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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 September 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 November 5, 2020, there were 141,653,878 shares of the issuer's common stock, \$0.0001 par value per share, outstanding.

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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. All statements other than statements of historical fact contained in this Quarterly Report on Form 10-Q, including statements regarding our future results of operations and financial position, business strategy and plans, and objectives of management for future operations, are forward-looking statements. These statements involve known and unknown risks, uncertainties, and other important factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements.

In some cases, you can identify forward-looking statements by terms such as “may,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential,” or “continue,” or the negative of these terms or other similar expressions. The forward-looking statements in this Quarterly Report on Form 10-Q are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition, and results of operations. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q and are subject to a number of risks, uncertainties and assumptions described in the “Risk Factors” section and elsewhere in this Quarterly Report on Form 10-Q. Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely on these forward-looking statements as predictions of future events. The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Some of the key factors that could cause actual results to differ from our expectations include:

- the occurrence of any event, change or other circumstances that could give rise to the termination of the Agreement and Plan of Merger we have entered into with affiliates of Clearlake Capital Group, L.P. and any inability to complete the proposed merger due to the failure to obtain stockholder approval for the proposed merger or the failure to satisfy other conditions to completion of the proposed merger;
- the impact of the COVID-19 pandemic;
- the impact of competition;
- our ability to attract or retain key personnel;
- our reliance on our third-party service providers;
- increases in third-party vendor or supplier costs;
- the effectiveness of our operating plan and strategies for growth;
- the sufficiency of our cash and cash equivalents and operating cash flows to meet our anticipated working capital and capital expenditure requirements, as well as our required principal and interest payments under our indebtedness;
- trends and challenges in our business and the markets in which we operate;
- our ability to adequately protect our intellectual property;
- our ability to monitor and comply with new or modified laws and regulations that currently apply or become applicable to our business.

Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, and we expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of any new information, events, circumstances or otherwise.

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

	December 31, 2019	September 30, 2020
	(unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 111,265	\$ 167,315
Restricted cash	1,732	1,422
Accounts receivable	10,224	9,823
Prepaid domain name registry fees	55,237	58,377
Prepaid commissions	38,435	42,042
Prepaid and refundable taxes	6,810	5,175
Prepaid expenses and other current assets	23,883	22,748
Total current assets	247,586	306,902
Property and equipment—net	85,925	88,349
Operating lease right-of-use assets	90,519	83,224
Goodwill	1,835,310	1,852,780
Other intangible assets—net	245,002	207,579
Deferred financing costs—net	1,778	1,119
Investments	15,000	15,000
Prepaid domain name registry fees, net of current portion	11,107	12,808
Prepaid commissions, net of current portion	48,780	60,864
Deferred tax asset	64	232
Other assets	3,015	2,923
Total assets	\$ 2,584,086	\$ 2,631,780
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 10,054	\$ 13,670
Accrued expenses	64,560	72,534
Accrued taxes	251	461
Accrued interest	23,434	12,360
Deferred revenue	369,475	388,500
Operating lease liabilities—short term	21,193	18,090
Current portion of notes payable	31,606	31,606
Current portion of financed equipment	790	2,447
Deferred consideration—short term	2,201	7,790
Other current liabilities	2,165	2,846
Total current liabilities	525,729	550,304
Long-term deferred revenue	99,652	105,418
Operating lease liabilities—long term	78,151	74,461
Notes payable—long term, net of original issue discounts of \$16,859 and \$13,101 and deferred financing costs of \$25,690 and \$20,210, respectively	1,649,867	1,623,171
Financed equipment—long term	—	202
Deferred tax liability	27,097	34,864
Deferred consideration—long term	—	7,087
Other liabilities	6,636	13,552
Total liabilities	2,387,132	2,409,059
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 September 30, 2020, respectively; 146,259,868 and 141,507,297 outstanding at December 31, 2019 and September 30, 2020, respectively	15	16
Additional paid-in capital	996,958	1,021,621
Treasury stock, at cost, 0 and 6,062,775 shares at December 31, 2019 and September 30, 2020, respectively	—	(10,048)
Accumulated other comprehensive loss	(4,088)	(1,965)
Accumulated deficit	(795,931)	(786,903)
Total stockholders' equity	196,954	222,721
Total liabilities and stockholders' equity	\$ 2,584,086	\$ 2,631,780

*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 September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
Revenue	\$ 277,193	\$ 278,426	\$ 836,080	\$ 824,607
Cost of revenue (including impairment of \$0 and \$17,892 for the three and nine months ended September 30, 2019, respectively)	120,755	116,662	384,196	345,991
Gross profit	156,438	161,764	451,884	478,616
Operating expense:				
Sales and marketing	59,143	63,651	191,221	193,904
Engineering and development	28,257	28,425	77,299	79,958
General and administrative	30,309	31,160	92,826	90,937
Gain on sale of intangible assets	—	—	—	(2,365)
Transaction expenses	—	461	—	461
Total operating expense	117,709	123,697	361,346	362,895
Income from operations	38,729	38,067	90,538	115,721
Other income (expense):				
Interest income	305	153	910	485
Interest expense	(36,057)	(29,959)	(110,308)	(93,879)
Total other expense—net	(35,752)	(29,806)	(109,398)	(93,394)
Income (loss) before income taxes	2,977	8,261	(18,860)	22,327
Income tax (benefit) expense	(4,839)	1,587	3,040	13,299
Net income (loss)	\$ 7,816	\$ 6,674	\$ (21,900)	\$ 9,028
Comprehensive income (loss):				
Foreign currency translation adjustments	(1,001)	1,245	(1,054)	1,122
Unrealized gain (loss) on cash flow hedge, net of tax benefit (expense) of \$(70) and \$200 for the three and nine months ended September 30, 2019, respectively, and \$(92) and \$(323) for the three and nine months ended September 30, 2020, respectively	240	286	(611)	1,001
Total comprehensive income (loss)	\$ 7,055	\$ 8,205	\$ (23,565)	\$ 11,151
Basic net income (loss) per share	\$ 0.05	\$ 0.05	\$ (0.15)	\$ 0.06
Diluted net income (loss) per share	\$ 0.05	\$ 0.05	\$ (0.15)	\$ 0.06
Weighted-average common shares used in computing net income (loss) per share:				
Basic	145,951,755	141,680,469	144,932,834	143,552,324
Diluted	146,301,595	147,178,734	144,932,834	147,334,403

*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
Exercise of stock options	—	—	—	—	—	—	—	—	—
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
Vesting of restricted shares	1,065,241	—	—	—	—	—	—	—	—
Exercise of stock options	8,801	—	52	—	—	—	—	—	52
Other comprehensive gain (loss)	—	—	—	—	—	1,531	—	—	1,531
Net income	—	—	—	—	—	—	6,674	—	6,674
Stock-based compensation	—	—	9,547	—	—	—	—	—	9,547
Reissuance of treasury stock	(1,074,042)	—	(1,780)	1,074,042	1,780	—	—	—	—
<b>Balance—September 30, 2020</b>	147,570,072	\$ 16	\$ 1,021,621	(6,062,775)	(10,048)	—	\$(1,965)	\$(786,903)	\$ 222,721

See accompanying notes to consolidated financial statements.



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

	Nine Months Ended September 30,	
	2019	2020
Cash flows from operating activities:		
Net (loss) income	\$ (21,900)	\$ 9,028
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation of property and equipment	33,385	38,266
Amortization of other intangible assets	64,137	52,406
Impairment of long-lived assets	17,892	—
Amortization of deferred financing costs	5,331	5,770
Amortization of net present value of deferred consideration	143	376
Amortization of original issue discounts	3,336	3,622
Stock-based compensation	27,513	28,978
Deferred tax expense	1,942	6,467
Loss on sale of assets	128	—
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	34	893
Prepaid and refundable taxes	(5,908)	1,620
Prepaid expenses and other current assets	5,108	(20,069)
Leases right-of-use asset, net	395	519
Accounts payable and accrued expenses	(23,492)	4,416
Deferred revenue	7,636	27,222
Net cash provided by operating activities	115,680	157,232
Cash flows from investing activities:		
Businesses acquired in purchase transactions, net of cash acquired	(8,875)	(16,998)
Purchases of property and equipment	(26,796)	(30,273)
Proceeds from sale of assets	1	—
Proceeds from sale of intangible assets	—	2,705
Net cash used in investing activities	(35,670)	(44,566)
Cash flows from financing activities:		
Repayments of term loans	(75,000)	(23,705)
Repayments of senior notes	—	(11,807)
Purchase of treasury stock	—	(14,428)
Principal payments on financed equipment	(6,332)	(4,723)
Payment of deferred consideration	(2,500)	(1,500)
Proceeds from exercise of stock options	26	66
Net cash used in financing activities	(83,806)	(56,097)
Net effect of exchange rate on cash and cash equivalents and restricted cash	(483)	(829)
Net (decrease) increase in cash and cash equivalents and restricted cash	(4,279)	55,740
Cash and cash equivalents and restricted cash:		
Beginning of period	90,576	112,997
End of period	\$ 86,297	\$ 168,737
Supplemental cash flow information:		
Interest paid	\$ 110,886	\$ 93,773
Income taxes paid	\$ 1,715	\$ 4,296
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.

On November 1, 2020, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Razorback Technology Intermediate Holdings, Inc., a Delaware corporation (the "Parent"), and Razorback Technology, Inc., a Delaware corporation and a wholly owned subsidiary of the Parent (the "Merger Sub"). See Note 19, ***Subsequent Events***.

**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 nine months ended September 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 September 30, 2020, and the related consolidated statements of operations and comprehensive income (loss) for the three and nine months ended September 30, 2019 and 2020, the consolidated statements of cash flows for the nine months ended September 30, 2019 and 2020, the consolidated statements of changes in stockholders' equity for the three and nine months ended September 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 September 30, 2020, results of operations for the three and nine months ended September 30, 2019 and 2020, cash flows for the nine months ended September 30, 2019 and 2020, and changes in stockholders' equity for the three and nine months ended September 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 nine months ended September 30, 2019, the Company capitalized internal-use software development costs of \$3.8 million and \$11.1 million, respectively. During the three and nine

months ended September 30, 2020, the Company capitalized internal-use software development costs of \$4.3 million and \$13.7 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. As of December 31, 2019, the Company had identified a total of ten reporting units, and goodwill has been allocated to five of these reporting units. As of September 30, 2020, after the acquisition of WaJao, Inc., doing business as Retention Science ("Retention Science"), the Company identified a total of eleven reporting units and goodwill has been allocated to six 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 September 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 event has not been triggered, and as such, no impairment has been recorded.

Goodwill as of September 30, 2020 was \$1,852.8 million. The carrying value of goodwill that was allocated to the web presence and digital marketing reporting segments was approximately \$1,232.2 million and \$620.6 million, respectively. For the three and nine months ended September 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 nine months ended September 30, 2019, the Company recognized an impairment charge of \$0.0 million and \$17.9 million, respectively, 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 nine months ended September 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.

Retention Science provides customers with an artificial intelligence customer data platform and email marketing automation solutions. Pricing is primarily based on volume and the level of customization of the solution provided to the customer. Revenue, including revenue from professional services, is recognized ratably over the term of the contract, while overages are recognized one month in arrears.

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 \$0.4 million as of December 31, 2019 and September 30, 2020, respectively. The portion of deferred revenue that was expected to be refunded at December 31, 2019 and September 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 September 30, 2020:



	<b>Short-term</b>	<b>Long-term</b>
	<b>(unaudited, 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	(319,426)	—
Cash received in advance during the period	647,984	204,186
Recognition of cash received in the period into revenue, as a result of performance obligations satisfied	(505,181)	—
Increase to deferred revenue due to acquisition of Retention Science	404	—
Impact of foreign exchange rates	(3,176)	—
Reclassification between short-term and long-term	198,420	(198,420)
Balance at September 30, 2020	<u>\$ 388,500</u>	<u>\$ 105,418</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 nine months ended September 30, 2020, the Company recognized \$319.4 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 September 30, 2020. These amounts are equivalent to the ending deferred revenue balance of \$493.9 million, which includes both short and long-term amounts:

	<b>Web presence</b>	<b>Digital marketing</b>	<b>Total</b>
	<b>(unaudited, in thousands)</b>		
Remaining performance obligation, short-term	\$ 332,020	\$ 56,480	\$ 388,500
Remaining performance obligation, long-term	105,412	6	105,418
Total	<u>\$ 437,432</u>	<u>\$ 56,486</u>	<u>\$ 493,918</u>

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 \$0.4 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:

	<b>Short-term</b>	<b>Long-term</b>
	<b>(unaudited, in thousands)</b>	
Balance at December 31, 2019	\$ 38,435	\$ 48,780
Deferred customer acquisition costs incurred in the period	20,197	35,191
Amounts recognized as expense in the period	(39,606)	—
Impact of foreign exchange rates	(163)	87
Adjustment resulting from sale of SinglePlatform business	—	(15)
Reclassification between short-term and long-term	23,179	(23,179)
Balance at September 30, 2020	<u>\$ 42,042</u>	<u>\$ 60,864</u>

As of September 30, 2020, the Company had a total of approximately \$90.8 million and \$12.1 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 nine months ended September 30, 2020, the Company recognized total amortization costs related to the above items of approximately \$35.1

million and \$4.5 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 Income (Loss) 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 income (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares of common stock outstanding for the period, and, if there are dilutive securities, diluted income (loss) per share is computed by including common stock equivalents which includes shares issuable upon the exercise of stock options, net of shares assumed to have been purchased with the proceeds, using the treasury stock method.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
	(unaudited)			
	(in thousands, except share amounts and per share data)			
Net income (loss)	\$ 7,816	\$ 6,674	\$ (21,900)	\$ 9,028
Net income (loss) per share:				
Basic	\$ 0.05	\$ 0.05	\$ (0.15)	\$ 0.06
Diluted	\$ 0.05	\$ 0.05	\$ (0.15)	\$ 0.06
Weighted-average common shares used in computing net income (loss) per share:				
Basic	145,951,755	141,680,469	144,932,834	143,552,324
Diluted	146,301,595	147,178,734	144,932,834	147,334,403

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
	(unaudited)			
Restricted stock awards and units	9,310,082	10,222,093	3,977,996	12,196,533
Options	9,001,646	5,437,994	8,931,747	5,590,983
Total	18,311,728	15,660,087	12,909,743	17,787,516

### 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.

In October 2020, the FASB issued ASU No. 2020-09, *Debt (Topic 470): Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762*, which provides for omission of financial statements with respect to guaranteed securities, if certain criteria are met. The new guidance is effective January 4, 2021. The Company is currently evaluating the timing of adoption 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 - 2020**

##### **Retention Science**

On August 7, 2020, the Company acquired Retention Science. Retention Science is a provider of artificial intelligence ("AI") driven e-commerce email marketing services. The Company acquired 100% of the equity interest in Retention Science for a maximum potential purchase price of \$35.0 million, consisting of approximately \$17.5 million paid in cash upon closing, and up to \$17.5 million to be paid in a combination of deferred consideration and contingent earn-outs over the next three years. As at August 7, 2020, the fair value of the deferred consideration and the contingent earn-outs was \$13.8 million, which consisted of \$8.0 million of deferred consideration, and \$5.8 million of contingent earn-out consideration. The deferred consideration is made up of two installment payments that will be paid out over two years. The contingent earn-out consideration is based on the successful achievement of product milestones and specific revenue performance, and is payable in multiple installments over the course of 36 months post-closing. Transaction costs were expensed as incurred and amounted to \$0.5 million. 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:

	<u>August 7, 2020</u>
	<u>(unaudited)</u>
	<u>(in thousands)</u>
Working capital	\$ 390
Deferred revenue	(404)
Deferred tax liability	(814)
Goodwill	17,208
Developed technology	13,400
Subscriber relationships	1,950
Total	<u>\$ 31,730</u>

Goodwill related to the acquisition is not deductible for tax purposes.

The Company has not furnished pro forma financial information or the results of operations of Retention Science for the post-acquisition period, as the acquisition was not material, individually or in the aggregate, to the Company's consolidated financial statements.

#### **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 would release the holdback funds, less a small working capital adjustment, to the seller, 12 months from the closing date. As of September 30, 2020, an indemnification claim is in process, and therefore the holdback has not been released to the seller. 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:

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

Goodwill related to the acquisition is deductible for tax purposes.

#### **Summary of Deferred Consideration Related to Acquisitions**

Components of short-term and long-term deferred consideration, including contingent earn-out consideration, as of December 31, 2019 and September 30, 2020 consisted of the following:

	December 31, 2019		September 30, 2020	
	Short-term	Long-term	Short-term	Long-term
	(in thousands)			
AppMachine deferred consideration (acquired in 2016)	\$ 1,455	\$ —	\$ —	\$ —
Ecomdash deferred consideration (acquired in 2019)	746	—	746	—
Retention Science deferred consideration (acquired in 2020)	—	—	4,661	3,437
Retention Science contingent earn-out consideration (acquired in 2020)	—	—	2,383	3,650
<b>Total</b>	<b>\$ 2,201</b>	<b>\$ —</b>	<b>\$ 7,790</b>	<b>\$ 7,087</b>

#### 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 \$20.6 million in revenue in the three and nine months ended September 30, 2019.

#### 4. Property, Plant and Equipment

Components of property and equipment consisted of the following:

	December 31, 2019	September 30, 2020
	(unaudited)	
	(in thousands)	
Land	\$ 790	\$ 790
Building	8,285	8,308
Software	109,546	128,028
Computers and office equipment	187,056	205,380
Furniture and fixtures	18,918	18,566
Leasehold improvements	20,469	20,643
Construction in process	5,850	5,732
Property and equipment—at cost	350,914	387,447
Less: accumulated depreciation	(264,989)	(299,098)
<b>Property and equipment—net</b>	<b>\$ 85,925</b>	<b>\$ 88,349</b>

Depreciation expense related to property and equipment for the three months ended September 30, 2019 and 2020 was \$11.3 million and \$12.8 million, respectively. Depreciation expense related to property and equipment for the nine months ended September 30, 2019 and 2020 was \$33.4 million and \$38.3 million, respectively.

Financed equipment with a cost basis of \$24.4 million was included in software as of September 30, 2020. The net carrying value of financed equipment as of September 30, 2020 was \$3.7 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 6.3 years, some of which include options to extend.

The Company's lease expense consisted entirely of operating leases and amounted to \$6.9 million and \$21.5 million for the three and nine months ended September 30, 2019, respectively, and \$6.6 million and \$20.3 million for the three and nine months ended September 30, 2020, respectively. Operating lease payments, which reduced operating cash flows, amounted to \$6.7 million and \$20.6 million for the three and nine months ended September 30, 2019, respectively, and \$6.0 million and \$18.4 million for the three and nine months ended September 30, 2020, respectively.

Supplemental balance sheet information related to leases was as follows:

	<u>December 31, 2019</u>	<u>September 30, 2020</u>
	(unaudited)	
	(in thousands)	
Operating lease right-of-use assets	\$ 90,519	\$ 83,224
Operating lease liabilities—short term	\$ 21,193	\$ 18,090
Operating lease liabilities—long term	78,151	74,461
Total operating lease liabilities	<u>\$ 99,344</u>	<u>\$ 92,551</u>

As of September 30, 2020, the weighted-average remaining lease term was 4.97 years and the discount rate for the Company's leases was 6.84%.

Maturities for leases were as follows:

	<u>Operating Leases</u>
	(unaudited)
	(in thousands)
Remainder of 2020	\$ 6,365
2021	22,749
2022	21,153
2023	19,938
2024	16,203
Thereafter	23,210
Total lease payments	<u>\$ 109,618</u>
Less: imputed interest	17,067
Total	<u>\$ 92,551</u>

## 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 September 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.

As of December 31, 2019, the Company had no financial liabilities required to be measured on a recurring basis. As of September 30, 2020, the Company's financial liabilities required to be measured on a recurring basis consisted of accrued earn-out consideration payable in connection with the 2020 acquisition of Retention Science. The Company has classified its liabilities for contingent earn-out consideration related to the Retention Science acquisition within Level 3 of the fair value hierarchy because the fair value is determined using significant unobservable inputs, which included probability weighted cash

flows. The earn-out consideration in the table below is included in total deferred consideration in the Company's consolidated balance sheets.

### **Basis of Fair Value Measurements**

	Balance	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
<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>
Financial liabilities:				
Contingent earn-out consideration	\$ —	\$ —	\$ —	\$ —
<b>Total financial liabilities</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Balance at September 30, 2020</b>				
(unaudited)				
Financial assets:				
Cash equivalents (included in cash and cash equivalents)	\$ 18,020	\$ —	\$ 18,020	\$ —
Interest rate cap (included in other assets)	—	—	—	—
<b>Total financial assets</b>	<b>\$ 18,020</b>	<b>\$ —</b>	<b>\$ 18,020</b>	<b>\$ —</b>
Financial liabilities:				
Contingent earn-out consideration	\$ 6,033	\$ —	\$ —	\$ 6,033
<b>Total financial liabilities</b>	<b>\$ 6,033</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 6,033</b>

The following table summarizes the changes in the financial liabilities measured on a recurring basis using Level 3 inputs as of September 30, 2020:

	Amount (unaudited) (in thousands)
Financial liabilities measured using Level 3 inputs at December 31, 2019	\$ —
Establishment of contingent earn-out at fair value arising from the acquisition of Retention Science	5,800
Change in fair value of contingent earn-outs	233
<b>Financial liabilities measured using Level 3 inputs at September 30, 2020</b>	<b>\$ 6,033</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 September 30, 2020 was \$0.0 million, and the Company recognized \$0.4 million and \$1.3 million of interest expense in the Company's consolidated statements of operations and comprehensive income (loss) for the three and nine months ended September 30, 2020, respectively. The Company recognized a \$1.3 million gain, net of a tax expense of \$0.3 million, in Accumulated Other Comprehensive Income ("AOCI") for the nine months ended September 30, 2020. The Company estimates that \$1.6 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 September 30, 2020:

	Web presence	Digital marketing	Total
	(in thousands)		
Goodwill balance at December 31, 2019	\$ 1,231,896	\$ 603,414	\$ 1,835,310
Goodwill related to 2020 acquisitions	—	17,208	17,208
Foreign translation impact	262	—	262
Goodwill balance at September 30, 2020	\$ 1,232,158	\$ 620,622	\$ 1,852,780

In accordance with ASC 350, *Intangibles - Goodwill and Other*, 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	\$ 1,126,636	\$ 881,634	\$ 245,002	

As of September 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	\$ 293,874	\$	230,196	\$	63,678	8 years
Subscriber relationships	661,488		552,435		109,053	7 years
Trade names	134,036		101,153		32,883	8 years
Intellectual property	33,483		31,518		1,965	5 years
Domain names available for sale	18,160		18,160		—	Indefinite
Total September 30, 2020	<u>\$ 1,141,041</u>	<u>\$</u>	<u>933,462</u>	<u>\$</u>	<u>207,579</u>	

During the nine months ended September 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 nine months ended September 30, 2020, there were no impairment charges of intangible assets.

During the nine months ended September 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 \$21.7 million and \$17.8 million for the three months ended September 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 \$64.1 million and \$52.4 million for the nine months ended September 30, 2019 and 2020, respectively.

## 9. Notes Payable

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

	December 31, 2019		September 30, 2020
(unaudited)			
(in thousands)			
Term Loan	\$ 1,347,056	\$	1,329,531
Notes	334,417		325,246
Revolving credit facilities	—		—
Total notes payable	1,681,473		1,654,777
Current portion of notes payable	31,606		31,606
Notes payable - long term	<u>\$ 1,649,867</u>	<u>\$</u>	<u>1,623,171</u>

### 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 nine months ended September 30, 2020, the Company made three mandatory repayments of \$7.9 million each, for a total mandatory repayment of \$23.7 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 September 30, 2020, the Term Loan had an outstanding balance of:

	December 31, 2019	September 30, 2020
	(unaudited)	
	(in thousands)	
Term Loan	\$ 1,374,022	\$ 1,350,318
Unamortized deferred financing costs	(14,331)	(11,047)
Unamortized original issue discount	(12,635)	(9,740)
Net Term Loan	1,347,056	1,329,531
Current portion of Term Loan	31,606	31,606
Term Loan - long term	\$ 1,315,450	\$ 1,297,925

#### *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 September 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 nine months ended September 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 September 30, 2020, the Senior Notes had an outstanding balance of:

	December 31, 2019	September 30, 2020
	(unaudited)	
	(in thousands)	
Senior Notes	\$ 350,000	\$ 337,770
Unamortized deferred financing costs	(11,359)	(9,163)
Unamortized original issue discount	(4,224)	(3,361)
Net Senior Notes	334,417	325,246
Current portion of Senior Notes	—	—
Senior Notes - long term	\$ 334,417	\$ 325,246

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 September 30, 2020 is as follows:

	Amounts (unaudited) (in thousands)
<b>Amounts maturing in:</b>	
Remainder of 2020	\$ 7,902
2021	31,606
2022	31,606
2023	1,279,204
2024	337,770
Thereafter	—
Total	\$ 1,688,088

#### Interest

The Company recorded \$36.1 million and \$30.0 million in interest expense for the three months ended September 30, 2019 and 2020, respectively, and \$110.3 million and \$93.9 million for the nine months ended September 30, 2019 and 2020, respectively.

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

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2020
	(unaudited)			
	(percentage per annum)			
Interest rate—LIBOR	5.88%-6.27%	4.75%-4.75%	5.88%-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	\$ 32,965	\$ 26,332	\$ 101,072	\$ 83,704
Amortization of deferred financing fees	1,822	1,978	5,331	5,770
Amortization of original issue discounts	1,138	1,255	3,336	3,622
Amortization of net present value of deferred consideration	23	331	143	376
Loss on extinguishment of debt	—	—	—	83
Other interest expense	109	63	426	324
Total interest expense	\$ 36,057	\$ 29,959	\$ 110,308	\$ 93,879

\* The Company did not have debt-bearing interest based on the alternate base rate for the three and nine months ended September 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 September 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 September 30, 2020, there were 3,267,619 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 September 30, 2020, there were 9,098,318 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 September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
	(unaudited, in thousands)			
Cost of revenue	\$ 738	\$ 683	\$ 2,620	\$ 2,163
Sales and marketing	1,807	1,694	5,388	5,415
Engineering and development	1,435	1,347	4,200	3,564
General and administrative	5,163	5,823	15,305	17,836
Total stock-based compensation expense	\$ 9,143	\$ 9,547	\$ 27,513	\$ 28,978

Under both the 2011 and 2013 Plans combined, as of September 30, 2020, the Company had approximately \$2.6 million of unrecognized stock-based compensation expense related to option awards that will be recognized over 1.1 years and approximately \$58.4 million of unrecognized stock-based compensation expense related to restricted stock awards and restricted stock units that will be recognized over 2.0 years.

### 2013 Stock Incentive Plan

The following table provides a summary of the Company's stock options as of September 30, 2020 and the stock option activity during the nine months ended September 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	(2,814)	\$ 8.58		
Expired	(164,818)	\$ 10.39		
Outstanding at September 30, 2020	5,109,047	\$ 10.58	6.0	\$ —
Exercisable at September 30, 2020	4,498,644	\$ 10.94	5.8	\$ —
Expected to vest after September 30, 2020 <sup>(1)</sup>	610,403	\$ 7.91	8.2	\$ —
Exercisable as of September 30, 2020 and expected to vest <sup>(2)</sup>	5,109,047	\$ 10.58	6.0	\$ —

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

<sup>(2)</sup> This represents the number of vested options as of September 30, 2020 plus the number of unvested options outstanding as of September 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 September 30, 2020 of \$5.74 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 nine months ended September 30, 2020:

	Restricted Stock Units	Weighted- Average Grant Date Fair Value
	(unaudited)	
Non-vested at December 31, 2019	9,005,109	\$ 6.90
Granted	10,524,167	\$ 4.11
Vested	(3,550,214)	\$ 7.10
Canceled	(661,895)	\$ 5.88
Non-vested at September 30, 2020	15,317,167	\$ 4.98

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 nine months ended September 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 September 30, 2020	15,783	\$ 8.08

### 2011 Stock Incentive Plan

The following table provides a summary of the Company's stock options as of September 30, 2020 and the stock option activity during the nine months ended September 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	(12,398)	\$ 5.31		
Forfeited	(1,277)	\$ 9.43		
Expired	(211,697)	\$ 8.43		
Outstanding at September 30, 2020	308,175	\$ 9.24	1.8	\$ —
Exercisable at September 30, 2020	306,790	\$ 9.24	1.8	\$ —
Expected to vest after September 30, 2020 <sup>(1)</sup>	1,385	\$ 8.12	3.3	\$ —
Exercisable as of September 30, 2020 and expected to vest <sup>(2)</sup>	308,175	\$ 9.24	1.8	\$ —

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

<sup>(2)</sup> This represents the number of vested options as of September 30, 2020 plus the number of unvested options outstanding as of September 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 September 30, 2020 of \$5.74 per share, or the date of exercise, as appropriate, and the exercise price of the underlying options.

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

	Restricted Stock Units	Weighted-Average Grant Date Fair Value
	(unaudited)	
Non-vested at December 31, 2019	320,142	\$ 8.35
Granted	—	\$ —
Vested	(252,373)	\$ 8.36
Canceled	(27,855)	\$ 8.66
Non-vested at September 30, 2020	39,914	\$ 8.08

## 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 September 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 nine months ended September 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 September 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 (income):

	Foreign Currency Translation Adjustments	Unrealized (Loss) Gain on Cash Flow Hedge	Total
	(unaudited, in thousands)		
Balance at December 31, 2019	\$ (2,135)	\$ (1,953)	\$ (4,088)
Other comprehensive (loss) income	1,122	1,001	2,123
Balance at September 30, 2020	\$ (1,013)	\$ (952)	\$ (1,965)

## 13. Revenue

During the three months ended September 30, 2019 and 2020, the Company recognized \$277.2 million and \$278.4 million of revenue, respectively, the majority of which was derived from contracts with customers. During the nine months ended September 30, 2019 and 2020, the Company recognized \$836.1 million and \$824.6 million, respectively, the majority of which was derived from contracts with customers.

During the three and nine months ended September 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 nine months ended September 30, 2019 and 2020:

	<b>Three Months Ended September 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	\$ 146,213	\$ 101,302	\$ 247,515
Professional services	3,022	344	3,366
Reseller revenue	17,453	939	18,392
Total subscription-based revenue	\$ 166,688	\$ 102,585	\$ 269,273
Non-subscription-based revenue			
MDF	\$ 1,986	\$ 180	\$ 2,166
Premium domains	4,466	—	4,466
Domain parking and monetization	1,288	—	1,288
Total non-subscription-based revenue	\$ 7,740	\$ 180	\$ 7,920
Total revenue	\$ 174,428	\$ 102,765	\$ 277,193
<b>Nine Months Ended September 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	\$ 442,243	\$ 303,596	\$ 745,839
Professional services	9,530	1,130	10,660
Reseller revenue	52,824	2,732	55,556
Total subscription-based revenue	\$ 504,597	\$ 307,458	\$ 812,055
Non-subscription-based revenue			
MDF	\$ 5,923	\$ 526	\$ 6,449
Premium domains	13,520	—	13,520
Domain parking and monetization	4,056	—	4,056
Total non-subscription-based revenue	\$ 23,499	\$ 526	\$ 24,025
Total revenue	\$ 528,096	\$ 307,984	\$ 836,080

	<b>Three Months Ended September 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	\$ 149,556	\$ 98,417	\$ 247,973
Professional services	3,184	900	4,084
Reseller revenue	17,590	1,000	18,590
Total subscription-based revenue	\$ 170,330	\$ 100,317	\$ 270,647
Non-subscription-based revenue			
MDF	\$ 1,580	\$ 45	\$ 1,625
Premium domains	4,669	—	4,669
Domain parking and monetization	1,485	—	1,485
Total non-subscription-based revenue	\$ 7,734	\$ 45	\$ 7,779
Total revenue	\$ 178,064	\$ 100,362	\$ 278,426

	<b>Nine Months Ended September 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	\$ 445,117	\$ 290,603	\$ 735,720
Professional services	9,216	2,189	11,405
Reseller revenue	52,176	2,860	55,036
Total subscription-based revenue	\$ 506,509	\$ 295,652	\$ 802,161
Non-subscription-based revenue			
MDF	\$ 4,671	\$ 241	\$ 4,912
Premium domains	13,518	—	13,518
Domain parking and monetization	4,016	—	4,016
Total non-subscription-based revenue	\$ 22,205	\$ 241	\$ 22,446
Total revenue	\$ 528,714	\$ 295,893	\$ 824,607

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 nine months ended September 30, 2019 and 2020:

	<b>Three Months Ended September 30, 2019</b>		
	<b>Web presence</b>	<b>Digital marketing</b>	<b>Total</b>
	<b>(unaudited, in thousands)</b>		
Domestic	\$ 108,100	\$ 95,068	\$ 203,168
International	66,328	7,697	74,025
Total	\$ 174,428	\$ 102,765	\$ 277,193

	Nine Months Ended September 30, 2019		
	Web presence	Digital marketing	Total
	(unaudited, in thousands)		
Domestic	\$ 327,113	\$ 284,540	\$ 611,653
International	200,983	23,444	224,427
Total	\$ 528,096	\$ 307,984	\$ 836,080

	Three Months Ended September 30, 2020		
	Web presence	Digital marketing	Total
	(unaudited, in thousands)		
Domestic	\$ 109,113	\$ 93,016	\$ 202,129
International	68,951	7,346	76,297
Total	\$ 178,064	\$ 100,362	\$ 278,426

	Nine Months Ended September 30, 2020		
	Web presence	Digital marketing	Total
	(unaudited, in thousands)		
Domestic	\$ 325,337	\$ 273,785	\$ 599,122
International	203,377	22,108	225,485
Total	\$ 528,714	\$ 295,893	\$ 824,607

#### 14. Income Taxes

For the three months ended September 30, 2019 and 2020, the Company recognized a tax benefit of \$4.8 million and tax expense of \$1.6 million, respectively, in the consolidated statements of operations and comprehensive income (loss). For the nine months ended September 30, 2019 and 2020, the Company recognized a tax expense of \$3.0 million and \$13.3 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 September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
(unaudited, in thousands)				
Current:				
U.S. Federal and State	\$ (3,254)	\$ 577	\$ 599	\$ 4,156
Foreign	(1,091)	(1)	499	2,676
Total current (benefit) expense	(4,345)	576	1,098	6,832
Deferred:				
U.S. Federal and State	(580)	1,042	1,986	6,643
Foreign	86	(31)	(44)	(176)
Total deferred (benefit) expense	(494)	1,011	1,942	6,467
Total (benefit) expense	\$ (4,839)	\$ 1,587	\$ 3,040	\$ 13,299

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 September 30, 2020 of \$44.1 million and \$50.6 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 September 30, 2020 against its foreign deferred tax assets of \$6.3 million, of which \$3.4 million is in the Netherlands, \$1.9 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 September 30, 2020, the Company recognized a benefit of \$1.7 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 credits; and increase its permitted level of 2019 federal net operating loss carry-forwards from approximately \$26.9 million to \$77.0 million.

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 September 30, 2020 of \$4.7 million and \$5.5 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 September 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 \$56.8 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 nine months ended September 30, 2020, the Company incurred severance costs of \$0.0 million and \$1.6 million, respectively, paid \$0.4 million and \$1.5 million, respectively, and had a remaining accrued severance liability of \$0.1 million as of September 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 September 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 nine months ended September 30, 2020, the Company incurred facility exit costs of \$0.0 million and \$0.1 million, respectively, and paid \$0.1 million and \$0.2 million, respectively. The Company had a remaining facility exit cost accrual of \$1.1 million as of September 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 nine months ended September 30, 2020, the Company incurred no facility charges and made payments of \$0.0 million, and \$0.1 million, respectively. The Company had a remaining accrued facility liability of \$0.1 million as of September 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 nine months ended September 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	(1,543)
Balance at September 30, 2020	<u>\$ 147</u>

The following table provides a summary of the aggregate activity for the nine months ended September 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	103
Sublease income received	126
Cash paid	(713)
Balance at September 30, 2020	<u>\$ 1,885</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 September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>
	<b>(unaudited, in thousands)</b>			
Cost of revenue	\$ 7	\$ 7	\$ 1,430	\$ 155
Sales and marketing	17	6	241	581
Engineering and development	28	16	449	480
General and administrative	(245)	4	(115)	533
Total restructuring charges	<u>\$ (193)</u>	<u>\$ 33</u>	<u>\$ 2,005</u>	<u>\$ 1,749</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.

## 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 nine months ended September 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 nine months ended September 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 September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
	(unaudited, in thousands)			
Revenue	\$ (1,400)	\$ (880)	\$ (4,140)	\$ (2,720)
Revenue (contra)	1,190	2,040	5,180	5,410
Total related party transaction impact to revenue	\$ (210)	\$ 1,160	\$ 1,040	\$ 2,690
Cost of revenue	180	85	500	260
Total related party transaction expense, net	\$ (30)	\$ 1,245	\$ 1,540	\$ 2,950

As of December 31, 2019 and September 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 September 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 September 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, its Ecomdash inventory management and marketplace listing solution which was acquired in the third quarter of

2019, and its Retention Science solution, which was acquired in the third quarter of 2020. 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 nine months ended September 30, 2019 to conform with the two-segment presentation. The following tables contain financial information for each reportable segment for the three and nine months ended September 30, 2019 and 2020:

	Three Months Ended September 30, 2019		
	Web presence	Digital marketing	Total
	(unaudited, in thousands)		
Revenue	\$ 174,428	\$ 102,765	\$ 277,193
Gross profit	\$ 82,675	\$ 73,763	\$ 156,438
Net (loss) income	\$ (4,730)	\$ 12,546	\$ 7,816
Interest expense, net <sup>(1)</sup>	17,153	18,599	35,752
Income tax (benefit) expense	(3,044)	(1,795)	(4,839)
Depreciation	9,166	2,114	11,280
Amortization of other intangible assets	10,115	11,553	21,668
Stock-based compensation	5,842	3,301	9,143
Restructuring expenses	(36)	(157)	(193)
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	—	—	—
<b>Adjusted EBITDA</b>	<b>\$ 34,466</b>	<b>\$ 46,161</b>	<b>\$ 80,627</b>



	<b>Nine Months Ended September 30, 2019</b>		
	<b>Web presence</b>	<b>Digital marketing</b>	<b>Total</b>
	<b>(unaudited, in thousands)</b>		
Revenue	\$ 528,096	\$ 307,984	\$ 836,080
Gross profit	\$ 230,485	\$ 221,399	\$ 451,884
Net (loss) income	\$ (44,548)	\$ 22,648	\$ (21,900)
Interest expense, net <sup>(1)</sup>	54,295	55,103	109,398
Income tax expense	1,938	1,102	3,040
Depreciation	26,718	6,667	33,385
Amortization of other intangible assets	29,893	34,244	64,137
Stock-based compensation	17,907	9,606	27,513
Restructuring expenses	785	1,220	2,005
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>\$ 104,880</b>	<b>\$ 130,590</b>	<b>\$ 235,470</b>

  

	<b>Three Months Ended September 30, 2020</b>		
	<b>Web presence</b>	<b>Digital marketing</b>	<b>Total</b>
	<b>(unaudited, in thousands)</b>		
Revenue	\$ 178,064	\$ 100,362	\$ 278,426
Gross profit	\$ 88,788	\$ 72,976	\$ 161,764
Net (loss) income	\$ (27)	\$ 6,701	\$ 6,674
Interest expense, net <sup>(1)</sup>	13,952	15,854	29,806
Income tax expense	1,015	572	1,587
Depreciation	10,312	2,512	12,824
Amortization of other intangible assets	7,653	10,160	17,813
Stock-based compensation	6,006	3,541	9,547
Restructuring expenses	—	33	33
Gain on sale of intangible assets	—	—	—
Gain on sale of business	—	—	—
Transaction expenses and charges	—	461	461
Impairment of goodwill and other long-lived assets	—	—	—
Shareholder litigation reserve	—	—	—
<b>Adjusted EBITDA</b>	<b>\$ 38,911</b>	<b>\$ 39,834</b>	<b>\$ 78,745</b>

	Nine Months Ended September 30, 2020		
	Web presence	Digital marketing	Total
	(unaudited, in thousands)		
Revenue	\$ 528,714	\$ 295,893	\$ 824,607
Gross profit	\$ 261,524	\$ 217,092	\$ 478,616
Net (loss) income	\$ (9,277)	\$ 18,305	\$ 9,028
Interest expense, net <sup>(1)</sup>	44,422	48,972	93,394
Income tax expense	8,551	4,748	13,299
Depreciation	31,099	7,167	38,266
Amortization of other intangible assets	22,804	29,602	52,406
Stock-based compensation	18,916	10,062	28,978
Restructuring expenses	1,032	717	1,749
Gain on sale of intangible assets	(2,365)	—	(2,365)
Gain on sale of business	—	—	—
Transaction expenses and charges	—	461	461
Impairment of goodwill and other long-lived assets	—	—	—
Shareholder litigation reserve	—	—	—
<b>Adjusted EBITDA</b>	<b>\$ 115,182</b>	<b>\$ 120,034</b>	<b>\$ 235,216</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 November 9, 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 September 30, 2020 consolidated financial statements.

On November 1, 2020, the Company entered into the Merger Agreement with the Parent and the Merger Sub. The Merger Agreement provides for the acquisition of the Company by the Parent at a price of \$9.50 per share of the Company's common stock in cash, without interest (the "Merger Consideration"), through the merger of the Merger Sub with and into the Company (the "Merger"), with the Company surviving the Merger as a wholly owned subsidiary of the Parent. The Parent and the Merger Sub are owned by funds managed by affiliates of Clearlake Capital Group, L.P. (collectively, the "Sponsor"). The Company's board of directors has unanimously approved the Merger and the Merger Agreement and recommended that stockholders adopt and approve the Merger Agreement, and the Company has agreed to hold a stockholders meeting to submit the Merger Agreement to its stockholders for their consideration.

If the Merger is completed, at the effective time of the Merger (the "Effective Time"):

- each share of the Company's common stock that is issued and outstanding immediately prior to the Effective Time (other than shares held in the treasury of the Company, owned by any subsidiary of the Company, the Merger Sub, the Parent or any other subsidiary of the Parent immediately prior to the Effective Time (all of which will be canceled) and shares held by any holder who is entitled to, and who has perfected, appraisal rights under Delaware law) will be automatically converted into the right to receive the Merger Consideration;
- each then-outstanding and unexercised Company stock option shall vest in full and automatically be canceled and converted into the right to receive the excess, if any, of the Merger Consideration over the exercise price per share of such stock option; provided that, in the event that the exercise price of any such stock option is equal to or greater than the Merger Consideration, such stock option will be canceled, without any consideration being payable in respect thereof and have no further force or effect;
- each Company restricted stock unit that is then outstanding and unvested shall vest in full and automatically be canceled and converted into the right to receive the Merger Consideration (with exceptions for certain of such units granted in 2020 that shall convert into the right to receive cash equal to the Merger Consideration upon the service and vesting terms in such units, subject to certain acceleration); and
- each Company restricted stock award that is then outstanding and unvested shall vest in full and automatically be canceled and converted into the right to receive the Merger Consideration.

The Merger Agreement contains customary representations and warranties from both the Company, on the one hand, and the Parent and the Merger Sub, on the other hand. It also contains customary covenants, including covenants providing for each of the Company and the Parent to use its reasonable best efforts to cause the Merger to be consummated, and covenants requiring the Company, among other things, (i) to use commercially reasonable efforts to conduct its business in the ordinary course during the interim period between the execution of the Merger Agreement and the Effective Time, (ii) not to engage in specified types of transactions during such period, and (iii) not to solicit proposals, engage in discussions relating to alternative acquisition proposals or change the recommendation of the Company's board of directors to the Company's stockholders regarding the Merger Agreement, in each case except as otherwise permitted by the Merger Agreement, including in connection with the compliance by the Company's board of directors with its fiduciary duties under applicable law.

Completion of the Merger is subject to customary closing conditions, including (i) approval of the Merger Agreement by the Company's stockholders, (ii) the expiration or termination of applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and (iii) the absence of governmental injunctions or other legal restraints prohibiting the Merger. In addition, the obligation of each party to consummate the Merger is conditioned upon, among other things, the accuracy of the representations and warranties of the other party (subject to certain materiality exceptions), and material compliance by the other party with its covenants under the Merger Agreement. The Parent's obligations under the Merger Agreement are not subject to any financing condition.

The Parent has obtained equity and debt financing commitments for the transactions contemplated by the Merger Agreement. J.P. Morgan, BofA Securities, Deutsche Bank Securities, and UBS Investment Bank have agreed to provide debt financing for the transactions, subject to the terms and conditions set forth in a debt commitment letter delivered to the Parent. In addition, certain funds managed by affiliates of the Sponsor have delivered an equity commitment letter to the Parent, pursuant to which, upon the terms and subject to the conditions set forth therein, such funds have committed to capitalize the Parent at or prior to the closing of the Merger with the equity contributions. The Merger Agreement requires the Parent to use its reasonable best efforts to arrange and obtain the financing on the terms and conditions described in the equity and debt financing commitments.

The Merger Agreement may be terminated, subject to the terms and conditions of the Merger Agreement: (i) by mutual written consent of the Parent and the Company; (ii) by either the Company or the Parent, if a governmental injunction or other legal restraint prevents the consummation of the Merger; (iii) by either the Company or the Parent, if the requisite vote of the Company's stockholders has not been obtained; or (iv) by either the Company or the Parent upon the other party's uncured material breach of any representation, warranty, covenant or agreement under the Merger Agreement. The Merger Agreement may also be terminated (A) by the Parent if the Company's board of directors fails to recommend or changes its recommendation regarding the Merger, or (B) by the Company, in order to enter into a definitive agreement with respect to a superior proposal, subject to specified limitations. Subject to certain conditions, the Company may terminate the Merger Agreement if, after the marketing period of eighteen consecutive business days has ended (unless waived by the Parent), all of the conditions to the Parent's obligations to close are satisfied and the Parent fails to consummate the Merger within three Business Days after notice from the Company that the conditions to the Company's obligations to close have been satisfied.

In addition to the foregoing termination rights, and subject to certain limitations, either party may terminate the Merger Agreement if the Merger is not consummated by April 30, 2021.

If the Merger Agreement is terminated under certain circumstances specified in the Merger Agreement, the Company will be required to pay the Parent a termination fee of \$37,393,000 (including under specified circumstances in connection with the Company's entry into an agreement with respect to a superior proposal). The Merger Agreement also provides that the Parent will be required to pay the Company a reverse termination fee of \$119,656,000 under certain specified circumstances set forth in the Merger Agreement. The Sponsor has provided the Company with a limited guarantee in favor of the Company guaranteeing the Parent's obligation to pay the reverse termination fee and certain other payment obligations of the Parent and the Merger Sub pursuant to the Merger Agreement.

For additional information related to the Merger Agreement, refer to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 2, 2020, which includes the full text of the Merger Agreement as Exhibit 2.1.

## **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 September 30, 2020, and supplemental condensed consolidating results of operations for the three and nine months ended September 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**  
**September 30, 2020**  
(unaudited, in thousands)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 3,263	\$ 1	\$ 119,748	\$ 44,303	\$ —	\$ 167,315
Restricted cash	—	—	1,422	—	—	1,422
Accounts receivable	—	—	7,752	2,071	—	9,823
Prepaid domain name registry fees	—	—	51,366	7,011	—	58,377
Prepaid commissions	—	—	41,346	696	—	42,042
Prepaid expenses and other current assets	—	27	23,903	3,993	—	27,923
<b>Total current assets</b>	<b>3,263</b>	<b>28</b>	<b>245,537</b>	<b>58,074</b>	<b>—</b>	<b>306,902</b>
Intercompany receivables—net	14,147	41,218	81,520	(136,884)	(1)	—
Property and equipment—net	—	—	76,079	12,270	—	88,349
Operating lease right-of-use assets	—	—	74,605	8,619	—	83,224
Goodwill	—	—	1,677,587	175,193	—	1,852,780
Other intangible assets, net	—	—	191,966	15,610	3	207,579
Investment in subsidiaries	205,311	1,829,785	86,651	—	(2,121,747)	—
Prepaid commissions, net of current portion	—	—	60,153	711	—	60,864
Other assets	—	1,119	28,631	2,332	—	32,082
<b>Total assets</b>	<b>\$ 222,721</b>	<b>\$ 1,872,150</b>	<b>\$ 2,522,729</b>	<b>\$ 135,925</b>	<b>\$ (2,121,745)</b>	<b>\$ 2,631,780</b>
<b>Liabilities and stockholders' equity</b>						
Current liabilities:						
Accounts payable	\$ —	\$ —	\$ 13,167	\$ 503	\$ —	\$ 13,670
Accrued expenses and other current liabilities	—	12,455	67,820	7,926	—	88,201
Deferred revenue	—	—	361,991	26,509	—	388,500
Operating lease liabilities—short term	—	—	16,255	1,835	—	18,090
Current portion of notes payable	—	31,606	—	—	—	31,606
Current portion of financed equipment	—	—	2,447	—	—	2,447
Deferred consideration—short term	—	—	7,790	—	—	7,790
<b>Total current liabilities</b>	<b>—</b>	<b>44,061</b>	<b>469,470</b>	<b>36,773</b>	<b>—</b>	<b>550,304</b>
Deferred revenue—long term	—	—	99,841	5,577	—	105,418
Operating lease liabilities—long term	—	—	67,548	6,913	—	74,461
Notes payable	—	1,623,171	—	—	—	1,623,171
Financed equipment, long-term	—	—	202	—	—	202
Deferred consideration—long term	—	—	7,087	—	—	7,087
Other long-term liabilities	—	(391)	48,798	9	—	48,416
<b>Total liabilities</b>	<b>—</b>	<b>1,666,841</b>	<b>692,946</b>	<b>49,272</b>	<b>—</b>	<b>2,409,059</b>
Equity	222,721	205,309	1,829,783	86,653	(2,121,745)	222,721
<b>Total liabilities and stockholders' equity</b>	<b>\$ 222,721</b>	<b>\$ 1,872,150</b>	<b>\$ 2,522,729</b>	<b>\$ 135,925</b>	<b>\$ (2,121,745)</b>	<b>\$ 2,631,780</b>

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

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$ —	\$ —	\$ 265,165	\$ 15,196	\$ (3,168)	\$ 277,193
Cost of revenue	—	—	113,787	10,136	(3,168)	120,755
Gross profit	—	—	151,378	5,060	—	156,438
Operating expense:						
Sales and marketing	—	—	56,595	2,548	—	59,143
Engineering and development	—	—	25,954	2,303	—	28,257
General and administrative	401	58	29,880	(30)	—	30,309
Total operating expense	401	58	112,429	4,821	—	117,709
(Loss) income from operations	(401)	(58)	38,949	239	—	38,729
Interest expense and other income—net	—	35,925	(38)	(135)	—	35,752
(Loss) income before income taxes and equity earnings of unconsolidated entities	(401)	(35,983)	38,987	374	—	2,977
Income tax (benefit) expense	—	(8,563)	3,616	108	—	(4,839)
(Loss) income before equity earnings of unconsolidated entities	(401)	(27,420)	35,371	266	—	7,816
Equity (income) loss of unconsolidated entities, net of tax	(8,217)	(35,635)	(267)	—	44,119	—
Net income (loss)	\$ 7,816	\$ 8,215	\$ 35,638	\$ 266	\$ (44,119)	\$ 7,816
Comprehensive income (loss):						
Foreign currency translation adjustments	—	—	—	(1,001)	—	(1,001)
Unrealized gain (loss) on cash flow hedge, net of taxes	—	240	—	—	—	240
Total comprehensive income (loss)	\$ 7,816	\$ 8,455	\$ 35,638	\$ (735)	\$ (44,119)	\$ 7,055

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

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$ —	\$ —	\$ 799,637	\$ 46,059	\$ (9,616)	\$ 836,080
Cost of revenue (including impairment of \$17,892)	—	—	363,049	30,763	(9,616)	384,196
Gross profit	—	—	436,588	15,296	—	451,884
Operating expense:						
Sales and marketing	—	—	181,901	9,320	—	191,221
Engineering and development	—	—	70,471	6,828	—	77,299
General and administrative	1,226	175	90,494	932	(1)	92,826
Total operating expense	1,226	175	342,866	17,080	(1)	361,346
(Loss) income from operations	(1,226)	(175)	93,722	(1,784)	1	90,538
Interest expense and other income—net	—	109,776	34	(412)	—	109,398
(Loss) income before income taxes and equity earnings of unconsolidated entities	(1,226)	(109,951)	93,688	(1,372)	1	(18,860)
Income tax (benefit) expense	—	(26,167)	27,649	1,558	—	3,040
(Loss) income before equity earnings of unconsolidated entities	(1,226)	(83,784)	66,039	(2,930)	1	(21,900)
Equity loss (income) of unconsolidated entities, net of tax	20,674	(63,106)	2,930	—	39,502	—
Net (loss) income	\$ (21,900)	\$ (20,678)	\$ 63,109	\$ (2,930)	\$ (39,501)	\$ (21,900)
Comprehensive income (loss):						
Foreign currency translation adjustments	—	—	—	(1,054)	—	(1,054)
Unrealized gain (loss) on cash flow hedge, net of taxes	—	(611)	—	—	—	(611)
Total comprehensive (loss) income	\$ (21,900)	\$ (21,289)	\$ 63,109	\$ (3,984)	\$ (39,501)	\$ (23,565)



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

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$ —	\$ —	\$ 264,896	\$ 16,670	\$ (3,140)	\$ 278,426
Cost of revenue	—	—	107,923	11,879	(3,140)	116,662
Gross profit	—	—	156,973	4,791	—	161,764
Operating expense:						
Sales and marketing	—	—	60,897	2,754	—	63,651
Engineering and development	—	—	23,926	4,499	—	28,425
General and administrative	347	61	30,095	657	—	31,160
Gain on sale of intangible assets	—	—	—	—	—	—
Transaction expenses	—	—	461	—	—	461
Total operating expense	347	61	115,379	7,910	—	123,697
(Loss) income from operations	(347)	(61)	41,594	(3,119)	—	38,067
Interest expense and other income—net	—	29,565	351	(110)	—	29,806
(Loss) income before income taxes and equity earnings of unconsolidated entities	(347)	(29,626)	41,243	(3,009)	—	8,261
Income tax (benefit) expense	—	(7,051)	8,864	(226)	—	1,587
(Loss) income before equity earnings of unconsolidated entities	(347)	(22,575)	32,379	(2,783)	—	6,674
Equity (income) loss of unconsolidated entities, net of tax	(7,021)	(29,593)	2,782	1	33,831	—
Net income (loss)	\$ 6,674	\$ 7,018	\$ 29,597	\$ (2,784)	\$ (33,831)	\$ 6,674
Comprehensive income (loss):						
Foreign currency translation adjustments	—	—	—	1,245	—	1,245
Unrealized gain (loss) on cash flow hedge, net of taxes	—	286	—	—	—	286
Total comprehensive income (loss)	\$ 6,674	\$ 7,304	\$ 29,597	\$ (1,539)	\$ (33,831)	\$ 8,205

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

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$ —	\$ —	\$ 788,830	\$ 46,617	\$ (10,840)	\$ 824,607
Cost of revenue	—	—	321,864	34,967	(10,840)	345,991
Gross profit	—	—	466,966	11,650	—	478,616
Operating expense:						
Sales and marketing	—	—	187,356	6,548	—	193,904
Engineering and development	—	—	69,563	10,395	—	79,958
General and administrative	1,244	183	90,042	(532)	—	90,937
Gain on sale of intangible assets	—	—	(2,365)	—	—	(2,365)
Transaction expenses	—	—	461	—	—	461
Total operating expense	1,244	183	345,057	16,411	—	362,895
(Loss) income from operations	(1,244)	(183)	121,909	(4,761)	—	115,721
Interest expense and other income—net	—	93,181	549	(336)	—	93,394
(Loss) income before income taxes and equity earnings of unconsolidated entities	(1,244)	(93,364)	121,360	(4,425)	—	22,327
Income tax (benefit) expense	—	(22,219)	33,581	1,937	—	13,299
(Loss) income before equity earnings of unconsolidated entities	(1,244)	(71,145)	87,779	(6,362)	—	9,028
Equity (income) loss of unconsolidated entities, net of tax	(10,272)	(81,416)	6,363	1	85,324	—
Net income (loss)	\$ 9,028	\$ 10,271	\$ 81,416	\$ (6,363)	\$ (85,324)	\$ 9,028
Comprehensive income (loss):						
Foreign currency translation adjustments	—	—	—	1,122	—	1,122
Unrealized gain (loss) on cash flow hedge, net of taxes	—	1,001	—	—	—	1,001
Total comprehensive income (loss)	\$ 9,028	\$ 11,272	\$ 81,416	\$ (5,241)	\$ (85,324)	\$ 11,151

## 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.

### Overview

We are a leading provider of cloud-based platform solutions designed to help small- and medium-sized businesses, or SMBs, succeed online. We serve approximately 5.0 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, our Ecomdash inventory management and marketplace listing solution, or Ecomdash, which we acquired in the third quarter of 2019, and our Retention Science solution, which we acquired in the third quarter of 2020. 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 nine months ended September 30, 2019 to conform with the two-segment presentation.

Our financial results for the three months ended September 30, 2020 reflected a decrease in net income, an increase in revenue and an increase in net cash provided by operating activities compared to the three months ended September 30, 2019. Our financial results for the nine months ended September 30, 2020 reflected a decrease in revenue, an increase in net income, and an increase in net cash provided by operating activities compared to the nine months ended September 30, 2019. Year over year changes in revenue, net income (loss) and net cash provided by operating activities are summarized below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
	(in thousands)			
Revenue	\$ 277,193	\$ 278,426	\$ 836,080	\$ 824,607
Net income (loss)	\$ 7,816	\$ 6,674	\$ (21,900)	\$ 9,028
Net cash provided by operating activities	\$ 40,951	\$ 54,569	\$ 115,680	\$ 157,232

- Revenue for the three months ended September 30, 2020 increased slightly as compared to the three months ended September 30, 2019, due to a revenue increase in our web presence segment, partially offset by a 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 September 30, 2019, digital marketing grew 5% year-over-year, and consolidated revenue grew 3% year over year.
- Net income decreased from \$7.8 million for the three months ended September 30, 2019 to \$6.7 million for the three months ended September 30, 2020. This was primarily due to higher income taxes of \$6.4 million; higher costs impacting sales and marketing; and higher depreciation expense. These decreases in net income were partially offset by a \$5.9 million reduction in net interest expense; lower amortization expense; lower costs impacting cost of revenue; and higher revenue.
- Net cash provided by operating activities increased from \$41.0 million for the three months ended September 30, 2019 to \$54.6 million for the three months ended September 30, 2020. This increase was the result of a \$6.5 million

increase in our deferred revenue balance due to higher billings; lower expenses, including a \$7.4 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 and higher payments for certain prepaid expenses, including prepaid deferred domain registry fees and prepaid commissions.

- Revenue for the nine months ended September 30, 2020 decreased by 1% as compared to the nine months ended September 30, 2019 due to a revenue decline in our digital marketing segment resulting from the sale of SinglePlatform, which contributed \$20.6 million of revenue in the nine months ended September 30, 2019. Excluding the \$20.6 million revenue contribution of SinglePlatform from the nine months ended September 30, 2019, digital marketing grew 3% year-over-year, and consolidated revenue grew 1% year over year.
- Net (loss) income improved from a loss of \$21.9 million for the nine months ended September 30, 2019 to net income of \$9.0 million for the nine months ended September 30, 2020. This was due primarily to an impairment charge of \$17.9 million in 2019, which was attributable to certain premium domain name intangible assets which were adversely affected by ongoing market conditions; a \$16.0 million decrease in interest expense; an \$11.7 million decrease in amortization expense; a \$2.4 million gain from the sale of certain intangible assets in the second quarter of 2020; and other cost decreases. These factors were partially offset by lower revenue, higher income tax expense, and higher depreciation.
- Net cash provided by operating activities increased from \$115.7 million for the nine months ended September 30, 2019 to \$157.2 million for the nine months ended September 30, 2020. This increase was primarily the result of a \$19.6 million increase in our deferred revenue balance due to higher billings; lower interest payments of \$17.1 million due to lower debt balances and lower interest rates; the timing of vendor payments; and a \$5.8 million payment in 2019 to settle a securities class action lawsuit. These factors were partially offset by higher payments during 2020 for taxes and certain other expenses, including prepaid domain registry fees and prepaid commissions.

Our total subscriber base as of September 30, 2020 reflected an increase during the three and nine months ended September 30, 2020. Our non-strategic brands continue to lose subscribers, but for the three and nine months ended September 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 plan to continue these investments going forward, and expect that our cost of revenue and operating expense will increase in future periods as a result of anticipated third party licensor price increases and further focus on engineering and development.

In addition, 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.

#### ***Proposed Acquisition by Clearlake Capital Group***

On November 1, 2020, we entered into an Agreement and Plan of Merger, or the Merger Agreement, with Razorback Technology Intermediate Holdings, Inc., a Delaware corporation, or the Parent, and Razorback Technology, Inc., a Delaware corporation and a wholly owned subsidiary of the Parent, or the Merger Sub. The Merger Agreement provides for the merger of the Merger Sub with and into us, which we refer to herein as the Merger, with us surviving the Merger as a wholly owned subsidiary of the Parent. The Parent and the Merger Sub are owned by funds managed by affiliates of Clearlake Capital Group, L.P. If the Merger is completed, each share of our common stock issued and outstanding immediately prior to the effective time of the Merger, subject to certain exceptions, will be converted into the right to receive \$9.50 in cash. The transaction is subject to certain conditions, including the adoption of the Merger Agreement and approval of the Merger by our stockholders, as well as the expiration or termination of applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. Subject to the satisfaction of these conditions, the parties expect the Merger to close in the first quarter of 2021.

For additional information related to the Merger Agreement, we refer you to our Current Report on Form 8-K filed with the Securities and Exchange Commission on November 2, 2020, which includes the full text of the Merger Agreement as Exhibit 2.1.

## 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 September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
(in thousands, except ARPS)				
<b>Consolidated metrics:</b>				
Total subscribers	4,780	4,965	4,780	4,965
Average subscribers for the period	4,774	4,921	4,791	4,865
ARPS	\$ 19.35	\$ 18.86	\$ 19.39	\$ 18.83
Adjusted EBITDA	\$ 80,627	\$ 78,745	\$ 235,470	\$ 235,216
<b>Web presence segment metrics:</b>				
Total subscribers	4,289	4,493	4,289	4,493
Average subscribers for the period	4,283	4,449	4,298	4,395
ARPS	\$ 13.57	\$ 13.34	\$ 13.65	\$ 13.37
Adjusted EBITDA	\$ 34,466	\$ 38,911	\$ 104,880	\$ 115,182
<b>Digital marketing segment metrics:</b>				
Total subscribers	491	472	491	472
Average subscribers for the period	491	472	493	470
ARPS	\$ 69.79	\$ 70.81	\$ 69.40	\$ 69.91
Adjusted EBITDA	\$ 46,161	\$ 39,834	\$ 130,590	\$ 120,034

### 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, our Ecomdash inventory management and marketplace listing solution, which we acquired in the quarter ended September 30, 2019, and our Retention Science solution, which we acquired in the quarter ended September 30, 2020. 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 September 30, 2020:

	Web presence # Subscribers	Digital marketing # Subscribers	Total # Subscribers
	(in thousands)		
<b>Total Subscribers - September 30, 2019</b>	4,289	491	4,780
Adjustments	(6)	—	(6)
Acquisitions	—	—	—
Dispositions	—	(23)	(23)
Net subscriber increase	210	4	214
<b>Total Subscribers - September 30, 2020</b>	4,493	472	4,965

The increase in total subscribers from 4.780 million at September 30, 2019 to 4.965 million at September 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
	(in thousands, except ARPS)			
Consolidated revenue	\$ 277,193	\$ 278,426	\$ 836,080	\$ 824,607
Consolidated total subscribers	4,780	4,965	4,780	4,965
Consolidated average subscribers for the period	4,774	4,921	4,791	4,865
<b>Consolidated ARPS</b>	<b>\$ 19.35</b>	<b>\$ 18.86</b>	<b>\$ 19.39</b>	<b>\$ 18.83</b>
Web presence revenue	\$ 174,428	\$ 178,064	\$ 528,096	\$ 528,714
Web presence subscribers	4,289	4,493	4,289	4,493
Web presence average subscribers for the period	4,283	4,449	4,298	4,395
<b>Web presence ARPS</b>	<b>\$ 13.57</b>	<b>\$ 13.34</b>	<b>\$ 13.65</b>	<b>\$ 13.37</b>
Digital marketing revenue	\$ 102,765	\$ 100,362	\$ 307,984	\$ 295,893
Digital marketing subscribers	491	472	491	472
Digital marketing average subscribers for the period	491	472	493	470
<b>Digital marketing ARPS</b>	<b>\$ 69.79</b>	<b>\$ 70.81</b>	<b>\$ 69.40</b>	<b>\$ 69.91</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 nine months ended September 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. ARPS for our Retention Science business, which has a subscriber base that includes large enterprise customers, is significantly higher than for the rest of our business.

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

For the three months ended September 30, 2019 and 2020, consolidated ARPS decreased from \$19.35 to \$18.86, respectively. This decrease in ARPS was driven by a decrease in ARPS in our web presence segment, partially offset by a slight increase in ARPS in our digital marketing segment.

Web presence ARPS decreased from \$13.57 for the three months ended September 30, 2019 to \$13.34 for the three months ended September 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 September 30, 2019 and at approximately \$7.7 million for the three months ended September 30, 2020, causing ARPS to decrease by \$0.02.

Digital marketing ARPS increased from \$69.79 for the three months ended September 30, 2019 to \$70.81 for the three months ended September 30, 2020. This increase was due to increased purchases from existing subscribers and an increase in revenue from our Retention Science and Ecomdash acquisitions, which contributed a total of \$1.6 million of revenue in the three months ended September 30, 2020. These factors more than offset the decrease in revenue from the sale of SinglePlatform, which contributed \$6.8 million of revenue in the three months ended September 30, 2019.

#### Comparison of Nine Months Ended September 30, 2019 and 2020: ARPS

For the nine months ended September 30, 2019 and 2020, consolidated ARPS decreased from \$19.39 to \$18.83, 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 \$13.65 for the nine months ended September 30, 2019 to \$13.37 for the nine months ended September 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 \$23.5 million for the nine months ended September 30, 2019 to \$22.2 million for the nine months ended September 30, 2020, which caused ARPS to decrease by \$0.04.

Digital marketing ARPS increased from \$69.40 for the nine months ended September 30, 2019 to \$69.91 for the nine months ended September 30, 2020. This increase was due to increased purchases from existing subscribers and an increase in revenue from our Retention Science and Ecomdash acquisitions, which contributed a total of \$2.6 million of revenue in the nine months ended September 30, 2020. These factors more than offset the decrease in revenue from the sale of SinglePlatform, which contributed \$20.6 million of revenue in the nine months ended September 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 income (loss) calculated in accordance with GAAP to adjusted EBITDA for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
	(in thousands)			
<b>Consolidated</b>				
Net income (loss)	\$ 7,816	\$ 6,674	\$ (21,900)	\$ 9,028
Interest expense, net <sup>(1)</sup>	35,752	29,806	109,398	93,394
Income tax (benefit) expense	(4,839)	1,587	3,040	13,299
Depreciation	11,280	12,824	33,385	38,266
Amortization of other intangible assets	21,668	17,813	64,137	52,406
Stock-based compensation	9,143	9,547	27,513	28,978
Restructuring expenses	(193)	33	2,005	1,749
Gain on sale of intangible assets	—	—	—	(2,365)
Gain on sale of business	—	—	—	—
Transaction expenses and charges	—	461	—	461
Impairment of goodwill and other long-lived assets	—	—	17,892	—
Shareholder litigation reserve	—	—	—	—
Adjusted EBITDA	\$ 80,627	\$ 78,745	\$ 235,470	\$ 235,216



	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
<b>Web presence</b>	(in thousands)			
Net loss	\$ (4,730)	\$ (27)	\$ (44,548)	\$ (9,277)
Interest expense, net <sup>(1)</sup>	17,153	13,952	54,295	44,422
Income tax (benefit) expense	(3,044)	1,015	1,938	8,551
Depreciation	9,166	10,312	26,718	31,099
Amortization of other intangible assets	10,115	7,653	29,893	22,804
Stock-based compensation	5,842	6,006	17,907	18,916
Restructuring expenses	(36)	—	785	1,032
Gain on sale of intangible assets	—	—	—	(2,365)
Gain on sale of business	—	—	—	—
Transaction expenses and charges	—	—	—	—
Impairment of goodwill and other long-lived assets	—	—	17,892	—
Shareholder litigation reserve	—	—	—	—
Adjusted EBITDA	\$ 34,466	\$ 38,911	\$ 104,880	\$ 115,182

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
<b>Digital marketing</b>	(in thousands)			
Net income	\$ 12,546	\$ 6,701	\$ 22,648	\$ 18,305
Interest expense, net <sup>(1)</sup>	18,599	15,854	55,103	48,972
Income tax (benefit) expense	(1,795)	572	1,102	4,748
Depreciation	2,114	2,512	6,667	7,167
Amortization of other intangible assets	11,553	10,160	34,244	29,602
Stock-based compensation	3,301	3,541	9,606	10,062
Restructuring expenses	(157)	33	1,220	717
Gain on sale of intangible assets	—	—	—	—
Gain on sale of business	—	—	—	—
Transaction expenses and charges	—	461	—	461
Impairment of goodwill and other long-lived assets	—	—	—	—
Shareholder litigation reserve	—	—	—	—
Adjusted EBITDA	\$ 46,161	\$ 39,834	\$ 130,590	\$ 120,034

<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 September 30, 2019 and 2020: Net Income (Loss) and Adjusted EBITDA

Net income on a consolidated basis decreased from \$7.8 million for the three months ended September 30, 2019 to \$6.7 million for the three months ended September 30, 2020. The primary factors driving this decrease in net income were the following: higher income taxes of \$6.4 million; a \$4.7 million increase in costs impacting sales and marketing expense; a \$1.5 million increase in depreciation expense; \$0.5 million of transaction costs relating to our acquisition of Retention Science incurred in the third quarter of 2020; a \$0.4 million increase in stock-based compensation expense; and a \$0.2 million increase in restructuring costs. These decreases in net income were partially offset by a \$5.9 million reduction in interest expense; a \$3.9 million reduction in amortization expense; a \$1.7 million decrease in costs impacting cost of revenue; and increased revenue of \$1.2 million.

Net loss for our web presence segment improved from \$4.7 million for the three months ended September 30, 2019 to \$0.0 million for the three months ended September 30, 2020. This improvement in net loss was primarily related to the following factors: a \$3.6 million increase in revenue; a \$3.2 million reduction in interest expense; a \$2.5 million reduction in amortization expense; a \$1.9 million reduction in costs impacting engineering and development expense; a \$1.3 million reduction in costs impacting cost of revenue; and a \$0.3 million reduction in costs impacting general and administrative

expense. These improvements in net loss were partially offset by higher income taxes of \$4.1 million; a \$2.7 million increase in costs impacting sales and marketing expense; a \$1.1 million increase in depreciation expense; and a \$0.2 million increase in stock-based compensation expense.

Net income for our digital marketing segment decreased from \$12.5 million for the three months ended September 30, 2019 to \$6.7 million for the three months ended September 30, 2020. This decrease in net income was primarily due to the following factors: a \$2.4 million decline in revenue, primarily due to the sale of SinglePlatform, partially offset by increased purchases from existing customers; higher income taxes of \$2.4 million; a \$2.0 million increase in costs impacting sales and marketing expense; a \$2.0 million increase in costs impacting engineering and development expense; \$0.5 million of transactions costs relating to our acquisition of Retention Science in the third quarter of 2020; a \$0.4 million increase in depreciation expense; and other net cost increases. These declines in net income were partially offset by a \$2.7 million decrease in interest expense; a \$1.4 million decrease in amortization expense; and a \$0.4 million decrease in costs impacting cost of revenue.

Adjusted EBITDA on a consolidated basis decreased from \$80.6 million for the three months ended September 30, 2019 to \$78.7 million for the three months ended September 30, 2020. This decrease in adjusted EBITDA was a result of the adjusted EBITDA decrease in our digital marketing segment, partially offset by an increase in adjusted EBITDA in our web presence segment, as discussed below.

Adjusted EBITDA for our web presence segment increased from \$34.5 million for the three months ended September 30, 2019 to \$38.9 million for the three months ended September 30, 2020. This increase was primarily due to a \$3.6 million increase in revenue; a \$1.9 million decrease in costs impacting engineering and development expense; and a \$1.3 million decrease in costs impacting cost of revenue. These increases in adjusted EBITDA were partially offset by a \$2.7 million increase in costs impacting sales and marketing expense.

Adjusted EBITDA for our digital marketing segment decreased from \$46.2 million for the three months ended September 30, 2019 to \$39.8 million for the three months ended September 30, 2020. This decrease was primarily due to a decrease in revenue of \$2.4 million due to the sale of SinglePlatform, which contributed \$1.1 million of Adjusted EBITDA in the three months ended September 30, 2019, and to investments in engineering and development programs and sales and marketing programs. These declines in adjusted EBITDA were partially offset by reductions in costs impacting cost of revenue.

These year over year changes in adjusted EBITDA reflect the impact of the COVID-19 pandemic. COVID-19 resulted in 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 Nine Months Ended September 30, 2019 and 2020: Net Income (Loss) and Adjusted EBITDA**

Net income on a consolidated basis improved from a loss of \$21.9 million for the nine months ended September 30, 2019 to net income of \$9.0 million for the nine months ended September 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 \$16.0 million reduction in interest expense; a \$12.1 million reduction in costs impacting cost of revenue; an \$11.7 million reduction in amortization expense; a \$4.9 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; and a \$0.3 million reduction in restructuring costs. These improvements in net income were partially offset by an \$11.5 million reduction in revenue, primarily due to the sale of SinglePlatform, which had contributed \$20.6 million in revenue in the nine months ended September 30, 2019; higher income taxes of \$10.3 million; a \$4.9 million increase in depreciation expense; a \$3.0 million increase in costs impacting engineering and development expense; a \$2.8 million increase in costs impacting sales and marketing expense; a \$1.5 million increase in stock-based compensation expense; and \$0.5 million of transaction costs incurred in 2020 relating to our acquisition of Retention Science.

Net loss for our web presence segment decreased from \$44.5 million for the nine months ended September 30, 2019 to \$9.3 million for the nine months ended September 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; a \$9.9 million reduction in interest expense; a \$9.3 million reduction in costs impacting cost of revenue; a \$7.1 million reduction in amortization expense; a \$2.6 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 \$0.8 million reduction in costs impacting engineering and development expense; and higher revenue of \$0.6 million. These improvements in net loss were partially offset by higher income taxes of \$6.6 million; higher depreciation expense of \$4.4 million; higher costs impacting sales and marketing expense of \$3.1 million; and higher stock-based compensation expense of \$1.0 million.

Net income for our digital marketing segment decreased from \$22.6 million for the nine months ended September 30, 2019 to \$18.3 million for the nine months ended September 30, 2020. This decrease in net income was primarily due to a \$12.1 million decline in revenue, due primarily to the sale of SinglePlatform, which contributed \$20.6 million in revenue in the nine

months ended September 30, 2019, partially offset by increased sales to existing customers; a \$3.8 million increase in costs impacting engineering and development expense; higher income taxes of \$3.6 million; higher depreciation expense of \$0.5 million; higher stock-based compensation expense of \$0.5 million; and higher transaction costs of \$0.5 million relating to our acquisition of Retention Science. These decreases in net income were partially offset by a \$6.1 million reduction in interest expense; a \$4.6 million reduction in amortization expense; a \$2.8 million reduction in costs impacting cost of revenue; a \$2.2 million reduction in costs impacting general and administrative expense; a \$0.5 million reduction in restructuring costs; and a \$0.3 million reduction in costs impacting sales and marketing.

Adjusted EBITDA on a consolidated basis decreased slightly from \$235.5 million for the nine months ended September 30, 2019 to \$235.2 million for the nine months ended September 30, 2020. This slight decrease was a result of the adjusted EBITDA decrease in our digital marketing segment, partially offset by the adjusted EBITDA increase in our web presence segment, as discussed below.

Adjusted EBITDA for our web presence segment increased from \$104.9 million for the nine months ended September 30, 2019 to \$115.2 million for the nine months ended September 30, 2020. This increase was primarily due to a \$9.3 million reduction in costs impacting cost of revenue; a \$2.6 million reduction in costs impacting general and administrative expense; a \$0.8 million reduction in costs impacting engineering and development expense; and a \$0.6 million increase in revenue. These factors were partially offset by a \$3.1 million increase in costs impacting sales and marketing.

Adjusted EBITDA for our digital marketing segment decreased from \$130.6 million for the nine months ended September 30, 2019 to \$120.0 million for the nine months ended September 30, 2020. This decrease was primarily due to a \$12.1 million decline in revenue, primarily resulting from the sale of SinglePlatform, as well as to a \$3.8 million increase in costs impacting engineering and development expense, partially due to a shifting of resources from web presence brands to digital marketing brands. These factors were partially offset by a \$2.8 million decline in costs impacting cost of revenue; a \$2.2 million decline in costs impacting general and administrative expense; and a \$0.3 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. 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.

### **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.

### **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.

### ***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 September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
	(in thousands)			
Revenue	\$ 277,193	\$ 278,426	\$ 836,080	\$ 824,607
Cost of revenue (including impairment of \$0 and \$17,892, respectively, for the three and nine months ended September 30, 2019)	120,755	116,662	384,196	345,991
Gross profit	156,438	161,764	451,884	478,616
Operating expense:				
Sales and marketing	59,143	63,651	191,221	193,904
Engineering and development	28,257	28,425	77,299	79,958
General and administrative	30,309	31,160	92,826	90,937
Gain on sale of intangible assets	—	—	—	(2,365)
Transaction expenses	—	461	—	461
Total operating expense	117,709	123,697	361,346	362,895
Income from operations	38,729	38,067	90,538	115,721
Other income (expense):				
Interest income	305	153	910	485
Interest expense	(36,057)	(29,959)	(110,308)	(93,879)
Total other expense—net	(35,752)	(29,806)	(109,398)	(93,394)
Income (loss) before income taxes and equity earnings of unconsolidated entities	2,977	8,261	(18,860)	22,327
Income tax (benefit) expense	(4,839)	1,587	3,040	13,299
Net income (loss)	\$ 7,816	\$ 6,674	\$ (21,900)	\$ 9,028

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

#### Revenue

	Three Months Ended September 30,		Change	
	2019	2020	Amount	%
	(dollars in thousands)			
Revenue	\$ 277,193	\$ 278,426	\$ 1,233	—%

Revenue increased by \$1.2 million, or 0%, from \$277.2 million for the three months ended September 30, 2019 to \$278.4 million for the three months ended September 30, 2020. This increase was attributable to a \$3.6 million increase in revenue from our web presence segment, partially offset by a \$2.4 million decline in revenue from our digital marketing segment, each of which are further discussed below.

Web presence segment revenue increased by \$3.6 million, or 2%, from \$174.4 million for the three months ended September 30, 2019 to \$178.1 million for the three months ended September 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 \$2.4 million, or 2%, from \$102.8 million for the three months ended September 30, 2019 to \$100.4 million for the three months ended September 30, 2020. This decrease was due to the sale of SinglePlatform, which contributed \$6.8 million of revenue in the third quarter of 2019, partially offset by increased purchases from existing subscribers, and an increase in revenue from the acquisitions of Retention Science, which we acquired on August 7, 2020, and Ecomdash, which we acquired on September 13, 2020.

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 September 30, 2019 to \$7.8 million, or 3% of total revenue, for the three months ended September 30, 2020, primarily due to decreases in marketing development funds revenue.

## Gross Profit

	Three Months Ended September 30,				Change	
	2019		2020		Amount	%
	Amount	% of Revenue	Amount	% of Revenue		
	(dollars in thousands)					
Gross profit	\$ 156,438	56 %	\$ 161,764	58 %	\$ 5,326	3 %

Gross profit increased by \$5.3 million, or 3%, from \$156.4 million for the three months ended September 30, 2019 to \$161.8 million for the three months ended September 30, 2020. This increase was primarily due to a \$6.1 million increase in our web presence segment gross profit, which was partially offset by a \$0.8 million decrease in gross profit from our digital marketing segment. Our gross profit as a percentage of revenue increased by two percentage points year over year, from 56% for the three months ended September 30, 2019 to 58% for the three months ended September 30, 2020.

Web presence segment gross profit increased by \$6.1 million, or 7%, from \$82.7 million for the three months ended September 30, 2019 to \$88.8 million for the three months ended September 30, 2020. This increase was primarily due an increase in web presence segment revenue, as described above, and to net cost decreases for costs impacting cost of revenue, including lower amortization expense. Our web presence gross profit as a percentage of revenue increased by three percentage points year over year, from 47% for the three months ended September 30, 2019 to 50% for the three months ended September 30, 2020.

Digital marketing segment gross profit decreased by \$0.8 million, or 1%, from \$73.8 million for the three months ended September 30, 2019 to \$73.0 million for the three months ended September 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 one percentage point year over year, from 72% for the three months ended September 30, 2019 to 73% for the three months ended September 30, 2020.

## Operating Expense

	Three Months Ended September 30,				Change	
	2019		2020		Amount	%
	Amount	% of Revenue	Amount	% of Revenue		
	(dollars in thousands)					
Sales and marketing	\$ 59,143	21 %	\$ 63,651	23 %	\$ 4,508	8 %
Engineering and development	28,257	10 %	28,425	10 %	168	1 %
General and administrative	30,309	11 %	31,160	11 %	851	3 %
Transaction expenses	—	— %	461	— %	461	100 %
Total	\$ 117,709	42 %	\$ 123,697	44 %	\$ 5,988	5 %

**Sales and Marketing.** Sales and marketing expense increased by \$4.5 million, or 8%, from \$59.1 million for the three months ended September 30, 2019 to \$63.7 million for the three months ended September 30, 2020. Web presence segment sales and marketing expense increased by \$2.6 million and digital marketing sales and marketing expense increased by \$1.9 million.

Sales and marketing expense for our web presence segment increased by approximately \$2.6 million, or 7%, from \$37.1 million for the three months ended September 30, 2019 to \$39.8 million for the three months ended September 30, 2020. This increase was primarily due to higher marketing program spend, partially offset by lower labor costs.

Sales and marketing expense for our digital marketing segment increased by \$1.9 million, or 8%, from \$22.0 million for the three months ended September 30, 2019 to \$23.9 million for the three months ended September 30, 2020. This increase was primarily due to higher marketing program spend and higher labor costs, partially offset by lower marketing costs due to the sale of SinglePlatform.

**Engineering and Development.** Engineering and development expense increased by \$0.2 million, or 1%, from \$28.3 million for the three months ended September 30, 2019 to \$28.4 million for the three months ended September 30, 2020. Digital marketing segment engineering and development increased by \$2.3 million, partially offset by a decrease in engineering and development expense in our web presence segment of \$2.1 million. 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. The decrease in engineering and development expense for web presence was primarily related to lower labor costs.

**General and Administrative.** General and administrative expense increased by \$0.9 million, or 3%, from \$30.3 million for the three months ended September 30, 2019 to \$31.2 million for the three months ended September 30, 2020. This increase was primarily due to an increase in stock-based compensation expense, partially offset by lower labor-related and facility-related costs. 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 remained relatively flat at approximately \$20.5 million for the three months ended September 30, 2019 and approximately \$20.5 million for the three months ended September 30, 2020, primarily due to higher stock based compensation expense, which was almost entirely offset by lower labor-related and facility-related costs. General and administrative expense for our digital marketing segment increased by \$0.8 million, or 9%, from \$9.8 million for the three months ended September 30, 2019 to \$10.6 million for the three months ended September 30, 2020, primarily due to higher labor-related costs, higher legal costs, and higher stock-based compensation expense, partially offset by lower costs due to the sale of SinglePlatform.

**Transaction Expenses.** We recorded \$0.5 million in transaction expenses relating to the acquisition of Retention Science in the three months ended September 30, 2020. No such expenses were recorded in the three months ended September 30, 2019.

#### Other Expense, Net

	Three Months Ended September 30,		Change	
	2019	2020	Amount	%
	(dollars in thousands)			
Other expense, net	\$ 35,752	\$ 29,806	\$ (5,946)	(17)%

Other expense, net decreased by \$5.9 million, or 17%, from \$35.8 million for the three months ended September 30, 2019 to \$29.8 million for the three months ended September 30, 2020. The decrease was attributable to \$5.9 million of decreased net interest expense, primarily due to lower average term loan balances and lower interest rates.

#### Income Tax (Benefit) Expense

	Three Months Ended September 30,		Change	
	2019	2020	Amount	%
	(dollars in thousands)			
Income tax (benefit) expense	\$ (4,839)	\$ 1,587	\$ 6,426	133%

For the three months ended September 30, 2019 and 2020, we recognized an income tax benefit of \$4.8 million and expense of \$1.6 million, respectively, in the consolidated statements of operations and comprehensive income (loss). The income tax expense for the three months ended September 30, 2020 was primarily attributable to a federal and state deferred tax expense of \$1.0 million and a federal and state current income tax expense of \$0.6 million. The income tax benefit for the three months ended September 30, 2019 was primarily attributable to a federal and state current income tax benefit of \$3.3 million, a foreign current tax benefit of \$1.1 million, and a federal and state deferred tax benefit of \$0.5 million, partially offset by a foreign deferred tax expense of \$0.1 million.

The increase in our income tax expense in the three months ended September 30, 2020 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 Nine Months Ended September 30, 2019 and 2020

##### Revenue

	Nine Months Ended September 30,		Change	
	2019	2020	Amount	%
	(dollars in thousands)			
Revenue	\$ 836,080	\$ 824,607	\$ (11,473)	(1)%



Revenue decreased by \$11.5 million, or 1%, from \$836.1 million for the nine months ended September 30, 2019 to \$824.6 million for the nine months ended September 30, 2020. This decrease was attributable to a decrease of \$12.1 million in revenue in our digital marketing segment, partially offset by an increase of \$0.6 million in revenue in our web presence segment.

Web presence segment revenue increased by \$0.6 million, or 0%, from \$528.1 million for the nine months ended September 30, 2019 to \$528.7 million for the nine months ended September 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 and by a \$1.3 million reduction in non-subscription-based revenue, due primarily to a decrease in marketing development funds revenue.

Digital marketing segment revenue decreased by \$12.1 million, or 4%, from \$308.0 million for the nine months ended September 30, 2019 to \$295.9 million for the nine months ended September 30, 2020. This decrease was primarily due to the sale of SinglePlatform, which contributed \$20.6 million of revenue in the nine months ended September 30, 2019, partially offset by increased purchases from existing subscribers, an increase in revenue from our acquisition of Retention Science on August 7, 2020, and revenue from Ecomdash, which we acquired on September 13, 2019.

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 \$24.0 million, or 3% of total revenue, for the nine months ended September 30, 2019 to \$22.4 million, or 3% of total revenue, for the nine months ended September 30, 2020, due primarily to a decrease in marketing development funds revenue.

### Gross Profit

	Nine Months Ended September 30,				Change	
	2019		2020			
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(dollars in thousands)					
Gross profit	\$ 451,884	54 %	\$ 478,616	58 %	\$ 26,732	6 %

Gross profit increased by \$26.7 million, or 6%, from \$451.9 million for the nine months ended September 30, 2019 to \$478.6 million for the nine months ended September 30, 2020. Web presence gross profit increased by \$31.0 million, partially offset by a decrease in digital marketing gross profit of \$4.3 million. Our gross profit as a percentage of revenue increased by four percentage points from 54% for the nine months ended September 30, 2019 to 58% for the nine months ended September 30, 2020.

Web presence segment gross profit increased by \$31.0 million, or 13%, from \$230.5 million for the nine months ended September 30, 2019 to \$261.5 million for the nine months ended September 30, 2020. This increase was primarily due to a \$30.4 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 nine months ended September 30, 2019, a \$7.1 million reduction in amortization expense, other cost decreases, and a \$0.6 million increase in revenue, as described above. Our web presence gross profit as a percentage of revenue increased by five percentage points year over year, from 44% for the nine months ended September 30, 2019 to 49% for the nine months ended September 30, 2020. This increase in gross profit percentage was 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 \$4.3 million, or 2%, from \$221.4 million for the nine months ended September 30, 2019 to \$217.1 million for the nine months ended September 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 one percentage point year over year, from 72% for the nine months ended September 30, 2019 to 73% for the nine months ended September 30, 2020. This increase was primarily the result of the reduction in cost of revenue.

### Operating Expense

	Nine Months Ended September 30,				Change	
	2019		2020		Amount	%
	Amount	% of Revenue	Amount	% of Revenue		
	(dollars in thousands)					
Sales and marketing	\$ 191,221	23 %	\$ 193,904	24 %	\$ 2,683	1 %
Engineering and development	77,299	9 %	79,958	10 %	2,659	3 %
General and administrative	92,826	11 %	90,937	11 %	(1,889)	(2)%
Gain on sale of intangible assets	—	— %	(2,365)	— %	(2,365)	100 %
Transaction expenses	—	— %	461	— %	461	100 %
Total	<u>\$ 361,346</u>	<u>43 %</u>	<u>\$ 362,895</u>	<u>44 %</u>	<u>\$ 1,549</u>	<u>— %</u>

**Sales and Marketing.** Sales and marketing expense increased by \$2.7 million, or 1%, from \$191.2 million for the nine months ended September 30, 2019 to \$193.9 million for the nine months ended September 30, 2020. This increase was due to higher sales and marketing expense in our web presence segment, partially offset by lower sales and marketing expense in our digital marketing segment, as further discussed below.

Sales and marketing expense for our web presence segment increased by \$3.0 million, or 3%, from \$115.4 million for the nine months ended September 30, 2019 to \$118.4 million for the nine months ended September 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 \$0.3 million, or 0%, from \$75.8 million for the nine months ended September 30, 2019 to \$75.5 million for the nine months ended September 30, 2020. This decrease was primarily due to the sale of SinglePlatform, partially offset by higher product marketing spend and labor-related costs.

**Engineering and Development.** Engineering and development expense increased by \$2.7 million, or 3%, from \$77.3 million for the nine months ended September 30, 2019 to \$80.0 million for the nine months ended September 30, 2020. Web presence segment engineering and development expense decreased by \$0.8 million and digital marketing segment engineering and development expense increased by \$3.5 million. The cost increase in our digital marketing segment engineering and development expense was primarily related to higher labor costs as we continue to invest in our engineering and development resources, partially offset by lower costs due to the sale of SinglePlatform and lower stock-based compensation expense. The cost decrease in our web presence segment engineering and development expense was primarily related to lower labor costs and lower stock-based compensation expense.

**General and Administrative.** General and administrative expense decreased by \$1.9 million, or 2%, from \$92.8 million for the nine months ended September 30, 2019 to \$90.9 million for the nine months ended September 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 two segments primarily based on relative revenues.

General and administrative expense for our web presence segment decreased by \$0.8 million, or 1%, from \$61.3 million for the nine months ended September 30, 2019 to \$60.5 million for the nine months ended September 30, 2020. General and administrative expense for our digital marketing segment decreased by approximately \$1.1 million, or 4%, from \$31.6 million for the nine months ended September 30, 2019 to \$30.4 million for the nine months ended September 30, 2020.

**Gain on Sale of Intangible Assets.** We recorded a \$2.4 million gain on the sale of certain intangible assets in the nine months ended September 30, 2020. No such sale took place in the nine months ended September 30, 2019.

**Transaction Expenses.** We recorded \$0.5 million in transaction expenses relating to the acquisition of Retention Science in the nine months ended September 30, 2020. No such expenses were recorded in the nine months ended September 30, 2019.

#### Other Expense, Net

	Nine Months Ended September 30,				Change	
	2019		2020		Amount	%
	Amount	% of Revenue	Amount	% of Revenue		
	(dollars in thousands)					
Other expense, net	\$ 109,398		\$ 93,394		\$ (16,004)	(15)%

Other expense, net decreased by \$16.0 million, or 15%, from \$109.4 million for the nine months ended September 30, 2019 to \$93.4 million for the nine months ended September 30, 2020. The decrease was attributable to \$16.0 million of decreased net interest expense, primarily due to lower average term loan balances and lower interest rates.

#### Income Tax Expense

	Nine Months Ended September 30,		Change	
	2019	2020	Amount	%
	(dollars in thousands)			
Income tax expense	\$ 3,040	\$ 13,299	\$ 10,259	337 %

For the nine months ended September 30, 2019 and 2020, we recognized a tax expense of \$3.0 million and \$13.3 million, respectively, in the consolidated statements of operations and comprehensive income (loss). The income tax expense for the nine months ended September 30, 2020 was attributable to a federal and state deferred tax expense of \$6.6 million, a federal and state current income tax expense of \$4.2 million, and a foreign current tax expense of \$2.7 million, partially offset by a foreign deferred tax benefit of \$0.2 million. The income tax expense for the nine months ended September 30, 2019 was primarily attributable to a federal and state deferred tax expense of \$2.0 million, a federal and state current income tax expense of \$0.6 million, and a foreign current tax expense of \$0.5 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 nine months ended September 30, 2020, we made three mandatory repayments of \$7.9 million each, for a total repayment of \$23.7 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 nine months ended September 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 September 30, 2020, we had cash and cash equivalents totaling \$167.3 million and negative working capital of \$243.4 million, which included the \$31.6 million current portion of the Term Loan. There was no balance outstanding on the Revolver as of September 30, 2020. In addition, we had approximately \$1,643.4 million of long-term indebtedness, including deferred financing costs, outstanding under the Term Loan and the Senior Notes. We also had \$493.9 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 \$26.9 million to \$77.0 million. 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 September 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 September 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 September 30, 2020, our secured net leverage ratio on a TTM basis was 3.61 to 1.00 and was calculated as follows:

	<b>For the three months ended,</b>				
	<b>December 31, 2019</b>	<b>March 31, 2020</b>	<b>June 30, 2020</b>	<b>September 30, 2020</b>	<b>TTM</b>
	<b>(in thousands, except ratios)</b>				
Net income (loss)	\$ 9,553	\$ (2,244)	\$ 4,598	\$ 6,674	\$ 18,581
Interest expense	34,368	32,734	31,186	29,959	128,247
Income tax expense	14,839	669	11,043	1,587	28,138
Depreciation	11,566	12,696	12,746	12,824	49,832
Amortization of other intangible assets	21,046	17,311	17,282	17,813	73,452
Stock-based compensation	8,179	9,836	9,595	9,547	37,157
Integration and restructuring costs	(13)	1,682	34	33	1,736
Transaction expenses and charges	—	—	—	461	461
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	(3,962)	9	41	(182)	(4,094)
Billed revenue to GAAP revenue adjustment	(4,065)	13,073	7,446	7,043	23,497
Adjustment for domain registration cost on a cash basis	1,163	(2,527)	(2,200)	(1,126)	(4,690)
Currency translation	18	185	189	254	646
Adjustment for acquisitions on a proforma basis	(143)	(303)	(303)	(120)	(869)
Adjustment for dispositions on a proforma basis	(326)	—	—	—	(326)
Bank Adjusted EBITDA	<u>\$ 71,171</u>	<u>\$ 83,121</u>	<u>\$ 89,292</u>	<u>\$ 84,767</u>	<u>\$ 328,351</u>
Current portion of notes payable					31,606
Current portion of financed equipment					2,447
Notes payable - long term					1,623,171
Financed equipment - long term					202
Original issue discounts and deferred financing costs					33,311
Less:					
Unsecured notes					(337,770)
Cash					(167,315)
Certain permitted restricted cash					—
Net senior secured indebtedness					<u>\$ 1,185,652</u>
Net leverage ratio					3.61
Maximum net leverage ratio					6.00

### **Cash and Cash Equivalents**

As of September 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 approximately \$56.1 million during the nine months ended September 30, 2020, from \$111.3 million at December 31, 2019 to \$167.3 million at September 30, 2020. Of the \$167.3 million cash and cash equivalents we had at September 30, 2020, \$37.9 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 Retention Science in August 2020, 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:

	<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2020</b>
	<b>(in thousands)</b>	
Purchases of property and equipment	\$ (26,796)	\$ (30,273)
Principal payments on financed equipment	(6,332)	(4,723)
Depreciation	33,385	38,266
Amortization	72,947	62,174
Impairment of long-lived assets	17,892	—
Cash flows provided by operating activities	115,680	157,232
Cash flows used in investing activities	(35,670)	(44,566)
Cash flows used in financing activities	(83,806)	(56,097)

### **Capital Expenditures**

Our capital expenditures on the purchase of property and equipment for the nine months ended September 30, 2019 and 2020 were \$26.8 million and \$30.3 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 \$2.6 million as of September 30, 2020.

### **Depreciation**

Our depreciation expense for the nine months ended September 30, 2019 and 2020 increased by \$4.9 million from \$33.4 million to \$38.3 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 original issue discounts, amortization of deferred financing costs, and amortization of net present value of deferred consideration, decreased by approximately \$10.8 million from \$72.9 million for the nine months ended September 30, 2019 to \$62.2 million for the nine months ended September 30, 2020. Of this decrease in amortization expense, \$11.7 million related to lower amortization expense of intangible assets relating to businesses and assets acquired. This decrease was partially offset by an increase of \$0.4 million relating to increased amortization of deferred financing costs, an increase of \$0.3 million relating to amortization of original issue discounts related to our Senior Credit Facilities, and an increase of \$0.2 million relating to amortization of net present value of deferred consideration.

### **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 \$115.7 million for the nine months ended September 30, 2019 to \$157.2 million for the nine months ended September 30, 2020. This increase was primarily the result of higher billings; lower interest payments due to lower debt balances and lower interest rates; the timing of vendor payments; and a \$5.8 million payment in 2019 to settle a securities class action lawsuit. These increases in net cash provided by operating activities were partially offset by higher payments for taxes during 2020; and higher payments for certain expenses, including prepaid domain registry fees and prepaid commissions.

### 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 nine months ended September 30, 2019 and 2020, net cash used in investing activities was \$35.7 million and \$44.6 million, respectively, which was used to purchase property and equipment and to acquire Retention Science. Included in the net cash used in investing activities in the nine months ended September 30, 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 nine months ended September 30, 2020, cash flows used in financing activities was \$56.1 million. We paid \$14.4 million for the repurchase of shares of our common stock under our share repurchase program. We paid \$23.7 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 \$4.7 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 nine months ended September 30, 2019, cash flows used in financing activities was \$83.8 million. We paid \$75.0 million of principal payments related to our Term Loan. Included in the \$75.0 million were mandatory repayments of \$23.7 million and voluntary prepayments of \$51.3 million. We also made \$6.3 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 September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
	(in thousands)			
Cash flows from operations	\$ 40,951	\$ 54,569	\$ 115,680	\$ 157,232
Less:				
Capital expenditures and financed equipment obligations <sup>(1)</sup>	(13,103)	(12,013)	(33,128)	(34,996)
Free cash flow	\$ 27,848	\$ 42,556	\$ 82,552	\$ 122,236

(1) Capital expenditures during the three and nine months ended September 30, 2019 includes \$2.5 million and \$6.3 million, respectively, of principal payments under a three-year agreement for equipment financing. Capital expenditures during the three and nine months ended September 30, 2020 includes \$1.7 million and \$4.7 million, respectively, of principal payments under a three-year agreement for equipment financing. The remaining balance on the equipment financing is \$2.6 million as of September 30, 2020.



FCF increased by approximately \$14.7 million, from \$27.8 million for the three months ended September 30, 2019 to \$42.6 million for the three months ended September 30, 2020. FCF was favorably impacted mainly due to the following factors: a \$6.5 million increase in our deferred revenue balance due to higher billings; a decrease in other expenses, including a \$7.4 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 and higher payments for certain prepaid expenses, including prepaid deferred domain registry fees and prepaid commissions.

FCF increased by approximately \$39.7 million, from \$82.6 million for the nine months ended September 30, 2019 to \$122.2 million for the nine months ended September 30, 2020. FCF was favorably impacted by higher billings; lower interest payments due to lower debt balances and lower interest rates, and the timing of certain payments. In addition, we paid \$5.8 million in the nine months ended September 30, 2019 to settle a securities class action lawsuit. These increases in FCF were partially offset by higher payments for taxes; higher purchases of property and equipment; and higher payments for certain expenses, including prepaid domain registry fees and prepaid commissions during the nine months ended September 30, 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.

<b>Jurisdiction</b>	<b>Amount</b>	<b>Year Loss Carry-forwards Expire</b>
	<b>(in millions)</b>	
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
<b>Total NOL carry-forwards</b>	<b>\$ 123.6</b>	
Domestic		
Federal	\$ 25.2	2034
State	15.5	various dates
<b>Total tax credit carry-forwards</b>	<b>\$ 40.7</b>	
<b>Total tax attributes available</b>	<b>\$ 164.3</b>	

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 September 30, 2020:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt and lease obligations:					
Principal payments on term loan facility and notes	\$ 1,688,088	\$ 31,606	\$ 1,318,712	\$ 337,770	\$ —
Principal payments on lease obligations	109,618	23,427	41,794	44,397	—
Total principal payments relating to our long-term debt and lease obligations	\$ 1,797,706	\$ 55,033	\$ 1,360,506	\$ 382,167	\$ —

## 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 \$167.3 million at September 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 September 30, 2020, we had approximately \$1,350.3 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 \$1,350.3 million as of September 30, 2020, a 100 basis point increase in the current LIBOR rate would result in a \$14.1 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 September 30, 2020 was approximately 0.23%, 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 September 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 September 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 nine months ended September 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.

### **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, and our Quarterly Report on Form 10-Q for the three months ended June 30, 2020, or the Second Quarter 10-Q, filed with the SEC on August 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, the First Quarter 10-Q and the Second 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 factors below together with the risk factors included in the 2019 Form 10-K, the First Quarter 10-Q and Second 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.

### **Risks Related to the Merger**

***Our proposed Merger may be delayed or not occur at all for a variety of reasons, including the possibility that the Merger Agreement is terminated prior to the completion of the Merger.***

On November 1, 2020, we entered into an Agreement and Plan of Merger, or the Merger Agreement, with Razorback Technology Intermediate Holdings, Inc., a Delaware corporation, or the Parent, and Razorback Technology, Inc., a Delaware corporation and a wholly owned subsidiary of the Parent, or the Merger Sub. The Parent and the Merger Sub are owned by funds managed by affiliates of Clearlake Capital Group, L.P. The Merger Agreement provides for the merger of the Merger Sub with and into us, which we refer to herein as the Merger, with us surviving the Merger as a wholly owned subsidiary of the Parent. Completion of the Merger is subject to customary closing conditions, including (i) approval of the Merger Agreement by our stockholders, (ii) the expiration or termination of applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (iii) the absence of governmental injunctions or other legal restraints prohibiting the Merger and (iv) the absence of a "Material Adverse Effect," as defined in the Merger Agreement. In addition, the obligation of each party to consummate the Merger is conditioned upon, among other things, the accuracy of the representations and warranties of the other party (subject to certain materiality exceptions), and material compliance by the other party with its covenants under the Merger Agreement. Therefore, the Merger may not be completed or may not be completed as quickly as expected.

Failure to complete the Merger could adversely affect our business and the market price of our common stock in a number of ways, including:

- the market price of our common stock may decline to the extent that the current market price reflects an assumption that the Merger will be consummated;
- if the Merger Agreement is terminated under certain circumstances specified in the Merger Agreement, we would be required to pay the Parent a termination fee of \$37,393,000 (including under specified circumstances in connection with our entry into an agreement with respect to a superior proposal);
- we have incurred, and will continue to incur, significant expenses for professional services in connection with the Merger for which we will have received little or no benefit if the Merger is not consummated; and
- a failed Merger may result in negative publicity and/or give a negative impression of us in the investment community or business community generally.

***The Merger could divert management's attention, disrupt our relationships with third parties and employees and result in negative publicity or legal proceedings, any of which could negatively impact our operating results and ongoing business.***

We have expended, and continue to expend, significant management time and resources in an effort to complete the Merger, which may have a negative impact on our ongoing business. Uncertainty regarding the outcome of the Merger and our future could disrupt our business relationships with our existing and potential customers, suppliers, vendors, landlords and other business partners, who may attempt to negotiate changes in existing business relationships or consider entering into business relationships with parties other than us. Uncertainty regarding the outcome of the Merger could also adversely affect our ability to recruit and retain key personnel and other employees. The pendency of the Merger may also result in negative publicity and a negative impression of us in the financial markets, and it may result in litigation against us and our directors and officers. Such litigation would likely be distracting to management and may require us to incur significant costs. In addition, litigation could result in the Merger being delayed and/or enjoined by a court of competent jurisdiction, which could prevent the Merger from becoming effective or becoming effective on the expected timeframe. The occurrence of any of these events individually or in combination could have a material and adverse effect on our business, financial condition and results of operations.

***While the Merger Agreement is in effect, we are subject to restrictions on our business activities.***

While the Merger Agreement is in effect, we are subject to restrictions on our business activities and must generally operate our business in the ordinary course, subject to certain exceptions. These restrictions could prevent us from pursuing attractive business opportunities that may arise prior to the consummation of the Merger. Although we may be able to pursue such activities with the Parent's consent, the Parent may not be willing to provide its consent for us to do so.

***If the Merger occurs, our stockholders will not be able to participate in any upside to our business.***

If the Merger is consummated, our stockholders will receive \$9.50 in cash per share, without interest and subject to applicable tax withholding, of our common stock owned by them, and will not receive any shares of the Parent's common stock. As a result, if our business following the Merger performs well, our current stockholders will not receive any additional consideration and will therefore not receive any benefit from any such future performance of our business.

***Litigation could delay and/or prevent the Merger from becoming effective or from becoming effective within the expected timeframe.***

We may be subject to litigation challenging the Merger. One of the conditions to the completion of the Merger is that no injunction by any governmental entity of competent jurisdiction, such as a court, will be in effect that prohibits or makes illegal the consummation of the Merger. As such, if any future plaintiffs are successful in obtaining an injunction prohibiting the consummation of the Merger, then such injunction may prevent the Merger from becoming effective or from becoming effective within the expected timeframe, either of which could substantially harm our business.

## ITEM 5. OTHER INFORMATION

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

Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13(r) to the Exchange Act, we are required to disclose in our annual or quarterly reports, as applicable, whether we or any of our affiliates knowingly engaged in certain activities, transactions or dealings relating to weapons of mass destruction proliferators and their supporters. Disclosure is generally required even where the activities, transactions or dealings were conducted in compliance with applicable law.

On October 16, 2020, our subsidiaries MyDomain, LLC (“MyDomain”) and HostGator.com LLC (“HostGator”) suspended the domain KATRANGI.COM (“Domain Name”) and an associated web hosting account, which they determined were potentially linked to Electronics Katrangi Trading (“Katrangi”), an entity designated by the Office of Foreign Assets Control as a Specially Designated National (“SDN”) pursuant to 31 C.F.R. Part 544. During the quarter ended September 30, 2020, HostGator collected a total of USD \$89.85 related to the account and MyDomain did not collect any fees. Neither the Domain Name nor the subscriber details for the MyDomain and HostGator accounts match the information on the SDN list. However, MyDomain and HostGator promptly suspended the Domain Name and the associated website and accounts upon discovering them on the Company’s platform. MyDomain and HostGator reported the Domain Name and the associated website to OFAC as property potentially associated with Katrangi subject to blocking pursuant to 31 C.F.R. Part 544.

## ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit	Form	Incorporated by Reference		Exhibit Number	Filed Herewith
			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	
2.4*	<a href="#">Agreement and Plan of Merger, dated as of November 1, 2020, by and among Razorback Technology Intermediate Holdings, Inc., Razorback Technology, Inc. and Endurance International Group Holdings, Inc.</a>	8-K	001-36131	November 2, 2020	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	
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.

**SIGNATURES**

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

ENDURANCE INTERNATIONAL GROUP HOLDINGS, INC.

Date: November 9, 2020

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

## 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: November 9, 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: November 9, 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 September 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: November 9, 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 September 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: November 9, 2020

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