,743	7,400
Legal advisory expenses (2)	1,055	1,460	1,055	3,000
Changes in deferred revenue	7,631	11,904	22,564	55,047
Impact of reduced fair value of deferred domain registration costs	(525)	(258)	(1,203)	(549)
Previous Adjusted EBITDA	**$ 61,551**	**$ 93,775**	**$ 129,121**	**$ 180,883**

(1) The gain of unconsolidated entities is reported on a net basis for the six months ended June 30, 2016. The six months ended June 30, 2016 includes an $11.4 million gain on our investment in WZ UK. This gain was generated on January 6, 2016, when we increased our ownership stake in WZ UK from 49% 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 share of net losses from unconsolidated entities of $1.0 million.

(2) Consists of legal and related advisory expenses associated with securities class action litigation and related matters and the subpoenas from the Securities and Exchange Commission, or SEC, received by us and Constant Contact in December 2015.

Net loss grew from $2.1 million for the three months ended June 30, 2015 to $33.4 million for the three months ended June 30, 2016. This increase was primarily the result of costs incurred in connection with our acquisition of Constant Contact, including increased interest expense of $27.0 million, increased amortization of intangible assets of $18.1 million and increased restructuring expenses of $4.9 million. Additionally, we incurred stock-based compensation expenses of $8.5 million during the period due to increased grants of awards, including a performance based grant of restricted stock to our CEO in the third quarter of 2015. We also increased our marketing expenses, primarily related to new gateway product launches, resulting in $14.3 million of higher marketing costs (excluding marketing costs related to Constant Contact) and incurred impairment charges totaling $6.9 million, as further described in the *Overview* section above. These increases in our expenses have been partially offset by an income tax benefit of $13.9 million, and by increased operating profit, due to the acquisition of Constant Contact and to a lesser extent to growth in our core hosting and web presence business.

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Net loss grew from $1.2 million for the six months ended June 30, 2015 to $19.3 million for the six months ended June 30, 2016. Most of this increase was the result of increased costs incurred primarily in connection with our acquisition of Constant Contact, including increased interest expense of $43.0 million, increased transaction costs of $29.0 million, increased amortization of intangible assets of $28.2 million and restructuring expenses of $16.3 million to integrate operations. Additionally, we incurred higher stock-based compensation expenses of $22.9 million due to increased grants of awards, including a performance based grant of restricted stock to our CEO in the third quarter of 2015. We have also increased our marketing expenses, primarily related to new gateway product launches, resulting in $38.0 million of higher marketing costs (excluding marketing costs related to Constant Contact), and incurred impairment charges totaling $8.3 million, as further described in the *Overview* section above. These increases in our costs have been partially offset by an income tax benefit of $113.8 million and by increased operating profit due to the acquisition of Constant Contact and to a lesser extent to growth in our core hosting and web presence business.

Adjusted EBITDA increased from $51.1 million for the three months ended June 30, 2015 to $76.9 million for the three months ended June 30, 2016. This increase is primarily attributable to the acquisition of Constant Contact, and to a lesser extent, growth in our core hosting and web presence business. This increase was partially offset by increased marketing and other operating expenses to launch new gateway products.

Adjusted EBITDA increased from $102.9 million for the six months ended June 30, 2015 to $116.2 million for the six months ended June 30, 2016. This increase is primarily attributable to the acquisition of Constant Contact, and to a lesser extent, growth in our core hosting and web presence business. This increase was partially offset by increased marketing and other operating expenses to launch new gateway products.

Adjusted EBITDA for the three and six months ended June 30, 2016 was adversely impacted by a purchase accounting adjustment for acquisitions, primarily related to the acquisition of Constant Contact, to reflect the reduction of post-acquisition revenues from the write-down of deferred revenue to fair value as of the acquisition date. This purchase accounting adjustment was $1.9 million and $17.7 million for the three and six months ended June 30, 2016 as compared to $0.9 million and $2.3 million for the three and six months ended June 30, 2015, respectively. We do not expect a material impact to adjusted EBITDA from the Constant Contact purchase accounting adjustment in future periods.

Free Cash Flow

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

Components of Operating Results

Revenue

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

Our main hosting and web presence brands, which include Bluehost, HostGator and iPage, have experienced reduced growth in revenues as these brands have matured. In an effort to offset these slower revenue growth rates, we have begun to introduce new gateway products, such as site builders. Revenues from these new products have not reached the scale necessary to offset the declining growth rates of our mature brands. As a result, we expect revenues for our third and fourth quarter of fiscal year 2016 to be modestly lower than revenues for the three months ended June 30, 2016.

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. We expect cost of revenue to increase in absolute dollars in future periods. Cost of revenue may increase or decrease as a percentage of revenue in a given period, depending on our ability to manage our infrastructure costs, in particular with respect to data centers and support, the amount of third-party product and services that we sell and as a result of our amortization expense related to acquisitions.

Gross Profit

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

Operating Expense

We classify our operating expense into three categories: sales and marketing, engineering and development, and general and administrative. Although our operating expenses have increased as a result of the Constant Contact acquisition, we are implementing programs that we expect to result in over $55.0 million of annual run rate cost reductions for the combined business. We anticipate that these cost reductions will be fully implemented by the end of 2016, with a majority impacting operating expenses. In connection with these cost reduction plans, we have incurred approximately $16.3 million of restructuring charges through June 30, 2016 and expect to incur approximately $3.0 million to $4.0 million in additional restructuring charges, consisting primarily of facility exit related charges. We expect that a significant majority of the restructuring charges will be incurred in fiscal year 2016.

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

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 affairs and general management. General and administrative expense also includes all facility and related overhead costs not allocated to cost of revenue, as well as insurance premiums and professional service fees. 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 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.

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,

- derivative instruments,
- depreciation and amortization,
- income taxes, and
- stock-based compensation arrangements.

There have been no material changes to our critical accounting policies since December 31, 2015. 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 29, 2016.

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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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Revenue	$ 182,431	$ 290,713	$ 359,749	527,826
Cost of revenue	104,937	153,077	205,911	289,553
Gross profit	77,494	137,636	153,838	238,273
Operating expense:				
Sales and marketing	37,224	80,309	72,268	159,603
Engineering and development	6,633	27,687	12,004	43,942
General and administrative	19,471	34,830	36,678	75,109
Transactions and expenses	1,618	978	3,141	32,098
Total operating expense	64,946	143,804	124,091	310,752
Income (loss) from operations	12,548	(6,168)	29,747	(72,479)
Other income (expense):				
Other income	5,440		5,440	11,410
Interest income	117	142	209	276
Interest expense	(14,011)	(40,994)	(28,332)	(71,365)
Total other income (expense) net	(8,454)	(40,852)	(22,683)	(59,679)
Income (loss) before income taxes and equity earnings of unconsolidated entities	4,094	(47,020)	7,064	(132,158)
Income tax expense (benefit)	2,707	(13,931)	3,685	(113,833)
Income (loss) before equity earnings of unconsolidated entities	1,387	(33,089)	3,379	(18,325)
Equity loss of unconsolidated entities, net of tax	3,458	341	4,566	1,024
Net loss	$ (2,071)	$ (33,430)	$ (1,187)	(19,349)
Net loss attributable to non-controlling interest		(5,390)		(13,120)
Net loss attributable to Endurance International Group Holdings, Inc.	$ (2,071)	$ (28,040)	$ (1,187)	(6,229)

Comparison of Three Months Ended June 30, 2015 and 2016

Revenue

	Three Months Ended June 30,		Change	
	2015	2016	Amount	%
	(dollars in thousands)			
Revenue	$ 182,431	$ 290,713	$ 108,282	59%

Revenue increased by $108.3 million, or 59%, from $182.4 million for the three months ended June 30, 2015 to $290.7 million for the three months ended June 30, 2016. Of this increase, $105.1 million is attributable to revenues, including growth and synergies, from acquisitions of businesses that were not part of our business for the three months ended June 30, 2015, principally Constant Contact. The remaining balance of the increase, or $3.2 million, is primarily attributable to the growth from our core hosting and web presence products.

Our revenues are 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 revenues through domain monetization and marketing development funds. Non-subscription revenues decreased from $12.8 million, or 7% of total revenue for the three months ended June 30, 2015 to $9.6 million, or 3% of total revenue for the three months ended June 30, 2016, due primarily to a decrease in domain monetization revenues.

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Cost of Revenue

	Three Months Ended June 30,					
	2015		2016		Change	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(dollars in thousands)					
Cost of revenue	$ 104,937	58%	$ 153,077	53%	$ 48,140	46%

Cost of revenue increased by $48.1 million, or 46%, from $104.9 million for the three months ended June 30, 2015 to $153.1 million for the three months ended June 30, 2016. Of this increase, $43.2 million was due to increases in cost of revenue attributable to Constant Contact, including amortization expense of $18.1 million. Of the remaining $4.9 million, data center and support costs increased by $3.7 million, and merchant fees increased by $1.3 million.

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 in December 2011 by investment funds and entities affiliated with Warburg Pincus and Goldman, Sachs & Co. of a controlling interest in us. The following table sets forth the significant non-cash components of cost of revenue.

	Three Months Ended June 30,	
	2015	2016
	(in thousands)	
Amortization expense	$ 22,135	$ 37,823
Depreciation expense	$ 7,482	$ 13,308
Stock-based compensation expense	$ 646	$ 1,703

Gross Profit

	Three Months Ended June 30,					
	2015		2016		Change	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(dollars in thousands)					
Gross profit	$ 77,494	42%	$ 137,636	47%	$ 60,142	78%

Gross profit increased by $60.1 million, or 78%, from $77.5 million for the three months ended June 30, 2015 to $137.6 million for the three months ended June 30, 2016. Of this increase, $51.4 million was due to gross profit contribution attributable to Constant Contact. Of the remaining $8.7 million increase, $11.1 million is primarily attributable to increases in our subscriber base, including acquired subscribers, partially offset by a $2.4 million decrease in amortization expense related to acquisitions before January 1, 2016. Our gross profit as a percentage of revenue increased by five percentage points from 42% for the three months ended June 30, 2015 to 47% for the three months ended June 30, 2016, mainly due to the acquisition of Constant Contact, which generally has 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:

	Three Months Ended June 30,	
	2015	2016
	(dollars in thousands)	
Revenue	$ 182,431	$ 290,713
Gross profit	$ 77,494	$ 137,636
Gross profit as % of revenue	42%	47%
Amortization expense as % of revenue	12%	13%
Depreciation expense as % of revenue	4%	5%
Stock-based compensation expense as % of revenue	*	1%

* Less than 1%.

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Operating Expense

	Three Months Ended June 30, 2015		2016		Change	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(dollars in thousands)					
Sales and marketing	$ 37,224	20%	$ 80,309	28%	$ 43,085	116%
Engineering and development	6,633	4%	27,687	10%	21,054	317%
General and administrative	19,471	11%	34,830	12%	15,359	79%
Transaction expenses	1,618	1%	978	0%	(640)	(40)%
Total	$ 64,946	36%	$ 143,804	49%	$ 78,858	121%

Sales and Marketing. Sales and marketing expense increased by $43.1 million, or 116%, from $37.2 million for the three months ended June 30, 2015 to $80.3 million for the three months ended June 30, 2016. Of this increase, $28.8 million was due to increases in sales and marketing expense attributable to Constant Contact. The remaining increase of $14.3 million in sales and marketing expense was primarily attributable to launches of new products. In addition, the increase included a $1.8 million increase in stock-based compensation expense.

Engineering and Development. Engineering and development expense increased by $21.1 million, or 317%, from $6.6 million for the three months ended June 30, 2015 to $27.7 million for the three months ended June 30, 2016. Of this increase, $13.0 million was due to increases in engineering and development expense attributable to Constant Contact. The remaining increase of $8.1 million was primarily due to an impairment charge for a long term asset of $2.0 million related to an internally developed software tool that we determined no longer meets our needs, and another impairment charge of $4.9 million, of which $0.5 million relates to internally developed software from the Webzai acquisition and $4.4 million of which relates to developed technology acquired in the Webzai acquisition. $1.0 million in additional stock-based compensation expense also contributed to the increase.

General and Administrative. General and administrative expense increased by $15.4 million, or 79%, from $19.5 million for the three months ended June 30, 2015 to $34.8 million for the three months ended June 30, 2016. Of this increase, $6.4 million was due to increases in general and administrative expense attributable to Constant Contact. The remaining period-over-period increase of $9.0 million was primarily due to a $4.8 million increase in stock-based compensation expense and $1.7 million of additional advisory fees, including predominantly audit, tax, and legal fees, following our acquisition of Constant Contact.

Other Income (Expense), Net

	Three Months Ended June 30, 2015	2016	Change Amount	%
	(dollars in thousands)			
Other income (expense), net	$ (8,454)	$ (40,852)	$ (32,398)	383%

Other expense, net increased by $32.4 million, or 383%, from $8.5 million for the three months ended June 30, 2015 to $40.9 million for the three months ended June 30, 2016. The increase was primarily due to a $23.8 million increase in interest expense, including service fees, related to our Senior Credit Facilities and Notes during the three months ended June 30, 2016 as compared with the three months ended June 30, 2015. Additionally, there was an increase of $1.6 million in amortization of deferred financing fees, an increase of $0.8 million of original issue discounts, and an increase in the of accretion of present value for the deferred consideration related to the Webzai, BuyDomains and Ace Data Center acquisitions of $0.7 million. These increases in the second quarter of 2016 were offset due to the $5.4 million gain as a result of redemption of our equity in World Wide Web Hosting for the three months ended June 30, 2015.

Income Tax Expense (Benefit)

	Three Months Ended June 30,		Change	
	2015	2016	Amount	%
	(dollars in thousands)			
Income tax expense (benefit)	$ 2,707	$ (13,931)	$ (16,638)	-615%

Prior to the 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. We scheduled out the reversal of deferred tax assets and liabilities as of June 30, 2016, and determined that these reversals would be sufficient to realize most domestic deferred tax assets. 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. As a result, we recorded a tax benefit of $0.9 million to reverse valuation allowances during the three months ended June 30, 2016.

For the three months ended June 30, 2015 and 2016, we recognized a tax expense of $2.7 million and a tax benefit of $13.9 million, respectively, in the consolidated statements of operations and comprehensive loss. The income tax benefit for the three months ended June 30, 2016 was primarily attributable to a $0.9 million reversal of the valuation allowance, a federal and state deferred tax benefit of $11.6 million, a foreign deferred tax benefit of $1.5 million, and a benefit for federal and state current income taxes of $0.6 million, partially offset by a foreign current tax expense of $0.7 million. The income tax expense for the three months ended June 30, 2015 is primarily attributable to federal and state current income taxes of $0.8 million, foreign current tax expense of $0.3 million, U.S. deferred tax expense of $1.7 million related to the differences in the accounting treatment of goodwill under U.S. GAAP and the tax accounting for goodwill, partially offset by a $0.1 million reduction of the valuation allowance.

Comparison of Six Months Ended June 30, 2015 and 2016

Revenue

	Six Months Ended June 30,		Change	
	2015	2016	Amount	%
	(dollars in thousands)			
Revenue	$ 359,749	$ 527,826	$ 168,077	47%

Revenue increased by $168.1 million, or 47%, from $359.7 million for the six months ended June 30, 2015 to $527.8 million for the six months ended June 30, 2016. Of this increase, $155.2 million is attributable to revenues, including growth and synergies, from the acquisitions of other businesses that were not part of our business for the six months ended June 30, 2015. The remaining balance of the increase, or $12.9 million, is primarily attributable to growth from our core hosting and web presence products.

Our revenues are 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 revenues through domain monetization and marketing development funds. Non-subscription revenues decreased from $25.0 million, or 7% of total revenue for the six months ended June 30, 2015 to $20.8 million, or 4% of revenue for the three months ended June 30, 2016, due primarily to a decrease in domain monetization revenues.

Cost of Revenue

	Six Months Ended June 30,					
	2015		2016		Change	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%

			(dollars in thousands)			
Cost of revenue	$ 205,911	57%	$ 289,553	55%	$ 83,642	41%

Cost of revenue increased by $83.6 million, or 41%, from $205.9 million for the six months ended June 30, 2015 to $289.6 million for the six months ended June 30, 2016. Of this increase, $71.2 million was due to increases in cost of revenue attributable to Constant Contact, including amortization expense of $28.2 million. Of the remaining $12.4 million, data center and support costs increased by $5.3 million, merchant fees and domain registration fees both increased by $2.9 million, and stock-based compensation increased by $1.7 million.

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:

	Six Months Ended June 30,	
	2015	2016
	(dollars in thousands)	
Amortization expense	$ 43,433	$ 67,697
Depreciation expense	$ 14,792	$ 24,376
Stock-based compensation expense	$ 759	$ 2,473

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Gross Profit

	Six Months Ended June 30,					
	2015		2016		Change	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(dollars in thousands)					
Gross profit	$ 153,838	43%	$ 238,273	45%	$ 84,435	55%

Gross profit increased by $84.4 million, or 55%, from $153.8 million for the six months ended June 30, 2015 to $238.3 million for the six months ended June 30, 2016. Approximately $62.5 million of this increase was attributable to Constant Contact. Of the remaining balance of $21.9 million, $25.8 million was due to an increase in our subscriber base, including acquired subscribers, and subscribers resulting from the launch of new products. This increase was offset by a decrease of $3.9 million attributable to a net decrease in amortization expense related to acquisitions before January 1, 2016. Our gross profit as a percentage of revenue increased by two percentage points from 43% for the three months ended June 30, 2015 to 45% for the six months ended June 30, 2016, mainly due to the acquisition of Constant Contact which generally has 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:

	Six Months Ended June 30,	
	2015	2016
	(dollars in thousands)	
Revenue	$ 359,749	$ 527,826
Gross profit	$ 153,838	$ 238,273
Gross profit % of revenue	43%	45%
Amortization expense % of revenue	12%	13%
Depreciation expense % of revenue	4%	5%
Stock-based compensation expense % of revenue	*	*

* Less than 1%.

Operating Expense

	Six Months Ended June 30,					
	2015		2016		Change	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(dollars in thousands)					
Sales and marketing	$ 72,268	20%	$ 159,603	30%	$ 87,335	121%
Engineering and development	12,004	3%	43,942	8%	31,938	266%
General and administrative	36,678	10%	75,109	14%	38,431	105%
Transaction expense	3,141	1%	32,098	6%	28,957	922%

Total	$ 124,091	34%	$ 310,752	59%	$ 186,661	150%

Sales and Marketing. Sales and marketing expense increased by $87.3 million, or 121%, from $72.3 million for the six months ended June 30, 2015 to $159.6 million for the six months ended June 30, 2016. Of this increase, $49.4 million was due to increases in sales and marketing expense attributable to Constant Contact. The remaining increase of $37.9 million was primarily attributable to $40.6 million of increased marketing program spending primarily aimed at the launches of new products, offset by a decrease in our marketing spend on our other products as we focused on the new ones. In addition, the increase included a $3.2 million increase in stock-based compensation expense.

Engineering and Development. Engineering and development expense increased by $31.9 million, or 266%, from $12.0 million for the six months ended June 30, 2015 to $43.9 million for the six months ended June 30, 2016. Of this increase, $21.0 million was due to increases in engineering and development expense attributable to Constant Contact. The remaining increase of $10.9 million, was primarily due to the following impairment charges: an impairment write off of acquired in-process research and development of $1.4 million in the first quarter of 2016; an impairment write off of $2.0 million for an internally developed software tool that we determined no longer meets our needs; and an impairment charge of $4.9 million, of which $0.5 million relates to internally developed software from the Webzai acquisition, and $4.4 million relates to developed technology acquired in the Webzai acquisition. $1.5 million in additional stock-based compensation also contributed to the increase.

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General and Administrative. General and administrative expense increased by $38.4 million, or 105%, from $36.7 million for the six months ended June 30, 2015 to $75.1 million for the six months ended June 30, 2016. Of this increase, $14.6 million was due to increases in general and administrative expense attributable to Constant Contact. The remaining period-over-period increase of $23.8 million was primarily due to a $16.5 million increase in stock-based compensation expense, and $1.9 million of additional legal advisory expense related primarily to securities class action litigation and related matters and the SEC subpoenas received by us and Constant Contact in December 2015.

Transaction Expenses. Transaction expenses increased by $29.0 million, or 922%, from $3.1 million for the six months ended June 30, 2015 to $32.1 million for the six months ended June 30, 2016. The period-over-period increase was primarily attributable to costs related to our acquisition of Constant Contact in February 2016.

Other Income (Expense), Net

	Six Months Ended June 30,		Change	
	2015	2016	Amount	%
	(dollars in thousands)			
Other income (expense), net	$ (22,683)	$ (59,679)	$ (36,996)	163%

Other expense, net increased by $37.0 million, or 163%, from $22.7 million for the six months ended June 30, 2015 to $59.7 million for the six months ended June 30, 2016. The increase is primarily due to a $37.8 million increase in interest expense, including service fees, related to our Senior Credit Facilities and Notes during the six months ended June 30, 2016 as compared with the six months ended June 30, 2015. Additionally, there was an increase of $2.5 million in amortization of deferred financing fees and a $1.3 million increase in original issue discounts, as well as an increase of $1.3 million of accretion of present value for the deferred consideration related to the Webzai, BuyDomains and Ace Data Center acquisitions.

Income Tax Expense (Benefit)

	Six Months Ended June 30,		Change	
	2015	2016	Amount	%
	(dollars in thousands)			
Income tax expense (benefit)	$ 3,685	$ (113,833)	$ (117,518)	-3189%

Income tax expense for the six months ended June 30, 2015 decreased by $117.5 million, or 3,189%, from a tax expense of $3.7 million for the six months ended June 30, 2016 to a tax benefit of $113.8 million for the six months ended June 30, 2015. The income tax benefit for the six months ended June 30, 2016 was primarily attributable to a $74.4 million reversal of the valuation allowance, a federal and state deferred tax benefit of $40.6 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 $2.2 million, partially offset by a provision for federal and state current income taxes of $1.5 million and foreign current tax expense of $1.8 million. The income tax expense for the six months ended June 30, 2015 is primarily attributable to a provision for federal and state current income taxes of $1.1 million, foreign current tax expense of $0.7 million, U.S. deferred tax expense of $2.2 million related to the differences in the accounting treatment of goodwill under U.S. GAAP and the tax accounting for goodwill and foreign deferred tax expense of $0.1 million related to increases in deferred liabilities, partially offset by a $0.3 million reduction of the valuation allowance.

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, and our wholly owned subsidiary EIG Investors issued $350.0 million aggregate principal amount of 10.875% senior notes due 2024. We refer to the incremental first lien term loan facility and new revolving credit facility, together with our previously existing first lien term loan facility, as the Senior Credit Facilities and to the 10.875% senior notes due 2024 as the Notes .

As a result of the most-favored nation pricing provision in our existing credit agreement, the interest rate on our existing first lien term loan facility increased to LIBOR plus 5.48% per annum on February 28, 2016, subject to a LIBOR floor of 1.0% per annum. In addition, we are obligated to use commercially reasonable efforts to make voluntary prepayments on our existing first lien term loan facility to effectively double the amount of each scheduled amortization payment under that facility (which is 0.25% per quarter of the principal outstanding as of November 25, 2013).

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The incremental first lien term loan facility will mature in seven years, and bears interest at a rate of LIBOR plus 5.0% per annum, subject to a LIBOR floor of 1.0% per annum, and has scheduled amortization of 0.50% per quarter.

Revolving Credit Facility

Loans under the new $165.0 million revolving credit facility will bear interest at a rate of LIBOR plus 4.0% per annum (subject to a leverage-based step-down), without a LIBOR floor. This revolving credit facility has a springing maturity date of August 10, 2019 unless the existing first lien term loan facility has been repaid in full or otherwise extended to at least 91 days after the maturity of the revolving credit facility.

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, on a senior unsecured basis, 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 agreed to assist the initial purchasers of the Notes in marketing the Notes. In addition, 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.

Pursuant to the registration rights agreement, we will, among other obligations, use commercially reasonable efforts to file an exchange offer registration statement with respect to a registered offer, or the Exchange Offer, to exchange the Notes for substantially identical notes and consummate the Exchange Offer within 365 days after the issuance of the Notes. We will also use commercially reasonable efforts to cause to become effective a shelf registration statement to cover resales of the Notes by the beneficial owners thereof who satisfy certain conditions relating to the provision of information in connection with the shelf registration statement. A registration default will occur if, among other things, (1) we fail to consummate the Exchange Offer or have the shelf registration statement become effective on or before the date that is 365 days after the issue date or (2) the shelf registration statement becomes effective but thereafter ceases to be effective or usable in connection with the resale of Notes (subject to certain exceptions) during the periods specified in the registration rights agreement. If a registration default occurs with respect to the Notes, the annual interest rate of the Notes will be increased by 0.25% per annum and will increase again by 0.25% per annum 90 days thereafter until all registration defaults have been cured, up to a maximum amount of additional interest of 0.50% per annum. We will also use commercially 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.

As of June 30, 2016, we had cash and cash equivalents totaling $75.6 million and negative working capital of $380.8 million, which included the $21.0 million current portion of the first lien term loan facility and $14.7 million current portion of the incremental first lien term loan facility. In addition, we had approximately $2,014.3 million of long term indebtedness outstanding under our first lien term loan facility, which matures on November 9, 2019, and incremental first lien term loan facility due on February 9, 2023 and 10.875% Senior Notes due 2024. We also had $444.9 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. 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. We were in compliance with all covenants at June 30, 2016.

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.

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.

Net Leverage Ratio

The Senior Credit Facilities require that we comply with a financial covenant to maintain a maximum ratio of consolidated net senior secured 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 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 June 30, 2016, the Company was in compliance with this covenant.

Our credit agreement defines the consolidated senior secured indebtedness as of any date of determination as the aggregate amount of indebtedness of the Company and its restricted subsidiaries, determined on a consolidated basis in accordance with GAAP, including 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 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) for pro forma adjusted EBITDA on a twelve-month lookback period for acquisitions made in any given quarter.

Bank Adjusted EBITDA assists us in monitoring 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.

As of June 30, 2016, our net leverage ratio on a TTM basis was 4.17 to 1.00 and was calculated as follows:

	For the three months ended, September 30, 2015	December 31, 2015	March 31, 2016	June 30, 2016	TTM
	(in thousands except ratios)				
Net income (loss)	(15,351)	(9,232)	14,081	(33,430)	(43,932)
Interest expense	14,624	15,872	30,371	40,994	101,861
Income tax expense (benefit)	5,397	2,260	(99,902)	(13,931)	(106,176)
Depreciation	8,554	9,361	13,172	16,760	47,847
Amortization of other intangible assets	23,758	23,866	29,874	37,823	115,321
Stock-based compensation	9,762	9,653	18,388	15,024	52,827
Integration and restructuring costs	7,770	4,749	15,037	9,628	37,184
Transaction expenses and charges	1,461	4,980	31,120	978	38,539
(Gain) loss of unconsolidated entities	4,550	5,524	(10,727)	341	(312)
Impairment of long-lived assets			1,437	6,848	8,285
(Gain) loss on assets, not ordinary course	(191)				(191)
Legal advisory expenses	133	161	1,540	1,460	3,294
Billed revenue to GAAP revenue adjustment	6,556	4,524	42,573	12,317	65,970
Domain registration cost cash to GAAP adjustment	(1,392)	(1,354)	(3,745)	441	(6,050)
Currency translation	77	(42)	156	202	393
Adjustment for acquisitions on a pro forma basis*	35,864	34,831	13,112		83,807
Bank Adjusted EBITDA	101,572	105,153	96,487	95,455	398,667
Current portion of notes payable					35,700
Current portion of capital lease obligations					6,539
Notes payable - long term					1,969,588
Capital lease obligations - long term					3,673
Certain deferred consideration amounts					2,800
Original issue discounts and deferred financing costs					72,237
Less:					
Unsecured notes					(350,000)
Cash					(75,592)
Certain permitted restricted cash					(641)
Net Senior Secured Indebtedness					1,664,304
Net leverage ratio					4.17
Maximum net leverage ratio					6.50

* *Consists of pro forma adjusted EBITDA for acquired entities on a TTM basis, as adjusted for projected cost savings arising from decisions undertaken by the Company on or before the acquisition date of the relevant acquisition. This adjustment is revised each fiscal quarter for new acquisitions.*

Cash and Cash Equivalents

As of June 30, 2016, 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 $42.6 million from $33.0 million at December 31, 2015 to $75.6 million at June 30, 2016. We used cash on hand at December 31, 2015, cash flows from operations and proceeds from our incremental first lien term loan facility and Notes to fund our acquisition and minority investment activity described under financing and investing activities below. Our future capital requirements will depend on many factors including, but not limited to acquisitions, our growth rate, expansion of sales and marketing activities, the introduction of new and enhanced products and services, market acceptance of our solutions and our gross profits and operating expenses. 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.

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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:

	Six Months Ended June 30,	
	2015	2016
	(dollars in thousands)	
Purchases of property and equipment	$ (14,511)	$ (20,961)
Principal payments on capital lease obligations	$ (1,873)	$ (2,896)
Depreciation	$ 16,095	$ 29,932
Amortization	$ 43,755	$ 73,113
Cash flows provided by operating activities	$ 96,232	$ 65,615
Cash flows used in investing activities	$ (40,217)	$ (926,993)
Cash flows provided by (used in) financing activities	$ (52,424)	$ 902,326

Capital Expenditures

Our capital expenditures on the purchase of property and equipment for the six months ended June 30, 2015 and 2016 were $14.5 million and $21.0 million, respectively. The higher property and equipment expenditures in the six months ended June 30, 2016 consisted primarily of an investment in data center infrastructure. The remaining balance payable on the capital leases is $10.2 million as of June 30, 2016. For the next twelve months, we expect our capital expenditures to be generally consistent with the combined level of capital expenditures of Endurance and Constant Contact during 2015.

Depreciation

Our depreciation expense for the six months ended June 30, 2015 and 2016 increased from $16.1 million to $29.9 million, respectively. This increase was primarily due to expansion in our business by on-boarding acquisitions as well as investments in data center infrastructure and leasehold improvements. The leasehold improvements were associated with operating leases as we expanded and revamped our presence in Massachusetts.

Amortization

Our amortization expense, which includes amortization of other intangible assets, amortization of deferred financing costs, amortization of net present value of deferred consideration and amortization of original issue discounts, increased by $29.4 million from $43.8 million for the six months ended June 30, 2015 to $73.1 million for the six months ended June 30, 2016. Of this increase in amortization expense, $32.4 million of amortization expense related to intangible assets of businesses that have been acquired since June 30, 2015, partially offset by $8.1 million of lower amortization expense related to acquisitions that occurred prior to June 30, 2015. In addition, $1.3 million of the increase is attributable to higher amortization expense of net present value of deferred consideration as a result of our Ace acquisition in September 2015, $2.5 million is attributable to increased deferred financing costs and $1.2 million is attributable to amortization of original issue discounts related to our incremental first lien term loan facility and Notes.

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 was $65.6 million for the six months ended June 30, 2016 compared with $96.2 million for the six months ended June 30, 2015. Net cash provided by operating activities for the six months ended June 30, 2016 consisted of net loss of $19.3 million, offset by non-cash charges of $16.7 million and a net change of $68.2 million in our operating assets and liabilities. The net change in our operating assets and liabilities included an increase in deferred revenue of $55.0 million, which was $32.5 million more than in the same period in 2015. Cash provided by operating activities for the six months ended June 30, 2016 has been reduced by $36.9 million of transaction costs, incurred primarily to acquire Constant Contact.

Net cash provided by operating activities was $96.2 million for the six months ended June 30, 2015, consisting of net loss of $1.2 million, non-cash charges of $72.6 million and a net change of $24.8 million in our operating assets and liabilities. The net change in our operating assets and liabilities included an increase in deferred revenue of $22.6 million.

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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 six months ended June 30, 2016, net cash used in investing activities was $927.0 million. We used $899.0 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. We also used $20.7 million of cash to purchase property and equipment, net of proceeds from disposals of $0.3 million and a net deposit of $0.8 million of restricted cash with a payment processor. In addition, we paid $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, and $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.

During the six months ended June 30, 2015, net cash used in investing activities was $40.2 million. We used $28.9 million of cash, net of cash acquired, for the purchase consideration of our acquisitions of Verio and World Wide Web Hosting. We also used $14.4 million of cash to purchase property and equipment, net of proceeds from disposals of $0.1 million, and deposited $0.3 million of restricted cash with a payment processor. In addition, during the six months ended June 30, 2015 we received a $3.5 million repayment on a note receivable related to our equity ownership in World Wide Web Hosting.

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 six months ended June 30, 2016, cash flows provided by financing activities was $902.3 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 $67.0 million, as we paid off our revolving credit facility with the proceeds from the new debt used to acquire Constant Contact. We also received $1.3 million of proceeds from the exercise of stock options. These items were partially offset by an $33.9 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 $51.7 million of financing costs, $2.9 million of principal payments related to capital lease obligations and a $0.7 million payment of deferred consideration.

During the six months ended June 30, 2015, cash flows used in financing activities was $52.4 million, which included a payment of $20.4 million under our agreement to increase our investment in JDI Backup Ltd. from 67% to 100%. We also paid $10.6 million of deferred consideration during the six months ended June 30, 2015, $15.0 million of net payments against our revolving credit facility, $5.2 million of principal payments under our first lien term loan facility and $1.9 million of principal payments related to capital lease obligations. These items were partially offset by $0.7 million of proceeds we received from the exercise of stock options. During the six months ended June 30, 2015, we borrowed in aggregate $38.0 million against our revolving credit facility and repaid in aggregate $53.0 million.

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).

The following table reflects the reconciliation of cash flow from operations calculated in accordance with GAAP to free cash flow (FCF) (all data in thousands):

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2015	**2016**	**2015**	**2016**
Cash flow from operations	$ 46,009	$ 53,843	$ 96,232	$ 65,615
Less:				
Capital expenditures and capital lease obligations	$ (8,205)	$ (12,278)	$ (16,384)	$ (23,857)
Free cash flow	$ 37,804	$ 41,565	$ 79,848	$ 41,758

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Free cash flow grew from $37.8 million for the three months ended June 30, 2015 to $41.6 million for the three months ended June 30, 2016, an increase of $3.8 million. This increase is primarily related to increased operating cash flow from Constant Contact, which has been partially offset by increased payments of interest expense incurred to finance the Constant Contact acquisition and $4.5 million of increased payments for restructuring costs, mostly for severance related to the Constant Contact restructuring plan.

Free cash flow declined from $79.8 million for the six months ended June 30, 2015 to $41.8 million for the six months ended June 30, 2016, a decrease of $38.1 million. This decrease is primarily related to transaction and restructuring related payments of $41.1 million primarily incurred in connection with the acquisition of Constant Contact.

Net Operating Loss Carry-Forwards

As of December 31, 2015, we had net operating loss, or NOL, carry-forwards available to offset future U.S. federal taxable income of approximately $97.8 million and future state taxable income of approximately $111.2 million. These NOL carry-forwards expire on various dates through 2034. Approximately $1.6 million of the U.S. federal NOL carry-forwards and $0.7 million of the state NOL carry-forwards are from excess stock-based compensation, for which the benefit will be recorded to additional-paid in capital when recognized. In addition, as of December 31, 2015, we had NOL carry-forwards in foreign jurisdictions available to offset future foreign taxable income by approximately $27.4 million. We have loss carry-forwards in India totaling $2.9 million that expire in 2021. We also have loss carry-forwards in the United Kingdom, Israel and Singapore of $23.4 million, $0.9 million and $0.2 million, respectively, which have an indefinite carry-forward period.

Utilization of the NOL carry-forwards can be subject to an annual limitation due to the ownership percentage change limitations under Section 382 of the Internal Revenue Code or Section 382 limitation. Ownership changes can limit the amount of net operating loss and other tax attributes that a company can use each year to offset future taxable income and taxes payable. In connection with a change in control in 2011 we were subject to Section 382 annual limitations of $77.1 million against the balance of NOL carry-forwards 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 completed an analysis of changes in our ownership from 2011, through our IPO, to December 31, 2013 and concluded that there was not a Section 382 ownership change during this period and therefore any NOLs generated through December 31, 2013 will not be subject to any new Section 382 annual limitations on NOL carry-forwards. On November 20, 2014, we completed a follow-on offering 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 has occurred. As a result, all unused NOL carry-forwards at December 31, 2014 were available for future use to offset taxable income.

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).

Contractual Obligations and Commitments

We closed our acquisition of Constant Contact on February 9, 2016. This acquisition was funded with an increase in our indebtedness of approximately $1.1 billion. Our outstanding indebtedness, including capital lease obligations, at

June 30, 2016 was $2,060.2 million. In connection with the new indebtedness to finance the acquisition of Constant Contact, we paid off our existing revolving credit facility and entered into a new $165.0 million revolving credit facility. There are no amounts borrowed under this new revolving credit facility as of June 30, 2016.

On July 13, 2016, WZ UK completed a restructuring pursuant to which we and the minority shareholders of Pseudio Limited and Resume Labs Limited sold our shares in these entities to WZ UK in exchange for shares in WZ UK. As a result of the restructuring, WZ UK became the 100% owner of Pseudio Limited and Resume Labs Limited and our ownership of WZ UK was diluted from 77.5% to 76.4%. Immediately subsequent to the restructuring, we acquired an additional 10% stake in WZ UK for $18.0 million, bringing our aggregate stake in WZ UK to 86.4%. In connection with this investment, we and the minority shareholders of WZ UK also agreed to enter into a revised option agreement within 30 days of the investment, pursuant to which we will have the right to purchase additional shares in WZ UK.

Additionally, on July 27, 2016, we acquired the remaining 60% equity interest in AppMachine, increasing our stake to 100%. In connection with the acquisition, the parties terminated the prior investment agreement pursuant to which we were was obligated to purchase the remaining shares in AppMachine in three tranches. The total consideration for the 60% equity interest was $22.5 million, of which $5.5 million was paid upon closing, and the remainder will be paid in annual installments over a period of four years, commencing with June 21, 2017. The purchase consideration of $22.5 million is subject to reduction in the event of certain indemnification claims by us.

There have been no other significant changes in our contractual obligations from those disclosed in our Annual Report on Form 10-K filed with the SEC on February 29, 2016.

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 $75.6 million at June 30, 2016, 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 June 30, 2016, we had approximately $999.9 million of indebtedness outstanding under our first lien term loan facility, $727.7 million outstanding under our incremental first lien term loan, $350.0 million outstanding under The Notes and a revolving credit facility of $165.0 million, all of which was available.

The first lien term loan facility bears interest at a rate per annum equal to an applicable credit spread plus, at our option, (a) adjusted LIBOR or (b) an alternate base rate determined by reference to the greater of (i) the prime rate, (ii) the federal funds effective rate plus 0.50% and (iii) one-month adjusted LIBOR plus 1.00%. The term loan is subject to a floor of 1.00% per annum with an applicable credit spread for interest based on adjusted LIBOR of 4.00%. As a result of the most-favored nation pricing provision in our existing credit agreement, the interest rate on our existing first lien term loan facility increased to LIBOR plus 5.48% per annum on February 28, 2016, subject to a LIBOR floor of 1.0% per annum.

The incremental first lien term loan facility bears interest at a rate of LIBOR plus 5.0% per annum, subject to a LIBOR floor of 1.0% per annum, and has scheduled amortization of 0.50% per quarter.

Loans under the new $165.0 million revolving credit facility will bear interest at a rate of LIBOR plus 4.0% per annum (subject to a leverage-based step-down), without a LIBOR floor.

Loans under the first lien term loan facility and incremental first lien term loan facility and 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.

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Based on our aggregate indebtedness outstanding under our first lien term loan facility and incremental first lien term loan facility of $1,727.5 million as of June 30, 2016, a 100 basis point increase in the adjusted LIBOR rate above the LIBOR floor would result in a $17.4 million increase in our aggregate interest payments over a 12-month period, and a 100 basis point decrease at the current LIBOR rate would not result in a decrease in our interest payments.

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 137 basis points above the rates at December 31, 2015, our interest rate cap would begin to protect us on interest charges for $500.0 million of outstanding debt.

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 June 30, 2016, 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 June 30, 2016, 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 six months ended June 30, 2016, we acquired Constant Contact. Other than the addition of Constant Contact s operations to our internal control over financial reporting and any related changes in control to integrate Constant Contact, 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.

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 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 can make no assurances as to 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.

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On May 4, 2015, Christopher Machado, a purported holder of our common stock, filed a civil action in the United States District Court for the District of Massachusetts against us and our chief executive officer and our former chief financial officer, Machado v. Endurance International Group Holdings, Inc., et al., Civil Action No. 1:15-cv-11775-GAO. In a second amended complaint, file on March 18, 2016, the plaintiff alleged claims for violations of Section 10(b) and 20(a) of the Exchange Act, on behalf of a purported class of purchasers of our securities between February 25, 2014 and February 29, 2016. Those claims challenged as false or misleading certain of our disclosures about our total number of subscribers, average revenue per subscriber, the number of customers paying over $500 per year for our products and services, the average number of products sold per subscriber, and our customer churn. The plaintiff seeks, on behalf of himself and the purported class, compensatory damages and his costs and expenses of litigation. We filed a motion to dismiss on May 16, 2016, which remains pending. 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 this 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, and periodic public disclosure of financial and operating metrics. We are fully cooperating with the SEC s investigation. We can make no assurances as to 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. 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. This litigation remains in its early stages. We believe we have meritorious defenses to any claim of infringement and intend to defend against the lawsuit vigorously.

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, or the Chawdry Complaint, 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, or the Myers Complaint (together with the Chawdry Complaint, the Complaints) 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 allege, 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 seek, among other things, to rescind the acquisition, as well as award of plaintiffs attorneys fees and costs in the action. The defendants have not yet answered or otherwise responded to either of these Complaints. The defendants believe the claims asserted in the Complaints are without merit and intend to defend against these lawsuits vigorously.

ITEM 1A. Risk Factors

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

Risks Related to Our Business and Our Industry

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

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

- our ability to attract new subscribers, and retain existing subscribers;
- our ability to acquire subscribers in a cost-effective way;
- our ability to increase revenue from our existing subscribers;
- our ability to maintain a high level of subscriber satisfaction;
- our inability to raise the selling prices for our solutions or reductions in the selling prices for our solutions;
- competition in the market for our products and services, as well as competition for referral sources;
- 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;
- difficulties in integrating technologies, products and employees from companies we have acquired or may acquire in the future or in migrating acquired subscribers from an acquired company s platforms to our platform, which may result in subscriber dissatisfaction, an increase in subscriber churn, difficulties cross-selling products and services to subscribers, and our failure to realize the anticipated benefits from our

acquisitions;

systems, data center and Internet failures and service interruptions;

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

loss of key employees;

the timing and results of our investments to support our growth strategy, including new product offerings, product marketing and other marketing efforts;

economic conditions negatively affecting the SMB sector and changes in growth rate of SMBs;

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

difficulties in distributing new products;

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;

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

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

our ability to drive growth through mergers and acquisitions, joint ventures, or strategic investments;

costs or liabilities associated with any past or future acquisitions, strategic investments or joint ventures that we may make or enter into;

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

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- the amount and timing of capital expenditures, such as investments in our hardware and software systems, as well as extraordinary expenses, such as litigation or other dispute-related settlement payments;

- 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 such regulation; and

- litigation or governmental enforcement actions against us, including due to failures to comply with applicable law or regulation.

Our financial results for the second quarter of 2016 were below our expectations and the expectations of research analysts, due primarily to higher than expected subscriber acquisition costs and initial subscriber churn associated with new gateway products and relatively slow growth in our core hosting and web presence brands due to flat marketing expenditure levels, as well as to the maturity of the business and trends in the competitive landscape. It is possible that in one or more future quarters, due to any of the factors listed above, a combination of those factors or other reasons, our operating results may again be below our expectations and the expectations of research analysts and investors. In that event, our stock price could decline substantially.

We may not be able to continue to add new subscribers, 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 sustain growth in our subscriber base, for a number of reasons, including, but not limited to:

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

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

- the relative maturity of our core hosting and web presence business and the hosting and web presence industry in general, which has and may continue to affect subscriber growth;

- our inability to acquire or retain new subscribers through mergers and acquisitions, joint ventures or strategic investments;

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 successfully integrate acquired companies or to invest adequately in improving our technology platform;

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;

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

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;

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

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

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

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

subscriber dissatisfaction causing our existing subscribers to cancel their subscriptions or stop referring prospective subscribers to us;

increases in our subscriber churn rates; and

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

A substantial amount of our revenue growth historically has been derived from increased sales of products and services to existing subscribers and from introductory subscriptions renewing at regular rates. Our costs associated with increasing revenue from existing subscribers are generally lower than costs associated with generating revenue from new subscribers. Therefore, a reduction in the rate of revenue increase from our existing subscribers (including a reduction due to an increase in subscriber churn), even if offset by an increase in revenue from new subscribers, could reduce our operating margins. Any failure by us to continue to attract and acquire new subscribers or increase our revenue from existing subscribers for this or other reasons could have a material adverse effect on our operating 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 to support our growth strategy, 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 growth strategy and we may be required to incur additional technology, development, marketing and other expenses to develop new solutions or enhancements, which may not succeed. For example, during 2016 we have made substantial investments in new gateway product offerings, product marketing and other marketing efforts. The cost of attracting subscribers to these new product offerings has been higher than we expected, and the subscribers we have attracted have to date had higher churn rates than subscribers of our more established products. 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 continue to adversely affect our revenue and operating results. If there are any delays or defects with our new product offerings or if subscriber demand for these products is lower than expected or the cost to acquire subscribers remains higher than expected, or if subscribers do not remain on our platform for the anticipated period of time or increase their spending with us at the anticipated rate, we may not realize the expected return on our investments, which could continue to adversely affect our financial results.

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

The SMB market for cloud-based technologies 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 may 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. If these companies decide 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 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, may 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 discounted service offerings of our competitors. As a result of these factors, it is difficult to predict whether we will be able to maintain our average selling prices, pricing models and commissions paid to our referral sources. If we reduce our selling prices, alter our pricing models or increase commissions paid to our referral sources, it may become increasingly difficult for us to compete successfully, our profitability may be harmed and our operating results could be adversely affected.

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

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 or reliability issues arising from outages and damage to the Internet infrastructure 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 internet service providers, or ISPs to prevent unsolicited bulk email, or spam, from overwhelming consumers inboxes. If security problems become widespread or frequent or if ISPs cannot effectively control spam, the use of email as a means of communication may decline as consumers find alternative ways to communicate. In addition, if alternative communications tools, such as social media or text messaging, gain widespread acceptance, the need for email may lessen. Any decrease in the use of email would reduce demand for our email marketing product and harm our business.

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Our business and operations have experienced significant growth and organizational change in recent years, which has placed, and will continue to place, significant demands on our management and infrastructure, especially our billing systems and operational infrastructure. If we fail to manage our growth effectively, we may be unable to execute our business plan, maintain high levels of service, produce accurate financial statements and other disclosures on a timely basis or address competitive challenges adequately.

As a result of acquisitions and internal growth, we increased our revenue from $520.3 million in the year ended December 31, 2013 to $629.8 million in the year ended December 31, 2014 to $741.3 million in the year ended December 31, 2015. The acquisition of Constant Contact, which prior to our acquisition generated $367.4 million in revenue in the year ended December 31, 2015, represents a significant expansion in the size and scope of our business.

Our growth has placed, and will continue to place, a significant strain on our managerial, engineering, network operations and security, sales and support, marketing, legal, compliance, finance and other resources. In particular, our growth has placed, and will continue to place, a significant strain on our ability to maintain effective internal financial and accounting controls and procedures. For example, as a result of our acquisitions, we have acquired multiple billing systems, some of which we are in the process of integrating, and we may acquire and integrate additional billing systems with future acquisitions. Any delays or other challenges associated with billing system build-outs or integrations could lead to inaccurate disclosure, which could prevent us from producing accurate financial statements on a timely basis and harm our operating results, our ability to operate our business and our investors view of us. In addition, we have identified in the past, and may in the future identify, errors in our systems, including the business intelligence system, which we use to generate certain operational and performance metrics. For example, in the third quarter of 2015, we identified errors in our business intelligence system that impacted three of our performance metrics, as described in Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our Annual Report on Form 10-K filed with the SEC on February 29, 2016. 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.

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

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

The acquisition of Constant Contact and our other 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 been an important component of our growth strategy. In February 2016, we acquired Constant Contact and we have in the past acquired, and expect in the future to acquire, businesses and assets of other companies to increase our growth, add to our product portfolio, enhance our ability to compete in our core markets or allow us to enter new markets. We also regularly make strategic investments in, and enter into joint ventures with, third parties, typically with small companies focused on developing products that we believe may serve as effective new gateways to acquire new subscribers or that may appeal to our existing subscriber base. Our ability to execute these acquisitions, strategic investments and joint venture transactions depends on a number of factors, including the availability of target companies at prices and on terms acceptable to us, our ability to obtain the necessary equity, debt or other financing, and regulatory constraints. Our inability to complete anticipated acquisitions, strategic investments or joint ventures for these or other reasons may negatively impact our ability to achieve our long-term growth targets.

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

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

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

- disruption of our ongoing business and diversion of financial, management, operations and customer support resources from existing operations, including as 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 strategic alliances and key employees, including those employees who depart prior to transferring to us, or without otherwise documenting, knowledge and information that are important to the efficient operation of the acquired business;

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

difficulties associated with governance, 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

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

Our acquisition of Constant Contact may be subject to additional difficulties and risks, including the loss of key employees, and the costs associated with our efforts to retain key employees, as well as the loss of existing and potential Constant Contact customers or partners, including as a result of the actual or perceived impact of the acquisition and integration on Constant Contact customers and partners or the aggressive targeting of existing and potential Constant Contact customers or partners by competitors seeking to capitalize on concerns about the acquisition. Any of the foregoing may impact our ability to successfully integrate our business with Constant Contact s business and to realize the anticipated benefits and synergies of the Constant Contact acquisition, including the ability to cross-sell our products into Constant Contact s customer base and vice versa and the ability to adapt Constant Contact s products to different segments of the SMB market through our multi-brand strategy.

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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.

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

We currently maintain offices and conduct operations primarily in the United States, Brazil, India and the United Kingdom and have third-party support arrangements in India, the Philippines and China. 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 growth and continued expansion of our international operations and we intend to continue to expand internationally, including through mergers and acquisitions.

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

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

lack of familiarity with, burdens of, and increased expense relating to, complying with foreign laws, legal standards, regulatory requirements, tariffs and other barriers, 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 and resources to explore, negotiate, or close acquisitions and to integrate, staff and manage geographically remote operations and employees;

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

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

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

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

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

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

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

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

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

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

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

potentially adverse tax consequences, including the complexities of foreign value added tax (or sales, 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 and economic climates; and

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

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

In addition, our ability to expand internationally and attract and retain non-U.S. subscribers may be adversely affected by concerns about the extent to which U.S. governmental and law enforcement agencies may obtain data under the Foreign Intelligence Surveillance Act and Patriot Act and similar laws and regulations. Such non-U.S. subscribers may decide that the privacy risks of 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 may require local storage of their citizens data. If we become subject to such requirements, it may require us to increase the number of non-U.S. data centers or servers we maintain, increase our costs or adversely affect our ability to attract, retain or cost-effectively serve non-U.S. subscribers.

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

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

human error or accidents;

- power loss;
- equipment failure;
- Internet connectivity downtime;
- improper building maintenance by the landlords of the buildings in which our co-located data centers are located;
- physical or electronic security breaches (see also Security and privacy breaches may harm our business);
- computer viruses;
- fire, hurricane, flood, earthquake, tornado and other natural disasters;
- water damage;
- terrorism;
- intentional bad acts, such as sabotage and vandalism;
- pandemics; and
- failure by us or our vendors to provide adequate service to our equipment.

We have experienced system failures, delays and periodic interruptions in service, or outages, due to factors including power and network equipment failures; storage system failures; power outages; and network configuration failures. In addition, because our cloud-based platform is complex, we have experienced outages when new versions, enhancements and updates to applications, software or systems are released by us or third parties.

We will likely experience future outages that disrupt the operation of our solutions and harm our business due to factors such as these or other factors, including the accidental or intentional actions of Internet users, current and former employees and others; cooling equipment failures; other computer failures; or other factors not currently known to us or that we consider immaterial. While we have experienced increases in subscriber cancellations and decreases in our Net Promoter Score, or NPS, a customer satisfaction metric developed by Bain & Company, following such outages in the past, we cannot be certain these outcomes are entirely attributable to the outages, and we do not believe that such outages have had a material effect on our business, financial condition or results of operations.

Our systems are not fully redundant, and we have not yet implemented a complete disaster recovery plan or business continuity plan. Although the redundancies we do have in place will permit us to respond, at least to some degree, to failures of applications and systems, our data centers are vulnerable in the event of failure. Most of our subscribers are hosted across six 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. We do not yet have adequate structures or systems in place to recover from a data center s severe impairment or total destruction, and recovery from the total destruction or severe impairment of any of these 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 support services for a discrete subset of our brands, and they do not currently have complete capability to route calls from one call center to another call center. Accordingly, if any one of these call centers were to become non-operational due to severe impairment or total destruction, our ability to re-route calls to operational call centers or to provide customer support services to any subscribers of the brand or brands that the non-operational call center had formerly managed may be compromised. A significant portion of our email and chat-based customer support is provided by an India-based support team, which is employed by a third-party service provider. Although our email and chat-based customer support can be re-routed to our own centers, a disruption at our India customer support center could adversely affect our business.

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

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

We believe that our future revenue growth depends on our ability to provide subscribers with quality service that meets our stated commitments, meets or exceeds our subscribers 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 or human error. If we are unable to provide subscribers with quality service, this may result in subscriber dissatisfaction, billing disputes and litigation, lower than expected renewal rates and impairments to our efforts to 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.

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If the delivery of customers emails is limited or blocked or its customers emails are directed to an alternate or tabbed section of the recipient s inbox, customers may cancel their accounts.

Internet Service Providers, or ISPs, can block emails from reaching the intended recipients. While we continually improve our technology and work closely with ISPs to maintain the deliverability rates of our email marketing product, the implementation of new or more restrictive policies by ISPs may make it more difficult to deliver our customers emails. In addition, some ISPs have started to categorize as promotional emails that originate from email service providers and, as a result, direct them to an alternate or tabbed section of the recipient s inbox. If ISPs materially limit or halt the delivery of our customers emails, or if we fail to deliver our email marketing customers emails in a manner compatible with ISPs email handling or authentication technologies or other policies, or if the open rates of its customers emails are negatively impacted by the actions of ISPs to categorize emails, then our email marketing customers may question the effectiveness of our products and cancel their email marketing accounts. This, in turn, could harm our business and financial performance.

Security and privacy breaches may harm our business.

We store and transmit large amounts of sensitive, confidential, personal and proprietary information, including payment card information. Any physical or electronic security breach, virus, accident, employee error, criminal activity or malfeasance, fraudulent service plan order, impersonation scam perpetrated against us, intentional misconduct by cyber criminals or similar intrusion, breach or disruption could result in unauthorized access to, usage or disclosure of, or loss of, confidential information, damage to our platform, 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. The risk that these types of events could seriously harm our business is likely to increase as we expand the number of technology solutions and services that we offer and expand our operations in foreign countries.

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

Organizations generally, and Internet-based organizations in particular, remain vulnerable to 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 our data centers. Any physical security breach to our data centers 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 may also use weak passwords, accidentally disclose their passwords or store them on a mobile device that is lost or stolen, or otherwise compromise the security of their data, creating the perception that our systems are not secure against third-party access when their accounts are compromised and used maliciously by third parties. In addition, if third parties with which we work, such as vendors or developers, violate applicable laws or our policies, such violations may also put our information and our subscribers information at risk and could in turn have an adverse effect on our business and reputation.

If an actual or perceived security breach occurs, the market s perception of our security measures could be harmed and we could lose sales and current and potential subscribers. We might also be required to expend significant capital and resources to investigate, protect against or address these problems. Any significant violations of data privacy could result in the loss of business, litigation and regulatory investigations and penalties that could damage our reputation and adversely affect our operating results and financial

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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.

We could also incur significant fines or lose our ability to give subscribers the option of using credit cards to fund their payments or pay their fees to us if we fail to follow payment card industry data security standards, even if there is no compromise of subscriber information. Although we endeavor to comply with payment card industry data security standards and do not believe that there has been a compromise of subscriber information, we have not always been in full compliance with these standards. Accordingly, we could be fined, or our services could be suspended, for such failure to comply with payment card industry data security standards, which would cause us to not be able to process payments using credit cards. If we are unable to accept credit card payments, our financial condition, results of operations and cash flows would be adversely affected.

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

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

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

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

We currently use India-based third-party service providers to provide certain outsourced services to support our U.S.-based operations, including email- and chat-based customer and technical support, billing support, network monitoring and engineering and development services. As our operations grow, we expect to increase our use of these and other India-based outsourced service providers. Although there are cost advantages to operating in India, significant growth in the technology sector in India has increased competition to attract and retain skilled employees and has led to a commensurate increase in compensation costs. In the future, we or

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our third-party service providers may not be able to hire and retain such personnel at compensation levels consistent with our existing compensation and salary structure in India. In addition, we employ our own India-based workforce. Our use of a workforce in India exposes us to disruptions in the business, political and economic environment in that region. Our operations in India require us to comply with local laws and regulatory requirements, which are complex and burdensome and of which we may not always be aware, and expose us to foreign currency exchange rate risk. Our Indian operations may also subject us to trade restrictions, reduced or inadequate protection for intellectual property rights, security breaches and other factors that may adversely affect our business. Negative developments in any of these areas could increase our costs of operations or otherwise harm our business.

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

We have had a net loss in each year since inception through 2015. We had a net loss of $159.2 million for fiscal year 2013, a net loss of $42.8 million for fiscal year 2014 and a net loss of $25.8 million for fiscal year 2015 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 develop and expand our business. Our recent growth in revenue and number of subscribers may not be sustainable, and our revenue may be insufficient to maintain profitability. We may incur significant losses in the future for a number of reasons, including interest expense related to our substantial indebtedness, and the other risks described in this report, and we may encounter unforeseen expenses, difficulties, complications and delays and other unknown events.

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

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

Our ability to obtain debt or equity funding will depend on a number of factors, including market conditions, interest rates, our operating performance and investor interest. Additional funding may not be available to us on acceptable terms or at all. If adequate funds are not available, we may be required to reduce expenditures, including curtailing our growth strategies, foregoing acquisitions or reducing our product development efforts. If we succeed in raising additional funds through the issuance of equity or convertible securities, then the issuance could result in substantial dilution to existing stockholders. If we raise additional funds through the issuance of debt securities or preferred stock, these new securities would have rights, preferences and privileges senior to those of the holders of our common stock. In addition, any preferred equity issuance or debt financing that we may obtain in the future could have restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. 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 business depends on establishing and maintaining strong brands. If we are not able to effectively promote our brands, or if the reputation of our brands is damaged, our ability to expand our subscriber base will be impaired and our business and operating results will be harmed.

We market our solutions through various brands, including Bluehost, HostGator, iPage, Domain.com, A Small Orange, MOJO Marketplace, BigRock, 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 continue to build awareness of our brands, we could be placed at a competitive disadvantage to companies whose brands are, or become, more recognizable than ours. 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 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. To attract and retain subscribers and to promote and maintain our brands in response to competitive pressures, we may have to substantially increase our financial commitment to creating and maintaining distinct brand loyalty among subscribers or eliminate certain of our brands.

If subscribers, as well as our third-party referral marketing, distribution and reseller partners, do not perceive our existing solutions to be reliable and of high quality, 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.

In addition, we expect to leverage our current marketing strategy for Constant Contact s products and services, but our strategy may not be successful. In particular, Constant Contact s strong brand awareness may be diminished if we reduce or discontinue television and radio advertising in order to pursue the more targeted or success-based marketing methods we typically use for the rest of our business. If this occurs, we may not acquire new Constant Contact customers at the rate that we expect or we may need to incur higher than anticipated marketing expenses to acquire new Constant Contact customers, which could have a material adverse effect on our operating results.

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

In order to expand our business, we plan to continue to rely on third-party relationships and alliances, such as with referrers and promoters of our brands and solutions, as well as with our providers of solutions and services that we offer to subscribers. Identifying, negotiating, documenting and managing relationships with third parties in certain cases requires significant time and resources, and it is possible that we may not be able to devote the time and resources we expect to such relationships. Integrating and customizing third parties solutions with our platform also requires us to expend significant time and resources to ensure that each respective solution works with our platform, as well as with our other products and services. If any of the third parties on which we rely fails to perform as expected, breaches or terminates their agreement with us, or becomes engaged in a dispute with us, our reputation could be adversely affected and our business could be harmed.

We rely on third-party referral partners to acquire subscribers. If our third-party referral partners fail to promote our brands or to refer new subscribers to us, fail to comply with regulations, are forced to change their marketing efforts in response to new or existing regulations or cease to be viewed as credible sources of information by our potential subscribers, we may face decreased demand for our solutions and loss of revenue. 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 site builders, shopping carts and security tools, we offer to our subscribers. A majority of our offerings are provided by third parties. We may be unable to continue our relationship with any of these partners if, for example, they decline to continue to work with us or are acquired by third parties. In such an event, we may not be able to continue to offer these third-party tools to our subscribers or we may be forced to find an alternative that may be inferior to the solution that we had previously offered, which could harm our business and our operating results.

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

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.

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

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

The terms of our existing co-located data center agreements vary in length and expire over a period ranging from 2016 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, we expect that the lease rates will be higher than those we pay under our existing agreements. If we fail to increase our revenue by amounts sufficient to offset any increases in lease rates for these facilities, our operating results may be materially and adversely affected.

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

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

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

Complex technology platforms, software applications and systems such as ours often contain errors or defects, such as errors in computer code or other systems errors, particularly when first introduced or when new versions, enhancements or updates are released. Because we also rely on third parties to develop many of our solutions, our products and services may contain additional errors or defects as a result of the integration of the third party s product. Despite quality assurance measures, internal testing and beta 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, errors, defects or other performance problems could result in damage to our subscribers and their businesses. They could elect to cancel or not to renew their agreements, delay or withhold payments to us, or seek significant compensation from us for the losses they or their businesses suffer. Although our subscriber agreements typically contain provisions designed to limit our exposure to certain claims, existing or future laws or unfavorable judicial decisions could negate or diminish these limitations. Even if not successful, a claim brought against us could be time-consuming and costly and could seriously damage our reputation in the marketplace, making it harder for us to acquire and retain subscribers.

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

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

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

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

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

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

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

Our ability to successfully pursue our growth strategy will depend on our ability to attract, retain and motivate key employees across our business. In particular, we are dependent on our platform and software engineers, those who manage our sales and service employees, and, as we grow internationally, those employees managing our operations outside of the United States. We face intense competition for these and other employees from numerous technology, software and manufacturing companies, and we cannot ensure 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 may adversely affect our ability to attract or retain highly skilled engineers and marketing personnel. In addition, we invest significant time and expense in training our employees, which increases their value to competitors who may seek to recruit them.

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

We are subject to governmental regulation and other legal obligations, particularly related to privacy, data protection and information security, and we are subject to consumer protection laws that regulate our marketing practices and prohibit unfair or deceptive acts and practices. Our actual or perceived failure to comply with such obligations could harm our business. Compliance with such laws could also impair our efforts to maintain and expand our subscriber base and 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 and deceptive marketing and trade practices to investigate and penalize companies for practices related to the collection, use, handling, disclosure, and security of personal data of U.S. consumers. In addition, in connection with the marketing and advertisement of our products and services by us or our affiliates, we could be the target of claims relating to false or deceptive advertising or marketing practices, including under the auspices of the FTC and state consumer protection statutes.

In the European Union, 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, on December 1, 2015, the UK Competition and Markets Authority, or the CMA, announced that it is conducting 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, requesting information be provided on a voluntary basis. The CMA s review could result in enforcement action, requests for voluntary change in marketing and business practices and/or new guidance for the cloud storage industry, among others.

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

In addition, several foreign countries and governmental bodies, including the countries of the 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.

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.

Future laws or regulations, or modifications to existing laws or regulations, could impair our ability to collect and/or use user information that we use to provide targeted advertising to our users, thereby impairing our ability to maintain and grow our subscriber base and increase revenue. Future restrictions on the collection, use, sharing or disclosure of our subscribers data or additional requirements for obtaining the consent of subscribers for the use and disclosure of such information could require us to modify our solutions and features, possibly in a material manner, and could limit our ability to develop new services and features.

For example, within the EU, legislators agreed upon the text of a new EU-wide General Data Protection Regulation, or GDPR, in December 2015 that is expected to come into effect in early 2018 and will replace 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. If our privacy or data security measures fail to comply with applicable current or future laws and regulations, we may be subject to litigation, regulatory investigations, enforcement notices requiring us to change the way we use personal data or our marketing practices, fines or other liabilities, as well as negative publicity and a potential loss of business. Moreover, if future laws and regulations limit our subscribers or prospective subscribers ability to use and share personal data or our ability to store, process and share personal data, demand for our solutions could decrease, our costs could increase, and our business, results of operations and financial condition could be harmed.

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

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 have passed laws regulating commercial email practices that are significantly more punitive and difficult to comply with than the CAN SPAM Act, particularly Utah and Michigan, which have enacted do-not-email registries listing minors who do not wish to receive unsolicited commercial email that markets certain covered content, such as adult or other harmful products. Some portions of these state laws may not be pre-empted by the CAN SPAM Act. The ability of our subscribers customers to 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 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 ISPs, 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, 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.

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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 and become increasingly visible as a publicly-traded company, or if we become more successful, the possibility of intellectual property infringement claims may increase. In addition, our exposure to risks associated with the use of intellectual property may increase as a result of acquisitions that we make or our use of software licensed from or hosted by third parties, as we have less visibility into the development process with respect to such technology or the care taken to safeguard against infringement risks. Third parties may make infringement and similar or related claims after we have acquired or licensed technology that had not been asserted prior to our acquisition or license.

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

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

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

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

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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 or the subscriber s own policies, which could subject us to liability.

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

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

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

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

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 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 may face liability for, or become involved in, disputes in connection with ownership or control of subscriber accounts, domain names or email contact lists or in connection with domain names we own.

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

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

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

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

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

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

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

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

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

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

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

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

In uncertain and adverse economic conditions, decreased consumer spending is likely to result in a variety of negative effects such as reduction in revenue, increased costs, lower gross margin percentages and recognition of impairments of assets, including goodwill and other intangible assets. Uncertainty and adverse economic conditions may also lead to a decreased ability to collect payment for our solutions and services due primarily to a decline in the ability of our subscribers to use or access credit, including through credit cards and PayPal, which is how most of our subscribers pay for our services. We also expect to continue to experience volatility in foreign exchange rates, which could adversely affect the amount of expenses we incur and the revenue we record in future periods. If any of the above risks are realized, we may experience a material adverse effect on our business, financial condition and operating results.

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

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

Risks Related to Our Substantial Indebtedness

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

We now have, and expect to continue to have, significant indebtedness that could result in a material and adverse effect on our business. As of June 30, 2016, we had approximately $2,005.3 million of aggregate indebtedness, net of original issue discounts of $27.6 million and deferred financing costs of $44.7 million. Under our first lien term loan facility and our incremental first lien term loan facility entered into in connection with the acquisition of Constant Contact, we are required to repay approximately $5.3 million and $3.7 million, respectively, of principal at the end of each quarter and are required to pay accrued interest upon the maturity of each interest accrual period, which totaled $52.2 million for the year ended December 31, 2015 and $42.9 million for the six months ended June 30, 2016, and which we currently estimate will be $17.1 million and $11.2 million, respectively, for each remaining fiscal quarter for 2016. The interest accrual periods under our Senior Credit Facilities are typically 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 10.875% senior notes due 2024 on a semi-annual basis, which we currently estimate will be $18.4 million and $0.0 million, respectively, for each remaining fiscal quarter for 2016. No interest has been paid on the 10.875% senior notes due 2024 during the six months ended June 30, 2016.

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We may be able to incur substantial additional debt in the future. The terms of the 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 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;
- requiring us to refinance all or a portion of our indebtedness at or before maturity; and
- making it more difficult for us to fund other liquidity needs.

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

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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 are 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 or on satisfactory terms, if at all, which would limit EIG Investors ability to meet its scheduled debt service obligations (including in respect of the Senior Credit Facilities or the Notes). Our ability to restructure or refinance debt 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. The Senior Credit Facilities and the indenture governing the Notes offered hereby will 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 would likely result in a reduction of its 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 the 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 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, EIG Investors may be contractually restricted under the terms of the Senior Credit Facilities 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 the Senior Credit Facilities. EIG Investors failure to repurchase the Notes upon a change of control would cause a default under the indenture governing the Notes and a cross default under the Senior Credit Facilities. The Senior Credit Facilities also provide that a change of control is a 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 specified in the indenture governing the Notes, EIG Investors will be required to commence an asset sale offer, as defined under the indenture governing the Notes, pursuant to which it will be obligated to offer to purchase the applicable Notes at a price equal to 100% of their principal amount plus accrued and unpaid interest. EIG Investors other debt may contain restrictions that would limit or prohibit EIG Investors from completing any such asset sale offer. EIG Investors failure to purchase any such Notes when required under the indenture would be an event of default.

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;

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- 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 the future we may be the target of securities litigation. Securities litigation could result in substantial costs and divert management s attention and resources from our business.

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

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

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

A substantial portion of our issued and outstanding common stock can be traded without restriction at any time, and the remaining shares of our issued and outstanding common stock can be sold subject to volume limitations and other requirements applicable to affiliate sales under the federal securities laws. As such, sales of a substantial number of shares of our common stock in the public market could occur at any time. These sales, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock. In addition, we have registered 18,000,000 shares of common stock that have been issued or reserved for future issuance under our 2013 Stock Incentive Plan 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 June 30, 2016, a total of 24,222,755 shares of our common stock are subject to outstanding options, restricted stock units and restricted stock awards, of which 6,428,844 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 71,896,177 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 June 30, 2016, our directors, executive officers and their affiliates beneficially own, in the aggregate, 55.6% of our issued and outstanding common stock. Specifically, investment funds and entities affiliated with Warburg Pincus own, in the aggregate, 33.8% of our issued and outstanding common stock, and investment funds and entities affiliated with Goldman Sachs own, in the

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aggregate, approximately 10.9% 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; provided that for so long as investment funds and entities affiliated with Warburg Pincus or Goldman Sachs, collectively, own a majority of our issued and outstanding capital stock, special meetings of our stockholders may be called by the affirmative vote of the holders of a majority of our issued and outstanding voting stock;

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

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

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

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

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

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

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

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

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

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

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prevents some stockholders holding more than 15% of our issued and outstanding common stock from engaging in certain business combinations without approval of the holders of substantially all of our issued and outstanding common stock. Since the investment funds and entities affiliated with Warburg Pincus and Goldman Sachs became holders of more than 15% of our issued and outstanding common stock in a transaction that was approved by our board of directors, the restrictions of Section 203 of the Delaware General Corporation law would not apply to a business combination transaction with any investment funds or entities affiliated with either Warburg Pincus or Goldman Sachs. In addition, our restated certificate of incorporation expressly exempts investment funds and entities affiliated with either Warburg Pincus or Goldman Sachs from the applicability of Section 203 of the Delaware General Corporation Law. Any provision of our restated certificate of incorporation or amended and restated bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock and could also affect the price that some investors are willing to pay for our common stock.

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

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

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

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

Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, requires that we evaluate, test and document our internal controls and, as a part of that evaluation, documentation and testing, identify areas for further attention and improvement. In 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 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 maintain and expand our existing operations, including through mergers and acquisitions, and to invest in the growth of our business. In addition, our ability to pay cash dividends is currently limited by the terms of our 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, Santander UK plc, or Santander UK, and Santander ISA Managers Limited, or SIML, each of which are affiliates of SAMIH and WP LLC, engaged in activities subject to disclosure pursuant to Section 219 of ITRA and Section 13(r) of the Exchange Act. As a result, we are required to provide disclosure as set forth below pursuant to Section 219 of ITRA and Section 13(r) of the Exchange Act. WP LLC has informed us that SAMIH has provided WP LLC with the information below relevant to Section 219 of ITRA and Section 13(r) of the Exchange Act.

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

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We understand that SAMIH s affiliates intend to disclose in their next annual or quarterly report that Santander UK holds two frozen savings accounts and two frozen current accounts for three customers resident in the United Kingdom who are currently designated by the United States under the Specially Designated Global Terrorist, or SDGT, sanctions program. The accounts held by each customer were blocked after the customer s designation and have remained blocked and dormant through the first half of 2016. Revenue generated by Santander UK on these accounts in the first half of 2016 was £7.31 while net profits in the first half of 2016 were negligible relative to the overall profits of Banco Santander, S.A.

We also understand that SAMIH s affiliates intend to disclose in their next annual or quarterly report that an Iranian national, resident in the United Kingdom, who is currently designated by the United States under the Iran Financial Sanctions Regulations, or IFSR, and the Weapons of Mass Destruction Proliferators Sanctions Regulations, held a mortgage with Santander UK that was issued prior to any such designation. The mortgage account was redeemed and closed on April 13, 2016. No further drawdown has been made or would be allowed under this mortgage although Santander UK continued to receive repayment installments prior to redemption. In the first half of 2016, total revenue generated by Santander UK in connection with the mortgage was £434.64 while net profits were negligible relative to the overall profits of Banco Santander, S.A. Santander UK does not intend to enter into any new relationships with this customer, and any disbursements will only be made in accordance with applicable sanctions. The same Iranian national also held two investment accounts with SIML. The funds within both accounts were invested in the same portfolio fund. The accounts remained frozen until the investments were closed on May 12, 2016 and checks issued to customer on May 13, 2016. Total revenue in the first half of 2016 generated by Santander UK in connection with the investment accounts was £7.60 while net profits in the first half of 2016 were negligible relative to the overall profits of Banco Santander, S.A.

We also understand that SAMIH s affiliates intend to disclose in their next annual or quarterly report that a United Kingdom national designated by the United States under the SDGT sanctions program holds a Santander UK current account. The account remained in arrears through the first half of 2016 (£1,344.01 in debit) and is currently being managed by Santander UK Collections & Recoveries department.

We also understand that SAMIH s affiliates intend to disclose in their next annual or quarterly report that, during the first half of 2016, Santander UK identified an Office of Foreign Assets Control name match on a power of attorney account. A party listed on the account is currently designated by the United States under the SDGT sanctions program and the IFSR. During the first half of 2016, related revenue generated by Santander UK was £129.21 while net profits in the first half of 2016 were negligible relative to the overall profits of Banco Santander, S.A.

ITEM 6. EXHIBITS

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

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: August 8, 2016

By: /s/ Marc Montagner
Marc Montagner
Chief Financial Officer

(Principal Financial Officer)

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EXHIBIT INDEX

		Incorporated by Reference				
Exhibit Number	Description of Exhibit	Form	File Number	Date of Filing	Exhibit Number	Filed Herewith
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 Bylaws of the Registrant	S-1/A	333-191061	October 23, 2013	3.5	
4.1	Specimen certificate evidencing shares of common stock of the Registrant	S-1/A	333-191061	October 8, 2013	4.1	
4.2	Second Amended and Restated Registration Rights Agreement, dated as of October 24, 2013, by and among the Registrant and the other parties thereto	10-Q	001-36131	November 7, 2014	4.2	
4.3	Stockholders Agreement, dated as of October 24, 2013, by and among the Registrant and certain holders of the Registrant s common stock	10-Q	001-36131	November 7, 2014	4.3	
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	Purchase Agreement, dated as of February 8, 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	4.5	
4.6	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	10-Q	001-36131	May 9, 2016	4.6	

	Jefferies LLC					
10.1#	2016 Management Incentive Plan	8-K	001-36131	May 3, 2016	4.1	
10.2#	Amended and Restated 2013 Stock Incentive Plan					X
10.3#	Form of Director Restricted Stock Agreement under the 2013 Stock Incentive Plan					X
10.4	Form of Incentive Stock Option Agreement (double trigger) under the 2011 Stock Incentive Plan					X
10.5	Form of Non-Statutory Stock Option Agreement (double trigger) under the 2011 Stock Incentive Plan					X
10.6	Form of Restricted Stock Unit Agreement (double trigger) under the 2011 Stock Incentive Plan					X
10.7	Changes to NEO Target Annual Cash Bonus Percentages					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

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Exhibit Number	Description of Exhibit	Incorporated by Reference Form	File Number	Date of Filing	Exhibit Number	Filed Herewith
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

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