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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**FORM 10-Q**

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(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2020

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

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**Endurance International Group Holdings, Inc.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

46-3044956

(I.R.S. Employer  
Identification No.)

10 Corporate Drive,

Suite 300

Burlington,

Massachusetts

(Address of principal executive offices)

01803

(Zip Code)

(781) 852-3200

(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.0001 par value	EIGI	The Nasdaq Global Select Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company   
Emerging growth company

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

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

As of August 3, 2020, there were 140,737,472 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**  
(in thousands, except share and per share amounts)

	December 31, 2019	June 30, 2020 (unaudited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 111,265	\$ 149,193
Restricted cash	1,732	1,632
Accounts receivable	10,224	10,734
Prepaid domain name registry fees	55,237	57,716
Prepaid commissions	38,435	39,879
Prepaid and refundable taxes	6,810	5,290
Prepaid expenses and other current assets	23,883	26,718
Total current assets	247,586	291,162
Property and equipment—net	85,925	91,024
Operating lease right-of-use assets	90,519	79,397
Goodwill	1,835,310	1,834,685
Other intangible assets—net	245,002	210,044
Deferred financing costs—net	1,778	1,340
Investments	15,000	15,000
Prepaid domain name registry fees, net of current portion	11,107	12,187
Prepaid commissions, net of current portion	48,780	58,267
Deferred tax asset	64	196
Other assets	3,015	2,900
Total assets	\$ 2,584,086	\$ 2,596,202
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 10,054	\$ 15,134
Accrued expenses	64,560	67,297
Accrued taxes	251	1,230
Accrued interest	23,434	21,580
Deferred revenue	369,475	382,489
Operating lease liabilities—short term	21,193	18,775
Current portion of notes payable	31,606	31,606
Current portion of financed equipment	790	4,017
Deferred consideration—short term	2,201	746
Other current liabilities	2,165	2,757
Total current liabilities	525,729	545,631
Long-term deferred revenue	99,652	104,023
Operating lease liabilities—long term	78,151	69,746
Notes payable—long term, net of original issue discounts of \$16,859 and \$14,356 and deferred financing costs of \$25,690 and \$21,967, respectively	1,649,867	1,628,060
Financed equipment—long term	—	401
Deferred tax liability	27,097	32,916
Other liabilities	6,636	10,508
Total liabilities	2,387,132	2,391,285
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; 146,259,868 and 147,570,072 shares issued at December 31, 2019 and June 30, 2020, respectively; 146,259,868 and 140,433,255 outstanding at December 31, 2019 and June 30, 2020, respectively	15	16
Additional paid-in capital	996,958	1,013,802
Treasury stock, at cost, 0 and 7,136,817 shares at December 31, 2019 and June 30, 2020, respectively	—	(11,828)
Accumulated other comprehensive loss	(4,088)	(3,496)
Accumulated deficit	(795,931)	(793,577)
Total stockholders' equity	196,954	204,917
Total liabilities and stockholders' equity	\$ 2,584,086	\$ 2,596,202

*See accompanying notes to consolidated financial statements.*

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2020	2019	2020
Revenue	\$ 278,204	\$ 273,987	\$ 558,887	\$ 546,181
Cost of revenue (including impairment of \$17,892 for the three and six months ended June 30, 2019)	139,587	113,065	263,441	229,329
Gross profit	138,617	160,922	295,446	316,852
Operating expense:				
Sales and marketing	65,490	63,062	132,078	130,253
Engineering and development	25,348	24,659	49,042	51,533
General and administrative	31,124	28,901	62,517	59,777
Gain on sale of intangible assets	—	(2,365)	—	(2,365)
Total operating expense	121,962	114,257	243,637	239,198
Income from operations	16,655	46,665	51,809	77,654
Other income (expense):				
Interest income	314	162	605	332
Interest expense	(37,037)	(31,186)	(74,251)	(63,920)
Total other expense—net	(36,723)	(31,024)	(73,646)	(63,588)
(Loss) income before income taxes and equity earnings of unconsolidated entities	(20,068)	15,641	(21,837)	14,066
Income tax expense	6,160	11,043	7,879	11,712
Net (loss) income	\$ (26,228)	\$ 4,598	\$ (29,716)	\$ 2,354
Comprehensive (loss) income:				
Foreign currency translation adjustments	348	434	(53)	(123)
Unrealized gain (loss) on cash flow hedge, net of tax benefit (expense) of \$(35) and \$269 for the three and six months ended June 30, 2019, respectively, and \$(111) and \$(231) for the three and six months ended June 30, 2020, respectively	110	343	(851)	715
Total comprehensive (loss) income	\$ (25,770)	\$ 5,375	\$ (30,620)	\$ 2,946
Basic net (loss) income per share	\$ (0.18)	\$ 0.03	\$ (0.21)	\$ 0.02
Diluted net (loss) income per share	\$ (0.18)	\$ 0.03	\$ (0.21)	\$ 0.02
Weighted-average common shares used in computing net (loss) income per share:				
Basic	145,308,823	141,380,644	144,414,929	143,703,943
Diluted	145,308,823	142,258,812	144,414,929	145,783,086

*See accompanying notes to consolidated financial statements.*

**Endurance International Group Holdings, Inc.**  
**Consolidated Statements of Changes in Stockholders' Equity**  
(in thousands, except share amounts)  
(unaudited)

	Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Number	Amount		Number	Amount			
<b>Balance—December 31, 2018</b>	143,444,178	\$ 14	\$ 961,235	—	\$ —	\$ (3,211)	\$ (783,584)	\$ 174,454
Vesting of restricted shares	116,526	—	—	—	—	—	—	—
Exercise of stock options	892	—	5	—	—	—	—	5
Other comprehensive gain (loss)	—	—	—	—	—	(1,362)	—	(1,362)
Net loss	—	—	—	—	—	—	(3,488)	(3,488)
Stock-based compensation	—	—	9,016	—	—	—	—	9,016
<b>Balance—March 31, 2019</b>	143,561,596	14	970,256	—	—	(4,573)	(787,072)	178,625
Vesting of restricted shares	2,176,738	—	—	—	—	—	—	—
Exercise of stock options	2,918	—	16	—	—	—	—	16
Other comprehensive gain (loss)	—	—	—	—	—	458	—	458
Net loss	—	—	—	—	—	—	(26,228)	(26,228)
Stock-based compensation	—	—	9,354	—	—	—	—	9,354
<b>Balance—June 30, 2019</b>	145,741,252	14	979,626	—	—	(4,115)	(813,300)	162,225
Vesting of restricted shares	398,293	1	(1)	—	—	—	—	—
Exercise of stock options	1,331	—	5	—	—	—	—	5
Other comprehensive gain (loss)	—	—	—	—	—	(761)	—	(761)
Net income	—	—	—	—	—	—	7,816	7,816
Stock-based compensation	—	—	9,143	—	—	—	—	9,143
<b>Balance—September 30, 2019</b>	146,140,876	15	988,773	—	—	(4,876)	(805,484)	178,428
Vesting of restricted shares	117,340	—	—	—	—	—	—	—
Exercise of stock options	1,652	—	6	—	—	—	—	6
Other comprehensive gain (loss)	—	—	—	—	—	788	—	788
Net income	—	—	—	—	—	—	9,553	9,553
Stock-based compensation	—	—	8,179	—	—	—	—	8,179
<b>Balance—December 31, 2019</b>	146,259,868	\$ 15	\$ 996,958	—	\$ —	\$ (4,088)	\$ (795,931)	\$ 196,954

  

	Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Number	Amount		Number	Amount			
<b>Balance—December 31, 2019</b>	146,259,868	\$ 15	\$ 996,958	—	\$ —	\$ (4,088)	\$ (795,931)	\$ 196,954
Vesting of restricted shares	1,306,607	—	—	—	—	—	—	—
Exercise of stock options	3,597	—	13	—	—	—	—	13
Other comprehensive gain (loss)	—	—	—	—	—	(185)	—	(185)
Net loss	—	—	—	—	—	—	(2,244)	(2,244)
Stock-based compensation	—	—	9,836	—	—	—	—	9,836
Repurchase of common stock	—	—	—	(7,603,620)	(12,329)	—	—	(12,329)
<b>Balance—March 31, 2020</b>	147,570,072	15	\$ 1,006,807	(7,603,620)	(12,329)	(4,273)	(798,175)	192,045
Vesting of restricted shares	1,571,903	1	—	—	—	—	—	1
Other comprehensive gain (loss)	—	—	—	—	—	777	—	777
Net income	—	—	—	—	—	—	4,598	4,598
Stock-based compensation	—	—	9,595	—	—	—	—	9,595
Repurchase of common stock	—	—	—	(1,105,100)	(2,099)	—	—	(2,099)
Reissuance of treasury stock	(1,571,903)	—	(2,600)	1,571,903	2,600	—	—	—
<b>Balance—June 30, 2020</b>	147,570,072	\$ 16	\$ 1,013,802	(7,136,817)	\$ (11,828)	\$ (3,496)	\$ (793,577)	\$ 204,917

*See accompanying notes to consolidated financial statements.*

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

	<b>Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2020</b>
Cash flows from operating activities:		
Net (loss) income	\$ (29,716)	\$ 2,354
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation of property and equipment	22,105	25,442
Amortization of other intangible assets	42,469	34,593
Impairment of long-lived assets	17,892	—
Amortization of deferred financing costs	3,509	3,792
Amortization of net present value of deferred consideration	120	45
Amortization of original issue discounts	2,198	2,367
Stock-based compensation	18,370	19,431
Deferred tax expense	2,627	5,455
Loss on sale of assets	136	—
Gain on sale of intangible assets	—	(2,365)
Loss on early extinguishment of debt	—	83
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(793)	(850)
Prepaid and refundable taxes	725	1,512
Prepaid expenses and other current assets	2,328	(18,090)
Leases right-of-use asset, net	653	318
Accounts payable and accrued expenses	(15,135)	8,274
Deferred revenue	7,241	20,302
<b>Net cash provided by operating activities</b>	<b>74,729</b>	<b>102,663</b>
Cash flows from investing activities:		
Purchases of property and equipment	(16,164)	(20,009)
Proceeds from sale of intangible assets	—	2,705
<b>Net cash used in investing activities</b>	<b>(16,164)</b>	<b>(17,304)</b>
Cash flows from financing activities:		
Repayments of term loans	(50,000)	(15,803)
Repayments of senior notes	—	(11,807)
Purchase of treasury stock	—	(14,428)
Principal payments on financed equipment	(3,861)	(2,974)
Payment of deferred consideration	(2,500)	(1,500)
Proceeds from exercise of stock options	22	13
<b>Net cash used in financing activities</b>	<b>(56,339)</b>	<b>(46,499)</b>
Net effect of exchange rate on cash and cash equivalents and restricted cash	(152)	(1,032)
<b>Net increase in cash and cash equivalents and restricted cash</b>	<b>2,074</b>	<b>37,828</b>
Cash and cash equivalents and restricted cash:		
Beginning of period	90,576	112,997
End of period	\$ 92,650	\$ 150,825
Supplemental cash flow information:		
Interest paid	\$ 68,353	\$ 58,604
Income taxes paid	\$ 724	\$ 3,205
Assets acquired under equipment financing	\$ —	\$ 7,704

*See accompanying notes to consolidated financial statements.*

**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, EIG Investors Corp. ("EIG Investors"), its primary operating subsidiary, The Endurance International Group, Inc. ("EIG"), and other subsidiaries 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 of a controlling interest in EIG Investors, EIG and EIG's subsidiaries by investment funds and entities affiliated with Warburg Pincus and Goldman, Sachs & Co. ("Goldman") on December 22, 2011. 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 Holdings and its subsidiaries, have been prepared using accounting principles generally accepted in the United States of America ("U.S. GAAP"). All intercompany transactions were eliminated on consolidation.

Although the Company believes the disclosures included herein are adequate to ensure that the consolidated financial statements are fairly presented, certain information and footnote disclosures to the financial statements have been condensed or omitted in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, the consolidated financial statements and the footnotes included herein should be read in conjunction with the audited financial statements and the footnotes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

***Segment Information***

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

The Company previously reported its financial results in three reportable segments: web presence, email marketing and domain. In conjunction with the process of simplifying the organization, the Company modified its internal reporting structure to reflect certain changes in its structure and leadership, and also changed the name of the email marketing segment to the "digital marketing" segment. This resulted in consolidation of its domain segment into the web presence segment. Starting with the three months ended March 31, 2020, the Company reports its financial results in two segments - web presence (including the former domain segment) and digital marketing. The Company recast the comparative information for the three and six months ended June 30, 2019 to conform with the two-segment presentation.

The Company has identified two reportable segments: web presence and digital marketing. The Company has determined that it does not satisfy aggregation criteria for these operating segments, and that each segment meets the quantitative threshold of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 280, *Segment Reporting*. Therefore, both operating segments are reportable segments.

The Company's segments share certain resources, primarily related to sales and marketing, engineering and development, and general and administrative functions. Management allocates these costs to each respective segment based on a consistently applied methodology, primarily based on a percentage of revenue.

***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.

A new strain of coronavirus that causes the disease known as COVID-19 was identified in late 2019 and has spread globally. In March 2020, the World Health Organization classified the COVID-19 outbreak as a pandemic, based on the rapid increase in infections worldwide.

The COVID-19 pandemic continues to evolve as of the date of these consolidated financial statements. As such, the extent of the pandemic's impact on the Company's financial condition, liquidity, and future results of operations is uncertain. Management is continuing to execute its 2020 operating plan while actively monitoring the impact of COVID-19 on the Company, including its customers, industry, operations, suppliers, workforce and liquidity. The Company expects to see tax-related liquidity benefits from the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). The Company is closely monitoring the impact of the COVID-19 pandemic on its business. To date, the Company believes that the pandemic has contributed to increased demand for its products and services, since many small- and medium-sized businesses have moved more of their business online due to COVID-19 related lockdowns and other restrictions. However, the Company cannot predict whether and to what extent this level of demand will continue.

### ***Unaudited Interim Financial Information***

The accompanying interim consolidated balance sheet as of June 30, 2020, and the related consolidated statements of operations and comprehensive income (loss) for the three and six months ended June 30, 2019 and 2020, the consolidated statements of cash flows for the six months ended June 30, 2019 and 2020, the consolidated statements of changes in stockholders' equity for the three and six months ended June 30, 2019 and 2020, 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 as of June 30, 2020, results of operations for the three and six months ended June 30, 2019 and 2020, cash flows for the six months ended June 30, 2019 and 2020, and changes in stockholders' equity for the three and six months ended June 30, 2019 and 2020. The results in the consolidated statements of operations and comprehensive income (loss) are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2020.

### ***Cash Equivalents***

Cash and cash equivalents include all highly liquid investments with remaining maturities of three months or less at the date of purchase.

### ***Restricted Cash***

Restricted cash is composed of certificates of deposit and cash held by merchant banks and payment processors, which provide collateral against any chargebacks, fees, or other items that may be charged back to the Company by credit card companies and other merchants, and collateral for certain facility leases.

### ***Accounts Receivable***

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

### ***Prepaid Domain Name Registry Fees***

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

### ***Fair Value of Financial Instruments***

The carrying amounts of the Company's financial instruments, which include cash equivalents, accounts receivable, accounts payable and certain accrued expenses, approximate their fair values due to their short maturities. The fair value of the Company's notes payable is based on the borrowing rates currently available to the Company for debt with similar terms and average maturities and approximates their carrying value.

### **Derivative Instruments and Hedging Activities**

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

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

In accordance with the FASB's fair value measurement guidance in FASB Accounting Standards Update ("ASU") No. 2011-4, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements*, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

### **Property and Equipment**

Property and equipment is recorded at cost, or at fair value if the property and equipment is 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 equipment financing 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 FASB 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. During the three and six months ended June 30, 2019, the Company capitalized internal-use software development costs of \$4.1 million and \$7.3 million, respectively. During the three and six months ended June 30, 2020, the Company capitalized internal-use software development costs of \$4.4 million and \$9.4 million, respectively.

### **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 Company's business, a significant adverse change in 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, a 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 ASU No. 2011-08, *Intangibles—Goodwill and Other (Topic 350)*, the Company is required to review goodwill by reporting unit for impairment at least annually or more often if there are indicators of impairment present. Under U.S. GAAP, a reporting unit is either the equivalent of, or one level below, an operating segment. The Company performs its annual goodwill test as of October 31 of each fiscal year. The Company has identified a total of ten reporting units, and goodwill has been allocated to five of these reporting units. The Company also early adopted the provisions of ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350)*, which eliminates the second step of the goodwill impairment test. As a result, the Company's goodwill impairment test includes only one step, which is a comparison of the carrying value of each reporting unit to its fair value, and any excess carrying value, up to the amount of goodwill allocated, is impaired. Goodwill has been allocated to each reporting unit in accordance with ASC 350-20-40, which requires that goodwill be allocated based on the relative fair values of each reporting unit.

The carrying value of each reporting unit is based on the assignment of the appropriate assets and liabilities to each reporting unit. Assets and liabilities are assigned to each reporting unit if the assets or liabilities are employed in the operations of the reporting unit and the asset and liability is considered in the determination of the reporting unit's fair value. Certain assets and liabilities are shared by multiple reporting units, and are allocated to each reporting unit based on its relative size, primarily based on revenue.

The Company determines the fair value of each reporting unit by utilizing the income approach and the market approach. For the income approach, fair value is determined based on the present value of estimated future after-tax cash flows, discounted at an appropriate risk adjusted rate. The Company derives its discount rates by using a capital asset pricing model and analyzing published rates for industries relevant to its reporting units to estimate the weighted-average cost of capital. The Company uses discount rates that are commensurate with the risks and uncertainty inherent in its business and in its internally developed forecasts. For fiscal year 2019, the Company used a discount rate of 10.5% for all but three of its reporting units. For two of these reporting units, which are experiencing declining cash flows, the Company used a discount rate of 13.0% and 13.5%, respectively, to adjust for the risk in the projected cash flows. For the remaining reporting unit, which had just been acquired in September 2019, the Company used a discount rate of 15.5%, to adjust for the risk in the projected cash flows. The Company also performed sensitivity analysis on its discount rates. The Company uses internal forecasts to estimate future after-tax cash flows, which include an estimate of long-term future growth rates based on the Company's view of the long-term outlook for each reporting unit. Actual results may differ from those assumed in the Company's forecasts.

For the market approach, the Company utilizes two different approaches: market multiples for publicly traded companies, and market multiples based on the acquisition value of comparable companies that were sold.

For the fiscal year 2019 goodwill impairment analysis, the Company compared the fair value from the income approach to the two market approaches, which included a valuation multiple of comparable public companies and a valuation multiple from sales of comparable companies. For three of the Company's reporting units, which represent approximately 97% of the Company's goodwill, the Company established the fair value based on the average fair value from all three valuation approaches. For two of the remaining reporting units, which represent approximately 3% of the Company's goodwill, the Company established fair value based on the income approach only, because these reporting units are experiencing declining cash flows. The Company calculated and recognized a partial impairment of \$10.0 million for one of these reporting units and a full impairment of \$2.3 million for the second of these reporting units, both of which were recorded as an operating expense in the consolidated statements of operations and other comprehensive income (loss) in the three months ended December 31, 2019. For the other two reporting units for which the income approach was used, the Company had just acquired one reporting unit (Ecomdash) in the three months ended September 30, 2019, and was in the process of disposing of the other reporting unit (SinglePlatform) through a sale in December 2019.

Goodwill as of December 31, 2019 was \$1,835.3 million. The carrying value of goodwill that was allocated to the web presence and digital marketing segments was approximately \$1,231.9 million and \$603.4 million, respectively. The fair value of all but three reporting units with goodwill at December 31, 2019 exceeded each reporting unit's carrying value by at least 20%.

Of the other three reporting units with less than 20% excess of fair value over carrying value, one reporting unit is forecast to experience continuing negative growth in both revenue and cash flows. Given this fact pattern, the Company relied upon the income approach in order to quantify the impact of persistent negative growth expectations and to develop a fair value for this reporting unit. The goodwill allocated to this reporting unit as of December 31, 2019 was \$52.0 million. The Company expects that cash flows for this unit will continue to decline, which could result in goodwill impairment charges for this reporting unit at some point in the future.

The second reporting unit with less than a 20% excess of fair value over carrying value was acquired in September 2019. Based on the short duration between the acquisition date and the testing date, and lacking indications of specific events that

either positively or negatively impacted the carrying value, fair value on this reporting unit approximated the allocated goodwill. Goodwill for this reporting unit as of December 31, 2019 was approximately \$7.0 million.

The third reporting unit represents a combination of different hosting brands, which the Company will continue to monitor in the future. Though near term cash flows are projected to decline for this unit, growth in the cash flows is expected to return after further investments in engineering and development and sales and marketing are made. This reporting unit's fair value was established using three valuation methods, equally weighted. As the reporting unit passed the goodwill impairment test with equal weight given to the three approaches, the Company did not adjust the weight given to the three valuation approaches. As of December 31, 2019, the fair value of this reporting unit, as estimated based upon its future projections, exceeded its carrying value by less than 4%. In the event the Company's investments in engineering and development and sales and marketing do not generate the anticipated improvement in future operating performance for this unit, then future impairments may be recognized for this reporting unit. Goodwill for this reporting unit as of December 31, 2019 was approximately \$1.2 billion.

Because of the deterioration of economic conditions as a result of the COVID-19 pandemic, the Company reassessed its annual goodwill impairment test as of June 30, 2020. The Company performed a qualitative analysis, noting that the Company's operating performance, both current and future based on updated projections, is in line with the projections used for the 2019 annual impairment test. The Company also noted that its market capitalization continues to exceed the book value of the stockholders' equity. Based on the Company's analysis, the Company has concluded that an impairment has not been triggered, and as such, no impairment has been recorded.

Goodwill as of June 30, 2020 was \$1,834.7 million. The carrying value of goodwill that was allocated to the web presence and digital marketing reporting segments was approximately \$1,231.3 million and \$603.4 million, respectively. For the three and six months ended June 30, 2020, as noted above, no impairment triggering events were identified and no impairment has 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 and domain names available for sale. The Company also has long-lived tangible assets, primarily consisting of property and equipment. The majority of the Company's intangible assets are recorded in connection with its various acquisitions. The Company's intangible assets are recorded at fair value at the time of their acquisition. The Company amortizes intangible assets over their estimated useful lives.

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

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.

Indefinite life intangible assets include domain names that are available for sale which are recorded at the 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.

During the three and six months ended June 30, 2019, the Company recognized an impairment charge of \$17.9 million relating primarily to premium domain name intangible assets acquired in 2014, which was recorded in cost of revenue in the consolidated statements of operations and comprehensive income (loss). The impairment resulted from market conditions that adversely impacted cash flows from these assets, and these market conditions are expected to continue. The Company valued its premium domain name assets based on a discounted projected cash flows from these assets using a discount rate of 11.6%, which resulted in an impairment of \$16.2 million. The balance of the impairment charge was primarily related to developed technology intangible assets associated with the premium domain business which were valued using a relief from royalty approach. During the three and six months ended June 30, 2020, the Company recorded no impairment charge associated with these intangible assets.

### **Revenue Recognition**

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, or ASC 606, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. Since then, the FASB has also issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations*, ASU No.

2016-10, *Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing*, and ASU No. 2017-13, *Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments*, which further elaborate on the original ASU No. 2014-09. The Company adopted the guidance in ASC 606 on January 1, 2018. Revenue is recognized when control of the promised products or services is transferred to the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to for those products and services. In general, the Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with the customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the Company satisfies a performance obligation

The Company provides cloud-based subscription services, which include web hosting and related add-ons, search engine optimization ("SEO") services, domain registration services and email marketing.

Web hosting gives customers access to an environment where the Company hosts a customer's website. The related contract terms are generally for one year, but can range from 30 days to three years. Web hosting services are typically sold in bundled offerings that include web hosting, domain registration services and various add-ons. The Company recognizes revenue for web hosting and domain registration services over the term of the contract.

The main add-on services related to web hosting are domain privacy, website security, secure sockets layer security, site backup and restoration, and web builder tools. These services may be included in web hosting bundles, or they may be purchased on a standalone basis. Certain add-on services are provided by third parties. In cases where the Company is acting as an agent for the sale of third-party add-on services, the Company recognizes revenue on a net basis at the time of sale. In cases where the Company is acting as a principal for the sale of third-party add-on services (i.e., the Company has the primary responsibility to provide specific goods or services, it has discretion to establish prices and it may assume inventory risk), the Company recognizes revenue on a gross basis over the term of the contract. The revenue for Company-provided add-on services is primarily recognized over the term of the contract.

SEO services are monthly subscriptions that provide a customer with increased traffic to their website over the term of the subscription. Revenue from SEO services is recognized over the monthly term of the contract.

In the case of domain registration services, the Company is an accredited registrar and can provide registration services to the customer, or it can select an accredited third-party registrar to perform these duties. Domain registration services are generally annual subscriptions, but can cover multiple years. Revenue for these services is recognized over the life of the subscription.

Email marketing services provide customers with a cloud-based platform that can send broadcast emails to a contact list managed by the customer. Pricing is based on contact list volume from the prior monthly period, which determines the contractual billing price for the upcoming month. Revenue for this service is recognized over the monthly term of the contract.

Inventory management and marketplace listing services provide customers with a cloud-based platform that integrates standard inventory management features with order management and shipping management capabilities across multiple channels. Pricing is primarily based on order volume from the prior monthly period. For inventory management customers who subscribe to an annual plan, revenue is recognized ratably over the term of the contract. Inventory management professional services are also provided to customers on demand, and are recognized into revenue upon completion.

Non-subscription-based services include certain professional services, primarily website design or re-design services, marketing development fund ("MDF") revenue, premium domain names and domain parking services.

Website design and re-design services are recognized when the service is complete.

Marketing development funds consist of commissions earned by the Company when a third party sells its products or services directly to the Company's customers, and advertising revenue for third-party ads placed on Company websites. The Company records revenue when the service is provided and calculates it based on the contractual revenue share arrangement or over the term of the advertisement.

Domain parking allows the Company to monetize certain of its premium domain names by loaning them to specialized third parties that generate advertising revenue from these parked domains on a pay-per-click basis. Revenue is recognized when earned and calculated based on the revenue share arrangement with the third party.

Revenue from the sale of premium domains is recognized when persuasive evidence of an arrangement to sell such domains exists and delivery of an authorization key to access the domain name has occurred. Premium domain names are paid for in advance prior to the delivery of the domain name.

The contracts that the Company enters into typically do not contain any variable or non-cash consideration.

The Company maintains a reserve for refunds and chargebacks related to revenue that has been recognized and is expected to be refunded, as calculated based on observed historical trends. The Company had a refund and chargeback reserve of \$0.3 million and \$0.3 million as of December 31, 2019 and June 30, 2020, respectively. The portion of deferred revenue that was expected to be refunded at December 31, 2019 and June 30, 2020 was \$1.9 million and \$1.9 million, respectively. Based on refund history, approximately 84% of all refunds happen in the same fiscal month that the contract starts or renews, and approximately 95% of all refunds happen within 45 days of the contract start or renewal date.

The Company did not apply any practical expedients during its adoption of ASC 606. The Company elected to use the portfolio method in the calculation of the deferred contract assets.

### **Contracts with Multiple Performance Obligations**

A considerable amount of the Company's revenue is generated from transactions that are contracts with customers that may include web hosting plans, domain name registrations, and other cloud-based products and services. In these cases, the Company determines whether the products and services are distinct performance obligations that should be accounted for separately versus together. The Company allocates revenue to each performance obligation based on its relative standalone selling price ("SSP"), generally based on the price charged to customers. Web hosting services, domain name registrations, and other cloud-based products and services have distinct performance obligations and are often sold separately. If the promise is not distinct and therefore not a performance obligation, then the total transaction amount is allocated to the identified performance obligation based on a relative selling price hierarchy. When multiple performance obligations are included in a contract, the total transaction amount for the contract is allocated to the performance obligations based on a relative selling price hierarchy. The Company determines the relative selling price for a performance obligation based on SSP. The Company determines SSP by considering its observed SSPs, competitive prices in the marketplace and management judgment; these SSPs may vary depending upon the particular facts and circumstances related to each deliverable. The Company analyzes the SSPs used in its allocation of transaction amount, at a minimum, on a quarterly basis.

### **Deferred Revenue**

The Company records deferred revenue when cash payments are received or are due in advance of the Company's performance, including amounts that are refundable.

The following table provides a reconciliation of the Company's deferred revenue as of June 30, 2020:

	<b>Short-term</b>	<b>Long-term</b>
	<b>(unaudited)</b>	
	<b>(in thousands)</b>	
Balance at December 31, 2019	\$ 369,475	\$ 99,652
Recognition of beginning deferred revenue into revenue, as a result of performance obligations satisfied	(252,523)	—
Cash received in advance during the period	455,934	110,765
Recognition of cash received in the period into revenue, as a result of performance obligations satisfied	(293,658)	—
Impact of foreign exchange rates	(3,133)	—
Reclassification between short-term and long-term	106,394	(106,394)
Balance at June 30, 2020	<u>\$ 382,489</u>	<u>\$ 104,023</u>

The difference between the opening and closing balances of the Company's deferred revenue liabilities primarily results from the timing difference between the Company's performance and the customer's payment. During the six months ended June 30, 2020, the Company recognized \$252.5 million from beginning deferred revenue current balances existing at December 31, 2019, and \$0.0 million from beginning period long-term balances existing at December 31, 2019. The Company did not recognize any revenue from performance obligations satisfied in prior periods.

The following table provides the remaining performance obligation amounts as of June 30, 2020. These amounts are equivalent to the ending deferred revenue balance of \$486.5 million, which includes both short and long-term amounts:

	Web presence	Digital marketing	Total
	(unaudited)		
	(in thousands)		
Remaining performance obligation, short-term	\$ 327,973	\$ 54,516	\$ 382,489
Remaining performance obligation, long-term	104,016	7	104,023
<b>Total</b>	<b>\$ 431,989</b>	<b>\$ 54,523</b>	<b>\$ 486,512</b>

This backlog of revenue related to future performance obligations is prepaid by customers and supported by executed contracts with customers. The Company has established a reserve of \$0.3 million for refunds and chargebacks, 95% of which is expected to materialize in the first 45 days after the contract start date or renewal date. The remainder of the deferred revenue is expected to be recognized in future periods.

#### **Deferred Customer Acquisition Costs**

As a result of the implementation of ASC 606, the Company capitalizes the incremental costs directly related to obtaining and fulfilling a contract (such as sales commissions and certain direct sales and marketing success-based costs), if these costs are expected to be recovered. These costs are amortized over the period the services are transferred to the customer, which is estimated based on customer churn rates for various segments of the business. The Company includes only those incremental costs that would not have been incurred if the contracts had not been entered into:

	Short-term	Long-term
	(unaudited)	
	(in thousands)	
Balance at December 31, 2019	\$ 38,435	\$ 48,780
Deferred customer acquisition costs incurred in the period	13,726	23,508
Amounts recognized as expense in the period	(26,195)	—
Impact of foreign exchange rates	(171)	78
Adjustment resulting from sale of SinglePlatform business	—	(15)
Reclassification between short-term and long-term	14,084	(14,084)
<b>Balance at June 30, 2020</b>	<b>\$ 39,879</b>	<b>\$ 58,267</b>

As of June 30, 2020, the Company had a total of approximately \$86.3 million and \$11.8 million in deferred assets relating to costs incurred to obtain or fulfill contracts in its web presence and digital marketing segments, respectively. These deferred assets consist entirely of recoverable, specific, success-based sales commissions. During the six months ended June 30, 2020, the Company recognized total amortization costs related to the above items of approximately \$23.3 million and \$2.9 million in its web presence and digital marketing segments, respectively, which were included in sales and marketing in the consolidated statements of operations and comprehensive income (loss).

#### **Significant Judgments**

The Company sells a number of third-party cloud-based services to enhance a customer's overall web hosting experience. The Company exercises considerable judgment to determine if it is the principal or agent in each of these arrangements, and in some instances, has concluded that it is an agent of the third party and recognizes revenue at the time of the customer purchase in an amount that is net of the revenue share payable to the third party.

The Company exercises judgment to determine the SSP for each distinct performance obligation. In instances where the SSP is not directly observable, such as when the Company does not sell the product or service separately, the Company determines the SSP using information that may include a competitive market assessment approach and other observable inputs. The Company typically has more than one SSP for individual products and services.

Judgment is required to determine whether particular types of sales and marketing costs incurred, including commissions, are incremental and recoverable costs incurred to obtain and fulfill the customer contract. In addition, judgment is required to determine the life of the customer over which deferred customer acquisition costs are amortized.

#### **Income Taxes**

Income taxes are accounted for in accordance with FASB ASC 740, *Accounting for Income Taxes* ("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 the enacted tax rates and laws that will be in effect when the Company expects the differences to reverse. The Company reduces the deferred tax assets by a valuation allowance if, based upon the weight of available evidence, it is more likely than not that the Company will not realize some portion or all of the deferred tax assets. The Company considers relevant evidence, both positive and negative, to determine the need for a valuation allowance.

The Company establishes reserves when it believes that certain positions are likely to be challenged despite the Company's assertion that its tax return positions are fully supportable. The calculation of the Company's tax liabilities involves significant judgment based on individual facts, circumstances, and information available in addition to applying complex tax regulations in various jurisdictions.

Under U.S. GAAP, in order to recognize an uncertain tax benefit, the taxpayer must determine it is more likely than not the position will be sustained, and the measurement of the benefit is calculated as the largest amount that is more than 50 percent likely to be realized upon resolution of the benefit. Although the Company believes that it has adequately provided for liabilities resulting from tax assessment by taxing authorities, positions taken by these tax authorities could have an impact on the Company's results of operations, financial position and/or cash flows. The Company recognizes the interest and penalties related to income taxes as a part of interest expense and operating expenses, respectively, in continuing operations in its consolidated statements of operations and comprehensive income (loss).

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.

#### ***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 FASB ASC 718, *Compensation—Stock Compensation*, which requires employee stock-based payments to be accounted for under the fair value method. Under this method, the Company is required to record compensation cost based on the estimated fair value for stock-based awards granted over the requisite service periods for the individual awards, which generally equals the vesting periods, net of estimated forfeitures. The Company uses the straight-line amortization method for recognizing stock-based compensation expense. In addition, for stock-based awards where vesting is dependent upon achieving certain performance goals, the Company estimates the likelihood of achieving the performance goals against established performance targets.

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

#### ***Treasury Stock***

Treasury stock is accounted for at cost. Shares repurchased by the Company are held in treasury for general corporate purposes, including issuances under equity incentive and benefit plans. The reissuance of shares from treasury stock is based on the weighted-average purchase price of the shares.

#### ***Net (Loss) Income per Share***

The Company considered FASB ASC 260-10, *Earnings per Share*, which requires the presentation of both basic and diluted earnings per share in the consolidated statements of operations and comprehensive income (loss). The Company's basic net (loss) income per share is computed by dividing net (loss) income by the weighted-average number of shares of common stock outstanding for the period, and, if there are dilutive securities, diluted (loss) 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,		Six Months Ended June 30,	
	2019	2020	2019	2020
	(unaudited)			
	(in thousands, except share amounts and per share data)			
Net (loss) income	\$ (26,228)	\$ 4,598	\$ (29,716)	\$ 2,354
Net (loss) income per share:				
Basic	\$ (0.18)	\$ 0.03	\$ (0.21)	\$ 0.02
Diluted	\$ (0.18)	\$ 0.03	\$ (0.21)	\$ 0.02
Weighted-average common shares used in computing net (loss) income per share:				
Basic	145,308,823	141,380,644	144,414,929	143,703,943
Diluted	145,308,823	142,258,812	144,414,929	145,783,086

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2020	2019	2020
	(unaudited)			
Restricted stock awards and units	9,240,137	14,718,617	8,864,517	12,955,198
Options	9,167,540	5,606,299	8,944,596	5,669,093
Total	18,407,677	20,324,916	17,809,113	18,624,291

#### Recent Accounting Pronouncements - Recently Adopted

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*. The new guidance provides for the deferral of implementation costs for cloud computing arrangements and expensing those costs over the term of the cloud services arrangement. The new guidance is effective for fiscal years beginning after December 15, 2019. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

#### Recent Accounting Pronouncements - Recently Issued

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740)*, which amends existing guidance relating to the accounting for income taxes. This ASU is intended to simplify the accounting for income taxes by removing certain exceptions to the general principles of accounting for income taxes and to improve the consistent application of U.S. GAAP for other areas of accounting for income taxes by clarifying and amending existing guidance. The new guidance is effective for fiscal years beginning after December 15, 2020, and early adoption is permitted. The Company does not expect that the adoption of this new guidance will have a material impact on its consolidated financial statements.

In January 2020, the FASB issued ASU No. 2020-01, *Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323 and Topic 815*. This ASU clarifies the interaction among the accounting standards for equity securities, equity method and certain derivatives. Specifically, the ASU clarifies that when applying the measurement alternative in ASC 321, *Investments - Equity Securities*, for instruments that do not have readily determinable fair values, an entity is required to consider observable transactions that result in applying (or discontinuing) the equity method. The ASU also clarifies that when assessing whether certain forward contracts and purchased options are in the scope of Subtopic 815-10, *Certain Contracts on Debt and Equity Securities*, entities should not assess whether the underlying securities upon settlement of the forward or exercise of the option would be accounted for under the equity method in ASC 323, *Investments - Equity Method and Joint Ventures*, or the fair value option in ASC 825, *Financial Instruments*. The guidance is effective for fiscal years beginning after December 15, 2020 and for interim periods therein. Early adoption is permitted, including in interim periods for which financial statements have not been issued or made available for issuance. The Company does not expect that the adoption of this new guidance will have a material impact on its consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional expedients and exceptions for applying U.S. GAAP to

contracts, hedging relationships, and other transactions in which the reference LIBOR or another reference rate is expected to be discontinued as a result of the Reference Rate Reform. This ASU is intended to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The new guidance is effective from the beginning of an interim period that includes March 12, 2020, and through December 31, 2022. The Company is currently evaluating the timing of adoption and the expected impact of the new guidance.

### 3. Acquisitions/ Divestitures

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 in-process research and development. 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. 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 income (loss).

#### Acquisitions - 2019

##### Ecomdash

On September 13, 2019, the Company acquired substantially all of the assets of LTD Software LLC, doing business as Ecomdash ("Ecomdash"), which is a software provider that offers inventory management and marketplace listing solutions for small and mid-sized businesses selling online. The aggregate purchase price was \$9.6 million, of which approximately \$8.9 million was paid in cash at the closing. The Company retained the remainder of the purchase price as a holdback to fund any working capital adjustment, if applicable, and to serve as security for the indemnification obligations of the seller under the asset purchase agreement. Subject to any indemnification claims, the Company will release the holdback funds, less a small working capital adjustment, to the seller 12 months from the closing date. Transaction costs were expensed as incurred. The Company has accounted for this transaction as a business combination in accordance with the acquisition method of accounting, which requires, among other things, that assets acquired and liabilities assumed be recognized at their estimated fair values as of the acquisition date. The following table summarizes the preliminary allocation of the purchase consideration to the assets acquired and liabilities assumed at the date of acquisition:

	<b>September 13, 2019</b>
	<b>(in thousands)</b>
Working capital	\$ (187)
Goodwill	6,973
Developed technology	2,445
Subscriber relationships	390
<b>Total</b>	<b>\$ 9,621</b>

Goodwill related to the acquisition is deductible for tax purposes.

#### Divestitures - 2019

##### SinglePlatform

On December 5, 2019, the Company completed the sale of substantially all of its SinglePlatform digital storefront business, including all of the membership interests of its subsidiary SinglePlatform, LLC, to TripAdvisor LLC for consideration of approximately \$51.0 million in cash. The Company recognized a pre-tax gain on the sale of \$40.7 million during the three months ended December 31, 2019, which was recorded as an operating expense in the consolidated statements of operations and other comprehensive income (loss). SinglePlatform contributed \$6.8 million and \$13.9 million in revenue in the three and six months ended June 30, 2019.

#### 4. Property, Plant and Equipment

Components of property and equipment consisted of the following:

	December 31, 2019	June 30, 2020
	(unaudited)	
	(in thousands)	
Land	\$ 790	\$ 790
Building	8,285	8,299
Software	109,546	124,919
Computers and office equipment	187,056	204,247
Furniture and fixtures	18,918	18,567
Leasehold improvements	20,469	20,555
Construction in process	5,850	3,334
Property and equipment—at cost	350,914	380,711
Less: accumulated depreciation	(264,989)	(289,687)
Property and equipment—net	\$ 85,925	\$ 91,024

Depreciation expense related to property and equipment for the three months ended June 30, 2019 and 2020 was \$10.9 million and \$12.7 million, respectively. Depreciation expense related to property and equipment for the six months ended June 30, 2019 and 2020 was \$22.1 million and \$25.4 million, respectively.

Financed equipment with a cost basis of \$24.4 million was included in software as of June 30, 2020. The net carrying value of financed equipment as of June 30, 2020 was \$6.6 million.

#### 5. Leases

The Company has operating leases for data centers, corporate offices, data center equipment, and office equipment. The Company's leases have remaining lease terms of less than 1 year to 6.5 years, some of which include options to extend.

The Company's lease expense consisted entirely of operating leases and amounted to \$7.3 million and \$14.5 million for the three and six months ended June 30, 2019, respectively, and \$6.8 million and \$13.7 million for the three and six months ended June 30, 2020, respectively. Operating lease payments, which reduced operating cash flows, amounted to \$7.2 million and \$13.9 million for the three and six months ended June 30, 2019, respectively, and \$6.0 million and \$12.4 million for the three and six months ended June 30, 2020, respectively.

Supplemental balance sheet information related to leases was as follows:

	December 31, 2019	June 30, 2020
	(unaudited)	
	(in thousands)	
Operating lease right-of-use assets	\$ 90,519	\$ 79,397
Operating lease liabilities—short term	\$ 21,193	\$ 18,775
Operating lease liabilities—long term	78,151	69,746
Total operating lease liabilities	\$ 99,344	\$ 88,521

As of June 30, 2020, the weighted-average remaining lease term was 5.12 years and the discount rate for the Company's leases was 6.82%.

Maturities for leases were as follows:

	<b>Operating Leases</b>
	<b>(unaudited)</b>
	<b>(in thousands)</b>
Remainder of 2020	\$ 13,011
2021	20,950
2022	18,915
2023	17,681
2024	13,868
Thereafter	20,692
<b>Total lease payments</b>	<b>\$ 105,117</b>
Less: imputed interest	16,596
<b>Total</b>	<b>\$ 88,521</b>

## 6. 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, 2019 and June 30, 2020, the Company's financial assets required to be measured on a recurring basis consisted of the 2018 interest rate cap and certain cash equivalents, which included money market instruments and bank time deposits. The Company has classified the interest rate caps, which are discussed in Note 7, *Derivatives and Hedging Activities*, below, within Level 2 of the fair value hierarchy. The Company has also classified these cash equivalents within Level 2 of the fair value hierarchy. The 2015 interest rate cap matured during the three months ended March 31, 2019.

### *Basis of Fair Value Measurements*

	<b>Balance</b>	<b>Quoted Prices in Active Markets for Identical Items (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
	<b>(in thousands)</b>			
<b>Balance at December 31, 2019</b>				
Financial assets:				
Cash equivalents (included in cash and cash equivalents)	\$ 2,834	\$ —	\$ 2,834	\$ —
Interest rate cap (included in other assets)	6	—	6	—
<b>Total financial assets</b>	<b>\$ 2,840</b>	<b>\$ —</b>	<b>\$ 2,840</b>	<b>\$ —</b>
<b>Balance at June 30, 2020</b>	<b>(unaudited)</b>			
Financial assets:				
Cash equivalents (included in cash and cash equivalents)	\$ 13,278	\$ —	\$ 13,278	\$ —
Interest rate cap (included in other assets)	68	—	68	—
<b>Total financial assets</b>	<b>\$ 13,346</b>	<b>\$ —</b>	<b>\$ 13,346</b>	<b>\$ —</b>

The carrying amounts of the Company's other financial assets and liabilities including cash, accounts receivable, accounts payable and accrued liabilities approximate their respective fair values because of the relatively short period of time between their origination and their expected realization or settlement.

## 7. Derivatives and Hedging Activities

### *Risk Management Objective of Using Derivatives*

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

### *Cash Flow Hedges of Interest Rate Risk*

The Company has entered into two three-year interest rate caps as part of its risk management strategy, of which the first one matured in the three months ended March 31, 2019. The interest rate caps, designated as cash flow hedges of interest rate risk, provide for the payment to the Company of variable amounts if interest rates rise above the strike rate on the contract in exchange for an upfront premium. Therefore, these derivatives limit the Company's exposure if the interest rate rises, but also allow the Company to benefit when the interest rate falls.

In December 2015, the Company entered into a three-year interest rate cap with \$500.0 million notional value outstanding. This interest rate cap was effective beginning on February 29, 2016 and matured on February 27, 2019.

In June 2018, the Company entered into a three-year interest rate cap with \$800.0 million notional value outstanding. This interest rate cap was effective beginning on August 28, 2018. The fair value of this interest rate contract included in other assets on the consolidated balance sheet as of June 30, 2020 was \$0.1 million, and the Company recognized \$0.4 million and \$0.9 million of interest expense in the Company's consolidated statements of operations and comprehensive income (loss) for the three and six months ended June 30, 2020, respectively. The Company recognized a \$0.9 million gain, net of a tax expense of \$0.2 million, in Accumulated Other Comprehensive Income ("AOCI") for the six months ended June 30, 2020. The Company estimates that \$1.8 million will be reclassified from AOCI to interest expense (as an increase to interest expense) in the next twelve months.

The 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.

## 8. Goodwill and Other Intangible Assets

The following table summarizes the changes in the Company's goodwill balances from December 31, 2019 to June 30, 2020:

	<b>Web Presence</b>	<b>Digital Marketing</b>	<b>Total</b>
	<b>(in thousands)</b>		
Goodwill balance at December 31, 2019	\$ 1,231,896	\$ 603,414	\$ 1,835,310
Foreign translation impact	(625)	—	(625)
Goodwill balance at June 30, 2020	\$ 1,231,271	\$ 603,414	\$ 1,834,685

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.

As of December 31, 2019, other intangible assets consisted of the following:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted- Average Useful Life
(dollars in thousands)				
Developed technology	\$ 280,330	\$ 207,844	\$ 72,486	7 years
Subscriber relationships	659,837	529,276	130,561	7 years
Trade names	134,046	94,982	39,064	8 years
Intellectual property	34,263	31,372	2,891	5 years
Domain names available for sale	18,160	18,160	—	Indefinite
Total December 31, 2019	<u>\$ 1,126,636</u>	<u>\$ 881,634</u>	<u>\$ 245,002</u>	

As of June 30, 2020, other intangible assets consisted of the following:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted- Average Useful Life
(unaudited, dollars in thousands)				
Developed technology	\$ 280,334	\$ 222,390	\$ 57,944	7 years
Subscriber relationships	659,534	544,532	115,002	7 years
Trade names	134,037	99,080	34,957	8 years
Intellectual property	33,483	31,342	2,141	5 years
Domain names available for sale	18,160	18,160	—	Indefinite
Total June 30, 2020	<u>\$ 1,125,548</u>	<u>\$ 915,504</u>	<u>\$ 210,044</u>	

During the six months ended June 30, 2019, the Company recorded an impairment charge of \$17.9 million relating to premium domain name intangible assets acquired in 2014, which was recorded in cost of revenue in the consolidated statement of operations and comprehensive income (loss). During the six months ended June 30, 2020, there were no impairment charges of intangible assets.

During the six months ended June 30, 2020, the Company sold certain intellectual property assets for net proceeds of \$2.7 million and a gain of \$2.4 million, which was recorded as a gain on sale of intangible assets in the consolidated statements of operations and comprehensive income (loss).

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 consolidated statements of operations and comprehensive income (loss) in the aggregate amounts of \$21.3 million and \$17.3 million for the three months ended June 30, 2019 and 2020, respectively. The Company's amortization expense is included in cost of revenue in the consolidated statements of operations and comprehensive income (loss) in the aggregate amounts of \$42.5 million and \$34.6 million for the six months ended June 30, 2019 and 2020, respectively.

## 9. Notes Payable

As of December 31, 2019 and June 30, 2020, notes payable, net of original issue discounts and deferred financing costs, consisted of the following:

	December 31, 2019	June 30, 2020
	(unaudited)	
	(in thousands)	
Term Loan	\$ 1,347,056	\$ 1,335,336
Notes	334,417	324,330
Revolving credit facilities	—	—
Total notes payable	1,681,473	1,659,666
Current portion of notes payable	31,606	31,606
Notes payable - long term	\$ 1,649,867	\$ 1,628,060

#### First Lien Term Loan Facility

The First Lien Term Loan (the "Term Loan") was issued at par and automatically bears interest at an alternate base rate unless the Company gives notice to opt for the LIBOR-based interest rate. The LIBOR-based interest rate for the Term Loan is 3.75% per annum plus the greater of an adjusted LIBOR and 1.00%. The alternate base rate for the Term Loan is 2.75% per annum plus the greatest of the prime rate, the federal funds effective rate plus 0.50%, an adjusted LIBOR for a one-month interest period plus 1.00%, and 2.00%.

The Term Loan has a maturity date of February 9, 2023 and requires quarterly mandatory repayments of principal. During the six months ended June 30, 2020, the Company made two mandatory repayments of \$7.9 million each, for a total mandatory repayment of \$15.8 million.

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

As of December 31, 2019 and June 30, 2020, the Term Loan had an outstanding balance of:

	December 31, 2019	June 30, 2020
	(unaudited)	
	(in thousands)	
Term Loan	\$ 1,374,022	\$ 1,358,219
Unamortized deferred financing costs	(14,331)	(12,161)
Unamortized original issue discount	(12,635)	(10,722)
Net Term Loan	1,347,056	1,335,336
Current portion of Term Loan	31,606	31,606
Term Loan - long term	\$ 1,315,450	\$ 1,303,730

#### Revolving Credit Facility

The Company has a revolving credit facility (the "Revolver"), which has an aggregate available amount of \$165.0 million. As of December 31, 2019 and June 30, 2020, the Company did not have any balances outstanding under the Revolver and the full amount of the facility was unused and available.

The Revolver consists of a non-extended tranche of approximately \$58.8 million and an extended tranche of approximately \$106.2 million. The non-extended tranche has a maturity date of February 9, 2021. The extended tranche has a maturity date of June 20, 2023, with a "springing" maturity date of November 10, 2022 if the Term Loan has not been repaid in full or otherwise extended to September 19, 2023 or later prior to November 10, 2022.

The Company has the ability to draw down against the Revolver using a LIBOR-based interest rate or an alternate base rate. The LIBOR-based interest rate for a non-extended revolving loan is 4.00% per annum (subject to a leverage-based step-down) and for an extended revolving loan is 3.25% per annum (subject to a leverage-based step-down), in each case plus an adjusted LIBOR for a selected interest period. The alternate base rate for a non-extended revolving loan is 3.00% per annum (subject to a leverage-based step-down) and for an extended revolving loan is 2.25% per annum (subject to a leverage-based step-down), in each case plus the greatest of the prime rate, the federal funds rate plus 0.50% and an adjusted LIBOR for a one-month interest period plus 1.00%. There is also a non-refundable commitment fee, equal to 0.50% per annum (subject to a leverage-based step-down) of the average daily unused principal amount of the Revolver, which is payable in arrears on the last day of each fiscal quarter. Interest is payable on maturity of the elected interest period for a revolver loan with a LIBOR-based

interest rate, which interest period can be one, two, three or six months. Interest is payable at the end of each fiscal quarter for a revolver loan with an alternate base rate.

#### Senior Notes

In connection with the acquisition of Constant Contact, Inc. ("Constant Contact") in February 2016, EIG Investors issued \$350.0 million aggregate principal amount of senior notes (the "Senior Notes") with a maturity date of February 1, 2024. The Senior Notes were issued at a price of 98.065% of par and bear interest at the rate of 10.875% per annum. The Senior Notes have been fully and unconditionally guaranteed, on a senior unsecured basis, by Holdings and its subsidiaries that guarantee the Term Loan and the Revolver (including Constant Contact and certain of its subsidiaries). The Company has the right to redeem all or a part of the Senior Notes at any time for a discount or premium which is based on the applicable redemption date. The Company may, at any time and from time to time, seek to retire or purchase its outstanding Senior Notes through cash purchases, in open-market purchases, privately negotiated transactions or otherwise. Such repurchases, if any, will be upon such terms and at such prices as the Company may determine, and will depend on prevailing market conditions, the Company's liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

During the six months ended June 30, 2020, the Company redeemed a total of \$12.2 million of the Senior Notes in voluntary, privately negotiated transactions. The redemptions were made at an average price of 96.5%, for an immaterial net loss on redemption of \$0.1 million after recording a charge of \$0.5 million (included in interest expense) to write off original issue discounts and deferred financing costs relating to the redemptions.

As of December 31, 2019 and June 30, 2020, the Senior Notes had an outstanding balance of:

	December 31, 2019	June 30, 2020
	(unaudited)	
	(in thousands)	
Senior Notes	\$ 350,000	\$ 337,770
Unamortized deferred financing costs	(11,359)	(9,806)
Unamortized original issue discount	(4,224)	(3,634)
Net Senior Notes	334,417	324,330
Current portion of Senior Notes	—	—
Senior Notes - long term	\$ 334,417	\$ 324,330

Interest on the Senior Notes is payable twice a year, on August 1<sup>st</sup> and February 1<sup>st</sup>.

#### Maturity of Notes Payable

The maturity of the notes payable at June 30, 2020 is as follows:

Amounts maturing in:	Amounts
	(unaudited)
	(in thousands)
Remainder of 2020	\$ 15,803
2021	31,606
2022	31,606
2023	1,279,204
2024	337,770
Thereafter	—
Total	\$ 1,695,989

#### Interest

The Company recorded \$37.0 million and \$31.2 million in interest expense for the three months ended June 30, 2019 and 2020, respectively, and \$74.3 million and \$63.9 million for the six months ended June 30, 2019 and 2020, respectively.

The following table provides a summary of interest rates and interest expense for the three and six months ended June 30, 2019 and 2020:



	Three Months Ended June 30, 2019	Three Months Ended June 30, 2020	Six Months Ended June 30, 2019	Six Months Ended June 30, 2020
(unaudited)				
(percentage per annum)				
Interest rate—LIBOR	6.18%-6.39%	4.75%-5.39%	6.18%-6.44%	4.75%-5.67%
Interest rate—alternate base rate	*	*	*	*
Interest rate—Senior Notes	10.875 %	10.875 %	10.875 %	10.875 %
Non-refundable fee—unused facility	0.50 %	0.50 %	0.50 %	0.50 %
(in thousands)				
Interest expense and service fees	\$ 33,883	\$ 27,853	\$ 68,107	\$ 57,372
Amortization of deferred financing fees	1,776	1,939	3,509	3,792
Amortization of original issue discounts	1,111	1,183	2,198	2,367
Amortization of net present value of deferred consideration	59	21	120	45
Loss on extinguishment of debt	—	94	—	83
Other interest expense	208	96	317	261
Total interest expense	\$ 37,037	\$ 31,186	\$ 74,251	\$ 63,920

\* The Company did not have debt-bearing interest based on the alternate base rate for the three and six months ended June 30, 2019 and 2020.

### Debt Covenants

The Term Loan and Revolver (together, the "Senior Credit Facilities") require that the Company complies with a financial covenant to maintain a maximum ratio of consolidated senior secured net indebtedness to an adjusted consolidated EBITDA measure.

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

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

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

The indenture with respect to the Senior Notes contains covenants that limit the Company's ability to, among other things, incur additional debt or issue certain preferred shares; pay dividends on or make other distributions in respect of capital stock; make other restricted payments; make certain investments; sell or transfer certain assets; create liens on certain assets to secure debt; consolidate, merge, sell or otherwise dispose of all or substantially all of its assets; and enter into certain transactions with affiliates. Upon a change of control as defined in the indenture, the Company must offer to repurchase the Senior 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 Senior Notes to be due and payable immediately.

The Company was in compliance with all covenants at June 30, 2020.

### 10. Stock-Based Compensation

The Company has two stock incentive plans, as described below.

#### 2013 Stock Incentive Plan

The Amended and Restated 2013 Stock Incentive Plan (the "2013 Plan") of the Company became effective upon the closing of its initial public offering. 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 advisers 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, 2020, there were 4,686,811 shares available for grant under the 2013 Plan.

### 2011 Stock Incentive Plan

As of February 9, 2016, the effective date of the acquisition of Constant Contact, the Company assumed and converted certain outstanding equity awards granted by Constant Contact under the Constant Contact 2011 Stock Incentive Plan (the "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, 2020, there were 9,055,757 shares available for grant under the 2011 Plan.

### All Plans

The following table presents total stock-based compensation expense recorded in the consolidated statements of operations and comprehensive income (loss) for all awards granted under the Company's 2013 Plan and 2011 Plan:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2020	2019	2020
	(unaudited, in thousands)			
Cost of revenue	\$ 967	\$ 741	\$ 1,882	\$ 1,480
Sales and marketing	1,827	1,783	3,581	3,721
Engineering and development	1,432	1,125	2,765	2,217
General and administrative	5,128	5,946	10,142	12,013
Total stock-based compensation expense	\$ 9,354	\$ 9,595	\$ 18,370	\$ 19,431

Under both the 2011 and 2013 Plans combined, as of June 30, 2020, the Company had approximately \$3.4 million of unrecognized stock-based compensation expense related to option awards that will be recognized over 1.3 years and approximately \$59.0 million of unrecognized stock-based compensation expense related to restricted stock awards and restricted stock units that will be recognized over 2.2 years.

### 2013 Stock Incentive Plan

The following table provides a summary of the Company's stock options as of June 30, 2020 and the stock option activity during the six months ended June 30, 2020 for all stock options granted under the 2013 Plan:

	Stock Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value(3) (in thousands)
	(unaudited)			
Outstanding at December 31, 2019	5,276,679	\$ 10.57		
Granted	—	\$ —		
Exercised	—	\$ —		
Forfeited	(1,952)	\$ 9.17		
Expired	(158,611)	\$ 10.46		
Outstanding at June 30, 2020	5,116,116	\$ 10.57	6.3	\$ —
Exercisable at June 30, 2020	4,326,451	\$ 11.06	5.9	\$ —
Expected to vest after June 30, 2020 <sup>(1)</sup>	789,665	\$ 7.90	8.3	\$ —
Exercisable as of June 30, 2020 and expected to vest <sup>(2)</sup>	5,116,116	\$ 10.57	6.3	\$ —

<sup>(1)</sup> This represents the number of unvested options outstanding as of June 30, 2020 that are expected to vest in the future.

- (2) This represents the number of vested options as of June 30, 2020 plus the number of unvested options outstanding as of June 30, 2020 that are expected to vest in the future.
- (3) The aggregate intrinsic value was calculated based on the positive difference, if any, between the estimated fair value of the Company's common stock on June 30, 2020 of \$4.03 per share, or the date of exercise, as appropriate, and the exercise price of the underlying options.

Restricted stock units granted under the 2013 Plan generally vest annually over a three-year period, unless otherwise determined by the Company's board of directors. The following table provides a summary of the Company's restricted stock unit activity for the 2013 Plan during the six months ended June 30, 2020:

	Restricted Stock Units	Weighted- Average Grant Date Fair Value
	(unaudited)	
Non-vested at December 31, 2019	9,005,109	\$ 6.90
Granted	8,986,667	\$ 3.85
Vested	(2,496,512)	\$ 7.67
Canceled	(550,655)	\$ 6.08
Non-vested at June 30, 2020	<u>14,944,609</u>	<u>\$ 4.97</u>

Restricted stock awards granted under the 2013 Plan generally vest annually over a four-year period, unless otherwise determined by the Company's board of directors. 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, 2020:

	Restricted Stock Awards	Weighted- Average Grant Date Fair Value
	(unaudited)	
Non-vested at December 31, 2019	159,517	\$ 10.68
Granted	—	\$ —
Vested	(141,164)	\$ 10.98
Canceled	(2,570)	\$ 10.09
Non-vested at June 30, 2020	<u>15,783</u>	<u>\$ 8.08</u>

## 2011 Stock Incentive Plan

The following table provides a summary of the Company's stock options as of June 30, 2020 and the stock option activity during the six months ended June 30, 2020 for all stock options granted under the 2011 Plan:

	Stock Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value <sup>(3)</sup> (in thousands)
	(unaudited)			
Outstanding at December 31, 2019	533,547	\$ 8.83		
Granted	—	\$ —		
Exercised	(3,597)	\$ 3.68		
Forfeited	(1,277)	\$ 9.43		
Expired	(169,136)	\$ 8.19		
Outstanding at June 30, 2020	359,537	\$ 9.17	1.8	\$ —
Exercisable at June 30, 2020	355,888	\$ 9.18	1.8	\$ —
Expected to vest after June 30, 2020 <sup>(1)</sup>	3,649	\$ 8.28	3.4	\$ —
Exercisable as of June 30, 2020 and expected to vest <sup>(2)</sup>	359,537	\$ 9.17	1.8	\$ —

<sup>(1)</sup> This represents the number of unvested options outstanding as of June 30, 2020 that are expected to vest in the future.

<sup>(2)</sup> This represents the number of vested options as of June 30, 2020 plus the number of unvested options outstanding as of June 30, 2020 that are expected to vest in the future.

<sup>(3)</sup> 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, 2020 of \$4.03 per share, or the date of exercise, as appropriate, and the exercise price of the underlying options.

Unless otherwise determined by the Company's board of directors, restricted stock units granted under the 2011 Plan generally vest annually over a three- or a four-year period. The following table provides a summary of the Company's restricted stock unit activity for the 2011 Plan during the six months ended June 30, 2020:

	Restricted Stock Units	Weighted-Average Grant Date Fair Value
	(unaudited)	
Non-vested at December 31, 2019	320,142	\$ 8.35
Granted	—	\$ —
Vested	(240,834)	\$ 8.32
Canceled	(27,855)	\$ 8.66
Non-vested at June 30, 2020	51,453	\$ 8.33

## 11. Stockholders' Equity

The Company's restated certificate of incorporation authorizes the issuance of up to 500,000,000 shares of common stock and up to 5,000,000 shares of preferred stock, each having a par value of \$0.0001 per share. All holders of common stock are entitled to one vote per share. Upon the issuance of preferred stock, if any, the voting, dividend and liquidation rights of the holders of the common stock will be subject to and qualified by the rights of the holders of the preferred stock. Preferred stock may be issued from time to time in one or more series. The Company's board of directors has the authority to establish voting powers, designations, preferences and other special rights, including dividend rights and liquidation preferences, to the full extent permitted by law for each series of preferred stock that may be issued.

There were no shares of preferred stock issued or outstanding as of December 31, 2019 and June 30, 2020.

### Stock Repurchase Program

On March 10, 2020, the Company's board of directors authorized a share repurchase program for up to \$40.0 million of the Company's common stock on the open market, in privately negotiated transactions or otherwise.

The Company will determine the timing and amount of shares repurchased, if any, depending on its evaluation of market and other conditions. The Company expects to fund any repurchases using cash on hand and cash generated from operations. The share repurchase program may be suspended or discontinued at any time.

Shares repurchased by the Company are held in treasury for general corporate purposes, including issuances under equity incentive plans. The reissuance of shares from treasury stock is based on the weighted average purchase price of the shares.

During the six months ended June 30, 2020, the Company repurchased a total of approximately \$14.4 million of its common stock under the program, of which approximately \$7.0 million was repurchased in open market transactions pursuant to a 10b5-1 plan and \$7.45 million was repurchased in a privately negotiated transaction with Okumus Fund Management Ltd., as discussed below.

As of June 30, 2020, of the \$40.0 million authorized amount, the Company had \$25.6 million remaining available under the share repurchase program.

#### **Okumus Share Repurchase**

Pursuant to the Company's share repurchase program described above, on March 19, 2020, the Company entered into a stock repurchase agreement with Okumus Fund Management Ltd. ("Okumus"), a holder of more than 5% of the Company's capital stock. Under the agreement, the Company repurchased 5.0 million shares of its common stock from Okumus at a price of \$1.49 per share, for an aggregate repurchase price of \$7.45 million. The \$1.49 per share repurchase price that the Company paid represented a discount to the closing price per share of its common stock on the trading day prior to its entry into the repurchase agreement, which was \$1.55 per share.

## **12. Accumulated Other Comprehensive Loss**

The following table presents the components of accumulated other comprehensive loss:

	<b>Foreign Currency Translation Adjustments</b>	<b>Unrealized (Loss) Gain on Cash Flow Hedge</b>	<b>Total</b>
<b>(unaudited, in thousands)</b>			
Balance at December 31, 2019	\$ (2,135)	\$ (1,953)	\$ (4,088)
Other comprehensive (loss) income	(123)	715	592
Balance at June 30, 2020	\$ (2,258)	\$ (1,238)	\$ (3,496)

## **13. Revenue**

During the three months ended June 30, 2019 and 2020, the Company recognized \$278.2 million and \$274.0 million of revenue, respectively, the majority of which was derived from contracts with customers. During the six months ended June 30, 2019 and 2020, the Company recognized \$558.9 million and \$546.2 million, respectively, the majority of which was derived from contracts with customers.

During the three and six months ended June 30, 2019 and 2020, the Company did not incur any impairment or credit losses on any receivables or contract assets arising from the Company's contracts with customers.

In accordance with ASC 606, the Company disaggregates revenue from contracts with customers based on the timing of revenue recognition. The Company determined that disaggregating revenue into these categories depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. As discussed in Note 18, *Segment Information*, the Company's business consists of the web presence and digital marketing segments. The following table presents disaggregated revenues by category for the three and six months ended June 30, 2019 and 2020:

	<b>Three Months Ended June 30, 2019</b>		
	<b>Web presence</b>	<b>Digital marketing</b>	<b>Total</b>
	<b>(unaudited, in thousands)</b>		
Subscription-based revenue			
Direct revenue from subscriptions	\$ 147,115	\$ 100,984	\$ 248,099
Professional services	3,180	396	3,576
Reseller revenue	17,705	915	18,620
Total subscription-based revenue	\$ 168,000	\$ 102,295	\$ 270,295
Non-subscription-based revenue			
MDF	\$ 2,051	\$ 184	\$ 2,235
Premium domains	4,187	—	4,187
Domain parking and monetization	1,487	—	1,487
Total non-subscription-based revenue	\$ 7,725	\$ 184	\$ 7,909
Total revenue	\$ 175,725	\$ 102,479	\$ 278,204
	<b>Six Months Ended June 30, 2019</b>		
	<b>Web presence</b>	<b>Digital marketing</b>	<b>Total</b>
	<b>(unaudited, in thousands)</b>		
Subscription-based revenue			
Direct revenue from subscriptions	\$ 296,030	\$ 202,294	\$ 498,324
Professional services	6,508	786	7,294
Reseller revenue	35,371	1,793	37,164
Total subscription-based revenue	\$ 337,909	\$ 204,873	\$ 542,782
Non-subscription-based revenue			
MDF	\$ 3,937	\$ 346	\$ 4,283
Premium domains	9,054	—	9,054
Domain parking and monetization	2,768	—	2,768
Total non-subscription-based revenue	\$ 15,759	\$ 346	\$ 16,105
Total revenue	\$ 353,668	\$ 205,219	\$ 558,887
	<b>Three Months Ended June 30, 2020</b>		
	<b>Web presence</b>	<b>Digital marketing</b>	<b>Total</b>
	<b>(unaudited, in thousands)</b>		
Subscription-based revenue			
Direct revenue from subscriptions	\$ 148,516	\$ 95,863	\$ 244,379
Professional services	2,884	719	3,603
Reseller revenue	17,278	939	18,217
Total subscription-based revenue	\$ 168,678	\$ 97,521	\$ 266,199
Non-subscription-based revenue			
MDF	\$ 1,502	\$ 106	\$ 1,608
Premium domains	4,854	—	4,854
Domain parking and monetization	1,326	—	1,326
Total non-subscription-based revenue	\$ 7,682	\$ 106	\$ 7,788
Total revenue	\$ 176,360	\$ 97,627	\$ 273,987

	<b>Six Months Ended June 30, 2020</b>		
	<b>Web presence</b>	<b>Digital marketing</b>	<b>Total</b>
	<b>(unaudited, in thousands)</b>		
<b>Subscription-based revenue</b>			
Direct revenue from subscriptions	\$ 295,561	\$ 192,186	\$ 487,747
Professional services	6,032	1,289	7,321
Reseller revenue	34,586	1,860	36,446
<b>Total subscription-based revenue</b>	<b>\$ 336,179</b>	<b>\$ 195,335</b>	<b>\$ 531,514</b>
<b>Non-subscription-based revenue</b>			
MDF	\$ 3,091	\$ 196	\$ 3,287
Premium domains	8,849	—	8,849
Domain parking and monetization	2,531	—	2,531
<b>Total non-subscription-based revenue</b>	<b>\$ 14,471</b>	<b>\$ 196</b>	<b>\$ 14,667</b>
<b>Total revenue</b>	<b>\$ 350,650</b>	<b>\$ 195,531</b>	<b>\$ 546,181</b>

Subscription-based revenue is primarily recognized over time, when the services are performed, except for third-party products for which the Company acts as an agent. Revenue from third-party products for which the Company acts as an agent is recognized at a point in time, when the revenue is earned.

Revenue, classified by the major geographic areas in which the Company's customers are located, was as follows for the three and six months ended June 30, 2019 and 2020:

	<b>Three Months Ended June 30, 2019</b>		
	<b>Web presence</b>	<b>Digital marketing</b>	<b>Total</b>
	<b>(unaudited, in thousands)</b>		
Domestic	\$ 107,884	\$ 94,659	\$ 202,543
International	67,841	7,820	75,661
<b>Total</b>	<b>\$ 175,725</b>	<b>\$ 102,479</b>	<b>\$ 278,204</b>

	<b>Six Months Ended June 30, 2019</b>		
	<b>Web presence</b>	<b>Digital marketing</b>	<b>Total</b>
	<b>(unaudited, in thousands)</b>		
Domestic	\$ 219,013	\$ 189,472	\$ 408,485
International	134,655	15,747	150,402
<b>Total</b>	<b>\$ 353,668</b>	<b>\$ 205,219</b>	<b>\$ 558,887</b>

	<b>Three Months Ended June 30, 2020</b>		
	<b>Web presence</b>	<b>Digital marketing</b>	<b>Total</b>
	<b>(unaudited, in thousands)</b>		
Domestic	\$ 108,773	\$ 90,433	\$ 199,206
International	67,587	7,194	74,781
<b>Total</b>	<b>\$ 176,360</b>	<b>\$ 97,627</b>	<b>\$ 273,987</b>

	Six Months Ended June 30, 2020		
	Web presence	Digital marketing	Total
	(unaudited, in thousands)		
Domestic	\$ 216,224	\$ 180,769	\$ 396,993
International	134,426	14,762	149,188
<b>Total</b>	<b>\$ 350,650</b>	<b>\$ 195,531</b>	<b>\$ 546,181</b>

#### 14. Income Taxes

For the three months ended June 30, 2019 and 2020, the Company recognized a tax expense of \$6.2 million and \$11.0 million, respectively, in the consolidated statements of operations and comprehensive income (loss). For the six months ended June 30, 2019 and 2020, the Company recognized a tax expense of \$7.9 million and \$11.7 million, respectively, in the consolidated statements of operations and comprehensive income (loss).

The components of the expense for income taxes consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2020	2019	2020
	(unaudited)			
	(in thousands)			
Current:				
U.S. Federal and State	\$ 1,432	\$ 2,363	\$ 3,622	\$ 3,579
Foreign	1,186	1,746	1,621	2,677
<b>Total current expense</b>	<b>2,618</b>	<b>4,109</b>	<b>5,243</b>	<b>6,256</b>
Deferred:				
U.S. Federal and State	3,614	7,006	2,743	5,601
Foreign	(72)	(72)	(107)	(145)
<b>Total deferred (benefit)</b>	<b>3,542</b>	<b>6,934</b>	<b>2,636</b>	<b>5,456</b>
<b>Total expense</b>	<b>\$ 6,160</b>	<b>\$ 11,043</b>	<b>\$ 7,879</b>	<b>\$ 11,712</b>

The expense for income taxes shown on the consolidated statements of operations and comprehensive income (loss) differs considerably from amounts that would result from applying the statutory tax rates to income before taxes primarily due to tax rules and attributes that are available to each of the jurisdictions in which the Company operates. In addition, due to the recent changes in U.S. tax law based on the Tax Cuts and Job Act (the "TCJA") and the CARES Act, there are a number of provisions that impact the Company's overall tax result, a significant item being the limitation on the deductibility of interest expenses. These new laws may create variability from period to period, especially when the Company is assessing whether its deferred tax assets and liabilities are more likely than not to be realized.

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

- Net operating losses ("NOLs") incurred from the Company's inception to date
- Expiration of various federal, state and foreign tax attributes
- Reversals of existing temporary differences
- Composition and cumulative amounts of existing temporary differences and
- Current year forecasted profit before tax

After consideration of all positive and negative evidence, the Company believes that it is more likely than not that a portion of its deferred tax assets will not be realized. The Company has recorded a valuation allowance at December 31, 2019 and June 30, 2020 of \$44.1 million and \$45.1 million, respectively, against its U.S. deferred tax assets. The increase in valuation allowance is primarily due to the change in the timing of when the existing temporary differences are expected to reverse in the future. The Company has recorded a valuation allowance at December 31, 2019 against its foreign deferred tax assets of \$6.0 million, of which \$3.5 million is in the Netherlands, \$1.5 million is in Brazil, and \$1.0 million is in various other foreign jurisdictions. The Company has recorded a valuation allowance at June 30, 2020 against its foreign deferred tax assets



of \$6.1 million, of which \$3.3 million is in the Netherlands, \$1.8 million is in Brazil, and \$1.0 million is in various other foreign jurisdictions.

The CARES Act was enacted on March 27, 2020. The CARES Act is an emergency economic stimulus package that includes spending and tax cuts to strengthen the United States economy and fund a nationwide effort to curtail the effect of COVID-19. While the CARES Act provides sweeping tax changes in response to the COVID-19 pandemic, some of the more significant provisions which are expected to impact the Company's financial statements include increasing the ability to deduct interest expense, as well as amending certain provisions of the previously enacted TCJA. As of June 30, 2020, the Company recognized a benefit of \$1.8 million as a component of income tax expense from continuing operations related to the CARES Act. Based on the Company's assessments, the Company anticipates that the CARES Act will allow the Company to defer its 2020 tax payments; defer the payment of the employer portion of its FICA taxes to 2021 and 2022; fully deduct its interest expense for 2019; accelerate a refund of its available alternative minimum tax ("AMT") credits; and increase its permitted level of 2019 federal net operating loss carry-forwards from approximately \$26.0 million to \$77.0 million. The Company continues to review the tax-related provisions of the CARES Act and its potential impact on the Company.

The Company establishes reserves when the Company believes that certain positions are likely to be challenged despite the Company's assertion that its tax return positions are fully supportable. The calculation of the Company's tax liabilities involves significant judgment based on individual facts, circumstances and information available in addition to applying complex tax regulations in various jurisdictions. 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 recorded unrecognized tax benefits at December 31, 2019 and June 30, 2020 of \$4.7 million and \$5.6 million, respectively, 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.

As of December 31, 2019, the Company had recorded the following tax attributes available to be carried forward:

Jurisdiction	Amount (in millions)	Year Loss Carry-forwards Expire
Domestic		
Federal	\$ 26.9	2037
State	78.0	various dates through 2039
Foreign		
China	0.9	2021
Brazil	4.4	indefinite
Netherlands	12.4	2022
India	0.6	2022
Singapore	0.4	indefinite
Total NOL carry-forwards	<u>\$ 123.6</u>	
Domestic		
Federal	\$ 25.2	2034
State	15.5	various dates
Total tax credit carry-forwards	<u>\$ 40.7</u>	
Total tax attributes available	<u>\$ 164.3</u>	

As of December 31, 2019 and June 30, 2020, the Company has recorded interest expense that can be carried forward indefinitely due to provisions of the TCJA, of \$114.9 million and \$58.4 million, respectively.

The Company files income tax returns in the United States for federal income taxes and in various state jurisdictions. The Company also files in several foreign jurisdictions. In the normal course of business, the Company is subject to examination by tax authorities throughout the world. Since the Company is in a loss carry-forward position, it is generally subject to U.S. federal and state income tax examinations by tax authorities for all years for which a loss carry-forward is utilized.

## 15. Severance and Other Exit Costs

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

### 2020 Restructuring Plan

During the three months ended March 31, 2020, the Company announced plans to eliminate approximately 47 positions, located primarily in Massachusetts, in order to streamline overall operations (the "2020 Restructuring Plan"). During the three and six months ended June 30, 2020, the Company incurred severance costs of \$0.0 million and \$1.6 million, respectively, paid \$0.7 million and \$1.1 million, respectively, and had a remaining accrued severance liability of \$0.5 million as of June 30, 2020 in connection with the 2020 Restructuring Plan. The Company expects to complete severance payments related to the 2020 Restructuring Plan during the year ending December 31, 2020.

### 2019 Restructuring Plan

In January 2019, the Company announced plans to eliminate approximately 40 positions located primarily in the southwest United States, and further consolidate a Massachusetts facility, in order to streamline operations and create operational efficiencies (the "2019 Restructuring Plan"). During the three months ended March 31, 2020, the Company completed severance payments related to the 2019 Restructuring Plan and had no remaining accrued severance liability as of June 30, 2020.

In connection with the 2019 Restructuring Plan, the Company reduced the amount of space leased for an office in Massachusetts. During the three and six months ended June 30, 2020, the Company incurred facility exit costs of \$0.0 million and \$0.0 million, respectively, and paid \$0.1 million and \$0.1 million, respectively. The Company had a remaining facility exit cost accrual of \$1.1 million as of June 30, 2020 in connection with the 2019 Restructuring Plan.

### 2018 Restructuring Plan

In January 2018, the Company announced plans to eliminate approximately 71 positions, later increased to approximately 95 positions, primarily in the Asia Pacific region and to a lesser extent in the U.S., in order to streamline operations and create operational efficiencies (the "2018 Restructuring Plan"). The Company completed all payments relating to the 2018 Restructuring Plan during the year ended December 31, 2019.

In connection with the 2018 Restructuring Plan, the Company closed offices in Ohio. During the three and six months ended June 30, 2020, the Company incurred no facility charges and made payments of \$0.0 million, and \$0.0 million, respectively. The Company had a remaining accrued facility liability of \$0.1 million as of June 30, 2020 in connection with the 2018 Restructuring Plan.

### Activity of Combined Restructuring Plans

The following table provides a summary of the aggregate activity for the six months ended June 30, 2020 related to the severance accrual for the Company's combined restructuring plans:

	<b>Employee Severance</b>
	<b>(unaudited, in thousands)</b>
Balance at December 31, 2019	\$ 44
Severance charges	1,646
Cash paid	(1,151)
Balance at June 30, 2020	<u>\$ 539</u>

The following table provides a summary of the aggregate activity for the six months ended June 30, 2020 related to the facilities exit accrual for the Company's combined restructuring plans:

	<b>Facilities</b>
	<b>(unaudited, in thousands)</b>
Balance at December 31, 2019	\$ 2,369
Facility charges	70
Sublease income received	85
Cash paid	(482)
Balance at June 30, 2020	<u>\$ 2,042</u>

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>
	<b>(unaudited, in thousands)</b>			
Cost of revenue	\$ 156	\$ 6	\$ 1,423	\$ 148
Sales and marketing	4	6	224	575
Engineering and development	7	18	421	464
General and administrative	16	4	130	529
Total restructuring charges	<u>\$ 183</u>	<u>\$ 34</u>	<u>\$ 2,198</u>	<u>\$ 1,716</u>

## 16. 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.

As previously disclosed, the Company was named as a defendant in a shareholder litigation matter. On February 9, 2016, the Company acquired all of the outstanding shares of common stock of Constant Contact. On August 7, 2015, a purported class action lawsuit, William McGee v. Constant Contact, Inc., et al., was filed in the United States District Court for the District of Massachusetts against Constant Contact and two of its former officers. An amended complaint, which named an additional former officer as a defendant, was filed December 19, 2016. The lawsuit asserted claims under Sections 10(b) and 20(a) of the Exchange Act, and was 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. The parties subsequently agreed to settle the matter on a class wide basis. On May 27, 2020, the court certified a settlement class and approved the settlement. The period in which a settlement class member could appeal that order lapsed without any class members filing an appeal, and the court's order is now final. The Company's contribution to the settlement pool was equal to the \$1.5 million it reserved for this matter during the year ended December 31, 2018.

## 17. Related Party Transactions

The Company has various agreements in place with related parties. Below are details of significant related party transactions that occurred during the six months ended June 30, 2019 and 2020.

### **SiteLock, LLC:**

The Company has an agreement with SiteLock, LLC ("SiteLock"), which provides multi-layered third-party security and website performance applications that are sold by the Company. During the six months ended June 30, 2020, a director of the Company continued to hold a material financial interest in SiteLock.

The Company records revenue on the sale of SiteLock products on a net basis, since the Company views SiteLock as the primary obligor to deliver these services. As a result, the revenue share paid by the Company to SiteLock is recorded as contra-revenue. Further, SiteLock pays the Company a fee on sales made by SiteLock directly to customers of the Company. The Company records these fees as revenue.

The following table presents the amounts of related party transactions recorded in the consolidated statements of operations and comprehensive income (loss) for the periods presented relating to the Company's agreement with SiteLock:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2020	2019	2020
	(unaudited, in thousands)			
Revenue	\$ (1,440)	\$ (920)	\$ (2,740)	\$ (1,840)
Revenue (contra)	1,890	1,830	3,990	3,370
Total related party transaction impact to revenue	\$ 450	\$ 910	\$ 1,250	\$ 1,530
Cost of revenue	170	85	320	175
Total related party transaction expense, net	\$ 620	\$ 995	\$ 1,570	\$ 1,705

As of December 31, 2019 and June 30, 2020, no amounts were included in prepaid expenses and other current assets relating to the Company's agreement with SiteLock.

As of December 31, 2019 and June 30, 2020, approximately \$0.4 million and \$0.7 million, respectively, was included in accounts payable and accrued expense relating to the Company's agreement with SiteLock.

As of December 31, 2019 and June 30, 2020, approximately \$0.3 million and \$0.3 million, respectively, was included in accounts receivable relating to the Company's agreement with SiteLock.

#### **Okumus Share Repurchase:**

Pursuant to the Company's share repurchase program announced on March 10, 2020, on March 19, 2020, the Company entered into a stock repurchase agreement with Okumus, a holder of more than 5% of the Company's capital stock. Under the agreement, the Company repurchased 5.0 million shares of its common stock from Okumus at a price of \$1.49 per share, for an aggregate repurchase price of \$7.45 million. The \$1.49 per share repurchase price that the Company paid represented a discount to the closing price per share of its common stock on the trading day prior to its entry into the repurchase agreement, which was \$1.55 per share.

#### **18. Segment Information**

The Company has two reportable segments: web presence and digital marketing. The products and services included in each of the two reportable segments are as follows:

**Web Presence.** The web presence segment consists of the Company's web hosting brands, including Bluehost and HostGator, as well as its domain-focused brands such as Domain.com, ResellerClub and LogicBoxes. This segment includes web hosting, website security, website design tools and services, e-commerce products, domain names and domain privacy. It also includes the sale of domain management services to resellers and end users, as well as premium domain names, and generates advertising revenue from domain name parking. The results presented below for the web presence segment include the former domain segment.

**Digital Marketing.** The digital marketing segment consists of Constant Contact email marketing tools and related products. This segment also generates revenue from sales of the Company's Constant Contact-branded website builder tool and Ecomdash inventory management and marketplace listing solution which was acquired in the third quarter of 2019. For most of 2019, the digital marketing segment also included the SinglePlatform digital storefront business, which was sold on December 5, 2019.

The Company measures profitability of these segments based on revenue, gross profit, and adjusted EBITDA. The Company's segments share certain resources, primarily related to sales and marketing, engineering and development, and general and administrative functions. Management allocates these costs to each respective segment based on a consistently applied methodology.

The CODM does not use asset information to allocate resources or make operating decisions.

The accounting policies of each segment are the same as those described in the summary of significant accounting policies; please refer to Note 2, *Summary of Significant Accounting Policies*, for further details. The Company recast the comparative information for the three and six months ended June 30, 2019 to conform with the two-segment presentation. The following tables contain financial information for each reportable segment for the three and six months ended June 30, 2019 and 2020:

**Three Months Ended June 30, 2019**

	<b>Web presence</b>	<b>Digital marketing</b>	<b>Total</b>
	<b>(unaudited, in thousands)</b>		
Revenue	\$ 175,725	\$ 102,479	\$ 278,204
Gross profit	\$ 65,028	\$ 73,589	\$ 138,617
Net (loss) income	\$ (30,392)	\$ 4,164	\$ (26,228)
Interest expense, net <sup>(1)</sup>	17,613	19,110	36,723
Income tax expense	3,891	2,269	6,160
Depreciation	8,670	2,229	10,899
Amortization of other intangible assets	9,941	11,408	21,349
Stock-based compensation	6,132	3,222	9,354
Restructuring expenses	160	23	183
Gain on sale of intangible assets	—	—	—
Gain on sale of business	—	—	—
Transaction expenses and charges	—	—	—
Impairment of goodwill and other long-lived assets	17,892	—	17,892
Shareholder litigation reserve	—	—	—
<b>Adjusted EBITDA</b>	<b>\$ 33,907</b>	<b>\$ 42,425</b>	<b>\$ 76,332</b>

**Six Months Ended June 30, 2019**

	<b>Web presence</b>	<b>Digital marketing</b>	<b>Total</b>
	<b>(unaudited, in thousands)</b>		
Revenue	\$ 353,668	\$ 205,219	\$ 558,887
Gross profit	\$ 147,810	\$ 147,636	\$ 295,446
Net (loss) income	\$ (39,818)	\$ 10,102	\$ (29,716)
Interest expense, net <sup>(1)</sup>	37,142	36,504	73,646
Income tax expense	4,982	2,897	7,879
Depreciation	17,552	4,553	22,105
Amortization of other intangible assets	19,778	22,691	42,469
Stock-based compensation	12,065	6,305	18,370
Restructuring expenses	821	1,377	2,198
Gain on sale of intangible assets	—	—	—
Gain on sale of business	—	—	—
Transaction expenses and charges	—	—	—
Impairment of goodwill and other long-lived assets	17,892	—	17,892
Shareholder litigation reserve	—	—	—
<b>Adjusted EBITDA</b>	<b>\$ 70,414</b>	<b>\$ 84,429</b>	<b>\$ 154,843</b>

	<b>Three Months Ended June 30, 2020</b>		
	<b>Web presence</b>	<b>Digital marketing</b>	<b>Total</b>
	<b>(unaudited, in thousands)</b>		
Revenue	\$ 176,360	\$ 97,627	\$ 273,987
Gross profit	\$ 88,594	\$ 72,328	\$ 160,922
Net (loss) income	\$ (2,016)	\$ 6,614	\$ 4,598
Interest expense, net <sup>(1)</sup>	14,866	16,158	31,024
Income tax expense	7,108	3,935	11,043
Depreciation	10,364	2,382	12,746
Amortization of other intangible assets	7,561	9,721	17,282
Stock-based compensation	6,320	3,275	9,595
Restructuring expenses	—	34	34
Gain on sale of intangible assets	(2,365)	—	(2,365)
Gain on sale of business	—	—	—
Transaction expenses and charges	—	—	—
Impairment of goodwill and other long-lived assets	—	—	—
Shareholder litigation reserve	—	—	—
<b>Adjusted EBITDA</b>	<b>\$ 41,838</b>	<b>\$ 42,119</b>	<b>\$ 83,957</b>

	<b>Six Months Ended June 30, 2020</b>		
	<b>Web presence</b>	<b>Digital marketing</b>	<b>Total</b>
	<b>(unaudited, in thousands)</b>		
Revenue	\$ 350,650	\$ 195,531	\$ 546,181
Gross profit	\$ 172,736	\$ 144,116	\$ 316,852
Net (loss) income	\$ (9,250)	\$ 11,604	\$ 2,354
Interest expense, net <sup>(1)</sup>	30,470	33,118	63,588
Income tax expense	7,536	4,176	11,712
Depreciation	20,787	4,655	25,442
Amortization of other intangible assets	15,151	19,442	34,593
Stock-based compensation	12,910	6,521	19,431
Restructuring expenses	1,032	684	1,716
Gain on sale of intangible assets	(2,365)	—	(2,365)
Gain on sale of business	—	—	—
Transaction expenses and charges	—	—	—
Impairment of goodwill and other long-lived assets	—	—	—
Shareholder litigation reserve	—	—	—
<b>Adjusted EBITDA</b>	<b>\$ 76,271</b>	<b>\$ 80,200</b>	<b>\$ 156,471</b>

<sup>1</sup> Interest expense includes impact of amortization of deferred financing costs, original issue discounts and interest income.

## 19. Subsequent Events

The Company evaluated all subsequent events occurring through August 6, 2020 to determine if any such events should be reflected in these consolidated financial statements. There were no material recognized subsequent events recorded in the June 30, 2020 consolidated financial statements.

On July 30, 2020, the Company entered into a definitive merger agreement with WaJao, Inc. (doing business as Retention Science) ("ReSci"). Under the terms of the definitive merger agreement, the Company will acquire 100% of the equity interest in ReSci for approximately \$35.0 million, consisting of \$17.5 million to be paid in cash upon close, and the remaining \$17.5 million to be paid in a combination of deferred consideration and earnouts over the next three years. The closing of the transaction is subject to customary closing conditions and is expected to close on or before August 15, 2020. ReSci is a provider of artificial intelligence ("AI") driven e-commerce email marketing services.

## **20. Supplemental Guarantor Financial Information**

In February 2016, EIG Investors (the "Issuer") issued \$350.0 million aggregate principal amount of its 10.875% Senior Notes due 2024 (see Note 9, *Notes Payable*), which it exchanged for new 10.875% Senior Notes due 2024 pursuant to a registration statement on Form S-4. The registered exchange offer for the Senior Notes was completed on January 30, 2017. The Senior Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by Holdings, the Issuer, and the following wholly-owned subsidiaries: EIG, Bluehost Inc., FastDomain Inc., Domain Name Holding Company, Inc., Endurance International Group – West, Inc., HostGator.com LLC, A Small Orange, LLC, Constant Contact, and P.D.R Solutions (U.S.) LLC (collectively, the "Subsidiary Guarantors"), subject to certain customary guarantor release conditions. Holdings' other domestic subsidiaries and its foreign subsidiaries (collectively, the "Non-Guarantor Subsidiaries") have not guaranteed the Senior Notes.

SinglePlatform, LLC ceased being a Subsidiary Guarantor on December 5, 2019 due to the Company's sale of the SinglePlatform business, including SinglePlatform, LLC.

The following tables present supplemental condensed consolidating balance sheet information of Holdings ("Parent"), the Issuer, the Subsidiary Guarantors and the Non-Guarantor Subsidiaries as of December 31, 2019 and June 30, 2020, and supplemental condensed consolidating results of operations for the three and six months ended June 30, 2019 and 2020:

**Condensed Consolidating Balance Sheets**  
**December 31, 2019**  
(in thousands)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 195	\$ 1	\$ 80,642	\$ 30,427	\$ —	\$ 111,265
Restricted cash	—	—	1,732	—	—	1,732
Accounts receivable	—	—	8,762	1,462	—	10,224
Prepaid domain name registry fees	—	—	48,943	6,294	—	55,237
Prepaid commissions	—	—	37,910	525	—	38,435
Prepaid expenses and other current assets	—	90	26,847	3,756	—	30,693
<b>Total current assets</b>	<b>195</b>	<b>91</b>	<b>204,836</b>	<b>42,464</b>	<b>—</b>	<b>247,586</b>
Intercompany receivables—net	32,845	172,807	(87,398)	(118,254)	—	—
Property and equipment—net	—	—	72,751	13,174	—	85,925
Operating lease right-of-use assets	—	—	86,111	4,408	—	90,519
Goodwill	—	—	1,677,587	157,723	—	1,835,310
Other intangible assets—net	—	—	243,994	1,008	—	245,002
Investment in subsidiaries	163,934	1,693,565	61,023	—	(1,918,522)	—
Prepaid commissions, net of current portion	—	—	48,289	491	—	48,780
Other assets	—	1,784	27,215	1,965	—	30,964
<b>Total assets</b>	<b>\$ 196,974</b>	<b>\$ 1,868,247</b>	<b>\$ 2,334,408</b>	<b>\$ 102,979</b>	<b>\$ (1,918,522)</b>	<b>\$ 2,584,086</b>
<b>Liabilities and stockholders' equity</b>						
Current liabilities:						
Accounts payable	\$ —	\$ —	\$ 9,474	\$ 580	\$ —	\$ 10,054
Accrued expenses and other current liabilities	20	23,554	59,695	7,141	—	90,410
Deferred revenue	—	—	345,116	24,359	—	369,475
Operating lease liabilities—short term	—	—	18,513	2,680	—	21,193
Current portion of notes payable	—	31,606	—	—	—	31,606
Current portion of financed equipment	—	—	790	—	—	790
Deferred consideration—short term	—	—	2,201	—	—	2,201
<b>Total current liabilities</b>	<b>20</b>	<b>55,160</b>	<b>435,789</b>	<b>34,760</b>	<b>—</b>	<b>525,729</b>
Deferred revenue—long term	—	—	94,471	5,181	—	99,652
Operating lease liabilities—long term	—	—	76,166	1,985	—	78,151
Notes payable	—	1,649,867	—	—	—	1,649,867
Other long-term liabilities	—	(714)	34,417	30	—	33,733
<b>Total liabilities</b>	<b>20</b>	<b>1,704,313</b>	<b>640,843</b>	<b>41,956</b>	<b>—</b>	<b>2,387,132</b>
Equity	196,954	163,934	1,693,565	61,023	(1,918,522)	196,954
<b>Total liabilities and stockholders' equity</b>	<b>\$ 196,974</b>	<b>\$ 1,868,247</b>	<b>\$ 2,334,408</b>	<b>\$ 102,979</b>	<b>\$ (1,918,522)</b>	<b>\$ 2,584,086</b>



**Condensed Consolidating Balance Sheets**  
**June 30, 2020**  
**(unaudited, in thousands)**

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 1,844	\$ 1	\$ 109,435	\$ 37,913	\$ —	\$ 149,193
Restricted cash	—	—	1,632	—	—	1,632
Accounts receivable	—	—	8,964	1,770	—	10,734
Prepaid domain name registry fees	—	—	51,118	6,598	—	57,716
Prepaid commissions	—	—	39,277	602	—	39,879
Prepaid expenses and other current assets	—	23	28,255	3,730	—	32,008
<b>Total current assets</b>	<b>1,844</b>	<b>24</b>	<b>238,681</b>	<b>50,613</b>	<b>—</b>	<b>291,162</b>
Intercompany receivables—net	15,882	77,211	36,665	(129,758)	—	—
Property and equipment—net	—	—	78,727	12,297	—	91,024
Operating lease right-of-use assets	—	—	76,508	2,889	—	79,397
Goodwill	—	—	1,677,586	157,099	—	1,834,685
Other intangible assets, net	—	—	209,302	742	—	210,044
Investment in subsidiaries	187,211	1,789,400	56,507	—	(2,033,118)	—
Prepaid commissions, net of current portion	—	—	57,683	584	—	58,267
Other assets	—	1,408	28,032	2,183	—	31,623
<b>Total assets</b>	<b>\$ 204,937</b>	<b>\$ 1,868,043</b>	<b>\$ 2,459,691</b>	<b>\$ 96,649</b>	<b>\$ (2,033,118)</b>	<b>\$ 2,596,202</b>
<b>Liabilities and stockholders' equity</b>						
Current liabilities:						
Accounts payable	\$ —	\$ —	\$ 14,683	\$ 451	\$ —	\$ 15,134
Accrued expenses and other current liabilities	20	21,647	63,748	7,449	—	92,864
Deferred revenue	—	—	358,450	24,039	—	382,489
Operating lease liabilities—short term	—	—	17,401	1,374	—	18,775
Current portion of notes payable	—	31,606	—	—	—	31,606
Current portion of financed equipment	—	—	4,017	—	—	4,017
Deferred consideration—short term	—	—	746	—	—	746
<b>Total current liabilities</b>	<b>20</b>	<b>53,253</b>	<b>459,045</b>	<b>33,313</b>	<b>—</b>	<b>545,631</b>
Deferred revenue—long term	—	—	98,940	5,083	—	104,023
Operating lease liabilities—long term	—	—	68,078	1,668	—	69,746
Notes payable	—	1,628,060	—	—	—	1,628,060
Financed equipment, long-term	—	—	401	—	—	401
Other long-term liabilities	—	(483)	43,831	76	—	43,424
<b>Total liabilities</b>	<b>20</b>	<b>1,680,830</b>	<b>670,295</b>	<b>40,140</b>	<b>—</b>	<b>2,391,285</b>
<b>Equity</b>	<b>204,917</b>	<b>187,213</b>	<b>1,789,396</b>	<b>56,509</b>	<b>(2,033,118)</b>	<b>204,917</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 204,937</b>	<b>\$ 1,868,043</b>	<b>\$ 2,459,691</b>	<b>\$ 96,649</b>	<b>\$ (2,033,118)</b>	<b>\$ 2,596,202</b>

**Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)**  
**Three Months Ended June 30, 2019**  
**(unaudited, in thousands)**

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$ —	\$ —	\$ 266,013	\$ 15,270	\$ (3,079)	\$ 278,204
Cost of revenue (including impairment of \$17,892)	—	—	132,230	10,436	(3,079)	139,587
Gross profit	—	—	133,783	4,834	—	138,617
Operating expense:						
Sales and marketing	—	—	61,568	3,922	—	65,490
Engineering and development	—	—	22,915	2,433	—	25,348
General and administrative	824	58	29,563	679	—	31,124
Total operating expense	824	58	114,046	7,034	—	121,962
(Loss) income from operations	(824)	(58)	19,737	(2,200)	—	16,655
Interest expense and other income—net	—	36,807	58	(142)	—	36,723
(Loss) income before income taxes and equity earnings of unconsolidated entities	(824)	(36,865)	19,679	(2,058)	—	(20,068)
Income tax (benefit) expense	—	(8,774)	13,884	1,050	—	6,160
(Loss) income before equity earnings of unconsolidated entities	(824)	(28,091)	5,795	(3,108)	—	(26,228)
Equity loss (income) of unconsolidated entities, net of tax	25,404	(2,689)	3,108	—	(25,823)	—
Net (loss) income	\$ (26,228)	\$ (25,402)	\$ 2,687	\$ (3,108)	\$ 25,823	\$ (26,228)
Comprehensive income (loss):						
Foreign currency translation adjustments	—	—	—	348	—	348
Unrealized gain (loss) on cash flow hedge, net of taxes	—	110	—	—	—	110
Total comprehensive (loss) income	\$ (26,228)	\$ (25,292)	\$ 2,687	\$ (2,760)	\$ 25,823	\$ (25,770)

**Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)**  
**Six Months Ended June 30, 2019**  
**(unaudited, in thousands)**

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$ —	\$ —	\$ 534,472	\$ 30,863	\$ (6,448)	\$ 558,887
Cost of revenue (including impairment of \$17,892)	—	—	249,262	20,627	(6,448)	263,441
Gross profit	—	—	285,210	10,236	—	295,446
Operating expense:						
Sales and marketing	—	—	125,306	6,772	—	132,078
Engineering and development	—	—	44,517	4,525	—	49,042
General and administrative	824	116	60,614	963	—	62,517
Total operating expense	824	116	230,437	12,260	—	243,637
(Loss) income from operations	(824)	(116)	54,773	(2,024)	—	51,809
Interest expense and other income—net	—	73,851	72	(277)	—	73,646
(Loss) income before income taxes and equity earnings of unconsolidated entities	(824)	(73,967)	54,701	(1,747)	—	(21,837)
Income tax (benefit) expense	—	(17,604)	24,033	1,450	—	7,879
(Loss) income before equity earnings of unconsolidated entities	(824)	(56,363)	30,668	(3,197)	—	(29,716)
Equity loss (income) of unconsolidated entities, net of tax	28,892	(27,473)	3,197	—	(4,616)	—
Net (loss) income	\$ (29,716)	\$ (28,890)	\$ 27,471	\$ (3,197)	\$ 4,616	\$ (29,716)
Comprehensive income (loss):						
Foreign currency translation adjustments	—	—	—	(53)	—	(53)
Unrealized gain (loss) on cash flow hedge, net of taxes	—	(851)	—	—	—	(851)
Total comprehensive (loss) income	\$ (29,716)	\$ (29,741)	\$ 27,471	\$ (3,250)	\$ 4,616	\$ (30,620)

**Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)**  
**Three Months Ended June 30, 2020**  
**(unaudited, in thousands)**

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$ —	\$ —	\$ 263,355	\$ 14,383	\$ (3,751)	\$ 273,987
Cost of revenue	—	—	105,516	11,300	(3,751)	113,065
Gross profit	—	—	157,839	3,083	—	160,922
Operating expense:						
Sales and marketing	—	—	60,812	2,250	—	63,062
Engineering and development	—	—	21,726	2,933	—	24,659
General and administrative	415	61	28,787	(362)	—	28,901
Gain on sale of intangible assets	—	—	(2,365)	—	—	(2,365)
Total operating expense	415	61	108,960	4,821	—	114,257
(Loss) income from operations	(415)	(61)	48,879	(1,738)	—	46,665
Interest expense and other income—net	—	31,070	78	(124)	—	31,024
(Loss) income before income taxes and equity earnings of unconsolidated entities	(415)	(31,131)	48,801	(1,614)	—	15,641
Income tax (benefit) expense	—	(7,409)	16,948	1,504	—	11,043
(Loss) income before equity earnings of unconsolidated entities	(415)	(23,722)	31,853	(3,118)	—	4,598
Equity (income) loss of unconsolidated entities, net of tax	(5,013)	(28,735)	3,119	—	30,629	—
Net income (loss)	\$ 4,598	\$ 5,013	\$ 28,734	\$ (3,118)	\$ (30,629)	\$ 4,598
Comprehensive income (loss):						
Foreign currency translation adjustments	—	—	—	434	—	434
Unrealized gain (loss) on cash flow hedge, net of taxes	—	343	—	—	—	343
Total comprehensive income (loss)	\$ 4,598	\$ 5,356	\$ 28,734	\$ (2,684)	\$ (30,629)	\$ 5,375

**Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)**  
**Six Months Ended June 30, 2020**  
**(unaudited, in thousands)**

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$ —	\$ —	\$ 523,934	\$ 29,947	\$ (7,700)	\$ 546,181
Cost of revenue	—	—	213,941	23,088	(7,700)	229,329
Gross profit	—	—	309,993	6,859	—	316,852
Operating expense:						
Sales and marketing	—	—	126,459	3,794	—	130,253
Engineering and development	—	—	45,637	5,896	—	51,533
General and administrative	897	122	59,947	(1,189)	—	59,777
Gain on sale of intangible assets	—	—	(2,365)	—	—	(2,365)
Total operating expense	897	122	229,678	8,501	—	239,198
(Loss) income from operations	(897)	(122)	80,315	(1,642)	—	77,654
Interest expense and other income—net	—	63,616	198	(226)	—	63,588
(Loss) income before income taxes and equity earnings of unconsolidated entities	(897)	(63,738)	80,117	(1,416)	—	14,066
Income tax (benefit) expense	—	(15,168)	24,717	2,163	—	11,712
(Loss) income before equity earnings of unconsolidated entities	(897)	(48,570)	55,400	(3,579)	—	2,354
Equity (income) loss of unconsolidated entities, net of tax	(3,251)	(51,823)	3,581	—	51,493	—
Net income (loss)	\$ 2,354	\$ 3,253	\$ 51,819	\$ (3,579)	\$ (51,493)	\$ 2,354
Comprehensive income (loss):						
Foreign currency translation adjustments	—	—	—	(123)	—	(123)
Unrealized gain (loss) on cash flow hedge, net of taxes	—	715	—	—	—	715
Total comprehensive income (loss)	\$ 2,354	\$ 3,968	\$ 51,819	\$ (3,702)	\$ (51,493)	\$ 2,946

**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 and with our audited consolidated financial statements and related notes and other financial information included in our Annual Report on Form 10-K for the year ended December 31, 2019.*

## Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed in the forward-looking statements. The statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements are often identified by the use of words such as, but not limited to, “anticipate,” “believe,” “can,” “contemplate,” “continue,” “could,” “estimate,” “expect,” “intend,” “likely,” “may,” “might,” “plan,” “potential,” “predict,” “project,” “seek,” “should,” “strategy,” “target,” “would,” and similar expressions 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. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

## Overview

We are a leading provider of cloud-based platform solutions designed to help small- and medium-sized businesses, or SMBs, succeed online. We serve approximately 4.9 million subscribers globally with a range of products and services that help SMBs get online, get found and grow their businesses. In addition to for-profit businesses, our subscribers include non-profit organizations, community groups, bloggers, and hobbyists. Although we provide our solutions through a number of brands, we are focusing our marketing, engineering and product development efforts on a small number of strategic assets, including our Constant Contact, Bluehost, HostGator, and Domain.com brands.

We report our financial results in two segments, web presence and digital marketing.

**Web Presence.** Our web presence segment consists primarily of our web hosting brands, including Bluehost and HostGator, as well as our domain-focused brands such as Domain.com, ResellerClub and LogicBoxes. This segment includes web hosting, website security, website design tools and services, e-commerce products, domain names, and domain privacy. It also includes the sale of domain management services to resellers and end users, as well as premium domain names, and generates advertising revenue from domain name parking.

**Digital Marketing.** Our digital marketing segment consists of Constant Contact email marketing tools and related products. This segment also generates revenue from sales of our Constant Contact-branded website builder tool and our Ecomdash inventory management and marketplace listing solution, or Ecomdash, which we acquired in the third quarter of 2019. For most of 2019, the digital marketing segment also included the SinglePlatform digital storefront business, which we sold on December 5, 2019.

The web presence segment includes our former domain segment, which was consolidated into the web presence segment beginning with the quarter ended March 31, 2020. We have recast the comparative information for the three and six months ended June 30, 2019 to conform with the two-segment presentation.

Our financial results for the second quarter and first half of 2020 reflected an increase in net income, a decrease in revenue and an increase in net cash provided by operating activities compared to the second quarter and first half of 2019. Year over year changes in revenue, net (loss) income and net cash provided by operating activities are summarized below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2020	2019	2020
	(in thousands)			
Revenue	\$ 278,204	\$ 273,987	\$ 558,887	\$ 546,181
Net (loss) income	\$ (26,228)	\$ 4,598	\$ (29,716)	\$ 2,354
Net cash provided by operating activities	\$ 59,680	\$ 67,753	\$ 74,729	\$ 102,663

- Revenue for the three months ended June 30, 2020 decreased by 2% as compared to the three months ended June 30, 2019, due to a revenue decline in our digital marketing segment resulting from the sale of SinglePlatform, which occurred in December 2019. Excluding the \$6.8 million revenue contribution of SinglePlatform from the three months ended June 30, 2019, digital marketing grew 2% year-over-year, and consolidated revenue grew 1% year over year.

- Net (loss) income improved from a loss of \$26.2 million for the three months ended June 30, 2019 to net income of \$4.6 million for the three months ended June 30, 2020. This was primarily due to an impairment charge of \$17.9 million in the second quarter of 2019, which was attributable to certain premium domain name intangible assets which were adversely affected by ongoing market conditions; a \$5.7 million decrease in interest expense; a \$4.0 million decrease in amortization expense; and a \$2.4 million gain from the sale of certain intangible assets in the second quarter of 2020. These factors were partially offset by lower revenue, higher income tax expense, and higher depreciation.
- Net cash provided by operating activities increased from \$59.7 million for the three months ended June 30, 2019 to \$67.8 million for the three months ended June 30, 2020. This increase was the result of a \$10.5 million increase in our deferred revenue balance due to higher billings; lower expenses, including a \$4.9 million decrease in interest payments due to lower debt balances and lower interest rates; and the timing of certain payments. These factors were partially offset by higher payments for taxes in the second quarter of 2020 as compared to the second quarter of 2019.
- Revenue for the six months ended June 30, 2020 decreased by 2% as compared to the six months ended June 30, 2019 due to revenue declines in both the web presence and digital marketing segments. The decline in our digital marketing segment was due to the sale of SinglePlatform, which contributed \$13.9 million of revenue in the six months ended June 30, 2019. Excluding the \$13.9 million revenue contribution of SinglePlatform from the six months ended June 30, 2019, digital marketing grew 2% year-over-year, and consolidated revenue grew 0.2% year over year.
- Net (loss) income improved from a loss of \$29.7 million for the six months ended June 30, 2019 to net income of \$2.4 million for the six months ended June 30, 2020. This was due primarily to an impairment charge of \$17.9 million in the second quarter of 2019, which was attributable to certain premium domain name intangible assets which were adversely affected by ongoing market conditions; a \$10.1 million decrease in interest expense; a \$7.9 million decrease in amortization expense; and a \$2.4 million gain from the sale of certain intangible assets in the second quarter of 2020. These factors were partially offset by lower revenue, higher income tax expense, and higher depreciation.
- Net cash provided by operating activities increased from \$74.7 million for the six months ended June 30, 2019 to \$102.7 million for the six months ended June 30, 2020. This increase was the result of a \$13.0 million increase in our deferred revenue balance due to higher billings; lower expenses, including a \$9.7 million decrease in interest payments due to lower debt balances and lower interest rates; a \$5.8 million payment made in the first half of 2019 to settle a securities class action lawsuit; and the timing of certain payments. These factors were partially offset by higher payments for taxes in the first half of 2020 as compared to the first half of 2019.

Our total subscriber base as of June 30, 2020 reflected an increase during the three and six months ended June 30, 2020. Our non-strategic brands continue to lose subscribers, but for the three and six months ended June 30, 2020, net subscriber additions from our strategic brands, in the aggregate, outpaced losses in our non-strategic brands. Our non-strategic brands are principally web hosting brands, but also include our cloud backup brands and certain other products that we launched in late 2015 and early 2016, but have either discontinued or no longer actively market. Subscriber counts are decreasing in these brands, and we are managing them to optimize cash flow rather than to acquire new subscribers.

We are closely monitoring the impact of the COVID-19 pandemic on our business. To date, we believe that the pandemic has contributed to increased demand for our products and services, since many SMBs have moved more of their business online due to COVID-19 related lockdowns and other restrictions. However, we cannot predict whether and to what extent this level of demand will continue. We continue to execute our 2020 operating plan, which is focused on delivering increased value to customers of our key strategic brands by investing in engineering and development to improve the customer experience and expand product offerings. We are tracking our liquidity closely, and believe we have adequate liquidity resources available to manage COVID-19 impacts and to continue to move our 2020 operating plan forward. Please see "Liquidity and Capital Resources" below and the risk factors disclosed in Part II, Item IA of this Quarterly Report on Form 10-Q for further discussion of the impact of COVID-19.

### **Recent Developments**

On July 30, 2020, we entered into a definitive merger agreement with WaJao, Inc. (doing business as Retention Science) ("ReSci"). Under the terms of the definitive merger agreement, we will acquire 100% of the equity interest in ReSci for approximately \$35.0 million, consisting of \$17.5 million to be paid in cash upon close, and the remaining \$17.5 million to be paid in a combination of deferred consideration and earnouts over the next three years. The closing of the transaction is subject to customary closing conditions and is expected to close on or before August 15, 2020. ReSci is a provider of artificial intelligence (AI) driven e-commerce email marketing services.

### **Key Metrics**



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

- total subscribers
- average revenue per subscriber, or ARPS
- adjusted EBITDA
- free cash flow

Adjusted EBITDA and free cash flow are non-GAAP financial measures. A non-GAAP financial measure is a numerical measure of a company's operating performance, financial position or cash flow that includes or excludes amounts that are included or excluded from the most directly comparable measure calculated and presented in accordance with accounting principles generally accepted in the United States of America, which we refer to as "GAAP" or "U.S. GAAP." Our non-GAAP financial measures may not provide information that is directly comparable to that provided by other companies in our industry, as other companies in our industry may calculate non-GAAP financial results differently. In addition, there are limitations in using non-GAAP financial measures because they are not prepared in accordance with GAAP and exclude expenses that may have a material impact on our reported financial results. For example, adjusted EBITDA excludes interest expense, which has been and will continue to be for the foreseeable future a significant recurring expense in our business. The presentation of non-GAAP financial information is not meant to be considered in isolation from, or as a substitute for, the directly comparable financial measures prepared in accordance with GAAP. We urge you to review the additional information about adjusted EBITDA and free cash flow shown below, including the reconciliations of these non-GAAP financial measures to their comparable GAAP financial measures, and not to rely on any single financial measure to evaluate our business.

The following table summarizes our key metrics (except for free cash flow, which is discussed in *Liquidity and Capital Resources* below) by segment for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2020	2019	2020
(in thousands, except ARPS)				
<b>Consolidated metrics:</b>				
Total subscribers	4,769	4,877	4,769	4,877
Average subscribers for the period	4,776	4,828	4,786	4,821
ARPS	\$ 19.42	\$ 18.92	\$ 19.46	\$ 18.88
Adjusted EBITDA	\$ 76,332	\$ 83,957	\$ 154,843	\$ 156,471
<b>Web presence segment metrics:</b>				
Total subscribers	4,277	4,405	4,277	4,405
Average subscribers for the period	4,283	4,357	4,292	4,351
ARPS	\$ 13.68	\$ 13.49	\$ 13.73	\$ 13.43
Adjusted EBITDA	\$ 33,907	\$ 41,838	\$ 70,414	\$ 76,271
<b>Digital marketing segment metrics:</b>				
Total subscribers	492	472	492	472
Average subscribers for the period	493	471	494	470
ARPS	\$ 69.28	\$ 69.00	\$ 69.21	\$ 69.29
Adjusted EBITDA	\$ 42,425	\$ 42,119	\$ 84,429	\$ 80,200

### **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.

Most of our web presence segment subscribers have hosting subscriptions, but web presence subscribers also include customers who do not have a hosting subscription but subscribe to other non-hosting services, such as email or office productivity software tools. These non-hosting subscribers generally have lower-priced subscriptions than hosting subscribers.

Subscribers to our domain-focused offerings (which were previously included in our former domain segment) mostly consist of customers who have a domain name subscription as well as a subscription to another product, such as domain privacy, or a basic hosting, email or domain privacy service that is bundled with their domain name subscription. These subscribers also typically have lower-priced subscriptions than hosting subscribers.

Digital marketing segment subscribers mostly consist of subscribers to Constant Contact's email marketing service, but also include paying subscribers to our Constant Contact-branded website builder tool and our Ecomdash inventory management and marketplace listing solution, which we acquired in the quarter ended September 30, 2019. Until the sale of our SinglePlatform business on December 5, 2019, digital marketing subscribers also included SinglePlatform subscribers.

The table below provides additional detail on changes in our total subscriber count by segment for the twelve-month period ending on June 30, 2020:

	<b>Web presence</b>	<b>Digital marketing</b>	<b>Total</b>
	# Subscribers	# Subscribers	# Subscribers
	(in thousands)		
<b>Total Subscribers - June 30, 2019</b>	4,277	492	4,769
Adjustments	(2)	1	(1)
Acquisitions	—	1	1
Dispositions	—	(23)	(23)
Net subscriber increase (decrease)	130	1	131
<b>Total Subscribers - June 30, 2020</b>	4,405	472	4,877

The increase in total subscribers from 4.769 million at June 30, 2019 to 4.877 million at June 30, 2020 was driven primarily by increases in our strategic hosting, international, and domain-focused brands. These increases were partially offset by decreases in our non-strategic brands, and by a decrease of approximately 23,000 subscribers due to the SinglePlatform sale in December 2019.

#### **Average Revenue per Subscriber (ARPS)**

We calculate ARPS as the amount of revenue we recognize in a period, including marketing development funds and other revenue not received from subscribers, divided by the average of the number of total subscribers at the beginning of the period and at the end of the period, which we refer to as average subscribers for the period, divided by the number of months in the period. We believe ARPS is an indicator of our ability to optimize our mix of products, services and pricing and sell products and services to both new and existing subscribers.

The following table reflects the calculation of ARPS by segment:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>
	(in thousands, except ARPS)			
Consolidated revenue	\$ 278,204	\$ 273,987	\$ 558,887	\$ 546,181
Consolidated total subscribers	4,769	4,877	4,769	4,877
Consolidated average subscribers for the period	4,776	4,828	4,786	4,821
<b>Consolidated ARPS</b>	<b>\$ 19.42</b>	<b>\$ 18.92</b>	<b>\$ 19.46</b>	<b>\$ 18.88</b>
Web presence revenue	\$ 175,725	\$ 176,360	\$ 353,668	\$ 350,650
Web presence subscribers	4,277	4,405	4,277	4,405
Web presence average subscribers for the period	4,283	4,357	4,292	4,351
<b>Web presence ARPS</b>	<b>\$ 13.68</b>	<b>\$ 13.49</b>	<b>\$ 13.73</b>	<b>\$ 13.43</b>
Digital marketing revenue	\$ 102,479	\$ 97,627	\$ 205,219	\$ 195,531
Digital marketing subscribers	492	472	492	472
Digital marketing average subscribers for the period	493	471	494	470
<b>Digital marketing ARPS</b>	<b>\$ 69.28</b>	<b>\$ 69.00</b>	<b>\$ 69.21</b>	<b>\$ 69.29</b>

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

- *Revenue from domain-only customers.* Our web presence segment earns revenue from domain-only customers. For the six months ended June 30, 2020, approximately 1% of our revenue was earned from domain-only customers.
- *Domain monetization revenue.* This consists principally of revenue from our BuyDomains brand, which provides premium domain name products and services, and, to a lesser extent, revenue from advertisements placed on unused domains (often referred to as “parked” pages) owned by us or our customers. All of this revenue is associated with our web presence segment.
- *Revenue from marketing development funds.* Marketing development funds are the amounts that certain of our partners pay us to assist in and incentivize our marketing of their products.

A portion of our revenue is generated from customers that resell our services. We refer to these customers as “resellers.” We consider these resellers (rather than the end user customers of these resellers) to be subscribers under our total subscribers definition, because we do not have a billing relationship with the end users and cannot determine the number of end users acquiring our services through a reseller. A majority of our reseller revenue is for the purchase of domains and is primarily related to our web presence segment. Reseller revenue earned by our web presence segment and digital marketing segment was approximately 10% and less than 1%, respectively, for all periods presented, and fluctuations in reseller revenue have not materially impacted ARPS for those segments.

ARPS may be impacted by changes in the amount of non-subscription-based revenue and reseller activity from period to period. These changes primarily affect our domain-focused offerings, which were previously included in our former domain segment.

#### **Comparison of Three Months Ended June 30, 2019 and 2020: ARPS**

For the three months ended June 30, 2019 and 2020, consolidated ARPS decreased from \$19.42 to \$18.92, respectively. This decrease in ARPS was driven by decreases in ARPS in both our web presence and digital marketing segments.

Web presence ARPS decreased from \$13.68 for the three months ended June 30, 2019 to \$13.49 for the three months ended June 30, 2020. This decrease was primarily the result of new subscriber additions in our domain-focused and international brands, which generally have lower ARPS, particularly for introductory pricing (which is typically lower than renewal pricing). In addition, non-subscription-based revenue remained relatively flat at approximately \$7.7 million for the three months ended June 30, 2019 and at approximately \$7.7 million for the three months ended June 30, 2020, causing ARPS to decrease by \$0.02.

Digital marketing ARPS decreased from \$69.28 for the three months ended June 30, 2019 to \$69.00 for the three months ended June 30, 2020. This decrease was primarily due to the impact of the sale of SinglePlatform, which contributed \$6.8 million of revenue in the three months ended June 30, 2019.

#### **Comparison of Six Months Ended June 30, 2019 and 2020: ARPS**

For the six months ended June 30, 2019 and 2020, consolidated ARPS decreased from \$19.46 to \$18.88, respectively. This decrease in ARPS was driven primarily by a decrease in ARPS from our web presence segment, partially offset by a slight increase in ARPS in our digital marketing segment.

Web presence ARPS decreased from \$13.73 for the six months ended June 30, 2019 to \$13.43 for the six months ended June 30, 2020. This decrease was primarily the result of new subscriber additions in our domain-focused and international brands, which generally have lower ARPS, particularly for introductory pricing. In addition, non-subscription-based revenue decreased from \$15.8 million for the six months ended June 30, 2019 to \$14.5 million for the six months ended June 30, 2020, which caused ARPS to decrease by \$0.05.

Digital marketing ARPS increased from \$69.21 for the six months ended June 30, 2019 to \$69.29 for the six months ended June 30, 2020. This increase was due to increased purchases from existing subscribers, which more than offset the decrease in revenue from the sale of SinglePlatform, which contributed \$13.9 million of revenue in the six months ended June 30, 2019.

#### **Adjusted EBITDA**

Adjusted EBITDA is a non-GAAP financial measure that we calculate as net income (loss), excluding the impact of interest expense (net), income tax expense (benefit), depreciation, amortization of other intangible assets, stock-based compensation, restructuring expenses, gain on sale of intangible assets, gain on sale of business, transaction expenses and

charges, (gain) loss of unconsolidated entities, impairment of goodwill and other long-lived assets, and shareholder litigation reserve. We view adjusted EBITDA as a performance measure and believe it helps investors evaluate and compare our core operating performance from period to period.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2020	2019	2020
(in thousands)				
<b>Consolidated</b>				
Net (loss) income	\$ (26,228)	\$ 4,598	\$ (29,716)	\$ 2,354
Interest expense, net <sup>(1)</sup>	36,723	31,024	73,646	63,588
Income tax expense	6,160	11,043	7,879	11,712
Depreciation	10,899	12,746	22,105	25,442
Amortization of other intangible assets	21,349	17,282	42,469	34,593
Stock-based compensation	9,354	9,595	18,370	19,431
Restructuring expenses	183	34	2,198	1,716
Gain on sale of intangible assets	—	(2,365)	—	(2,365)
Gain on sale of business	—	—	—	—
Transaction expenses and charges	—	—	—	—
Impairment of goodwill and other long-lived assets	17,892	—	17,892	—
Shareholder litigation reserve	—	—	—	—
Adjusted EBITDA	\$ 76,332	\$ 83,957	\$ 154,843	\$ 156,471

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2020	2019	2020
(in thousands)				
<b>Web presence</b>				
Net loss	\$ (30,392)	\$ (2,016)	\$ (39,818)	\$ (9,250)
Interest expense, net <sup>(1)</sup>	17,613	14,866	37,142	30,470
Income tax expense	3,891	7,108	4,982	7,536
Depreciation	8,670	10,364	17,552	20,787
Amortization of other intangible assets	9,941	7,561	19,778	15,151
Stock-based compensation	6,132	6,320	12,065	12,910
Restructuring expenses	160	—	821	1,032
Gain on sale of intangible assets	—	(2,365)	—	(2,365)
Gain on sale of business	—	—	—	—
Transaction expenses and charges	—	—	—	—
Impairment of goodwill and other long-lived assets	17,892	—	17,892	—
Shareholder litigation reserve	—	—	—	—
Adjusted EBITDA	\$ 33,907	\$ 41,838	\$ 70,414	\$ 76,271

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2020	2019	2020
(in thousands)				
<b>Digital marketing</b>				
Net income	\$ 4,164	\$ 6,614	\$ 10,102	\$ 11,604
Interest expense, net <sup>(1)</sup>	19,110	16,158	36,504	33,118
Income tax expense	2,269	3,935	2,897	4,176
Depreciation	2,229	2,382	4,553	4,655
Amortization of other intangible assets	11,408	9,721	22,691	19,442
Stock-based compensation	3,222	3,275	6,305	6,521
Restructuring expenses	23	34	1,377	684

Gain on sale of intangible assets	—	—	—	—
Gain on sale of business	—	—	—	—
Transaction expenses and charges	—	—	—	—
Impairment of goodwill and other long-lived assets	—	—	—	—
Shareholder litigation reserve	—	—	—	—
Adjusted EBITDA	\$ 42,425	\$ 42,119	\$ 84,429	\$ 80,200

<sup>(1)</sup> Interest expense includes impact of amortization of deferred financing costs, original issue discounts and interest income.

### Comparison of the Three Months Ended June 30, 2019 and 2020: Net Income (Loss) and Adjusted EBITDA

Net income on a consolidated basis improved from a loss of \$26.2 million for the three months ended June 30, 2019 to income of \$4.6 million for the three months ended June 30, 2020. The primary factors driving this improvement were the following: a \$17.9 million impairment charge relating to certain domain-related intangible assets which was recognized in the second quarter of 2019; a \$6.1 million reduction in costs impacting cost of revenue; a \$5.7 million reduction in interest expense; a \$4.1 million reduction of amortization expense; a \$3.0 million reduction in costs impacting general and administrative expense; and a \$2.4 million gain on the sale of intangible assets which was recognized in the second quarter of 2020. These factors were partially offset by higher income tax expense of \$4.9 million; lower revenue of \$4.2 million, mostly due to the sale of SinglePlatform, which contributed revenue of \$6.8 million in the three months ended June 30, 2019; and a \$1.8 million increase in depreciation expense.

Net loss for our web presence segment improved from \$30.4 million for the three months ended June 30, 2019 to \$2.0 million for the three months ended June 30, 2020. This improvement in net loss was primarily related to the following factors: a \$17.9 million impairment charge relating to certain domain-related intangible assets that was recognized in the second quarter of 2019; a \$4.2 million reduction in costs impacting cost of revenue; a \$2.7 million reduction in interest expense; a \$2.4 million reduction in amortization expense; a \$2.4 million gain from the sale of intangible assets that was recognized in the second quarter of 2020; a \$1.5 million reduction in costs impacting general and administrative expense; a \$1.0 million reduction in costs impacting engineering and development expense; a \$0.6 million reduction in costs impacting sales and marketing expense; and a \$0.6 million increase in revenue. These improvements in net loss were partially offset by a \$3.2 million increase in income tax expense and a \$1.7 million increase in depreciation expense.

Net income for our digital marketing segment increased from \$4.2 million for the three months ended June 30, 2019 to \$6.6 million for the three months ended June 30, 2020. This increase in net income was primarily due to the following factors: a \$3.0 million reduction in interest expense; a \$1.9 million reduction in costs impacting cost of revenue; a \$1.7 million reduction in amortization expense; a \$1.6 million reduction in costs impacting sales and marketing expense; and a \$1.5 million reduction in costs impacting general and administrative expense. These improvements in net income were partially offset by a \$4.9 million decline in revenue, primarily due to the sale of SinglePlatform, partially offset by increased purchases from existing customers; higher income taxes of \$1.7 million; and higher engineering and development costs of \$0.4 million.

Adjusted EBITDA on a consolidated basis increased from \$76.3 million for the three months ended June 30, 2019 to \$84.0 million for the three months ended June 30, 2020. This increase in adjusted EBITDA was a result of the adjusted EBITDA increase in our web presence segment, offset partially by a slight decrease in adjusted EBITDA in our digital marketing segment, as discussed below.

Adjusted EBITDA for our web presence segment increased from \$33.9 million for the three months ended June 30, 2019 to \$41.8 million for the three months ended June 30, 2020. This increase was primarily due to a \$4.2 million reduction in costs impacting cost of revenue; a \$1.5 million reduction in costs impacting general and administrative expense; a \$1.0 million reduction in costs impacting engineering and development expense; a \$0.6 million reduction in costs impacting sales and marketing expense; and a \$0.6 million increase in revenue.

Adjusted EBITDA for our digital marketing segment decreased from \$42.4 million for the three months ended June 30, 2019 to \$42.1 million for the three months ended June 30, 2020. This decrease was due to the sale of SinglePlatform, which contributed \$1.1 million of Adjusted EBITDA in the three months ended June 30, 2019, and to investments in engineering and development programs; partially offset by reductions in costs impacting cost of revenue, sales and marketing and general and administrative expense.

These year over year changes in Adjusted EBITDA reflect the impact of the COVID-19 pandemic. COVID-19 resulted in lower employee healthcare costs due to the delay of elective medical procedures and lower travel and facilities-related expense as substantially all of our employees moved to working from home in mid-March. These decreases impacted cost of revenue, sales and marketing, engineering and development, and general and administrative expense.

## Comparison of the Six Months Ended June 30, 2019 and 2020: Net Income (Loss) and Adjusted EBITDA

Net income on a consolidated basis improved from a loss of \$29.7 million for the six months ended June 30, 2019 to income of \$2.4 million for the six months ended June 30, 2020. This increase in net income was due to the following factors: a \$17.9 million impairment charge that was recognized in 2019; a \$10.4 million reduction in costs impacting cost of revenue; a \$10.1 million reduction in interest expense; a \$7.9 million reduction in amortization expense; a \$4.8 million reduction in costs impacting general and administrative expense; a \$2.4 million gain on the sale of intangible assets that was recognized in 2020; a \$2.0 million reduction in costs impacting sales and marketing expense; and a \$0.5 million reduction in restructuring costs. These improvements in net income were partially offset by a \$12.7 million reduction in revenue, primarily due to the sale of SinglePlatform, which had contributed \$13.9 million in revenue in 2019; a \$3.8 million increase in income taxes; a \$3.3 million increase in depreciation expense; a \$2.9 million increase in costs impacting engineering and development expense; and a \$1.1 million increase in stock-based compensation.

Net loss for our web presence segment decreased from \$39.8 million for the six months ended June 30, 2019 to \$9.3 million for the six months ended June 30, 2020. This decrease in net loss is primarily related to the following factors: a \$17.9 million impairment charge that was recognized in 2019; an \$8.0 million reduction in costs impacting cost of revenue; a \$6.7 million reduction in interest expense; a \$4.6 million reduction in amortization expense; a \$2.4 million reduction in costs impacting general and administrative expense; and a \$2.4 million gain on the sale of intangible assets that was recognized in 2020. These improvements in net loss were partially offset by higher depreciation expense of \$3.2 million; lower revenue of \$3.0 million; higher income taxes of \$2.6 million; higher costs impacting engineering and development of \$1.1 million; higher stock-based compensation expense of \$0.8 million; and higher costs impacting sales and marketing expense of \$0.4 million.

Net income for our digital marketing segment increased from \$10.1 million for the six months ended June 30, 2019 to \$11.6 million for the six months ended June 30, 2020. This increase in net income was primarily due a \$3.4 million reduction in interest expense; a \$3.2 million reduction in amortization expense; a \$2.5 million reduction in costs impacting general and administrative expense; a \$2.4 million reduction in costs impacting cost of revenue; a \$2.3 million reduction in costs impacting sales and marketing; and a \$0.7 million reduction in restructuring costs. These improvements in net income were partially offset by a \$9.7 million decline in revenue, primarily due to the sale of SinglePlatform, which contributed \$13.9 million in revenue in 2019, partially offset by increased sales to existing customers, a \$1.8 million increase in costs impacting engineering and development expense, and higher income taxes of \$1.3 million.

Adjusted EBITDA on a consolidated basis increased from \$154.8 million for the six months ended June 30, 2019 to \$156.5 million for the six months ended June 30, 2020. This increase was a result of the adjusted EBITDA increase in our web presence segment, partially offset by a decrease in adjusted EBITDA in our digital marketing segment, as discussed below.

Adjusted EBITDA for our web presence segment increased from \$70.4 million for the six months ended June 30, 2019 to \$76.3 million for the six months ended June 30, 2020. This increase was primarily due to an \$8.0 million reduction in costs impacting cost of revenue and a \$2.4 million reduction in costs impacting general and administrative expense. These factors were partially offset by a \$3.0 million reduction in revenue, a \$1.1 million increase in costs impacting engineering and development expense, and a \$0.4 million increase in costs impacting sales and marketing.

Adjusted EBITDA for our digital marketing segment decreased from \$84.4 million for the six months ended June 30, 2019 to \$80.2 million for the six months ended June 30, 2020. This decrease was primarily due to a \$9.7 million decline in revenue, mostly resulting from the sale of SinglePlatform, which contributed \$13.9 million in revenue in 2019, as well as to a \$1.8 million increase in costs impacting engineering and development expense. These factors were partially offset by a \$2.5 million decline in costs impacting general and administrative expense, a \$2.4 million decline in costs impacting cost of revenue, and a \$2.3 million decline in costs impacting sales and marketing expense.

These year over year changes in Adjusted EBITDA reflect the impact of the COVID-19 pandemic starting in mid-March 2020, as described in above in the comparison of the three months ended June 30, 2019 and 2020.

### 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 automatically renew a subscription at the end of the subscription period. Due to factors such as discounted introductory pricing, our renewal fees may be higher than our initial subscription. A majority of our web presence segment subscriptions have terms of 24 months or less, while our digital marketing segment sells subscriptions that are mostly one-month terms. We also earn revenue from the sale of domain name registrations, premium domains and non-term based products and services, such as certain online security products and professional technical services as well as through referral fees and commissions.

### ***Cost of Revenue***

Cost of revenue includes costs of operating our customer support organization, fees we pay to register domain names for our customers, 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 customer support activities. In addition, cost of revenue includes stock-based compensation expense for employees engaged in support and network operations. Excluding potential impacts of future changes in operations, we generally expect cost of revenue to decrease on an absolute dollar basis due to an anticipated decrease in amortization expense on our existing intangible assets.

### ***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 related to developments 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. For a new customer 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, and that our gross profit margin will also increase as amortization expense related to our intangible assets declines.

### ***Operating Expense***

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

#### ***Sales and Marketing***

Sales and marketing expense primarily consists of costs associated with bounty payments to our network of online partners, search engine marketing, or SEM, and search engine optimization, or 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 customers to our solutions, changes in how we invest in different customer acquisition channels, changes in how we approach SEM and SEO 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 and accounting, information technology, human resources, legal and executive management. General and administrative expense also includes insurance premiums, professional service fees, and costs incurred related to regulatory and litigation matters.

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 in our calculation of interest expense the cash cost of interest payments and loan financing fees, the amortization of deferred financing costs and original issue discounts, and the amortization of the net present value adjustment which we may apply to some deferred consideration payments related to our acquisitions in our calculation of interest expense. Interest income consists primarily of interest income earned on our cash and cash equivalents balances.

#### **Income Tax Expense (Benefit)**

We estimate our income taxes in accordance with the asset and liability method. Under this method we determine deferred tax assets and liabilities based on differences between the financial reporting and tax bases of our assets and liabilities. We measure deferred tax assets and liabilities using the enacted tax rates and laws that will be in effect when we expect the differences to reverse. We reduce our deferred tax assets by a valuation allowance if, based upon the weight of available evidence, it is more likely than not that we will not realize some portion or all of the deferred tax assets. We consider relevant evidence, both positive and negative, to determine the need for a valuation allowance. Information evaluated includes our financial position and results of operations for the current and preceding years, the availability of deferred tax liabilities and an evaluation of currently available information about future years.

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

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

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

- revenue recognition
- goodwill
- long-lived assets
- business combinations
- derivative instruments
- depreciation and amortization
- income taxes
- stock-based compensation arrangements
- segment information

There have been no material changes to our critical accounting policies since December 31, 2019. For further information on our critical accounting policies and estimates, see Note 2, *Summary of Significant Accounting Policies*, 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 14, 2020.

#### **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,	
	2019	2020	2019	2020
	(in thousands)			
Revenue	\$ 278,204	\$ 273,987	\$ 558,887	\$ 546,181
Cost of revenue (including impairment of \$17,892 for the three and six months ended June 30, 2019)	139,587	113,065	263,441	229,329
Gross profit	138,617	160,922	295,446	316,852
Operating expense:				
Sales and marketing	65,490	63,062	132,078	130,253
Engineering and development	25,348	24,659	49,042	51,533
General and administrative	31,124	28,901	62,517	59,777
Gain on sale of intangible assets	—	(2,365)	—	(2,365)
Total operating expense	121,962	114,257	243,637	239,198
Income from operations	16,655	46,665	51,809	77,654
Other income (expense):				
Interest income	314	162	605	332
Interest expense	(37,037)	(31,186)	(74,251)	(63,920)
Total other expense—net	(36,723)	(31,024)	(73,646)	(63,588)
(Loss) income before income taxes and equity earnings of unconsolidated entities	(20,068)	15,641	(21,837)	14,066
Income tax expense	6,160	11,043	7,879	11,712
Net (loss) income	\$ (26,228)	\$ 4,598	\$ (29,716)	\$ 2,354

### Comparison of Three Months Ended June 30, 2019 and 2020

#### Revenue

	Three Months Ended June 30,		Change	
	2019	2020	Amount	%
	(dollars in thousands)			
Revenue	\$ 278,204	\$ 273,987	\$ (4,217)	(2)%

Revenue decreased by \$4.2 million, or 2%, from \$278.2 million for the three months ended June 30, 2019 to \$274.0 million for the three months ended June 30, 2020. This decrease was attributable to a \$4.9 million decline in revenue from our digital marketing segment, partially offset by a \$0.6 million increase in revenue from our web presence segment, each of which are further discussed below.

Web presence segment revenue increased by \$0.6 million, or 0%, from \$175.7 million for the three months ended June 30, 2019 to \$176.4 million for the three months ended June 30, 2020. This increase was primarily the result of higher revenue in our strategic brands, partially offset by lower revenue in our non-strategic brands.

Digital marketing segment revenue decreased by \$4.9 million, or 5%, from \$102.5 million for the three months ended June 30, 2019 to \$97.6 million for the three months ended June 30, 2020. This decrease was due to the sale of SinglePlatform, which contributed \$6.8 million of revenue in the second quarter of 2019, partially offset by increased purchases from existing subscribers.

Our revenue is generated primarily from our products and services delivered on a subscription basis, which include web hosting, domains, website builders, email marketing, SEM and other similar services. We also generate non-subscription-based revenue through domain monetization and marketing development funds. Non-subscription-based revenue decreased slightly from \$7.9 million, or 3% of total revenue, for the three months ended June 30, 2019 to \$7.8 million, or 3% of total revenue, for the three months ended June 30, 2020, primarily due to decreases in marketing development funds revenue.

## Gross Profit

	Three Months Ended June 30,					
	2019		2020		Change	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(dollars in thousands)					
Gross profit	\$ 138,617	50 %	\$ 160,922	59 %	\$ 22,305	16 %

Gross profit increased by \$22.3 million, or 16%, from \$138.6 million for the three months ended June 30, 2019 to \$160.9 million for the three months ended June 30, 2020. This increase was primarily due to a \$23.6 million increase in our web presence segment gross profit, which was partially offset by a \$1.3 million decrease in gross profit from our digital marketing segment. Our gross profit as a percentage of revenue increased by nine percentage points year over year, from 50% for the three months ended June 30, 2019 to 59% for the three months ended June 30, 2020.

Web presence segment gross profit increased by \$23.6 million, or 36%, from \$65.0 million for the three months ended June 30, 2019 to \$88.6 million for the three months ended June 30, 2020. This increase was primarily due to lower costs impacting cost of revenue, including a \$17.9 million impairment charge recorded during the three months ended June 30, 2019 and lower amortization expense, and an increase in web presence segment revenue, as described above. Our web presence gross profit as a percentage of revenue increased by thirteen percentage points year over year, from 37% for the three months ended June 30, 2019 to 50% for the three months ended June 30, 2020.

Digital marketing segment gross profit decreased by \$1.3 million, or 2%, from \$73.6 million for the three months ended June 30, 2019 to \$72.3 million for the three months ended June 30, 2020. This decrease was primarily due to a decline in revenue due to the sale of SinglePlatform described above, partially offset by lower cost of revenue due to lower amortization expense, lower costs impacting cost of revenue due to the sale of SinglePlatform, and other net cost decreases. Our digital marketing gross profit as a percentage of revenue increased by two percentage points year over year, from 72% for the three months ended June 30, 2019 to 74% for the three months ended June 30, 2020.

## Operating Expense

	Three Months Ended June 30,					
	2019		2020		Change	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(dollars in thousands)					
Sales and marketing	\$ 65,490	24 %	\$ 63,062	23 %	\$ (2,428)	(4) %
Engineering and development	25,348	9 %	24,659	9 %	(689)	(3) %
General and administrative	31,124	11 %	28,901	11 %	(2,223)	(7) %
Gain on sale of intangible assets	—	— %	(2,365)	(1) %	(2,365)	100 %
Total	\$ 121,962	44 %	\$ 114,257	42 %	\$ (7,705)	(6) %

**Sales and Marketing.** Sales and marketing expense decreased by \$2.4 million, or 4%, from \$65.5 million for the three months ended June 30, 2019 to \$63.1 million for the three months ended June 30, 2020. Web presence segment sales and marketing expense decreased by \$0.9 million and digital marketing sales and marketing expense decreased by \$1.6 million.

Sales and marketing expense for our web presence segment decreased by \$0.9 million, or 2%, from \$39.6 million for the three months ended June 30, 2019 to \$38.8 million for the three months ended June 30, 2020. This decrease was primarily due to lower labor costs, partially offset by higher marketing program spend.

Sales and marketing expense for our digital marketing segment decreased by \$1.6 million, or 6%, from \$25.9 million for the three months ended June 30, 2019 to \$24.3 million for the three months ended June 30, 2020. This decrease was primarily due to the sale of SinglePlatform, partially offset by an increase in marketing program spend.

**Engineering and Development.** Engineering and development expense decreased by \$0.7 million, or 3%, from \$25.3 million for the three months ended June 30, 2019 to \$24.7 million for the three months ended June 30, 2020. Web presence segment engineering and development expense decreased by \$1.0 million, partially offset by an increase in engineering and development expense in our digital marketing segment of \$0.4 million. The decrease in engineering and development expense for web presence was primarily related to lower labor costs. The increase in engineering and development expense for digital marketing was due to higher product engineering expenses, partially offset by a decrease due to the sale of SinglePlatform.

**General and Administrative.** General and administrative expense decreased by \$2.2 million, or 7%, from \$31.1 million for the three months ended June 30, 2019 to \$28.9 million for the three months ended June 30, 2020. This decrease was primarily due to labor-related cost decreases and facility costs, partially offset by an increase in stock-based compensation expense. Our general and administrative expense primarily consists of consolidated corporate-wide shared functions, and the costs of these functions are allocated between our two segments primarily based on relative revenues.

General and administrative expense for our web presence segment decreased by \$1.0 million, or 5%, from \$20.4 million for the three months ended June 30, 2019 to \$19.4 million for the three months ended June 30, 2020, primarily due to labor-related costs. General and administrative expense for our digital marketing segment decreased by \$1.2 million, or 11%, from \$10.8 million for the three months ended June 30, 2019 to \$9.5 million for the three months ended June 30, 2020, primarily due to lower labor-related costs.

**Gain on sale of intangible assets.** We recorded a \$2.4 million gain on the sale of certain intangible assets in the second quarter of 2020. No such sale took place in 2019.

#### Other Expense, Net

	Three Months Ended June 30,		Change	
	2019	2020	Amount	%
(dollars in thousands)				
Other expense, net	\$ 36,723	\$ 31,024	\$ (5,699)	(16)%

Other expense, net decreased by \$5.7 million, or 16%, from \$36.7 million for the three months ended June 30, 2019 to \$31.0 million for the three months ended June 30, 2020. The decrease was attributable to \$5.7 million of decreased net interest expense, primarily due to lower average term loan balances and lower interest rates.

#### Income Tax Expense

	Three Months Ended June 30,		Change	
	2019	2020	Amount	%
(dollars in thousands)				
Income tax expense	\$ 6,160	\$ 11,043	\$ 4,883	79%

For the three months ended June 30, 2019 and 2020, we recognized an income tax expense of \$6.2 million and \$11.0 million, respectively, in the consolidated statements of operations and comprehensive income (loss). The income tax expense for the three months ended June 30, 2020 was primarily attributable to a federal and state deferred tax expense of \$7.0 million, a federal and state current income tax expense of \$2.4 million, and a foreign current tax expense of \$1.7 million, partially offset by a foreign deferred tax benefit of \$0.1 million. The income tax expense for the three months ended June 30, 2019 was primarily attributable to a federal and state current income tax expense of \$1.5 million, a foreign current tax expense of \$1.2 million, and a federal and state deferred tax expense of \$3.6 million, partially offset by a foreign deferred tax benefit of \$0.1 million.

The increase in our income tax expense in the 2020 period is primarily due to the vesting of restricted stock units and restricted stock awards. We recognize stock-based compensation expense based on the fair value of our restricted stock units and restricted stock awards at the grant date. A tax deduction is taken when the awards vest based on the value of the stock on the date of vesting. The tax effect of any decrease in the value of the awards between the grant date and the vest date is charged to tax expense.

#### Comparison of Six Months Ended June 30, 2019 and 2020

##### Revenue

	Six Months Ended June 30,		Change	
	2019	2020	Amount	%
(dollars in thousands)				
Revenue	\$ 558,887	\$ 546,181	\$ (12,706)	(2)%

Revenue decreased by \$12.7 million, or 2%, from \$558.9 million for the six months ended June 30, 2019 to \$546.2 million for the six months ended June 30, 2020. This decrease was attributable to decreases in revenue from both our web presence and digital marketing segments.

Web presence segment revenue decreased by \$3.0 million, or 1%, from \$353.7 million for the six months ended June 30, 2019 to \$350.7 million for the six months ended June 30, 2020. This decrease was primarily the result of subscriber attrition in our non-strategic brands and a \$1.3 million reduction in non-subscription-based revenue, primarily premium domain sales.

Digital marketing segment revenue decreased by \$9.7 million, or 5%, from \$205.2 million for the six months ended June 30, 2019 to \$195.5 million for the six months ended June 30, 2020. This decrease was primarily due to the sale of SinglePlatform, which contributed \$13.9 million of revenue in the first half of 2019, partially offset by increased purchases from existing subscribers.

Our revenue is generated primarily from our products and services delivered on a subscription basis, which include web hosting, domains, website builders, SEM and other similar services. We also generate non-subscription-based revenue through domain monetization and marketing development funds. Non-subscription-based revenue decreased from \$16.1 million, or 3% of total revenue, for the six months ended June 30, 2019 to \$14.7 million, or 3% of total revenue, for the six months ended June 30, 2020, due primarily to decreases in premium domains and marketing development funds revenue.

### Gross Profit

	Six Months Ended June 30,					
	2019		2020		Change	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(dollars in thousands)					
Gross profit	\$ 295,446	53 %	\$ 316,852	58 %	\$ 21,406	7 %

Gross profit increased by \$21.4 million, or 7%, from \$295.4 million for the six months ended June 30, 2019 to \$316.9 million for the six months ended June 30, 2020. Web presence gross profit increased by \$24.9 million, partially offset by a decrease in digital marketing gross profit of \$3.5 million. Our gross profit as a percentage of revenue increased by five percentage points from 53% for the six months ended June 30, 2019 to 58% for the six months ended June 30, 2020.

Web presence segment gross profit increased by \$24.9 million, or 17%, from \$147.8 million for the six months ended June 30, 2019 to \$172.7 million for the six months ended June 30, 2020. This increase was primarily due to a \$27.9 million decline in cost of revenue, which was mostly due to a \$17.9 million impairment charge for domain-related intangible assets which occurred in the first half of 2019, a \$4.7 million reduction in amortization expense, and other cost decreases. This increase in gross profit was partially offset by a \$3.0 million decrease in revenue, as described above, and a \$3.2 million increase in depreciation expense. Our web presence gross profit as a percentage of revenue increased by seven percentage points year over year, from 42% for the six months ended June 30, 2019 to 49% for the six months ended June 30, 2020. This increase in gross profit percentage is primarily attributable to the reduction in cost of revenue, which decreased by a higher percentage than the decrease in revenue.

Digital marketing segment gross profit decreased by \$3.5 million, or 2%, from \$147.6 million for the six months ended June 30, 2019 to \$144.1 million for the six months ended June 30, 2020. This decrease was primarily due to the decrease in digital marketing revenue discussed above, partially offset by a decrease in cost of revenue, which was due to various cost decreases, including lower amortization expense. Our digital marketing segment gross profit as a percentage of revenue increased by two percentage points year over year, from 72% for the six months ended June 30, 2019 to 74% for the six months ended June 30, 2020. This increase was primarily the result of the reduction in cost of revenue.

### Operating Expense

	Six Months Ended June 30,					
	2019		2020		Change	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(dollars in thousands)					
Sales and marketing	\$ 132,078	24 %	\$ 130,253	24 %	\$ (1,825)	(1) %
Engineering and development	49,042	9 %	51,533	9 %	2,491	5 %
General and administrative	62,517	11 %	59,777	11 %	(2,740)	(4) %
Gain on sale of intangible assets	—	— %	(2,365)	— %	(2,365)	100 %
Total	\$ 243,637	44 %	\$ 239,198	44 %	\$ (4,439)	(2) %

**Sales and Marketing.** Sales and marketing expense decreased by \$1.8 million, or 1%, from \$132.1 million for the six months ended June 30, 2019 to \$130.3 million for the six months ended June 30, 2020. This decrease was due to lower sales and marketing expense in our digital marketing segment, partially offset by higher sales and marketing expense in our web presence segment, as further discussed below.

Sales and marketing expense for our web presence segment increased by \$0.3 million, or 0%, from \$78.3 million for the six months ended June 30, 2019 to \$78.7 million for the six months ended June 30, 2020. This increase was primarily due to an increase in product marketing spend, partially offset by lower labor-related costs.

Sales and marketing expense for our digital marketing segment decreased by \$2.2 million, or 4%, from \$53.8 million for the six months ended June 30, 2019 to \$51.6 million for the six months ended June 30, 2020. This decrease was primarily due to the sale of SinglePlatform.

**Engineering and Development.** Engineering and development expense increased by \$2.5 million, or 5%, from \$49.0 million for the six months ended June 30, 2019 to \$51.5 million for the six months ended June 30, 2020. Web presence segment engineering and development expense increased by \$1.3 million and digital marketing segment engineering and development expense increased by \$1.2 million. These cost increases were primarily related to higher labor costs as we continue to invest in our engineering and development resources.

**General and Administrative.** General and administrative expense decreased by \$2.7 million, or 4%, from \$62.5 million for the six months ended June 30, 2019 to \$59.8 million for the six months ended June 30, 2020. This decrease was primarily due to labor-related cost reductions. Our general and administrative expense consists primarily of consolidated corporate-wide shared functions, and the costs of these functions are allocated between our three segments primarily based on relative revenues.

General and administrative expense for our web presence segment decreased by \$0.8 million, or 2%, from \$40.8 million for the six months ended June 30, 2019 to \$40.0 million for the six months ended June 30, 2020. General and administrative expense for our digital marketing segment decreased by \$2.0 million, or 9%, from \$21.7 million for the six months ended June 30, 2019 to \$19.8 million for the six months ended June 30, 2020.

**Gain on sale of intangible assets.** We recorded a \$2.4 million gain on the sale of certain intangible assets in the first half of 2020. No such sale took place in 2019.

#### **Other Expense, Net**

	Six Months Ended June 30,		Change	
	2019	2020	Amount	%
	(dollars in thousands)			
Other expense, net	\$ 73,646	\$ 63,588	\$ (10,058)	(14)%

Other expense, net decreased by \$10.1 million, or 14%, from \$73.6 million for the six months ended June 30, 2019 to \$63.6 million for the six months ended June 30, 2020. The decrease was attributable to \$10.1 million of decreased net interest expense, primarily due to lower average term loan balances and lower interest rates.

#### **Income Tax Expense**

	Six Months Ended June 30,		Change	
	2019	2020	Amount	%
	(dollars in thousands)			
Income tax expense	\$ 7,879	\$ 11,712	\$ 3,833	49%

For the six months ended June 30, 2019 and 2020, we recognized a tax expense of \$7.9 million and \$11.7 million, respectively, in the consolidated statements of operations and comprehensive income (loss). The income tax expense for the six months ended June 30, 2020 was attributable to a federal and state deferred tax expense of \$5.6 million, a federal and state current income tax expense of \$3.5 million, and a foreign current tax expense of \$2.7 million, partially offset by a foreign deferred tax benefit of \$0.1 million. The income tax expense for the six months ended June 30, 2019 was primarily attributable to a federal and state deferred tax expense of \$2.8 million, a federal and state current income tax expense of \$3.6 million, and a foreign current tax expense of \$1.6 million, partially offset by a foreign deferred tax benefit of \$0.1 million.

The increase in our income tax expense in the 2020 period is primarily due to the vesting of restricted stock units and restricted stock awards. We recognize stock-based compensation expense based on the fair value of our restricted stock units and restricted stock awards at the grant date. A tax deduction is taken when the awards vest based on the value of the stock on the date of vesting. The tax effect of any decrease in the value of the awards between the grant date and the vest date is charged to tax expense.

## Liquidity and Capital Resources

### Sources of Liquidity

We have funded our operations since inception primarily with cash flows generated by operations, borrowings under our credit facilities and public offerings of our securities.

*First Lien Term Loan Facility.* We entered into our current first lien term loan facility, which we refer to as the "Term Loan," on June 20, 2018. The Term Loan was issued at par with an original balance of \$1,580.3 million and has a maturity date of February 9, 2023. The Term Loan automatically bears interest at an alternate base rate unless we give notice to opt for the LIBOR-based interest rate. The LIBOR-based interest rate for the Term Loan is 3.75% per annum plus the greater of an adjusted LIBOR and 1.00%. The alternate base rate for the Term Loan is 2.75% per annum plus the greatest of the prime rate, the federal funds effective rate plus 0.50%, an adjusted LIBOR for a one-month interest period plus 1.00%, and 2.00%. The Term Loan requires quarterly mandatory repayments of principal. During the six months ended June 30, 2020, we made two mandatory repayments of \$7.9 million each, for a total repayment of \$15.8 million.

*Revolving Credit Facility.* We entered into our current revolving credit facility, which we refer to as the "Revolver," on February 9, 2016. The Revolver has an aggregate available amount of \$165.0 million and consists of a non-extended tranche of approximately \$58.8 million and an extended tranche of approximately \$106.2 million. The non-extended tranche has a maturity date of February 9, 2021. The extended tranche has a maturity date of June 20, 2023, with a "springing" maturity date of November 10, 2022 if the Term Loan has not been repaid in full or otherwise extended to September 19, 2023 or later prior to November 10, 2022. We have the ability to draw down against the Revolver using a LIBOR-based interest rate or an alternate base rate. The LIBOR-based interest rate for a non-extended revolving loan is 4.00% per annum (subject to a leverage-based step-down) and for an extended revolving loan is 3.25% per annum (subject to a leverage-based step-down), in each case plus an adjusted LIBOR for a selected interest period. The alternate base rate for a non-extended revolving loan is 3.00% per annum (subject to a leverage-based step-down) and for an extended revolving loan is 2.25% per annum (subject to a leverage-based step-down), in each case plus the greatest of the prime rate, the federal funds rate plus 0.50% and an adjusted LIBOR for a one-month interest period plus 1.00%. We are also required to pay a commitment fee of 0.50% per annum (subject to a leverage-based step-down) to the lenders based on the average daily unused principal amount of the Revolver.

We refer to the Term Loan and the Revolver together as the "Senior Credit Facilities."

*Senior Notes.* Our wholly owned subsidiary, EIG Investors Corp., issued \$350.0 million aggregate principal amount of senior notes, which we refer to as the "Senior Notes," on February 9, 2016. The Senior Notes were issued at a price of 98.065% of par and have a maturity date of February 1, 2024. The Senior Notes bear interest at the rate of 10.875% per annum. We have the right to redeem all or part of the Senior Notes at any time for a premium which is based on the applicable redemption date. On January 30, 2017, we completed a registered exchange offer for the Senior Notes, as required under the registration rights agreement we entered into with the initial purchasers of the Senior Notes. All of the \$350.0 million aggregate principal amount of the Senior Notes was validly tendered for exchange as part of this exchange offer. The registration rights agreement also obligated us to use reasonable efforts to cause to become effective a registration statement providing for the registration of certain secondary transactions in the Senior Notes by Goldman, Sachs & Co. and its affiliates. The Senior Notes have been fully and unconditionally guaranteed, on a senior unsecured basis, by us and our subsidiaries that guarantee the Senior Credit Facilities. During six months ended June 30, 2020, we redeemed a total of \$12.2 million of the Senior Notes in voluntary, privately negotiated transactions. The redemptions were made at an average price of 96.5%, for an immaterial net loss on redemption of \$0.1 million after recording a charge of \$0.5 million (included in interest expense) to write off original issue discounts and deferred financing costs relating to the redemptions.

As of June 30, 2020, we had cash and cash equivalents totaling \$149.2 million and negative working capital of \$254.5 million, which included the \$31.6 million current portion of the Term Loan. There was no balance outstanding on the Revolver as of June 30, 2020. In addition, we had approximately \$1,650.0 million of long-term indebtedness, including deferred financing costs, outstanding under the Term Loan and the Senior Notes. We also had \$486.5 million of short-term and long-term deferred revenue, which is not expected to be payable in cash.

### COVID-19 and CARES Act Impacts

We are tracking our liquidity and capital resources closely in light of the COVID-19 pandemic, and at this time, we believe we have adequate liquidity resources available to manage COVID-19 impacts and to continue our progress against our operating plan. We expect to see tax-related liquidity benefits from the Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act, emergency economic stimulus legislation enacted on March 27, 2020. The CARES Act contains numerous tax-related changes, including provisions that we anticipate will allow us to defer our 2020 cash tax payments; defer the employer portion of our 2020 FICA taxes to 2021 and 2022; fully deduct our interest expense for 2019; accelerate a refund of our available alternative minimum tax (AMT) credits; and increase our permitted level of 2019 federal net operating loss (NOL) carry-forwards from approximately \$26.0 million to \$77.0 million. We continue to review the tax-related provisions of the

CARES Act and their potential impact on us. Please see the risk factors disclosed in Part II, Item 1A of this Quarterly Report on Form 10-Q for further discussion of the potential impact of COVID-19 on our business.

### **LIBOR Phase-Out**

The U.K. Financial Conduct Authority announced in 2017 that it intends to phase out LIBOR by the end of 2021. We are evaluating the impact of the expected discontinuation of LIBOR on our Term Loan, Revolver, outstanding interest rate cap, and other contracts. Please refer to the risk factors disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on February 14, 2020, for a discussion of potential risks regarding the LIBOR phase-out.

### **Debt Covenants**

#### *Senior Credit Facilities*

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

The Senior Credit Facilities contain covenants that limit our ability to, among other things, incur additional debt or issue certain preferred shares; pay dividends on or make other distributions in respect of capital stock; make other restricted payments; make certain investments; sell or transfer certain assets; create liens on certain assets to secure debt; consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and enter into certain transactions with affiliates. These covenants are subject to a number of important limitations and exceptions. Additionally, the Senior Credit Facilities require us to comply with certain negative covenants and specify certain events of default that could result in amounts becoming payable, in whole or in part, prior to their maturity dates.

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

#### *Senior Notes*

The indenture governing the Senior 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 Corp. must offer to repurchase the Senior 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 Senior Notes to be due and payable immediately.

We were in compliance with all covenants under the Senior Credit Facilities and the Senior Notes at June 30, 2020.

#### *Secured Net Leverage Ratio*

The Senior Credit Facilities require that we comply with a financial covenant not to exceed a maximum ratio of consolidated senior secured net indebtedness on the date of determination to an adjusted consolidated EBITDA measure, which we refer to as "Bank Adjusted EBITDA," for the most recently completed four quarters (which we refer to as trailing twelve months, or "TTM"). This net leverage ratio is tested as of the last day of each fiscal quarter and may not exceed 6.00 to 1.00. As of June 30, 2020, we were in compliance with this covenant. Bank Adjusted EBITDA is defined in the credit agreement that governs our Senior Credit Facilities, and is different from the Adjusted EBITDA metric discussed above in the *Key Metrics* section.

The credit agreement defines consolidated senior secured net indebtedness as our and our restricted subsidiaries' aggregate amount of indebtedness that is secured by a lien not expressly subordinated to the liens securing the Senior Credit Facilities. Consolidated senior secured net indebtedness is determined on a consolidated basis in accordance with GAAP and consists only of indebtedness for borrowed money, unreimbursed obligations under letters of credit, obligations with respect to financed equipment 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.

The credit agreement defines Bank Adjusted EBITDA as net income (loss) adjusted to exclude, among other things, interest expense, income tax expense (benefit), depreciation and amortization. Bank Adjusted EBITDA also adjusts net income (loss) by excluding certain non-cash foreign exchange gains (losses), certain gains (losses) from sale of assets, stock-based compensation, unusual and non-recurring expenses (including acquisition related costs, gains or losses on early extinguishment

of debt, and loss on impairment of tangible or intangible assets). It also adjusts net income (loss) for revenue on a billed basis, changes in deferred domain costs, share of loss (profit) of unconsolidated entities, and certain integration related costs. Finally, it adjusts net income (loss) to give pro forma effect to acquisitions, debt incurrences, repayments of debt, other specified transactions and certain cost savings on a TTM basis.

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

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

As of June 30, 2020, our secured net leverage ratio on a TTM basis was 3.72 to 1.00 and was calculated as follows:

	<b>For the three months ended,</b>				
	<b>September 30, 2019</b>	<b>December 31, 2019</b>	<b>March 31, 2020</b>	<b>June 30, 2020</b>	<b>TTM</b>
	<b>(in thousands, except ratios)</b>				
Net (loss) income	\$ 7,816	\$ 9,553	\$ (2,244)	\$ 4,598	\$ 19,723
Interest expense	36,057	34,368	32,734	31,186	134,345
Income tax expense (benefit)	(4,839)	14,839	669	11,043	21,712
Depreciation	11,280	11,566	12,696	12,746	48,288
Amortization of other intangible assets	21,668	21,046	17,311	17,282	77,307
Stock-based compensation	9,143	8,179	9,836	9,595	36,753
Integration and restructuring costs	(193)	(13)	1,682	34	1,510
Transaction expenses and charges	—	—	—	—	—
Loss of unconsolidated entities	—	—	—	—	—
Impairment of long-lived assets and goodwill	—	19,648	—	—	19,648
Gain on assets, not ordinary course	—	(40,700)	—	(2,365)	(43,065)
Legal advisory and related expenses	849	(3,962)	9	41	(3,063)
Billed revenue to GAAP revenue adjustment	578	(4,065)	13,073	7,446	17,032
Adjustment for domain registration cost on a cash basis	465	1,163	(2,527)	(2,200)	(3,099)
Currency translation	75	18	185	189	467
Adjustment for acquisitions on a proforma basis	(43)	—	—	—	(43)
Adjustment for dispositions on a proforma basis	(1,053)	(326)	—	—	(1,379)
Bank Adjusted EBITDA	<u>\$ 81,803</u>	<u>\$ 71,314</u>	<u>\$ 83,424</u>	<u>\$ 89,595</u>	<u>\$ 326,136</u>
Current portion of notes payable					31,606
Current portion of financed equipment					4,017
Notes payable - long term					1,628,060
Financed equipment - long term					401
Original issue discounts and deferred financing costs					36,323
Less:					
Unsecured notes					(337,770)
Cash					(149,193)
Certain permitted restricted cash					—
Net senior secured indebtedness					<u>\$ 1,213,444</u>
Net leverage ratio					3.72
Maximum net leverage ratio					6.00



## Cash and Cash Equivalents

As of June 30, 2020, 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 \$37.9 million during the six months ended June 30, 2020, from \$111.3 million at December 31, 2019 to \$149.2 million at June 30, 2020. Of the \$149.2 million cash and cash equivalents we had at June 30, 2020, \$34.7 million was held in foreign countries, and due to tax and accounting reasons, we do not plan to repatriate this cash in the near future. We used cash on hand at December 31, 2019 and cash flows from operations to purchase property and equipment and to make our debt payments on our Term Loan, as described under "Financing Activities" below. Our future capital requirements will depend on many factors including, but not limited to our growth rate, our level of sales and marketing activities, the development and introduction of new and enhanced products and services, market acceptance of our solutions, potential settlements of legal proceedings, acquisitions, the impact of the COVID-19 pandemic on the economy and our business, and our gross profits and operating expenses. We believe that our current cash and cash equivalents and operating cash flows will be sufficient to meet our anticipated working capital and capital expenditure requirements, as well as our required principal and interest payments under our indebtedness, for at least the next 12 months.

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

	Six Months Ended June 30,	
	2019	2020
	(in thousands)	
Purchases of property and equipment	\$ (16,164)	\$ (20,009)
Principal payments on financed equipment	(3,861)	(2,974)
Depreciation	22,105	25,442
Amortization	48,296	40,797
Cash flows provided by operating activities	74,729	102,663
Cash flows used in investing activities	(16,164)	(17,304)
Cash flows used in financing activities	(56,339)	(46,499)

## Capital Expenditures

Our capital expenditures on the purchase of property and equipment for the six months ended June 30, 2019 and 2020 were \$16.2 million and \$20.0 million, respectively. This increase was primarily due to investments in software, construction in process, and data center equipment. The remaining balance payable on the equipment financing was \$4.4 million as of June 30, 2020. We expect our capital expenditures to be modestly higher than those incurred in fiscal year 2019 levels in the near term.

## Depreciation

Our depreciation expense for the six months ended June 30, 2019 and 2020 increased by \$3.3 million from \$22.1 million to \$25.4 million, respectively. This increase was primarily due to additional investments in plant, property and equipment, particularly software, and computers and office equipment.

## Amortization

Our amortization expense, which includes amortization of other intangible assets, amortization of deferred financing costs and amortization of net present value of deferred consideration, decreased by \$7.5 million from \$48.3 million for the six months ended June 30, 2019 to \$40.8 million for the six months ended June 30, 2020. Of this decrease in amortization expense, \$7.9 million related to lower amortization expense of intangible assets relating to businesses and assets acquired. This decrease was partially offset by an increase of \$0.3 million relating to increased amortization of deferred financing costs and an increase of \$0.2 million relating to amortization of original issue discounts related to our Senior Credit Facilities.

## 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, impairment charges, if any, 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.

Net cash provided by operating activities increased from \$74.7 million for the six months ended June 30, 2019 to \$102.7 million for the six months ended June 30, 2020. This increase was primarily the result of higher billings; lower interest payments due to lower debt balances and lower interest rates; lower expenses; a \$5.8 million payment in the first half of 2019 to settle a securities class action lawsuit; and the timing of certain payments. These increases in net cash provided by operating activities were partially offset by higher payments for taxes during the first half of 2020.

### Investing Activities

Cash flows used in investing activities consist primarily of the purchase of property and equipment, acquisition consideration payments, proceeds from the sale of business and sale of intangible assets, and changes in restricted cash balances.

During the six months ended June 30, 2019 and 2020, net cash used in investing activities was \$16.2 million and \$17.3 million, respectively, which was used to purchase property and equipment. Included in the net cash used in investing activities in the first half of 2020 was \$2.7 million of proceeds from the sale of intangible assets.

### Financing Activities

Cash flows used in financing activities consist 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, 2020, cash flows used in financing activities was \$46.5 million. We paid \$14.4 million for the repurchase of shares of our common stock under our share repurchase program. We paid \$15.8 million of mandatory principal payments related to our Term Loan and \$11.8 million for privately negotiated redemptions of our Senior Notes. We also made \$3.0 million of principal payments related to financed equipment obligations and \$1.5 million of deferred financing consideration payments relating to our acquisition of a controlling interest in AppMachine B.V. in 2016, or the AppMachine Acquisition.

During the six months ended June 30, 2019, cash flows used in financing activities was \$56.3 million. We paid \$50.0 million of principal payments related to our Term Loan. Included in the \$50.0 million were mandatory repayments of \$15.8 million and voluntary prepayments of \$34.2 million. We also made \$3.9 million of principal payments related to financed equipment obligations and \$2.5 million of deferred financing consideration payments relating to the AppMachine Acquisition.

### Free Cash Flow

Free cash flow, or FCF, is a non-GAAP financial measure that we calculate as GAAP cash flows from operations less capital expenditures and financed equipment 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 property, plant and financed equipment).

The following table reflects the reconciliation of cash flows from operations to free cash flow:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2020	2019	2020
	(in thousands)			
Cash flows from operations	\$ 59,680	\$ 67,753	\$ 74,729	\$ 102,663
Less:				
Capital expenditures and financed equipment obligations <sup>(1)</sup>	(12,032)	(11,813)	(20,025)	(22,983)
Free cash flow	\$ 47,648	\$ 55,940	\$ 54,704	\$ 79,680

(1) Capital expenditures during the three and six months ended June 30, 2019 includes \$1.3 million and \$3.9 million, respectively, of principal payments under a three-year agreement for equipment financing. Capital expenditures during the three and six months ended June 30, 2020 includes \$1.7 million and \$3.0 million, respectively, of principal payments under a three-year agreement for equipment financing. The remaining balance on the equipment financing is \$4.4 million as of June 30, 2020.

FCF increased by approximately \$8.3 million, from \$47.6 million for the three months ended June 30, 2019 to \$55.9 million for the three months ended June 30, 2020. FCF was favorably impacted mainly due to the following factors: a \$10.5 million increase in our deferred revenue balance due to higher billings; a decrease in other expenses, including a \$4.9 million decrease in interest payments due to lower debt balances and lower interest rates; and the timing of certain payments. These factors were partially offset by higher payments for taxes.

FCF increased by \$25.0 million, from \$54.7 million for the six months ended June 30, 2019 to \$79.7 million for the six months ended June 30, 2020. FCF was favorably impacted by higher billings and lower levels of expenses, including a decrease

in interest payments, and the timing of certain payments. In addition, we paid \$5.8 million in the first half of 2019 to settle a securities class action lawsuit. These increases in FCF were partially offset by higher payments for taxes and higher purchases of property and equipment during the first half of 2020.

### **Net Operating Loss (NOL) Carry-forwards**

As of December 31, 2019, we had NOL carry-forwards available to offset future U.S. federal taxable income of approximately \$26.9 million and future state taxable income of approximately \$78.0 million. These NOL carry-forwards expire on various dates through 2039.

As discussed above, we anticipate that the CARES Act emergency economic stimulus legislation enacted on March 27, 2020 will increase our permitted level of 2019 NOL carry-forwards from approximately \$26.9 million to approximately \$77.0 million.

We are currently expecting to utilize the majority of these NOL carry-forwards in the near term.

As of December 31, 2019, we had recorded the following tax attributes available to be carried forward. This table does not give effect to the impact of the CARES Act.

Jurisdiction	Amount	Year Loss Carry-forwards
	(in millions)	Expire
Domestic		
Federal	\$ 26.9	2037
State	78.0	various dates through 2039
Foreign		
China	0.9	2021
Brazil	4.4	indefinite
Netherlands	12.4	2022
India	0.6	2022
Singapore	0.4	indefinite
Total NOL carry-forwards	<u>\$ 123.6</u>	
Domestic		
Federal	\$ 25.2	2034
State	15.5	various dates
Total tax credit carry-forwards	<u>\$ 40.7</u>	
Total tax attributes available	<u>\$ 164.3</u>	

Utilization of the U.S. 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, which we refer to as Section 382 Limitations. 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. Although we have experienced a number of ownership changes over time, we do not currently have any Section 382 Limitations on our ability to utilize NOL carry-forwards.

### **Contractual Obligations and Commitments**

There have been no significant changes in our contractual obligations from those disclosed in our Annual Report on Form 10-K filed with the SEC on February 14, 2020, except as it relates to our long-term debt obligations and lease obligations. The following table summarizes these debt- and lease-related contractual obligations as of June 30, 2020:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in thousands)				
Long-term debt and lease obligations:					
Principal payments on term loan facility and notes	\$ 1,695,989	\$ 31,606	\$ 1,326,613	\$ 337,770	\$ —
Principal payments on lease obligations	105,117	23,486	38,231	43,400	—
Total principal payments relating to our long-term debt and lease obligations	\$ 1,801,106	\$ 55,092	\$ 1,364,844	\$ 381,170	\$ —

## Recently Issued Accounting Pronouncements

For information on recent accounting pronouncements, see *Recent Accounting Pronouncements* in Note 2, *Summary of Significant Accounting Policies*, 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 off-balance sheet arrangements.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES 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 \$149.2 million at June 30, 2020, 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, 2020, we had approximately \$1,358.2 million outstanding under our Term Loan, \$337.8 million outstanding under the Senior Notes and \$0.0 million outstanding under the Revolver.

The Term Loan automatically bears interest at an alternate base rate unless we give notice to opt for the LIBOR-based interest rate. The LIBOR-based interest rate for the Term Loan is 3.75% per annum plus the greater of an adjusted LIBOR and 1.00%. The alternate base rate for the Term Loan is 2.75% per annum plus the greatest of the prime rate, the federal funds effective rate plus 0.50%, an adjusted LIBOR for a one-month interest period plus 1.00%, and 2.00%.

We have the ability to draw down against the Revolver using a LIBOR-based interest rate or an alternate base rate. The LIBOR-based interest rate for a non-extended revolving loan is 4.00% per annum (subject to a leverage-based step-down) and for an extended revolving loan is 3.25% per annum (subject to a leverage-based step-down), in each case plus an adjusted LIBOR for a selected interest period. The alternate base rate for a non-extended revolving loan is 3.00% per annum (subject to a leverage-based step-down) and for an extended revolving loan is 2.25% per annum (subject to a leverage-based step-down), in each case plus the greatest of the prime rate, the federal funds rate plus 0.50% and an adjusted LIBOR for a one-month interest period plus 1.00%. We are also required to pay a commitment fee of 0.50% per annum (subject to a leverage-based step-down) to the lenders based on the average daily unused principal amount of the Revolver.

Based on our aggregate indebtedness outstanding under our Term Loan of \$1,358.2 million as of June 30, 2020, a 100 basis point increase in the current LIBOR rate would result in a \$14.3 million increase in our aggregate interest payments over a 12-month period, and a 100 basis point decrease in the current LIBOR rate would not result in a decrease in our interest payments.

We have entered into two interest rate caps as part of our risk management strategy. The three-year interest rate cap we entered into in December 2015 limited our exposure beginning on February 29, 2016 to interest rate increases over 2.00% on \$500.0 million of our Term Loan. The December 2015 interest rate cap matured in February 2019. The three-year interest rate cap we entered into in June 2018 limits our exposure beginning on August 28, 2018 to interest rate increases over 3.00% on \$800.0 million of our Term Loan. The LIBOR interest rate as of June 30, 2020 was approximately 0.3%, which is below the 1.00% interest rate floor on our Term Loan, and also below the 3.00% interest rate protection from our interest rate cap.

### *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, 2020, 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, 2020, 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, 2020, 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.

As previously disclosed, we were named as a defendant in a shareholder litigation matter. On May 27, 2020, the court issued an order approving the settlement of this matter and such order is now final. For more information on this legal proceeding, see Note 16, *Commitments and Contingencies*, to the consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

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

There were no material changes to the risk factors disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019, or the 2019 Form 10-K, filed with the SEC on February 14, 2020, as updated and modified by the risk factors disclosed in Part 1, Item 1A of our Quarterly Report on Form 10-Q for the three months ended March 31, 2020, or the First Quarter 10-Q, filed with the SEC on May 6, 2020, except as set forth below.

Due to the extensive impact of the COVID-19 pandemic, many of the risks disclosed in the risk factors included in the 2019 Form 10-K and the First Quarter 10-Q may now be more likely to occur or have occurred, as described in the new COVID-19 risk factor below. You should read the risk factor below together with the risk factors included in the 2019 Form 10-K and the First Quarter 10-Q.

#### ***The COVID-19 pandemic could have a material adverse effect on our business, financial condition, results of operations and/or cash flows.***

The COVID-19 pandemic could have a material adverse effect on our business, financial condition, results of operations and/or cash flows. The coronavirus that causes COVID-19 was identified in late 2019 and has spread globally. Authorities have implemented numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter-in-place orders, shutdowns, and social distancing requirements.

To date, we believe that the COVID-19 pandemic has contributed to increased demand for our products and services as many SMBs have moved more of their business online; however, we cannot predict whether and to what extent this level of demand will continue. We believe that a number of our customers have experienced financial challenges as a result of the COVID-19 pandemic and related containment measures, and we expect that this will continue. As the pandemic and related economic impacts continue, financial pressures may cause more of our customers to cancel their subscriptions or allow them to lapse, or reduce the number or value of products they buy from us. Some of our customers may eventually decide to close their

businesses due to the ongoing effects of the pandemic. It may also become more difficult or costly for us to acquire new subscribers if SMBs or other potential customers cut back their spending due to financial constraints or general economic uncertainty. Although we do not believe the COVID-19 pandemic has adversely impacted our business as of the date of this Quarterly Report on Form 10-Q, the ongoing pandemic could have a material adverse impact on us in the future, particularly if the spread of COVID-19 accelerates and/or containment measures are extended or become more restrictive.

The COVID-19 pandemic may also disrupt our operations and increase our costs. Our customer support partners, suppliers, vendors and their workforces have been impacted by the virus and related containment measures, in some cases significantly. If these impacts persist or worsen, we could see increased costs or disruptions affecting our customer support functions, supply chain or operations, which could have a material adverse impact on our business. Although we have not seen an adverse impact in this area to date, the pandemic could also increase our healthcare costs, since we self-insure.

With respect to our own workforce and internal operations, we have transitioned substantially all of our employees to work from home and we do not expect they will return to the office until at least mid-2021. While our transition to remote work has generally been smooth, we may encounter challenges managing employee productivity and morale and maintaining certain controls, compliance standards, and risk management practices in a remote environment over the long-term. Maintaining a remote work environment entails certain cybersecurity and data privacy risks, which may become more complex or costly to manage as our employees work from home for a protracted period. Finally, despite containment measures by the authorities and our own precautionary and planning efforts, it is possible that a portion of our employees in one or more locations could contract COVID-19, which could negatively affect our ability to carry out our day-to-day operations.

The COVID-19 pandemic has significantly increased macroeconomic and demand uncertainty, and has led to disruption and volatility in the global capital markets. The pandemic has caused an economic contraction, and it is possible that it could lead to a global recession. We are closely monitoring the pandemic's impact on our cash flows and balance sheet, and at this time, we do not expect significant liquidity constraints or asset impairments due to the pandemic. However, a recession or sustained capital markets disruption would likely have an adverse impact on our cash flows, balance sheet, and business in general, which could result in impairments and liquidity challenges, including difficulties refinancing our outstanding indebtedness at a reasonable cost.

The ultimate magnitude of the COVID-19 pandemic, including the extent of its impact on our financial and operational results, will depend on numerous factors, including the efficacy of containment measures to control outbreaks of the virus and the timing of vaccine availability. We cannot at this time predict the full impact of the COVID-19 pandemic, but it could have a material adverse effect on our business, financial condition, results of operations and/or cash flows.

## **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On March 10, 2020, our Board of Directors authorized a share repurchase program for up to \$40.0 million of our common stock on the open market, in privately negotiated transactions or otherwise.

We will determine the timing and amount of shares repurchased, if any, depending on our evaluation of market and other conditions. We expect to fund any repurchases using cash on hand and cash generated from operations. The share repurchase program does not have an expiration date, but may be suspended or discontinued at any time.

Shares that we repurchase are held in treasury for general corporate purposes, including issuances under equity incentive plans. The reissuance of shares from treasury stock is based on the weighted average purchase price of the shares.

During the three months ended June 30, 2020, we repurchased 1,105,100 shares at a weighted average price of \$1.90 per share, for a total cost, including expenses, of approximately \$2.1 million under the program. All of these shares were repurchased in open market transactions pursuant to a 10b5-1 plan. As of June 30, 2020, of the \$40.0 million authorized amount, we had approximately \$25.6 million remaining available under the share repurchase program.

The following table presents information with respect to our repurchases of common stock under the share repurchase program during the three months ended June 30, 2020:

**Issuer Purchases of Equity Securities**

<b>Period</b>	<b>Total Number Of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased As Part of a Publicly Announced Plan or Program</b>	<b>Maximum Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan or Program (1) (in thousands)</b>
April 1 - April 30, 2020	1,105,100	\$ 1.90	1,105,100	\$ 25,572
May 1 - May 31, 2020	—	—	—	—
June 1 - June 30, 2020	—	—	—	—
<b>Total</b>	<b>1,105,100</b>	<b>\$ 1.90</b>	<b>1,105,100</b>	<b>\$ 25,572</b>

(1) On March 10, 2020, our Board of Directors authorized a share repurchase program for up to \$40.0 million of our common stock. This authorization has no expiration date.



## ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit	Incorporated by Reference			Exhibit Number	Filed Herewith
		Form	File Number	Date of Filing		
2.1*	<a href="#">Agreement and Plan of Merger, dated October 30, 2015, by and among Constant Contact, Inc., the Registrant, and Paintbrush Acquisition Corporation</a>	8-K	001-36131	November 2, 2015	2.1	
2.2*	<a href="#">Asset Purchase Agreement dated September 6, 2019 by and among LTD Software LLC, Endurance Commerce, LLC, Endurance International Group Holdings, LLC, and the Signing Members, as defined therein</a>	8-K	001-36131	September 16, 2019	2.1	
2.3*	<a href="#">Asset Purchase Agreement dated December 5, 2019 by and among Constant Contact, Inc., Endurance International Group Holdings, Inc. and TripAdvisor, LLC</a>	8-K	001-36131	December 5, 2019	2.1	
3.1	<a href="#">Restated Certificate of Incorporation of the Registrant</a>	S-1/A	333-191061	October 23, 2013	3.3	
3.2	<a href="#">Amended and Restated By-Laws of the Registrant</a>	8-K	001-36131	January 30, 2017	3.1	
4.1	<a href="#">Specimen certificate evidencing shares of common stock of the Registrant</a>	S-1/A	333-191061	October 8, 2013	4.1	
4.2	<a href="#">Second Amended and Restated Registration Rights Agreement, dated as of October 24, 2013, by and among the Registrant and the other parties thereto</a>	10-Q	001-36131	November 7, 2014	4.2	
4.3	<a href="#">Stockholders Agreement, dated as of October 24, 2013, by and among the Registrant and certain holders of the Registrant's common stock</a>	10-Q	001-36131	November 7, 2014	4.3	
4.4	<a href="#">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</a>	8-K	001-36131	February 10, 2016	4.1	
4.5	<a href="#">Exchange and Registration Rights Agreement, dated as of February 9, 2016, among EIG Investors Corp., the Registrant, the Endurance Guarantors party thereto, Goldman, Sachs &amp; Co., Credit Suisse Securities (USA) LLC and Jefferies LLC</a>	10-Q	001-36131	May 9, 2016	4.6	
10.1#	<a href="#">Employment Agreement, dated as of May 19, 2020, by and between Endurance International Group Holdings, Inc. and Kimberly S. Simone</a>					X
10.2	<a href="#">Fourth Amendment to Datacenter Lease dated as of June 16, 2020 between Digital 55 Middlesex, LLC and Constant Contact, Inc.</a>					X
31.1	<a href="#">Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended</a>					X
31.2	<a href="#">Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended</a>					X
32.1	<a href="#">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</a>					X

32.2	<a href="#">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</a>	X
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	X
101.SCH	Inline XBRL Taxonomy Extension Schema Document	X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	X
104	Cover Page Interactive Data File - the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	X

\* Schedules have been omitted pursuant to Item 601(a)(5) 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 compensatory plan, contract or agreement.

**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 6, 2020

By: /s/ Marc Montagner

Marc Montagner

Chief Financial Officer

(Principal Financial Officer)

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT (the "Agreement"), made and entered into as of May 19, 2020 by and between Endurance International Group Holdings, Inc., a Delaware corporation (together with its successors and assigns permitted under this Agreement, the "Company") and Kimberly S. Simone (the "Executive").

WITNESSETH:

WHEREAS, the Company desires to continue to employ the Executive as its Chief Operating Officer – Digital Marketing as of and following the Effective Date (as defined below) and desires to memorialize the terms and conditions of such employment in this Agreement;

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the receipt of which is mutually acknowledged, the Parties agree as follows:

1. DEFINITIONS. As used in this Agreement, capitalized terms shall have the meanings set forth in this Agreement. The following capitalized terms shall have the following meanings:

(a) "Affiliate" of a Person shall mean a Person that directly or indirectly Controls, is Controlled by, or is under common Control with the Person specified.

(b) "Annual Bonus" shall mean the annual cash bonus, if any, payable to the Executive in respect of any given calendar year pursuant to Section 5 of this Agreement.

(c) "Base Salary." shall mean the annual rate of base salary provided for in Section 4 below or any increased annual rate of base salary granted to the Executive pursuant to Section 4 of this Agreement.

(d) "Board" shall mean the Board of Directors of the Company.

(e) "Cause" shall mean:

(i) a continued failure of the Executive to perform her duties and responsibilities (other than as a result of physical or mental illness or injury) after receipt of written notice from the Board of such failure, provided that the Executive shall have 30 calendar days after the date of receipt of such notice in which to cure such failure (to the extent cure is possible);

(ii) the Executive's willful misconduct or gross negligence which is materially injurious to the Company or any of its Affiliates (whether financially, reputationally or otherwise);

(iii) a breach by the Executive of her fiduciary duty or duty of loyalty to the Company or its Affiliates which is materially injurious to the Company or any of its Affiliates (whether financially, reputationally or otherwise);

(iv) the indictment of the Executive for any felony or other serious crime involving moral turpitude; or

(v) the Executive's (A) breach of any restrictive covenant regarding competition or solicitation or (B) material breach of any other restrictive covenant (including, without limitation, non-disclosure of confidential information), in each case to which she is subject pursuant to this Agreement or any other agreement with the Company or any of its Affiliates (the "Restrictive Covenants"); provided that, in the case of a breach described in clause (v)(B) above, the Board shall provide the Executive with written notice of such breach and the Executive shall have 30 calendar days after the date of receipt of such notice in which to cure such failure (to the extent cure is possible).

If, within the three-month period immediately following the Termination Date, it is discovered that the Executive engaged in conduct which could have resulted in the Executive's employment with the Company being terminated for Cause, as such term is defined above, the Participant's employment shall, at the election of the Board, in its sole discretion, be deemed to have been terminated for Cause retroactively to the date the events giving rise to Cause occurred.

(f) A "Change in Control" shall mean the occurrence of one or more of the following events:

(i) the acquisition by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, and amended (the "Exchange Act") (a "13D Person") of beneficial ownership of any capital stock of the Company if, after such acquisition, such 13D Person beneficially owns (within the meaning of Rule 13d-3 under the Exchange Act) 50% or more of either (x) the then-outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (y) the combined voting power of the then-outstanding securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change in Control: (I) any acquisition directly from the Company (excluding an acquisition pursuant to the exercise, conversion or exchange of any security exercisable for, convertible into or exchangeable for common stock or voting securities of the Company, unless the 13D Person exercising, converting or exchanging such security acquired such security directly from the Company or an underwriter or agent of the Company) or (II) any acquisition by any corporation pursuant to a Business Combination (as defined below) which complies with clauses (x) and (y) of subsection (iii) of this definition; or

(ii) a change in the composition of the Board that results in the Continuing Directors (as defined below) no longer constituting a majority of the Board (or, if applicable, the Board of Directors of a successor corporation to the Company), where the term "Continuing

Director” means at any date a member of the Board (x) who was a member of the Board on the date of the initial adoption of this Agreement by the Board or (y) who was nominated or elected subsequent to such date by at least a majority of the directors who were Continuing Directors at the time of such nomination or election or whose election to the Board was recommended or endorsed by at least a majority of the directors who were Continuing Directors at the time of such nomination or election; provided, however, that there shall be excluded from this clause (y) any individual whose initial assumption of office occurred as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents, by or on behalf of a person other than the Board; or

(iii) the consummation of a merger, consolidation, reorganization, recapitalization or share exchange involving the Company or a sale or other disposition of all or substantially all of the assets of the Company (a “Business Combination”), unless, immediately following such Business Combination, each of the following two conditions is satisfied: (x) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors, respectively, of the resulting or acquiring corporation in such Business Combination (which shall include, without limitation, a corporation which as a result of such transaction owns the Company or substantially all of the Company’s assets either directly or through one or more subsidiaries) (such resulting or acquiring corporation is referred to herein as the “Acquiring Corporation”) in substantially the same proportions as their ownership of the Outstanding Company Common Stock and Outstanding Company Voting Securities, respectively, immediately prior to such Business Combination and (y) no 13D Person (excluding any employee benefit plan (or related trust) maintained or sponsored by the Company or by the Acquiring Corporation) beneficially owns, directly or indirectly, 50% or more of the then-outstanding shares of common stock of the Acquiring Corporation, or of the combined voting power of the then-outstanding securities of such corporation entitled to vote generally in the election of directors (except to the extent that such ownership existed prior to the Business Combination); or

(iv) the liquidation or dissolution of the Company;

provided, however, that to the extent required with respect to any payment hereunder that is subject to Section 409A of the Code, the Change in Control must be a “change in control event” within the meaning of Treasury Regulation Section 1.409A-3(i)(5)(i).

(g) “Change in Control Period” shall mean the period beginning on the date on which a Change in Control is consummated and ending on the one-year anniversary thereof.

(h) “COBRA” shall mean the Consolidated Omnibus Budget Reconciliation Act.

(i) “Code” shall mean the Internal Revenue Code of 1986, as amended, and all rules and regulations promulgated thereunder.

(j) “Company Employee” shall mean an employee, director or independent contractor of or for the Company or any of its Affiliates (to the extent such Affiliate is engaged in a Competing Business).

(k) “Competing Business” shall mean any business engaged in a line of business in which the Company or its subsidiaries (i) is engaged as of the Termination Date, (ii) has memorialized plans (electronically or otherwise) to become engaged within the six-month period immediately following the Termination Date or (iii) has plans of which the Executive knows (or of which there is a reasonable expectation that the Executive should have known) to become engaged within the six-month period immediately following the Termination Date.

(l) “Control” shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

(m) “Effective Date” shall mean the date specified in Section 2 below.

(n) “Person” shall mean an individual, partnership, corporation, limited liability company, unincorporated organization, trust or joint venture, or a governmental agency or political subdivision thereof.

(o) “Restricted Period” shall mean the period beginning on the Termination Date and ending eighteen months after the Termination Date.

(p) “Stock Incentive Plan” shall mean the Endurance International Group Holdings, Inc. 2013 Stock Incentive Plan (or its successor).

(q) “Termination Date” shall mean the date specified in Section 9(b).

(r) “Term of Employment” shall mean the period specified in Section 2 below (including any extension as provided therein).

(s) “Work Product” shall mean all ideas, works of authorship, inventions and other creations, whether or not patentable, copyrightable, or subject to other intellectual-property protection, that are made, conceived, developed or worked on in whole or in part by the Executive while employed by the Company and/or any of its Affiliates, that relate in any manner whatsoever to the business, existing or proposed, of the Company and/or any of its Affiliates, or any other business or research or development effort in which the Company and/or any of its Affiliates engages during the Term of Employment.

## 2. TERM OF EMPLOYMENT.

The Term of Employment shall begin on May 19, 2020 (the “Effective Date”). Subject to the terms hereof, the Term of Employment shall extend until the second anniversary of the Effective Date. Commencing on the second anniversary of the Effective Date and on each anniversary thereafter, the Term of Employment shall be renewed automatically for succeeding terms of (1) year, unless either Party gives written notice to the other Party at least ninety (90)

days prior to the expiration of the then-current term of the intention not to renew (a “Non-Renewal Notice”). If a Non-Renewal Notice is provided by either Party, then the Executive’s employment with the Company shall cease as of the end of the then-current Term of Employment. Notwithstanding the foregoing, the Term of Employment may be earlier terminated by either Party in accordance with the provisions of Section 8, 9, and 10 of this Agreement, and in such event the Term of Employment shall end on the Termination Date.

3. POSITION, DUTIES AND RESPONSIBILITIES.

(a) During the Term of Employment, the Executive shall be employed as the Chief Operating Officer – Digital Marketing of the Company and shall have such duties, responsibilities and authority as shall be reasonably determined from time to time by the Chief Executive Officer of the Company (the “CEO”). Further, the Executive shall (i) serve on such boards of directors of subsidiaries of the Company and/or (ii) hold such corporate officer titles and positions of the Company and any of its subsidiaries, as may be requested by the CEO in his sole discretion, in any such case without additional compensation therefor. The Executive, in carrying out her duties under this Agreement, shall report directly to the CEO. During the Term of Employment, subject to Section 3(b) and except for permitted vacation periods and reasonable periods of illness, the Executive shall devote substantially all of her business time and attention to the performance of her duties hereunder and shall use her reasonable best efforts, skills and abilities to promote the Company’s interests.

(b) Nothing herein shall preclude the Executive from (i) continuing to serve as a director and advisor on the board of directors of the corporations and entities set forth on Schedule I hereto, (ii) serving on up to one other board of directors (or advisory committee) of a corporation or entity with the prior express written consent of the Board (which consent will not be unreasonably withheld), (iii) serving on the boards of a reasonable number of trade associations and civic or charitable organizations and (iv) managing personal investments, so long as such activities set forth in this Section 3(b) do not conflict or materially interfere with the effective discharge of her duties and responsibilities under Section 3(a) above.

4. BASE SALARY.

During the Term of Employment, the Executive shall be paid an annualized gross Base Salary, payable in accordance with the regular payroll practices of the Company, of \$412,000. The Base Salary shall be reviewed annually for increase (but not decrease) in the sole discretion of the Board.

5. ANNUAL BONUS OPPORTUNITY.

During the Term of Employment, the Executive shall be eligible to earn an Annual Bonus pursuant to the terms and conditions of any annual Management Incentive Plan adopted by the Company in respect of 2020 and each successive full fiscal year occurring during the Term of Employment, subject to the Executive’s continued employment through the date on which payments are made under the applicable Management Incentive Plan. The target amount



of the Annual Bonus (the “Target Annual Bonus Opportunity”) shall be 75% of the Executive’s Base Salary.

6. EMPLOYEE BENEFIT PROGRAMS.

During the Term of Employment, the Executive shall be entitled to participate in any employee retirement, welfare and fringe benefit plans and programs made available to the Company’s senior executive officer level employees generally, as such plans or programs may be in effect from time to time. The Company shall pay the expenses associated with the Executive’s participation in such benefit plans to the same extent the Company pays the expenses associated with the participation by other similarly situated senior executive officer level employees of the Company.

7. REIMBURSEMENT OF BUSINESS AND OTHER EXPENSES; PERQUISITES; VACATIONS.

(a) Business Expenses. The Executive is authorized to incur reasonable expenses in carrying out her duties and responsibilities under this Agreement and the Company shall promptly reimburse her for all reasonable business expenses incurred in connection with the performance of her duties hereunder, subject to the Executive’s provision of reasonable documentation of such expenses in accordance with the Company’s business expense reimbursement policy as may be in effect from time to time.

(b) Perquisites. During the Term of Employment, the Executive shall be entitled to any perquisites that are generally offered to other senior executive officers of the Company, on terms and conditions as determined by the Company from time to time.

(c) Vacation. Consistent with Company’s policy for executive employees, the Executive will not accrue paid vacation.

(d) Living Expenses and Tax Gross-Up. The Living Expenses and Tax Gross-Up Letter dated December 10, 2018 and attached as Exhibit A to this Agreement (the “Living Expenses Letter”) is incorporated into this Agreement by this reference.

8. TERMINATION OF EMPLOYMENT.

(a) Death. The Executive shall terminate employment with the Company, and the Term of Employment shall terminate, upon the Executive’s death.

(b) Disability. The Company shall be entitled to terminate the Executive’s employment for Disability if the Executive has experienced a permanent disability as defined in the Company’s long-term disability plans (a “Disability”). The termination of the Executive’s employment by the Company for Disability shall not be considered a termination without Cause for purposes of this Agreement.

(c) For or Without Cause or Voluntarily (Other Than for Good Reason). The Company may terminate the Executive’s employment for Cause or without Cause. The

Executive may voluntarily terminate her employment, other than for Good Reason (“Voluntary Resignation”), provided that the Executive provides the Company with notice of her intent to terminate her employment at least thirty (30) days in advance of the Termination Date.

(d) Good Reason. The Executive may terminate her employment with the Company for Good Reason. For purposes of this Agreement, “Good Reason” shall mean, in connection with the Executive’s termination of employment, the occurrence of any of the following events without her consent:

(i) a material diminution in the Executive’s duties and responsibilities other than a change in the Executive’s duties and responsibilities that results from becoming part of a larger organization following a Change in Control;

(ii) the Company’s material breach of this Agreement, including the failure to timely pay Base Salary or any other amounts due under this Agreement; or

(iii) a relocation of the Executive’s primary work location after the Effective Date such that her daily commute is increased by more than 40 miles;

provided that, within 30 days following the occurrence of any of the events set forth in clauses (i), (ii) or (iii), the Executive shall have delivered written notice to the Company of her intention to terminate her employment for Good Reason, which notice specifies in reasonable detail the circumstances claimed to give rise to the Executive’s right to terminate employment for Good Reason, and the Company shall not have cured such circumstances within 30 days following the Company’s receipt of such notice.

#### 9. PROCEDURE FOR TERMINATION OF EMPLOYMENT.

(a) Notice of Termination of Employment. Any termination of the Executive’s employment with the Company (other than a termination of employment on account of the death of the Executive) shall be communicated by written “Notice of Termination” to the other party hereto in accordance with Section 25 hereof.

(b) Termination Date. The Termination Date shall mean: (i) if the Executive’s termination of employment occurs due to the Executive’s death, the date of the Executive’s death; (ii) if the Executive’s termination of employment occurs due to the Executive’s Disability, the date on which the Executive receives a Notice of Termination from the Company; (iii) if the Executive’s termination of employment occurs due to the Executive’s Voluntary Resignation, the date specified in the notice given pursuant to Section 8(c) hereof, which shall not be less than thirty (30) days after Company’s receipt of the Notice of Termination; (iv) if the Executive’s termination of employment occurs due to the Executive’s termination for Good Reason, the date of her termination in accordance with Section 8(d) hereof; (v) if the Executive’s termination of employment occurs pursuant to a non-renewal of the Term of Employment by either Party, the end of the then-current Term of Employment; and (vi) if the Executive’s termination of employment occurs for any other reason, the date on which a Notice of Termination is given or any later date (within thirty (30) days, or any alternative time period agreed upon by the Parties,

after the giving of such Notice of Termination) set forth in such Notice of Termination. Effective as of the Termination Date, unless otherwise determined by the Board, the Executive shall be deemed to have resigned from any and all positions she then holds with the Company and its Affiliates.

10. PAYMENTS UPON TERMINATION OF EMPLOYMENT.

(a) Termination Due to Death or Disability. In the event that the Executive's employment hereunder is terminated due to her death or Disability, the Executive (or her estate or her beneficiaries, in the event of her death), shall be entitled to receive:

(i) Payment in respect of (A) her accrued but unpaid Base Salary through the Termination Date, (B) any unpaid business expense reimbursements due to the Executive under Section 7 of this Agreement and (C) notwithstanding anything to the contrary in Section 5 of this Agreement or the applicable Management Incentive Plan, in the event that the Termination Date occurs after the end of a fiscal year, but prior to the date on which the Annual Bonus earned by the Executive with respect to such fiscal year is paid to the Executive, payment of such Annual Bonus ((A), (B) and (C) together, the "Accrued Amounts"). The Accrued Amounts shall be paid as soon as reasonably practicable, but no later than thirty (30) days, following the Termination Date; and

(ii) any amounts or benefits to which the Executive is then entitled under the terms of the benefit plans then-sponsored by the Company in accordance with their terms (and not accelerated to the extent acceleration does not satisfy Section 409A of the Code).

(b) Termination by the Company for Cause, Voluntary Resignation or Termination Due to Non-Renewal. In the event the Company terminates the Executive's employment hereunder for Cause or in the event of a Voluntary Resignation, or the Executive's employment hereunder is terminated as a result of the delivery of a Non-Renewal Notice, the Executive shall be entitled to receive:

(i) payment of the Accrued Amounts as soon as reasonably practicable, but no later than thirty (30) days, following the Termination Date; and

(ii) any amounts or benefits to which the Executive is then entitled under the terms of the benefit plans then-sponsored by the Company in accordance with their terms (and not accelerated to the extent acceleration does not satisfy Section 409A of the Code).

(c) Termination by the Company without Cause or by the Executive for Good Reason.

(i) In the event that the Executive's employment hereunder is (x) terminated by the Company without Cause, other than due to Disability or death

or (y) the Executive resigns for Good Reason, the Executive shall be entitled to receive:

(A) payment of the Accrued Amounts as soon as reasonably practicable, but no later than thirty (30) days, following the Termination Date;

(B) any amounts or benefits to which the Executive is then entitled under the terms of the benefit plans then-sponsored by the Company in accordance with their terms (and not accelerated to the extent acceleration does not satisfy Section 409A of the Code); and

(C) subject to (x) the Executive's satisfaction of the Release Requirements and (y) the Executive's continued compliance with the Restrictive Covenants:

(1) continued payment of Base Salary at the annualized rate in effect on the Termination Date for a period of:

(A) if the Termination Date does not occur within the Change in Control Period, twelve (12) months following the Termination Date; or

(B) if the Termination Date does occur within the Change in Control Period, eighteen (18) months following the Termination Date,

in either case payable in accordance with the Company's usual and customary payroll practices;

(2) payment of the Target Annual Bonus Opportunity in effect on the Termination Date, payable in equal monthly installments over a period of:

(A) twelve (12) months following the Termination Date if the Termination Date does not occur within the Change in Control Period; or

(B) eighteen (18) months following the Termination Date if the Termination Date does occur within the Change in Control Period,

in either case payable in accordance with the Company's usual and customary payroll practices; and

(3) provided the Executive is eligible for and timely elects to continue receiving group medical insurance under COBRA, pay (but in no event for longer than eighteen (18) months following the Executive's Termination Date) for such COBRA coverage (the "COBRA Amount"); provided, however, that if the Executive becomes re-employed with another

employer and becomes eligible for medical insurance coverage under a plan maintained by such employer, the Executive shall be obligated to provide the Company with written notice of her new employment within five (5) business days of obtaining such new employment and the reimbursement by the Company of the COBRA Amount shall cease and the Company shall have no further obligation in connection therewith; and provided, further, that if the Company's provision of the COBRA Amount will violate the nondiscrimination requirements of applicable law, this benefit will not apply.

(ii) Payments to be made under Section 10(c)(i)(C) (the "Severance Payments") shall be provided or shall commence on the 60<sup>th</sup> day after the Termination Date (the "Release Date"), provided that, as of the 52nd day after the Termination Date, the Release Requirements are satisfied. If the Release Requirements are not satisfied as of the 52nd day after the Termination Date (and the Release has been provided to the Executive as of the Termination Date), then the Executive shall not be entitled to any payments or benefits under the foregoing subsections and the Company and its Affiliates shall have no further obligations in connection therewith. If the Release Requirements are satisfied, then the portion of the Severance Payments which would otherwise have been paid during the period between the Termination Date and the Release Date shall instead be paid as soon as reasonably practicable following the Release Date. For purposes of this Agreement, the "Release Requirements" shall be satisfied if, as of the applicable date, the Executive has executed a general release of claims against the Company and its Affiliates in substantially the form attached hereto as Exhibit B and the revocation period required by applicable law has expired without the Executive's revocation of such release.

(d) No Mitigation Requirement or Offset. In the event of any termination of employment under this Section 10, the Executive shall be under no obligation to seek other employment and, except as otherwise provided in Section 10(c)(i)(C) (3), there shall be no offset against amounts due the Executive under this Agreement on account of any remuneration attributable to any subsequent employment that she may obtain.

(e) No Other Severance Benefits. Except as specifically set forth in this Agreement, the Executive covenants and agrees that the Executive shall not be entitled to any other form of severance or termination payments or benefits from the Company, including, without limitation, payments or benefits otherwise payable under any of the Company's regular severance policies.

(f) Nature of Payments. Any amounts due under this Section 10 are in the nature of severance payments considered to be reasonable by the Company and the Executive and are not in the nature of a penalty.

## 11. RESTRICTIVE COVENANTS.

(a) Non-Competition. The Executive will abide by the one-year post-employment non-compete covenant set forth in the Confidentiality, Proprietary Information and Non-Disclosure Agreement between Executive and the Company that you signed when you joined the Company (the “Existing Noncompete Provision”), which is incorporated into this Agreement by this reference.

(b) Non-Solicitation.

(i) During the Term of Employment and the Restricted Period, the Executive will not, whether on the Executive’s own behalf or on behalf of or in conjunction with any person, company, business entity or other organization whatsoever, solicit or hire, or attempt to solicit or hire:

(A) any customer or supplier of the Company or any of its Affiliates in connection with any business activity that then competes with the Company or such Affiliate(s) or to terminate or alter in a manner adverse to the Company or such Affiliate(s) such customer’s or supplier’s relationship with the Company or such Affiliate(s);  
or

(B) any Company Employee or individual who was a Company Employee within the six-month period immediately prior thereto to terminate or otherwise alter his or her employment with, and/or provision of services for, the Company or its Affiliates.

(c) Confidentiality.

(i) The Executive hereby agrees that, during the Term of Employment and thereafter, other than in the proper performance of her duties for the Company and its Affiliates, she will hold in strict confidence any proprietary information or Confidential Information related to the Company or any of its Affiliates. For purposes of this Agreement, the term “Confidential Information” shall mean all information of the Company or any of its Affiliates (in whatever form) which is not generally known to the public, including without limitation any inventions, processes, methods of distribution, customer lists or customers’ or trade secrets, provided that Confidential Information shall not include (A) information the Executive is required to disclose by applicable law, regulation or legal process so long as the Executive notifies the Company promptly (it being understood that “promptly” shall mean “prior to” unless prior notice is not possible, in which case “promptly” shall mean as soon as practicable following) of the Executive’s obligation to disclose Confidential Information by applicable law, regulation or legal process and cooperates with the Company to limit the extent of such disclosure, or (B) any information that is or becomes publicly known through no fault of the Executive.

Notwithstanding anything to the contrary, the Executive is not prohibited from reporting possible violations of federal law or regulations to any governmental agency or entity, including but not limited to the Department of Justice, the Securities and Exchange Commission, the Congress, and any agency Inspector General, or making other disclosures that are protected under the whistleblower provisions of federal law or regulation and the Executive is not required to obtain the Company's approval or notify the Company that the Executive intends to make or has made such a report or disclosure. Further, the Executive is hereby advised as follows pursuant to the Defend Trade Secrets Act: "An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that (A) is made (i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual (A) files any document containing the trade secret under seal; and (B) does not disclose the trade secret, except pursuant to court order."

(ii) The Executive agrees that at the time of the termination of her employment with the Company, whether at the insistence of the Executive or the Company, and regardless of the reasons therefor, she will deliver to the Company, and not keep or deliver to anyone else, any and all notes, files, memoranda, papers and, in general, any and all physical and electronic matter containing Confidential Information, including any and all documents significant to the conduct of the business of the Company or any subsidiary or Affiliate of the Company which are in her possession, except for any documents for which the Company or any subsidiary or Affiliate of the Company has given written consent to removal at the time of the termination of the Executive's employment.

(d) Non-Disparagement. The Executive agrees that she will not, any time during the Term of Employment and on or after the time of the termination of her employment with the Company for any reason, directly or indirectly, disparage (i) the Company or its Affiliates, (ii) the business, property or assets of the Company or its Affiliates, or (iii) any of the former, current or future officers, directors, employees or shareholders of the Company or its Affiliates. The Company shall use its reasonable best efforts to cause its officers and members of the Board (in their individual capacities or on behalf of the Company) not to, at any time during the Term of Employment and on or after the time of the termination of Executive's employment with the Company for any reason, directly or indirectly, make or publish any disparaging statements or remarks about the Executive. Nothing in this Section shall be construed to limit the ability of Executive or the Company's officers or members of the Board (in their individual capacities or on behalf of the Company) to give truthful testimony pursuant to

valid legal process, including but not limited to, a subpoena, court order or a government investigative matter.

(e) Injunctive Relief; Effect of Violation on Severance Payments. It is impossible to measure in money the damages that will accrue to the Company or any of its Affiliates in the event that the Executive breaches any of the Restrictive Covenants. In the event that the Executive breaches any such Restrictive Covenant, the Company or any of its Affiliates shall be entitled to an injunction restraining the Executive from violating such Restrictive Covenant (without posting any bond). If the Company or any of its Affiliates shall institute any action or proceeding to enforce any such Restrictive Covenant, the Executive hereby waives the claim or defense that the Company or any of its Affiliates has an adequate remedy at law and agrees not to assert in any such action or proceeding the claim or defense that the Company or any of its Affiliates has an adequate remedy at law. The foregoing shall not prejudice the Company's or any of its Affiliates' other rights or remedies under applicable law or equity. In addition, the Company and the Executive agree that the Executive violates any Restrictive Covenant, the Company may cease payment of the Severance Payments and shall also be entitled to recoup any portion of the Severance Payments that were previously paid to the Executive.

## 12. WORK PRODUCT.

(a) In consideration of the Company's promises and undertakings in this Agreement, the Executive agrees that all Work Product will be disclosed promptly by the Executive to the Company, shall be the sole and exclusive property of the Company, and is hereby assigned to the Company, regardless of whether (i) such Work Product was conceived, made, developed or worked on during regular hours of her employment or her time away from her employment, (ii) the Work Product was made at the suggestion of the Company; or (iii) the Work Product was reduced to drawing, written description, documentation, models or other tangible form. Without limiting the foregoing, the Executive acknowledges that all original works of authorship that are made by the Executive, solely or jointly with others, within the scope of her employment and that are protectable by copyright are "works made for hire," as that term is defined in the United States Copyright Act (17 U.S.C., Section 101), and are therefore owned by the Company from the time of creation.

(b) The Executive agrees to assign, transfer, and set over, and the Executive does hereby assign, transfer, and set over to the Company, all of her right, title and interest in and to all Work Product, without the necessity of any further compensation, and agrees that the Company is entitled to obtain and hold in its own name all patents, copyrights, and other rights in respect of all Work Product. The Executive agrees to (i) cooperate with the Company during and after her employment with the Company in obtaining patents or copyrights or other intellectual-property protection for all Work Product; (ii) execute, acknowledge, seal and deliver all documents tendered by the Company to evidence its ownership thereof throughout the world; and (iii) cooperate with the Company in obtaining, defending and enforcing its rights therein.

(c) The Executive represents that there are no other contracts to assign inventions or other intellectual property that are now in existence between the Executive and any



other Person. The Executive further represents that she has no other employment or undertakings that might restrict or impair her performance of this Agreement. The Executive will not in connection with her employment by the Company, use or disclose to the Company any confidential, trade secret, or other proprietary information of any previous employer or other Person that the Executive is not lawfully entitled to disclose.

### 13. POST-TERMINATION OBLIGATIONS.

Following the Term of Employment the Executive shall, upon reasonable notice, use her reasonable best efforts to assist and cooperate with the Company and its counsel by providing information and assistance to the Company as may reasonably be required by the Company to the extent permitted by law at the Company's expense in connection with any existing or threatened claim, arbitral hearing, litigation, action or governmental or other investigation involving the conduct of business of the Company or its Affiliates not commenced by the Executive. The Executive's obligation to cooperate shall be reasonably limited so as not to unreasonably interfere with her other business obligations, and shall not exceed one hundred (100) hours.

### 14. ARBITRATION.

(a) Any dispute, claim or controversy arising under or in connection with this Agreement or the Executive's employment hereunder or the termination thereof, other than injunctive relief under Section 11 hereof, shall be settled exclusively by arbitration administered by the American Arbitration Association (the "AAA") and carried out in the Commonwealth of Massachusetts. The arbitration shall be conducted in accordance with the AAA rules governing commercial arbitration in effect at the time of the arbitration, except as modified herein. There shall be one arbitrator, mutually selected by the Company and the Executive from a list of arbitrators provided by the AAA within thirty (30) days of receipt by respondent of the demand for arbitration. If the Company and Executive cannot mutually agree on an arbitrator within thirty (30) days, then the parties shall request that the AAA appoint the arbitrator and the arbitrator shall be appointed by the AAA within fifteen (15) days of receiving such request.

(b) The arbitration shall commence within forty-five (45) days after the appointment of the arbitrator; the arbitration shall be completed within sixty (60) days of commencement; and the arbitrator's award shall be made within thirty (30) days following such completion. The parties may agree to extend the time limits specified in the foregoing sentence.

(c) The arbitrator may award any form of relief permitted under this Agreement and applicable law, including damages and temporary or permanent injunctive relief, except that the arbitral tribunal is not empowered to award damages in excess of compensatory damages, and each party hereby irrevocably waives any right to recover punitive, exemplary or similar damages with respect to any dispute. The arbitrator may award attorney's fees. The award shall be in writing and shall state the reasons for the award.

(d) The decision rendered by the arbitral tribunal shall be final and binding on the parties to this Agreement. Judgment may be entered in any court of competent jurisdiction. The parties hereto waive, to the fullest extent permitted by law, any rights to appeal to, or to seek review of such award by, any court. The parties hereto further agree to obtain the arbitral tribunal's agreement to preserve the confidentiality of the arbitration.

15. LEGAL FEES AND INDEMNIFICATION.

(a) Except as specifically provided in Section 14(c), each Party shall bear the cost of any legal fees and other fees and expenses which may be incurred in connection with the negotiation of, and enforcing its respective rights under, this Agreement.

(b) During the Term of Employment and for so long as there exists liability thereafter with regard to the Executive's activities during the Term of Employment on behalf of the Company, the Company shall indemnify the Executive to the fullest extent permitted by applicable law (and in no event in connection with the Executive's gross negligence or willful misconduct), and shall at the Company's election provide the Executive with legal representation or shall advance to the Executive reasonable attorneys' fees and expenses as such fees and expenses are incurred (subject to an undertaking from the Executive to repay such advances if it shall be finally determined by a judicial decision which is not subject to further appeal that the Executive was not entitled to the reimbursement of such fees and expenses).

(c) During the Term of Employment and for six years thereafter, the Executive shall be entitled to the same directors' and officers' liability insurance coverage that the Company provides generally to its other directors and officers, as may be amended from time to time for such directors and officers.

16. ASSIGNABILITY; BINDING NATURE.

This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, heirs (in the case of the Executive) and assigns. Rights or obligations of the Company under this Agreement may be, and may only be, assigned or transferred by the Company pursuant to a merger or consolidation in which the Company is the continuing entity, or the sale or liquidation of all or substantially all of the assets of the Company, provided that the assignee or transferee is the successor to all or substantially all of the assets of the Company and such assignee or transferee assumes the liabilities, obligations and duties of the Company, as contained in this Agreement, either contractually or as a matter of law. No rights or obligations of the Executive under this Agreement may be assigned or transferred by the Executive other than her rights to compensation and benefits, which may be transferred only by will or operation of law, provided that any amount due hereunder to the Executive at the time of her death shall instead be paid to her estate or her designated beneficiary.

17. AMENDMENT OR WAIVER.

No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by the Executive and an authorized officer of the Company. No

waiver by either Party of any breach by the other Party of any condition or provision contained in this Agreement to be performed by such other Party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by the Executive or an authorized officer of the Company, as the case may be.

18. SECTION 409A.

(a) It is the Parties' intent that all payments pursuant to this Agreement be exempt from, or compliant with, Section 409A of the Code ("Section 409A") and that this Agreement be interpreted accordingly.

(b) The following rules shall apply with respect to distribution of the payments, if any, to be provided to the Executive under the Agreement, as applicable:

(i) It is intended that each installment of the payments under the Agreement shall be treated as a separate "payment" for purposes of Section 409A. Neither the Company nor the Executive shall have the right to accelerate or defer the delivery of any such payments except to the extent specifically permitted or required by Section 409A.

(ii) If, as of the date of the Executive's "separation from service" from the Company, the Executive is not a "specified employee" (within the meaning of Section 409A), then each installment of the payments shall be made on the dates and terms otherwise set forth in this Agreement with respect to such payments.

(iii) If, as of the date of the Executive's "separation from service" from the Company, the Executive is a "specified employee" (within the meaning of Section 409A), then:

(A) Each payment due under the Agreement that, in accordance with the dates and terms set forth herein, will in all circumstances, be paid within the short-term deferral period (as defined under Section 409A) shall be treated as a short-term deferral within the meaning of Treasury Regulation Section 1.409A-1(b)(4) to the maximum extent permissible under Section 409A and shall be paid on the dates and terms otherwise set forth in the Agreement with respect to such payments; and

(B) Each payment due under the Agreement that is not described in Section 18(b)(iii)(A) and that would, absent this subsection, be paid within the six-month period following the Executive's "separation from service" from the Company and on account of the Executive's "separation from service" shall not be paid until the date that is six months and one day after such separation from service (or, if earlier, the Executive's death), with any such payments that are required to be delayed

being accumulated during the six-month period and paid in a lump sum on the date that is six months and one day following the Executive's separation from service and any subsequent payments, if any, being paid in accordance with the dates and terms otherwise set forth herein; provided, however, that the preceding provisions of this sentence shall not apply to any payment if and to the maximum extent that that such payment is deemed to be paid under a separation pay plan that does not provide for a deferral of compensation by reason of the application of Treasury Regulation 1.409A-1(b)(9)(iii) (relating to separation pay upon an involuntary separation from service). Any payment that qualifies for the exception under Treasury Regulation Section 1.409A-1(b)(9)(iii) must be paid no later than the last day of the Executive's second taxable year following the taxable year in which the separation from service occurs.

(c) Subject to this Section 18, any payments that may be due under the Agreement on account of termination of employment shall begin only upon the date of the Executive's "separation from service" (determined as set forth below) which occurs on or after the termination of the Executive's employment. The determination of whether and when the Executive's separation from service from the Company has occurred shall be made and in a manner consistent with, and based on the presumptions set forth in, Treasury Regulation Section 1.409A-1(h). Solely for purposes of this Section 18(c), "Company" shall include all persons with whom the Company would be considered a single employer under Section 414(b) and 414(c) of the Code.

(d) All reimbursements and in-kind benefits provided under this Agreement shall be made or provided in accordance with the requirements of Section 409A to the extent that such reimbursements or in-kind benefits are subject to Section 409A, including, where applicable, the requirements that (i) any reimbursement is for expenses incurred during the Executive's lifetime (or during a shorter period of time specified in this Agreement), (ii) the amount of expenses eligible for reimbursement during a calendar year may not affect the expenses eligible for reimbursement in any other calendar year, (iii) the reimbursement of an eligible expense will be made on or before the last day of the calendar year following the year in which the expense is incurred and (iv) the right to reimbursement is not subject to set off or liquidation or exchange for any other benefit.

(e) The Company makes no representation or warranty and shall have no liability to the Executive or to any other Person if any of the provisions of the Agreement are determined to constitute deferred compensation subject to Section 409A but that do not satisfy an exemption from, or the conditions of, that section.

#### 19. SEVERABILITY.

In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, in whole or in part, the remaining provisions of this

Agreement shall be unaffected thereby and shall remain in full force and effect to the fullest extent permitted by law so as to achieve the purposes of this Agreement.

20. SURVIVORSHIP.

The respective rights and obligations of the Parties hereunder shall survive any termination of this Agreement to the extent necessary to achieve the intended preservation of such rights and obligations. In particular, the provisions of Sections 10, 11, 12 and 13 shall remain in effect as long as is necessary to give effect thereto.

21. REFERENCES.

In the event of the Executive's death or a judicial determination of her incompetence, reference in this Agreement to the Executive shall be deemed, where appropriate, to refer to her beneficiary, estate or other legal representative.

22. GOVERNING LAW.

This Agreement shall be governed in accordance with the laws of the Commonwealth of Massachusetts without reference to its principles of conflict of laws.

23. WITHHOLDING.

The Company shall be entitled to withhold from any payment to the Executive any amount of tax withholding required by applicable law at the times dictated by applicable law.

24. HEADINGS.

The headings of the sections contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

25. NOTICES.

All notices and other communications required or permitted hereunder shall be in writing and shall be deemed given when (a) delivered personally, (b) delivered by certified or registered mail, postage prepaid, return receipt requested or (c) delivered by overnight courier (provided that a written acknowledgment of receipt is obtained by the overnight courier) to the Party concerned at the address indicated below or to such changed address as such Party may subsequently give such notice of:

If to the Company:

Endurance International Group Holdings, Inc.  
10 Corporate Drive  
Suite 300  
Burlington, MA 01803

Attention: General Counsel

If to the Executive, to the most recent address shown on the records of the Company.

26. ENTIRE AGREEMENT.

This Agreement contains the entire understanding and agreement between the Parties concerning the subject matter hereof and supersedes in all respects any prior agreements, understandings, discussions, negotiations and undertakings, whether written or oral, between the Parties with respect thereto, *other than* (i) the Existing Noncompete Provision, and (ii) the Living Expenses Letter, both of which are incorporated into this Agreement by reference. Under no circumstances shall the Executive be entitled to any other payments or benefits of any kind, except for the payments and benefits described or referred to herein, unless otherwise agreed to the Company and the Executive in writing.

27. COUNTERPARTS.

This Agreement may be executed in two or more counterparts, each of which will be deemed an original.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first written above.

ENDURANCE INTERNATIONAL GROUP HOLDINGS, INC.

By: /s/ Thomas Aurelio

Name: Thomas Aurelio

Title: Chief Human Resources Officer

EXECUTIVE:

/s/ Kimberly S. Simone

Kimberly S. Simone

[Signature Page for Employment Agreement]

Schedule I

Existing Board of Directors

None.



EXHIBIT A

Living Expenses and Tax Gross-Up Letter

December 10, 2018

Kim Simone  
c/o Endurance International Group  
10 Corporate Drive  
Burlington, MA 01803

Re: **Living Expenses and Tax Gross-Up**

Dear Kim:

This letter agreement amends and restates in its entirety the prior letter agreement between you and Endurance International Group Holdings, Inc. (the "Company") dated December 18, 2017. This letter agreement confirms the terms and conditions of our agreement that the Company will arrange for an apartment in the Burlington, Massachusetts area for your use and will pay, on your behalf, the apartment rental, furniture rental, utility, and housekeeping costs for such apartment and any other incidental expenses related to the apartment deemed necessary by the Company, and the Company may also pay for certain travel expenses between New Jersey and Massachusetts (together, the "Living Expenses"). Payment of the Living Expenses by the Company on your behalf or reimbursement to you of the Living Expenses may result in additional taxable income to you. The Company will reimburse you for the amount of additional tax liability you incur as a result of the inclusion of the Living Expenses in your taxable income as follows:

***Estimated Gross-Up Amount.*** In each pay period, the Company will add to your income estimated Living Expenses prorated to correspond to such pay period, together with any true-ups (either positive or negative) the Company deems necessary to align estimated Living Expenses from prior periods with *actual* Living Expenses for such prior periods, plus an amount such that, on an after-tax basis, you will receive the same amount of pay that you would have received if the Company did not pay the Living Expenses (the "Estimated Gross-Up Amount").

For purposes of calculating the Estimated Gross-Up Amount, the Company will use a good faith estimate of federal, state, local and payroll taxes applicable to the income.

***Annual Tax True Up.*** Within thirty (30) days of filing a federal tax return for any tax year in which you receive this benefit, you will provide the Company with a written calculation of:

1. your actual federal, state and local tax liability for the year with Living Expenses and the Estimated Gross-Up Amounts included in your taxable income;
2. your hypothetical federal, state and local tax liability for the year without Living Expenses and the Estimated Gross-Up Amounts included in your taxable income; and
3. the difference between such amounts (the "Remaining Gross-Up Amount").

The Remaining Gross-Up Amount and related calculations will be subject to review and approval by the Company. The parties will confer in good faith and attempt to resolve any disputed elements, but in all cases the Company will make the final determination of the Remaining Gross-Up Amount. If the Remaining Gross-Up Amount is higher than the aggregate Estimated Gross-Up Amounts paid in such tax year, the Company will increase your income in the pay period following such determination by the difference such that the payment by the Company of the Living Expenses and the gross-up payments will not result in your portion of your tax liability being greater than it would have been had the Company not paid such amounts. Such amount will be paid to you no later than the end of the tax year in which the applicable tax return is due. If the Remaining Gross-Up Amount is a negative amount, the Company will decrease your income in the first practicable pay periods following such determination by such amount.

In the event of any overpayment by the Company that is not deducted from your income, you will repay the excess to the Company upon written demand by the Company.

If your income tax liability for any year is altered as a result of being audited or filing an amended return, you shall promptly notify the Company of the same and provide revised calculations of the Remaining Gross-Up Amount, if any, for such year. In the event of an underpayment, the Company will pay you the shortfall, and in the event of an overpayment, you will repay the excess to the Company.

This letter agreement shall not be deemed to create an employment agreement and your employment with the Company is terminable at-will by either you or the Company, for any reason, at any time. Payment by the Company of the Living Expenses and the related gross-up amounts is conditioned on your continued employment with the Company and shall cease if your employment with the Company terminates. In addition, the Company will have the right to terminate this letter agreement effective after December 31, 2018 by providing you with at least 90 days' prior written notice of such termination.

No provision in this letter agreement may be amended unless such amendment is agreed to in writing and signed by you and an authorized officer of the Company. The parties agree to amend this agreement, to carry out the original intentions of the parties as nearly as may be possible, if necessary as a result of changes to the federal tax code.

Very truly yours,

By: /s/ Tom Aurelio

Tom Aurelio

Chief Human Resources Officer

Endurance International Group Holdings, Inc.

Acknowledged and Agreed:

/s/ Kim Simone

Kim Simone

## EXHIBIT B

### Form of Release

**[The language in this Release may change, in the discretion of the Company, based on legal developments and evolving best practices, as well as an individual employee's circumstances; this form is provided as an example of what will be included in the final Release document.]**

#### SEPARATION AND RELEASE AGREEMENT

1. I, **(Insert Name)**, hereby acknowledge that my employment by Endurance International Group (the "Company") has ended as of **(Insert Date)**, (the "Termination Date"). I further acknowledge that I have already received all compensation of any type whatsoever to which I am entitled through my Termination Date from the Company or from any other "Released Party" (as that term is defined in Paragraph 4 below), including, without limitation, all wages, overtime, bonuses, commissions, and accrued but unused vacation pay.

2. **Severance Payments.** In exchange for the Company's receipt of this Release, signed by me, [and provided I do not revoke this Release in the manner specified in Paragraph 14 herein within seven (7) days after signing it,] the Company will provide to me the Severance Payments (as described in my employment agreement with the Company dated \_\_\_\_\_ (the "Employment Agreement") on the terms and conditions set forth therein). I agree and acknowledge that the Severance Payments constitute payments or benefits to which I would not be entitled if I did not sign this Release. I understand that information will be provided to me about my right to continue health benefits through the Company through the federal law known as COBRA.

3. **Release of Claims.** In consideration of the Severance Payments, I, on behalf of myself, my heirs, assigns, legal representatives, successors in interest, and any person claiming through me or any of them, hereby completely release and forever discharge all "Released Parties" (as that term is defined in paragraph 4 below) from any and all claims, demands or liabilities whatsoever, based on any act or omission occurring before my signing of this Release, including, without limitation, any claims, demands or liabilities arising out of my employment with any Released Party or the ending of such employment. The matters released include, but are not limited to, any claim arising under: Title VII of the Civil Rights Act of 1964; the Federal Civil Rights Act of 1991; the Worker Adjustment and Retraining Notification Act of 1988; the Americans with Disabilities Act of 1990; the Federal Family and Medical Leave Act of 1993; the Equal Pay Act; the Ralph Civil Rights Act; the Employee Retirement Income Security Act of 1974; the Age Discrimination in Employment Act; the Older Workers' Benefit Protection Act; the Massachusetts General Laws; the Massachusetts Fair Employment Practice Act; the Massachusetts Wage Act; any federal, state or local law, regulation or ordinance regulating wages, hours and working conditions; any action based on any alleged breach of contract, breach of the covenant of good faith and fair dealing, fraud, fraudulent inducement or any other tort; any violation of public policy or statutory or constitutional rights; any claim for severance pay, bonus or similar benefit, sick leave, pension, retirement, vacation pay, holiday pay, stock options, car

allowance, life insurance, health or medical insurance, or any other fringe benefit; any claim for reimbursement of health or medical costs; and any claim for disability. Notwithstanding anything in this release to the contrary, this release shall not effect a release of any claim I may have for post-termination rights or benefits under my Employment Agreement and any claim for indemnification from the Company under my Employment Agreement or otherwise.

4. “Released Parties” Defined. For purposes of this Release, the term “Released Parties” means the Company, and each of its respective parents, subsidiaries and affiliates, and all of the current and former employees, officers, directors, trustees, agents, representatives, shareholders, attorneys, accountants, partners, insurers, advisors, partnerships, joint venturers, successors and assigns, employee benefit programs (and the trustees, administrators, fiduciaries and insurers of such programs) of any of them, in their individual and official capacities, and the respective heirs and personal representatives of any of them, and any other persons acting by, through, under or in concert with any of them.

5. Release of Unknown Claims. I understand and agree that this Release extinguishes all claims I have ever had or now have against any Released Party, whether such claim is currently known or unknown, vested or contingent, foreseen or unforeseen. I understand that if any fact concerning any matter covered by this Release is found hereafter to be other than or different from the facts I now believe to be true, I expressly accept and assume that this Release shall be and remain effective, notwithstanding such difference in the facts.

6. No Claims. Except as permitted hereby, I agree that I will not file, nor encourage or knowingly permit another to file, any claim, charge, action, or complaint (collectively “Claim”) concerning any matter released herein. If I have previously filed any such Claim, I agree to take all steps necessary to cause it to be withdrawn without delay; provided, however, that nothing in this Release: (i) prevents me from (a) filing a Claim with, cooperating with, or participating in any proceeding before the Equal Employment Opportunity Commission or a state fair employment practices agency (except that I acknowledge that I may not recover any monetary benefits in connection with any such Claim, and I agree that if any such Claim is filed on my behalf, I shall take all reasonable steps necessary to refuse any damages or individualized relief in connection therewith), or (b) communicating with government agencies about possible violations of federal, state, or local laws or otherwise providing information to government agencies or participating in government agency investigations or proceedings; or (ii) shall limit or restrict my right to (a) challenge the validity of this Release under the ADEA, or (b) prosecute any ADEA claim if such claim arises after I sign this Release, and no such action on my part shall be deemed to violate this provision or any other provision of this Release.

7. Release Confidential. I represent and agree that I will keep the terms of this Release, including the amount of the Severance Payments, completely confidential, and that I will not disclose such information to anyone, except as follows: (a) to my immediate family and professional representatives (provided they agree to be bound by this confidentiality provision); (b) to any governmental authority; and (c) in response to subpoena or other legal process, provided that before making such disclosure (other than in response to a subpoena or other process issued by a government agency), I shall give the Company as much prior notice thereof

as practical to enable the Company to seek, at its sole discretion, an appropriate order preventing such disclosure.

8. Continuing Obligations. Except as otherwise permitted by Section 6 above or my Employment Agreement, I acknowledge and reaffirm my obligation to keep confidential and not to use or disclose any and all non-public information concerning the Company that I acquired during the course of my employment with the Company, including, but not limited to, any non-public information concerning the Company's business affairs, business prospects, and financial condition. I further acknowledge and reaffirm my confidentiality obligations set forth in the Non-Disclosure Agreement and my continuing obligations with respect to non-competition, non-solicitation, non-disparagement, and Company work product set forth in Sections 11 and 12 of my Employment Agreement, all of which remain in full force and effect.

9. Company Affiliation. I agree that, following the Termination Date, I will not hold myself out as an officer, employee, or otherwise as a representative of the Company, and I agree to update any directory information that indicates I am currently affiliated with the Company. Without limiting the foregoing, I confirm that, within five (5) days following the Termination Date, I will update any and all social media accounts (including, without limitation, LinkedIn, Facebook, Twitter and Four Square) to reflect that I am no longer employed by or associated with the Company.

10. Return of Company Property. I confirm that I have returned to the Company all keys, files, records (and copies thereof), equipment (including, but not limited to, computer hardware, software and printers, flash drives and storage devices, wireless handheld devices, cellular phones, smartphones, tablets, etc.), Company identification, and any other Company-owned property in my possession or control and have left intact all electronic Company documents, including but not limited to those that I developed or helped to develop during my employment. I further confirm that I have cancelled all accounts for my benefit, if any, in the Company's name, including but not limited to, credit cards, telephone charge cards, cellular phone accounts, and computer accounts.

11. Entire Agreement. This Release constitutes the entire agreement between the Company and me as to any matter referred to in this Release. This Release supersedes all other agreements between the Company and me. In executing this Release, I am not relying upon any agreement, representation, written or oral statement, understanding, omission, or course of conduct that is not expressly set forth in this Release.

12. Governing Law; Arbitration. This Release shall be governed by and enforced in accordance with the laws of the State of Massachusetts, without regard to its conflicts of law principles. I acknowledge that I previously agreed, pursuant to Section 14 of my Employment Agreement, to arbitrate any claim relating to or arising out of my employment with the Company, and I acknowledge and affirm that such provision survives my termination from employment with the Company. For clarification, but not limitation, I further acknowledge and agree that any controversy or claim arising out of or in any way relating to this Release or the breach thereof shall also be settled by final and binding arbitration, consistent with the terms, procedures, and exceptions set forth in Section 14 of the Employment Agreement. I understand

and agree that this arbitration provision shall not apply to claims brought in a court of competent jurisdiction by either me or any Released Party to compel arbitration under this provision, to enforce an arbitration award or to obtain preliminary injunctive and/or other equitable relief in support of claims that may be prosecuted in an arbitration by me or any Released Party.

13. Successors and Assigns. This Release will bind and inure to the benefit of the successors, assigns, heirs and personal representatives of the Released Parties and me.

14. Review Period. I acknowledge that prior to signing this Release, I have been advised to consult with an attorney of my choice to review the Release, and have taken such opportunity to the extent I wish to do so. I further acknowledge that the Company has given me at least twenty-one (21) days to decide whether I wish to execute this Release.

15. Revocation. I understand that I may revoke this Release at any time during the seven (7) days after I sign it (the "Last Revocation Day"), and that the Release shall not become effective until the end of that revocation period. I understand and agree that by executing, timely returning, and not revoking this Release, I am waiving any and all rights or claims I might have under the Age Discrimination in Employment Act, as amended by the Older Workers Benefit Protection Act, and that I have received consideration beyond that to which I was previously entitled. In the event I choose to revoke the Release, such revocation must be by means of a writing signed by me and delivered within the seven (7) day revocation period as follows: via facsimile or hand-delivery to Pam Clark at Endurance International Group., 10 Corporate Drive #300, Burlington, Massachusetts 01803 or by facsimile number (602) 258-0588. If I revoke this Release via facsimile, I agree that my facsimile signature will be valid and binding for all purposes.

16. Modification in Writing. No provision of this Release may be modified, amended or waived except by a writing signed by me and an authorized representative of the Company.

17. No Admission of Liability. This Release shall not at any time or for any purpose be deemed an admission of liability of any kind by any Released Party. This Release may not be used or introduced as evidence in any legal proceeding, except to enforce or challenge its terms.

18. Headings. The headings, titles and captions contained in this Release are inserted only for the convenience of the parties and for reference, and in no way define, limit, extend or describe the scope of this Release or the intent of any provision hereof.

19. Severability. If any provision of this Release shall, for any reason, be held by a court or other tribunal of competent jurisdiction to be invalid, void or unenforceable, in whole or in part, such adjudication shall in no way affect any other provisions of this Release or the validity or enforcement of the remainder of this Release, and any provision thus affected shall itself be modified only to the extent necessary to bring the provision within the applicable requirements of the law.

20. Timely Execution. To receive the Severance Payments, I must sign this Release on or after my Last Day Worked, and return it to the Company within twenty-one (21) days of

my Last Day Worked, as follows: hand delivery or first-class mail to Pam Clark at Endurance International Group., 10 Corporate Drive #200, Massachusetts 01803 or by facsimile number (602) 258-0588.

Sincerely,

The Endurance International Group, Inc.

By: \_\_\_\_\_

Its: \_\_\_\_\_

EMPLOYEE'S ACCEPTANCE OF RELEASE

I have read this Release and I understand all of its terms. I acknowledge and agree that this Release is executed voluntarily, without coercion, and with full knowledge of its significance. I further acknowledge that I have been given twenty-one (21) days during which to decide whether to execute this Release, and have used that time to the extent I wish to do so. I understand that my execution of this Release constitutes a full, unconditional general release of any and all known or unknown claims that I may have against any Released Party, despite the fact that I may become aware of claims in the future which I did not consider prior to signing this Release.

Date: \_\_\_\_\_

\_\_\_\_\_  
*(Insert Employee Name)*



## FOURTH AMENDMENT TO DATACENTER LEASE

**THIS FOURTH AMENDMENT TO DATACENTER LEASE** (this "**Fourth Amendment**") is made and entered into as of (but not necessarily on) the latest date of execution shown on the signature page hereto (the "**4A Effective Date**"), by and between **DIGITAL 55 MIDDLESEX, LLC**, a Delaware limited liability company ("**Landlord**"), and **CONSTANT CONTACT, INC.**, a Delaware corporation ("**Tenant**").

### **WITNESSETH:**

**WHEREAS**, Landlord and Tenant have heretofore entered into that certain Datacenter Lease dated January 1, 2011 (the "**Original Lease**"), as amended by that certain First Amendment to Datacenter Lease dated May 11, 2012 ("**1A**"), that certain Second Amendment to Datacenter Lease dated February 26, 2016 ("**2A**"), and that certain Third Amendment to Datacenter Lease dated August 7, 2017 ("**3A**"); the Original Lease, as amended by 1A, 2A and 3A the "**TKD Lease**"), covering (i) certain pathway rights (the "**Pathways**") and (ii) two (2) separately demised spaces, consisting of (a) approximately 2,000 square feet of space, known as Suite 409, and (b) approximately 2,425 square feet of space, known as Suite 418A (collectively, the "**Premises**"), in that certain building (the "**Building**") located at 55 Middlesex Turnpike, Bedford, Massachusetts;

**WHEREAS**, Landlord and Tenant entered into that certain Office Space Rider dated May 11, 2012 (the "**OS Rider**"); together with the TKD Lease, collectively, the "**Lease**"), which supplements the TKD Lease, covering approximately 135 square feet of office space in Suite 317 of the Building (the "**OS Tenant Space**");

**WHEREAS**, each capitalized term or phrase used in this Fourth Amendment shall have the same meaning as the meaning ascribed to such term or phrase in the Lease unless expressly otherwise defined in this Fourth Amendment;

**WHEREAS**, Landlord and Tenant desire to further modify the terms of the Lease in accordance with the terms and conditions herein provided.

**NOW, THEREFORE**, for and in consideration of good and valuable consideration paid by each party hereto to the other, the receipt and sufficiency of which are hereby mutually acknowledged, Landlord and Tenant hereby agree as follows:

#### **1. Suite 409 Extension Term.**

A. Currently, the portion of the Premises located in Suite 409 of the Building is scheduled to be surrendered to Landlord on June 30, 2020. Notwithstanding anything in the Lease to the contrary, effective as of and from and after the 4A Effective Date, the Term of the Lease, as it relates to Suite 409, shall be extended for a period of *twelve (12) calendar months*

(the “**4A Suite 409 Extended Term**”), commencing July 1, 2020 and expiring June 30, 2021 (the “**4A Suite 409 Amended Surrender Date**”).

B. Notwithstanding anything in the Lease to the contrary, Tenant agrees to surrender Suite 409 to Landlord no later than the 4A Suite 409 Amended Surrender Date, and acknowledges and agrees that the terms and conditions stated in Sections 1.A and 1.B of 2A shall apply in connection with such surrender, the same as if the 4A Suite 409 Amended Surrender Date was the Suite 409 Surrender Date (as defined in Section 1.A of 2A). For the avoidance of doubt, all references in the Lease to the Suite 409 Surrender Date shall be deemed to refer to the 4A Suite 409 Amended Surrender Date. For the avoidance of doubt, Section 2.C of 2A was deleted in its entirety as of the 3A Effective Date and is of no further force or effect.

2. **Base Rent.** Currently, Base Rent under the Lease is as set forth in Section 4 of 2A and Section 2 of 3A and the parties acknowledge and agree that Tenant shall continue to pay such Base Rent during the remainder of the Term of the Lease. Notwithstanding the foregoing and anything in the Lease to the contrary, Tenant agrees to pay Base Rent, as it relates to Suite 409, during the 4A Suite 409 Extended Term (the “**4A Suite 409 Extended Term Base Rent**”), according to the following schedule:

<b>Period</b>	<b>4A Suite 409 Extended Term Base Rent</b>
July 1, 2020 – June 30, 2021	\$38,897.59/month

3. **Tenant Estoppel.** Tenant hereby (a) acknowledges, to the best of Tenant’s knowledge, that Landlord is not in default under the Lease as of the date this Fourth Amendment is executed by Tenant, and (b) confirms, to the best of Tenant’s knowledge, that, as of the date this Fourth Amendment is executed by Tenant, Landlord has no outstanding obligations with respect to the Tenant Space that would, with the passage of time, the giving of notice, or both, result in Landlord being in default under the Lease.

4. **Commissions.** Tenant represents that it has dealt with no broker, agent or other person in connection with this Fourth Amendment and that no broker, agent or other person brought about this Fourth Amendment. Tenant shall indemnify and hold Landlord harmless from and against any and all claims, losses, costs or expenses (including attorneys’ fees and expenses) by any broker, agent or other person claiming a commission or other form of compensation by virtue of having dealt with Tenant with regard to the transaction contemplated by this Fourth Amendment. The provisions of this paragraph shall survive the expiration of the Term of the Lease or any renewal or extension thereof.

5. **Confidentiality.** Notwithstanding anything to the contrary contained in the Lease, each party agrees that the terms and provisions of this Fourth Amendment are confidential and constitute proprietary information of the parties and shall be governed by Section 17.19 of the Lease as though the terms hereof were originally part of the Lease.

6. **Miscellaneous.**

A. In the event that the terms of the Lease conflict or are inconsistent with those of this Fourth Amendment, the terms of this Fourth Amendment shall govern.

B. The Lease is hereby amended as and where necessary, even though not specifically referred to herein, in order to give effect to the terms of this Fourth Amendment. Except as amended by this Fourth Amendment, the terms of the Lease shall remain in full force and effect.

C. Submission of this Fourth Amendment for examination does not constitute an offer, right of first refusal, reservation of, or option for any premises in the Building. This Fourth Amendment shall become effective only upon execution and delivery by both Landlord and Tenant.

D. This Fourth Amendment may be executed simultaneously in two or more counterparts each of which shall be deemed an original, but all of which shall constitute one and the same Fourth Amendment. Landlord and Tenant agree that the execution of this Fourth Amendment by electronic means (including by use of DocuSign (or similar) and/or by use of digital signatures) and/or the delivery of an executed copy of this Fourth Amendment by facsimile or e-mail shall be legal and binding and shall have the same full force and effect as if an original executed copy of this Fourth Amendment had been delivered.

E. Each of Landlord and Tenant represents to the other party that the person executing this Fourth Amendment on its behalf is duly authorized to execute and deliver this Fourth Amendment pursuant to its respective by-laws, operating agreement, resolution or other legally sufficient authority. Further, each party represents to the other party that (i) if it is a partnership, the undersigned are all of its general partners, (ii) it has been validly formed or incorporated, (iii) it is duly qualified to do business in the state in which the Building is located, and (iv) this Fourth Amendment is being executed on its behalf and for its benefit.

**[SIGNATURE PAGE TO FOLLOW]**

**IN WITNESS WHEREOF**, Landlord and Tenant have caused this Fourth Amendment to be executed on the respective dates set forth below, to be effective as of the 4A Effective Date.

**LANDLORD:**

**DIGITAL 55 MIDDLESEX, LLC,**  
a Delaware limited liability company

By: Digital Realty Trust, L.P., its manager

By: Digital Realty Trust, Inc., its general partner

By: /s/ David Lucey

Name: David Lucey

Title: Vice President, Portfolio Management Group

Date: June 16, 2020

**TENANT:**

**CONSTANT CONTACT, INC.**  
a Delaware corporation

By: /s/ Aaron Bruneau

Name: Aaron Bruneau

Its: VP, Technical Operations

Date: June 16, 2020

## CERTIFICATION

I, Jeffrey H. Fox, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Endurance International Group Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2020

By: /s/ Jeffrey H. Fox

Jeffrey H. Fox  
Chief Executive Officer  
(Principal Executive Officer)

## CERTIFICATION

I, Marc Montagner, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Endurance International Group Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2020

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

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Endurance International Group Holdings, Inc. for the fiscal quarter ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Jeffrey H. Fox, Chief Executive Officer of Endurance International Group Holdings, Inc., hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge on the date hereof:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Endurance International Group Holdings, Inc.

Date: August 6, 2020

By: /s/ Jeffrey H. Fox

Jeffrey H. Fox  
Chief Executive Officer  
(Principal Executive Officer)

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Endurance International Group Holdings, Inc. for the fiscal quarter ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Marc Montagner, Chief Financial Officer of Endurance International Group Holdings, Inc., hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge on the date hereof:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Endurance International Group Holdings, Inc.

Date: August 6, 2020

By: /s/ Marc Montagner

Marc Montagner  
Chief Financial Officer  
(Principal Financial Officer)