UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018
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: 000-51595

Web.com Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**94-3327894**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
12808 Gran Bay Parkway, West, Jacksonville, FL	**32258**
(Address of principal executive offices)	**(Zip Code)**

(904) 680-6600
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
(Do not check if a 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

Common Stock, par value $0.001 per share, outstanding as of July 30, 2018: 50,069,055

Web.com Group, Inc.

Quarterly Report on Form 10-Q

For the Quarterly Period ended June 30, 2018

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

Web.com Group, Inc.
Consolidated Statements of Comprehensive Income
(in thousands, except per share amounts)
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2018	**2017**	**2018**	**2017**
Revenue	$ 186,690	$ 186,731	$ 373,431	$ 371,850
Cost of Revenue and operating expenses:				
Cost of revenue (excluding depreciation and amortization)	61,304	58,527	124,018	116,450
Sales and marketing	47,643	49,230	99,223	100,141
Technology and development	17,157	17,323	37,158	34,324
General and administrative	24,741	21,252	41,345	41,108
Restructuring expense	—	—	2,703	312
Asset impairment	193	—	286	143
Depreciation and amortization	17,475	17,401	34,989	35,834
Total cost of revenue and operating expenses	168,513	163,733	339,722	328,312
Income from operations	18,177	22,998	33,709	43,538
Interest expense, net	(8,334)	(8,146)	(17,094)	(16,036)
Loss from debt extinguishment	(497)	—	(497)	—
Net income before income taxes	9,346	14,852	16,118	27,502
Income tax expense	(3,134)	(6,806)	(5,328)	(12,940)
Net income	$ 6,212	$ 8,046	$ 10,790	$ 14,562
Other comprehensive income:				
Foreign currency translation adjustments	(1,951)	(624)	(2,016)	(25)
Unrealized gain on investments, net of tax	—	—	—	1
Total comprehensive income	$ 4,261	$ 7,422	$ 8,774	$ 14,538

See accompanying notes to consolidated financial statements

Web.com Group, Inc.

Consolidated Statements of Comprehensive Income
(in thousands, except per share amounts)
(unaudited)
(continued)

	Three months ended June 30,		Six months ended June 30,	
	2018	**2017**	**2018**	**2017**
Basic earnings per share:				
Net income per basic common share	$ 0.13	$ 0.16	$ 0.23	$ 0.30
Diluted earnings per share:				
Net income per diluted common share	$ 0.13	$ 0.16	$ 0.22	$ 0.29
Basic weighted average common shares outstanding	48,007	49,488	47,783	49,283
Diluted weighted average common shares outstanding	49,236	51,186	49,275	51,067

See accompanying notes to consolidated financial statements

Web.com Group, Inc.
Consolidated Balance Sheets
(in thousands, except share amounts)

	June 30, 2018	December 31, 2017
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 29,932	$ 11,976
Accounts receivable, net of allowance of $2,440 and $1,454, respectively	25,100	25,424
Prepaid expenses	15,726	10,220
Deferred expenses	65,716	63,267
Other current assets	5,425	3,054
Total current assets	141,899	113,941
Property and equipment, net	53,941	57,188
Deferred expenses	48,954	46,316
Goodwill	882,294	885,662
Intangible assets, net	346,716	371,571
Other assets	26,637	21,565
Total assets	$ 1,500,441	$ 1,496,243
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 18,081	$ 23,357
Accrued expenses	11,914	15,957
Accrued compensation and benefits	11,962	15,560
Deferred revenue	241,151	233,574
Current portion of debt	4,946	16,612
Deferred consideration	561	22,466
Other liabilities	10,092	6,321
Total current liabilities	298,707	333,847
Deferred revenue	186,200	185,886
Long-term debt	638,101	630,358
Deferred tax liabilities	55,918	51,042
Other long-term liabilities	19,755	20,474
Total liabilities	1,198,681	1,221,607
Stockholders' equity:		
Common stock, $0.001 par value per share: 150,000,000 shares authorized, 50,006,762 and 48,845,352 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	50	49
Additional paid-in capital	586,879	585,179
Treasury stock at cost, 3,731,243 and 4,305,221 shares at June 30, 2018 and December 31, 2017, respectively	(97,737)	(111,093)
Accumulated other comprehensive loss	(6,519)	(4,503)
Accumulated deficit	(180,913)	(194,996)
Total stockholders' equity	301,760	274,636
Total liabilities and stockholders' equity	$ 1,500,441	$ 1,496,243

See accompanying notes to consolidated financial statements

Web.com Group, Inc.
Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Six months ended June 30,	
	2018	**2017**
Cash flows from operating activities		
Net income	$ 10,790	$ 14,562
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from debt extinguishment	497	—
Depreciation and amortization	34,989	35,834
Stock based compensation	11,455	11,659
Deferred income taxes	4,175	11,176
Amortization of debt issuance costs and other	7,362	7,399
Loss on sale of assets	16	—
Asset impairment	286	143
Changes in operating assets and liabilities:		
Accounts receivable, net	(193)	986
Prepaid expenses and other assets	(9,934)	(5,216)
Deferred expenses	(998)	(1,535)
Accounts payable	(4,098)	(169)
Accrued expenses and other liabilities	(1,493)	347
Accrued compensation and benefits	(3,476)	(3,672)
Deferred revenue	9,090	5,452
Net cash provided by operating activities	58,468	76,966
Cash flows from investing activities		
Business acquisitions, net of cash acquired	(18)	(8,587)
Capital expenditures	(9,131)	(10,573)
Net cash used in investing activities	(9,149)	(19,160)
Cash flows from financing activities		
Stock issuance costs	(5)	(4)
Common stock repurchased	(4,206)	(3,559)
Payments of long-term debt	(115,025)	(27,954)
Payments of revolving credit facility	(24,000)	(56,313)
Proceeds from exercise of stock options	7,798	8,979
Deferred consideration payment	(22,000)	(18,933)
Proceeds from borrowings on long-term debt	115,291	50,000
Proceeds from borrowings on revolving credit facility	14,000	7,000
Debt issuance costs	(3,015)	(1,927)
Common stock purchases under stock repurchase plan	—	(2,081)
Net cash used in financing activities	(31,162)	(44,792)
Effect of exchange rate changes on cash	(200)	(12)
Net increase in cash and cash equivalents	17,957	13,002
Cash, cash equivalents, and restricted cash, beginning of period	16,886	25,773
Cash, cash equivalents, and restricted cash, end of period	$ 34,843	$ 38,775
Supplemental cash flow information		
Interest paid	$ 9,821	$ 8,812
Income taxes paid, net	$ 1,724	$ 1,573

See accompanying notes to consolidated financial statements

Certain reclassifications have been made to the previously presented financial statements to conform with the current year presentation

Web.com Group, Inc.
Notes to Consolidated Financial Statements
(unaudited)

1. The Company and Summary of Significant Accounting Policies

Description of Company

Web.com Group, Inc. ("Web.com" or the "Company") provides a full range of Internet services to small businesses to help them compete and succeed online. Web.com meets the needs of small businesses anywhere along their lifecycle with affordable, subscription-based solutions including domains and related security products, hosting, website design and management, search engine optimization, online marketing campaigns, local sales leads, social media, mobile products and eCommerce solutions sold through three sales channel groupings. Those sales channel groupings are referred to herein as retail, premium services and Web.com for enterprise. Each of these sales channel groupings generally corresponds to size and needs of the Company's customer base, with the retail channel grouping generally servicing smaller businesses or individual customers, premium services channel grouping generally servicing larger businesses with marketing budgets and Web.com for enterprise sales channel generally servicing multi-location or franchisor/franchisee customers. For more information about the Company, please visit http://www.web.com. The information obtained on or accessible through the Company's website is not incorporated into this Quarterly Report on Form 10-Q and you may not consider it a part of this Quarterly Report on Form 10-Q.

The Company has reviewed the criteria of Accounting Standards Codification ("ASC") 280-10, Segment Reporting, and has determined that the Company is comprised of only one segment, web services and products.

On January 31, 2017, the Company acquired 100% of the equity interests of Dattatec.com SRL ("DonWeb.com or DonWeb"), a hosting and domain registration company catering to the Spanish-speaking market, located in Rosario, Argentina. On November 1, 2017, the Company acquired certain assets and liabilities of Acquisio, Inc., a provider of online advertising management. See Note 3, *Business Combinations*, for additional information surrounding the acquisitions.

On June 20, 2018, the Company executed a Merger Agreement with Parker Private Holdings II, LLC subject to certain closing conditions for $25 per share of each common stock issued and outstanding immediately prior to the effective time of the agreement. The agreement provides for a go-shop period of forty-five days and remains in effect until August 5, 2018. A transaction is expected to be consummated in the fourth quarter of 2018.

Basis of Presentation

The accompanying consolidated balance sheet as of June 30, 2018, the consolidated statements of comprehensive income for the three and six months ended June 30, 2018 and 2017, the consolidated statements of cash flows for the six months ended June 30, 2018 and 2017, and the related notes to the consolidated financial statements are unaudited.

The unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements for the year ended December 31, 2017, except that certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or excluded as permitted.

In the opinion of management, the unaudited consolidated financial statements include all adjustments of a normal recurring nature necessary for the fair presentation of the Company’s financial position as of June 30, 2018, the Company’s results of operations and cash flows for the six months ended June 30, 2018 and 2017. The results of operations for the six months ended June 30, 2018, are not necessarily indicative of the results to be expected for the year ending December 31, 2018. The Company's results of operations and cash flows include Donweb.com and Acquisio from the acquisition dates through the respective period end dates.

Pursuant to the rules and regulations of the SEC, certain information and disclosures normally included in the notes to the annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been omitted from these interim financial statements. These financial statements should be read in conjunction with the audited financial statements and the notes included in the Company's most recent annual report on Form 10-K filed with the SEC on February 23, 2018, and any subsequently filed current reports on Form 8-K.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and bank demand deposit accounts. For purposes of presentation in the Consolidated Balance Sheets, the Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Short term restricted cash of $0.2 million and $0.3 million as of June 30, 2018 and December 31, 2017, respectively is included in other current assets. Long term restricted cash of $4.7 million and $4.6 million as of June 30, 2018 and December 31, 2017, is included in other long-term assets. The restricted cash is primarily to collateralize letters of credit in support of leases.

Cost of Revenue and Operating Expenses

Cost of Revenue

Cost of revenue consists of expenses related to compensation of our web page development staff, domain name registration costs, directory listing fees, eCommerce store design, online marketing costs for services provided, billing costs, hosting expenses, and allocated occupancy overhead costs. The Company allocates occupancy overhead costs such as rent and utilities to all departments based on headcount. Accordingly, general overhead expenses are reflected in each cost of revenue and operating expense category.

Sales and Marketing Expense

The Company's direct marketing expenses include the costs associated with the online marketing channels used to promote our services and acquire customers. These channels include search marketing, affiliate marketing and partnerships. Sales and marketing costs consist primarily of compensation and related expenses for our sales and marketing staff as well as our customer support staff and allocated occupancy overhead costs. Costs to acquire contracts where the average customer life is greater than one year are deferred and recognized over the average customer life. Sales and marketing expenses also include marketing programs, such as advertising, corporate sponsorships and other corporate events and communications.

Technology and development

Technology and development represents costs associated with creation, development and distribution of our products and websites. Technology and development expenses primarily consist of headcount-related costs associated with the design, development, deployment, testing, operation and enhancement of our products. Also included are costs associated with the data centers and all systems infrastructure costs supporting those products as well as all administrative platforms and allocated occupancy overhead costs.

General and Administrative Expense

General and administrative expenses consist of compensation and related expenses for executive, finance, and administration, as well as professional fees, corporate development costs, other corporate expenses, and allocated occupancy overhead costs.

Depreciation and Amortization Expense

Depreciation and amortization expenses relate primarily to the Company's intangible assets recorded due to the acquisitions it has completed, as well as depreciation expense from computer and other equipment, internally developed software, furniture and fixtures, and building and improvement expenditures.

Foreign Currency Translation

The functional currency of the Company’s Argentinian DonWeb operations and its United Kingdom-based operations is the Argentina Peso and British Pound, respectively. The Company translates the financial statements of these subsidiaries to U.S. dollars using month-end rates of exchange for assets and liabilities, historical rates of exchange for equity and average rates of exchange for revenues, costs, and expenses. Translation gains and losses are recorded in accumulated other comprehensive income (loss) as a component of stockholders’ equity.

In addition, the Company's foreign operations include a customer service center, technology center and outbound sales center in Canada and a technology center in Buenos Aires, Argentina. The Company records foreign currency transaction gains and losses, and remeasurement of local currencies of these foreign subsidiaries where the functional currency is different from the local foreign currency in the consolidated statements of comprehensive income.

New Accounting Standards

Recently Adopted Accounting Standards

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10), which addresses certain aspects of the recognition, measurement, presentation and disclosure of financial instruments. The Company adopted the standard and did so without material impact.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, addressing eight specific cash flow issues in an effort to reduce diversity in practice. The amended guidance is effective for fiscal years beginning after December 31, 2017, and for interim periods within those years. The Company early adopted this standard in fiscal 2017 with no impact.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than Inventory, which requires that entities recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. The Company adopted the standard in fiscal 2017 and did so without material impact.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The amended guidance is effective for fiscal years beginning after December 31, 2017, and for interim periods within those years. The Company elected to early adopt this standard in fiscal 2017 and has restated the statement of cash flows for the earliest period presented to conform with the retrospective application of the standard. There was no impact on the net change in cash, cash equivalents, and restricted cash in the statement of cash flows for the earliest period presented.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The new guidance clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The new guidance is effective for the Company beginning after January 1, 2018, including interim periods within those periods. The Company adopted this standard in fiscal 2017 and did so without material impact.

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting. The new guidance amends the scope of modification accounting for share-based payment arrangements and provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. The Company adopted the standard and did so without material impact.

In February 2018, the FASB issued ASU 2018-02, Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income that allows entities to reclassify from accumulated other comprehensive income to retained earnings stranded tax effects resulting from the Act. The Company adopted this standard without material impact.

In May 2014, the FASB and International Accounting Standards Board ("IASB") issued ASU 2014-09 Revenue from Contracts with Customers (Topic 606), a converged standard on revenue recognition which supersedes previous revenue recognition guidance. Some of the main areas of transition to the new standard include, among others, transfer of control (revenue is recognized when a customer obtains control of a good or service), allocation of transaction price is based on relative standalone selling price (entities that sell multiple goods or services in a single arrangement must allocate the consideration to each of those goods or services), contract costs (entities sometimes incur costs, such as sales commissions or mobilization activities, to obtain or fulfill a contract), and disclosures (extensive disclosures are required to provide greater insight into both revenue that has been recognized, and revenue that is expected to be recognized in the future from existing contracts). In August 2015, the FASB issued ASU 2015-14 Revenue from Contracts with Customers (Topic 606), Deferral of the Effective Date, which defers the effective date of the new standard by one year, resulting in the new standard being effective for fiscal years, and interim periods within those years, beginning after December 15, 2017 with early adoption as of the original effective date permitted. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net) and in April 2016, the FASB issued ASU 2016-10, Revenue from

Contracts with Customers: Identifying Performance Obligations and Licensing. Further in May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients. These standards clarify the guidance in ASU 2014-09 and have the same effective date as the original standard. The Company adopted the standard on January 1, 2018 using a modified retrospective approach with the cumulative effect of initially applying the standard recognized at the date of initial application inclusive of certain additional disclosures, as permitted under Topic 606. Refer to Note 2, *Revenues*, for further information on the impact of adoption.

Accounting Standards Issued Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize on the balance sheet a right-of-use asset, representing their right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing and uncertainty of cash flows arising from leases. The standard requires the use of a modified retrospective transition approach, which includes a number of optional practical expedients that entities may elect to apply. ASU 2016-02 is effective for the Company beginning January 1, 2019 and the Company is currently evaluating the impact that ASU 2016-02 will have on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The new guidance requires only a one-step quantitative impairment test, whereby a goodwill impairment loss will be measured as the excess of a reporting unit's carrying amount over its fair value (not to exceed the total goodwill allocated to that reporting unit). It eliminates Step 2 of the current two-step goodwill impairment test, under which a goodwill impairment loss is measured by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. For public companies, the amended guidance is effective for the Company beginning after January 1, 2020. The adoption of this standard is not expected to have a material impact on its consolidated financial statements or disclosures.

In July 2017, the FASB issued ASU 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities From Equity (Topic 480) And Derivatves And Hedging (Topic 815): Accounting For Certain Financial Instruments With Down Round Features, Replacement of the Indefinite Deferral For Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests With a Scope Exception. The new guidance changes the classification of certain equity-linked financial instruments (or embedded features) with down round features. The amendments also clarify existing disclosure requirements for equity-classified instruments. For freestanding equity-classified financial instruments, the amendments require entities that present earnings per share (EPS) in accordance with Topic 260, Earnings Per Share, to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. Convertible instruments with embedded conversion options that have down round features would be subject to the specialized guidance for contingent beneficial conversion features (in Subtopic 470-20, Debt—Debt with Conversion and Other Options), including related EPS guidance (in Topic 260). The amendments in Part II of this Update recharacterize the indefinite deferral of certain provisions of Topic 480, Distinguishing Liabilities from Equity, that now are presented as pending content in the Codification, to a scope exception. Those amendments do not have an accounting effect. Part I of the new guidance affects any entity that issues financial instruments that include down round features. The amendments in Part I of this Update that relate to the recognition, measurement, and earnings per share of certain freestanding equity-classified financial instruments that include down round features affect entities that present earnings per share in accordance with the guidance in Topic 260, Earnings Per Share.
Part I is effective for the Company beginning January 1, 2019 and Part II did not require transition guidance as the amendment did not have an accounting effect. The adoption of this standard is not expected to have a material impact on its consolidated financial statements or disclosures.

In January 2018, the FASB released guidance on the accounting for tax on the global intangible low-taxed income ("GILTI") provisions of the Tax Cuts and Jobs Act (the "Act"). The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The Act indicates that either accounting for deferred taxes related to GILTI inclusions or to treat any taxes on GILTI inclusions as period cost are both acceptable methods subject to an accounting policy election. The Company is in the process of evaluating the impact of the GILTI provisions.

2. Revenues

On January 1, 2018, the Company adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

The Company recorded a net increase to opening retained earnings of $3.3 million as of January 1, 2018 due to the cumulative impact of adopting Topic 606 related to capitalizing the commission costs of acquiring contracts. When the amortization period is greater than one year, commission costs are deferred and amortized on a straight-line basis over the average life of the customer, which includes renewal periods.

Revenue Recognition

Revenues are recognized when control of the promised goods or services is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

The Company currently derives a substantial majority of its revenue from fees associated with our subscription services, which generally include web services, online marketing, eCommerce, and domain name registration offerings. Customers are billed for the subscription on a monthly, quarterly, semi-annual, annual or multi-year basis, at the customer's option. For all of the Company's customers, regardless of the method the Company uses to bill them, subscription revenue is recorded as deferred revenue in the accompanying consolidated balance sheets. As services are performed, the Company recognizes subscription revenue on a daily basis over the applicable service period. When the Company provides a free trial period, the Company does not begin to recognize subscription revenue until the trial period has ended and the customer has been billed for the services.

The Company offers certain integrated online marketing services where the fee charged to the customer includes a media budget ("Pay-Per-Click" or "PPC"). Generally, revenue for PPC services are recognized ratably over the period of service. For these customers, revenue is recognized each time an ad is displayed. For ads placed, the Company evaluates whether it is the principal or agent. Generally, advertising revenues for ads placed are reported on a gross basis, that is, the amounts billed to customers are recorded as revenues, and amounts paid are recorded as costs of revenues. The Company is the principal because it controls the advertising inventory before it is transferred to our customers. The Company's control is evidenced by its ability to monetize the advertising inventory, being primarily responsible to our customers, having discretion in establishing pricing, or a combination of these.

Professional services revenues are generated from custom website design, eCommerce store design and support services. Our custom website design and eCommerce store design work is typically billed on a fixed-price basis and over very short periods. Generally, revenue for design services is recognized over time based on the proportion of the design services completed. Revenue for support services is billed on a time basis and recognized over the time as the services are performed. The Company offers products whereby control of the product passes to the customer when delivered and revenue is recognized at the time of delivery. These products represent approximately five percent of total revenue.

Arrangements with Multiple Performance Obligations

The Company's contracts with customers may include multiple performance obligations. For such arrangements, the Company allocates the contract's transaction price to each distinct performance obligation based upon its best estimate of the standalone selling price of each distinct performance obligation in the contract. The Company generally determines standalone selling prices based on the prices charged to customers when products are purchased separately, as well as on our overall pricing objectives.

Deferred Revenues

For all of the Company's customers, regardless of the method the Company uses to bill them, subscription revenue is recorded as deferred revenue in the accompanying consolidated balance sheets. The change in the deferred revenue balance for the six months ended June 30, 2018 is primarily driven by cash payments received or due in advance of satisfying our performance obligations, offset by $153.5 million of revenues recognized that were included in the deferred revenue balance at the beginning of the period. Approximately $241.2 million of the deferred revenue balance is expected to amortize into revenue over the next twelve months and the remaining amount included in long-term deferred revenue is expected to substantially amortize into revenue over the next five year period. Payment terms vary by the type of customer and the products or services offered. The term between invoicing and when payment is due is not significant. For certain products or services and customer types, the Company requires payment before the products or services are delivered to the customer.

Deferred Costs to Acquire and Fulfill Contracts

Sales commissions earned by the Company's sales force are considered incremental and recoverable costs of acquiring a contract with a customer. Sales commissions for initial contracts where the average customer life is greater than one year are deferred and then amortized on a straight-line basis over the period of benefit with the period of benefit ranging from thirteen months up to 72 months. The Company determined the period of benefit by taking into consideration the average life of our customer contracts including renewals, its technology and other factors. Sales commissions for renewal contracts are deferred as contract assets and classified as either other current or non-current assets and then amortized on a straight-line basis over the remaining benefit period. Costs to acquire contracts included in deferred expenses amounted to approximately $4.7 million at June 30, 2018 and the related amortization thereof is primarily included in sales and marketing expense in the accompanying Consolidated Statements of Comprehensive Income.

Deferred costs to fulfill contracts generally consist of domain registration costs which have been paid to a domain registry. These costs are deferred and amortized over the life of the domain which generally ranges from one to five years. Costs to fulfill contracts included in deferred expenses amounted to approximately $109.9 million at June 30, 2018. Amortization expense is primarily included in cost of revenue, excluding depreciation and amortization.

Total amortization expense was approximately $24.7 million and $49.0 million during the three and six months ended June 30, 2018, respectively. No impairment losses were recognized in the three and six months ended June 30, 2018.

Practical Expedients and Exemptions

The Company expenses sales commissions for those commission plans where the amortization period would have been one year or less. These costs are recorded within sales and marketing expenses. The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed. Sales and usage-based taxes are excluded from revenues and no amounts have been adjusted for significant financing components if payments are received and the performance obligation is transferred within the year.

The following table disaggregates revenue by major sales channel groupings (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Retail	$ 121,810	$ 124,469	$ 242,875	$ 248,738
Premium Services	45,007	43,486	89,564	86,109
Web.com For Enterprises	19,873	18,776	40,992	37,003
Total Revenues	$ 186,690	$ 186,731	$ 373,431	$ 371,850

In accordance with the new revenue standard requirements, the disclosure of the impact of adoption on the Company's Consolidated Statement of Comprehensive Income was as follows (in thousands):

	Three months ended June 30, 2018			Six months ended June 30, 2018		
	As Reported	Amounts Without the Adoption of ASC 606	Effect of Change	As Reported	Amounts Without the Adoption of ASC 606	Effect of Change
Sales and marketing	47,643	47,671	(28)	99,223	99,442	(219)

In accordance with the new revenue standard requirements, the disclosure of the impact of adoption on the Company's Consolidated Balance Sheet was as follows (in thousands):

	As of June 30, 2018		
	As Reported	Amounts Without The Adoption of ASC 606	Effect of Change
Assets			
Deferred expenses, current	$ 65,716	$ 64,236	$ 1,480
Deferred expenses, noncurrent	48,954	45,927	3,027
Liabilities			
Deferred tax liabilities	55,918	54,861	1,057
Equity			

Accumulated deficit	$ (180,913)	$ (184,363)	$ 3,450

The opening and closing balances of the Company's accounts receivable, contract assets and deferred revenue are as follows (in thousands):

	Accounts Receivable	Deferred Expenses (Including Contract Assets)	Deferred Revenue
Opening Balance as of December 31, 2017	$ 25,424	109,583	$ 419,460
(Decrease) Increase, net	(324)	5,087	7,891
Ending balance as of June 30, 2018	$ 25,100	114,670	$ 427,351

3. Business Combinations

Acquisition of Acquisio, Inc.

On November 1, 2017, the Company acquired certain assets and liabilities of Acquisio, Inc., a provider of online advertising management. The Company paid approximately $8.7 million from acquisition at closing and an additional $0.6 million through June 30, 2018. Transaction costs associated with the acquisition were not significant.

The Company accounted for the acquisition using the acquisition method as required by ASC 805, *Business Combinations*. As such, fair values have been assigned to the assets acquired and liabilities assumed and the excess of the total purchase price over the fair value of the net assets acquired is recorded as goodwill. The Company, with the assistance of independent valuation professionals, has also performed valuations of the fair value of certain intangible assets. The goodwill recorded from this acquisition represents business benefits the Company anticipates realizing from acquiring the entity, and the amount is expected to be deductible for income tax purposes.

The following table summarizes the Company's purchase price allocation based on the fair values of the assets acquired and the liabilities assumed (in thousands):

	December 31, 2017	**Adjustments to Opening Balance Sheet**	**June 30, 2018**
Tangible current assets	$ 130	$ —	$ 130
Property plant and equipment	376	—	376
Domain/Trade names	401	—	401
Developed Technology	2,698	—	2,698
Customer relationships	1,908	—	1,908
Other intangible assets	—	635	635
Goodwill	4,264	—	4,264
Current liabilities	(274)	—	(274)
Deferred revenue	(93)	—	(93)
Other long term liabilities	(129)	(635)	(764)
Purchase price consideration	$ 9,281	$ —	$ 9,281

The customer relationships and developed technology are amortized over four years and ten years, respectively. The domain and trade names are indefinite-lived intangible assets and are not amortized.

Acquisition of DonWeb

On January 31, 2017, the Company acquired 100% of the outstanding shares of DonWeb, a hosting and domain registration company catering to the Spanish-speaking market, located in Rosario, Argentina. The Company paid approximately $8.6 million at closing. The Company may pay the seller additional consideration of up to $2.0 million on January 31, 2021, present valued to $1.7 million as of the acquisition date subject to certain indemnification provisions, for total consideration of $10.3 million In addition, the agreement includes a four-year earnout provision that entitles the seller up to $3.0 million of consideration contingent upon the post-acquisition business performance and employment. Earnout amounts are recorded as compensation expense. Transaction costs associated with the acquisition were not significant.

The Company accounted for the acquisition using the acquisition method as required by ASC 805, *Business Combinations*. As such, fair values have been assigned to the assets acquired and liabilities assumed and the excess of the total purchase price over the fair value of the net assets acquired is recorded as goodwill. The Company, with the assistance of independent valuation professionals, has also performed valuations of the fair value of certain intangible assets. The goodwill recorded from this acquisition represents business benefits the Company anticipates realizing from acquiring an entity in the Spanish-speaking market, and is not deductible for income tax purposes. In connection with the acquisition, the Company recorded approximately $4.0 million of liabilities arising from pre-acquisition matters that are more likely than not to be sustained upon examination, inclusive of interest and penalties for which the Company is indemnified. The following table summarizes the Company's purchase price allocation based on the fair values of the assets acquired and the liabilities assumed (in thousands):

		As of June 30, 2018
Tangible current assets	$	1,071
Property plant and equipment		2,344
Domain/Trade names		990
Non-competes		236
Customer relationships		1,720
Other non current assets		2,811
Goodwill		10,568
Current liabilities		(1,738)
Deferred revenue		(1,584)
Other long term liabilities		(6,070)
Purchase price consideration	$	10,348

The non-competes and customer relationships are amortized over four years and three years, respectively. The domain and trade names are indefinite-lived intangible assets and are not amortized.

4. Net Income Per Common Share

Basic net income per common share is calculated using net income and the weighted-average number of shares outstanding during the reporting period. Diluted net income per common share includes the effect from the potential issuance of common stock, such as common stock issued pursuant to the exercise of stock options or vesting of restricted shares.

The Company issues equity awards with performance, service and market conditions. These awards are included in basic shares outstanding once all criteria have been met and the shares have vested. Prior to the end of the vesting period, the number of contingently issuable shares included in diluted EPS is based on the number of shares, if any, that would be issuable under the terms of the arrangement if the end of the reporting period were the end of the contingency period, using the treasury stock method and assuming the result would be dilutive. See Note 12, *Stock-Based Compensation and Stockholders' Equity*, for additional information on this award.

During each of the three months ended June 30, 2018 and 2017, 2.9 million share-based awards, have been excluded from the calculation of diluted common shares because including those securities would have been anti-dilutive. During the six months ended June 30, 2018 and 2017, 2.9 million and 2.8 million share-based awards, respectively, have been excluded from the calculation of diluted common shares because including those securities would have been anti-dilutive.

The Company's potentially dilutive shares also include incremental shares issuable upon the conversion of the Company's Senior Convertible Notes due August 15, 2018 ("2018 Notes"). See Note 7, *Long-term Debt*, for additional information regarding the 2018 Notes. Upon conversion or maturity of the 2018 Notes, the Company may settle the notes with either cash, shares of its common stock or a combination of cash and shares of its common stock, at its election. The Company has adopted a current policy to settle the principal amount in cash and any excess conversion value in shares of its common stock. Because the principal amount of the 2018 Notes will be settled in cash upon conversion, only the conversion spread relating to the 2018 Notes is included in the calculation of diluted net income per common share. When the market price of the Company's stock

exceeds the conversion price, as applicable, it will include, in the diluted net income per common share calculation, the effect of the additional shares that may be issued upon conversion using the treasury stock method. There were no incremental common shares from the 2018 Notes that were included in the calculation of diluted shares because the Company's average price of its common stock did not exceed the conversion price during the three and six months ended June 30, 2018 and 2017.
The following table sets forth the computation of basic and diluted net income per common share (in thousands, except per share amounts):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net income	$ 6,212	$ 8,046	$ 10,790	$ 14,562
Basic weighted average common shares outstanding	48,007	49,488	47,783	49,283
Dilutive effect of stock options	933	1,352	986	1,322
Dilutive effect of restricted shares	296	346	490	456
Dilutive effect of performance shares	—	—	16	6
Diluted weighted average common shares outstanding	49,236	51,186	49,275	51,067
Net income per basic common share	$ 0.13	$ 0.16	0.23	0.30
Net income per diluted common share	$ 0.13	$ 0.16	$ 0.22	$ 0.29

5. Goodwill and Intangible Assets

In accordance with ASC 350, the Company reviews goodwill and other indefinite-lived intangible asset balances for impairment on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of goodwill or indefinite-lived intangible assets below its carrying amount. As of December 31, 2017, the Company completed its annual impairment test of goodwill and other indefinite-lived intangible assets and determined that there was no impairment. There were no indicators of impairment during the six months ended June 30, 2018.

The following table summarizes changes in the Company's goodwill balances as required by ASC 350-20 for the six months ended June 30, 2018 and the year ended December 31, 2017, respectively (in thousands):

	June 30, 2018	December 31, 2017
Goodwill balance at beginning of period	$ 987,956	$ 974,045
Accumulated impaired goodwill at beginning of period	(102,294)	(102,294)
Goodwill balance at beginning of period, net	$ 885,662	871,751
Goodwill acquired during the period- DonWeb- *Note 3, Business Combinations*	—	10,568
Goodwill acquired during the period- Acquisio - *Note 3, Business Combinations*	—	4,264
Foreign currency translation adjustments	(3,368)	(921)
Goodwill balance at end of period, net *	$ 882,294	$ 885,662

** Gross goodwill balances were $984.6 million as of June 30, 2018 and $988.0 million as of December 31, 2017. These include accumulated impairment losses of $102.3 million.*

The Company's intangible assets are summarized as follows (in thousands):

	June 30, 2018			
	Gross Carrying Amount	Accumulated Amortization	Net	Weighted-average Remaining Amortization Period in Years

Indefinite-lived intangible assets:				
Domain/Trade names	$ 160,899	$ —	$ 160,899	
Definite-lived intangible assets:				
Customer relationships	326,622	(198,749)	127,873	5.1
Developed technology	283,276	(225,443)	57,833	3.8
Other	8,563	(8,452)	111	2.0
Total *	$ 779,360	$ (432,644)	$ 346,716	

** Cumulative foreign currency translation adjustments, reflecting the movement in currencies, decreased total intangible assets by approximately $0.7 million as of June 30, 2018.*

	December 31, 2017			
	Gross Carrying Amount	**Accumulated Amortization**	**Net**	**Weighted-average Remaining Amortization Period in Years**
Indefinite-lived intangible assets:				
Domain/Trade names	$ 161,251	$ —	$ 161,251	
Definite-lived intangible assets:				
Customer relationships	327,176	(185,353)	141,823	5.6
Developed technology	283,319	(215,545)	67,774	4.2
Other	8,673	(7,950)	723	1.0
Total *	$ 780,419	$ (408,848)	$ 371,571	

**Cumulative foreign currency translation adjustments, reflecting the movement in currencies, decreased total intangible assets by approximately $0.2 million as of December 31, 2017.*

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The weighted-average amortization period for the amortizable intangible assets remaining as of June 30, 2018 is approximately 4.7 years. Total amortization expense was $11.9 million and $12.1 million for the three months ended June 30, 2018 and 2017, respectively. Total amortization expense was $24.2 million and $25.0 million for the six months ended June 30, 2018 and 2017, respectively.

As of June 30, 2018, the amortization expense for the remainder of the year ended December 31, 2018, and the next five years and thereafter is as follows (in thousands):

2018 (remainder of year)	$ 21,683
2019	41,659
2020	39,158
2021	38,264
2022	26,667
2023	17,067
Thereafter	1,319
Total	$ 185,817

6. Related Party Transactions

Effective February 6, 2015, the Company elected Mr. John A. Giuliani to serve on its Board of Directors. Mr. Giuliani serves as President, Chief Executive Officer and Director of Conversant, a subsidiary of Alliance Data Systems Corporation, a personalized digital marketing platform. The Company incurred no significant expense related to services provided by Conversant during the three months and six months ended June 30, 2018. The Company incurred $0.2 million and $0.4 million of expense related to services provided by Conversant during the three months and six months ended June 30, 2017, respectively.

7. Long-Term Debt

1% Senior Convertible Notes due August 15, 2018

In August 2013, the Company issued $258.8 million aggregate principal amount of 1.00% Senior Convertible Notes due August 15, 2018 (the "2018 Notes"). The 2018 Notes bear interest at a rate of 1.00% per year, payable semiannually in arrears, on February 15 and August 15 of each year, beginning on February 15, 2014. The conversion price for the 2018 Notes is equivalent to an initial effective conversion price of approximately $35.00 per share of common stock. Proceeds, net of original issuance discounts and debt issuance costs, of $252.3 million were received from the 2018 Notes. The net proceeds were used to pay down $208.0 million of the First Lien Term Loan and $43.0 million of the Revolving Credit Facility.

On or after August 20, 2016, the Company may redeem for cash any or all of the 2018 Notes, at its option, if the last reported sale price of its common stock exceeds 130% of the applicable conversion price on each applicable trading day, as defined by the indenture. The redemption price will equal 100% of the principal amount of the 2018 Notes to be redeemed, plus accrued and unpaid interest to, but not including, the redemption date. Holders of the 2018 Notes may also convert their notes at any time prior to May 15, 2018 if the sale price of the Company's common stock exceeds 130% of the applicable conversion price on each applicable trading day as defined by the indenture.

In addition, Holders may also convert their 2018 Notes any time prior to May 15, 2018, (i) if during the five business days after any five consecutive trading day period in which the trading price of the 2018 Notes was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate, (ii) if the Company calls the 2018 Notes for redemption; or (iii) upon the occurrence of specified corporate events. As of May 15, 2018, none of the Holders converted their 2018 Notes.

The 2018 Notes are senior unsecured obligations and will be effectively junior to any of the Company's existing and future secured indebtedness.

The Company determined that the embedded conversion option in the 2018 Notes is not required to be separately accounted for as a derivative under ASC 815, *Derivatives and Hedging*. The 2018 Notes are within the scope of ASC 470, Topic 20, *Debt with Conversion and Other Options,* which requires the Company to separate a liability component and an equity component from the proceeds received. The carrying amount of the liability component at the time of the transaction of $204.4 million was calculated by measuring the fair value of a similar debt instrument that does not have an associated equity component. The fair value of the liability component was subtracted from the initial proceeds and the remaining amount of $47.8 million was recorded as the equity component. The excess of the principal amount of the liability component over its carrying amount will be amortized to interest expense over the expected life of 5 years using the effective interest method.

Upon conversion or maturity of the 2018 Notes, the Company may settle the notes with either cash, shares of its common stock or a combination of cash and shares of its common stock, at its election. The Company has adopted a current policy to settle the $258.8 million of principal amount in cash and any excess conversion value in shares of its common stock. Because the principal amount of the 2018 Notes will be settled in cash upon conversion, only the conversion spread relating to the 2018 Notes may be included in the Company's calculation of diluted net income per common share. When the market price of the Company's stock exceeds the conversion price, it will include, in the diluted net income per common share calculation, the effect of the additional shares that may be issued upon conversion using the treasury stock method. As such, the 2018 Notes have no impact on diluted net income per common share until the price of the Company's common stock exceeds the conversion price (approximately $35.00 per common share) of the 2018 Notes.

As of June 30, 2018 and December 31, 2017, the carrying value of the debt and equity component was $257.2 million and $47.8 million and $251.0 million and $47.8 million, respectively. The unamortized debt discount of $1.5 million as of June 30, 2018 will be amortized over the remaining life of two months using the effective interest method. The Company has included the carrying value of the debt component of the 2018 Notes as long-term debt based upon its intent and ability to refinance these obligations.

Credit Agreement

On February 11, 2016, the Company entered into an amendment (the "Amendment") to that certain Credit Agreement, dated as of September 9, 2014 (the "Existing Credit Agreement" and as amended by the Amendment, the "Amended Credit Agreement"), by and among the Company, the several lenders from time to time parties thereto, and JPMorgan Chase Bank, N.A., as administrative agent. On March 9, 2016, the amended Credit Agreement became effective following the completion of the acquisition of Yodle Inc. On May 18, 2017, the Company entered into a second amendment to the Credit Agreement. On April 30, 2018, the Company entered into a third amendment to the Credit Agreement ("Third Amendment").

The Third Amendment to the Credit Agreement provided (i) $400.0 million of five-year secured term loans, replacing and refinancing the $389.7 million of secured term loans outstanding under the Amended Credit Agreement and (ii) increased the revolving credit commitment under the Amended Credit Agreement to $400.0 million from $260.0 million, with a five-year maturity date from the date of the Third Amendment. The Company intends to use the proceeds from future borrowings under the revolving credit facility to pay the 2018 Notes upon maturity.

The Term Loan and loans under the Revolving Credit Facility bear interest at a rate equal to either, at the Company’s option, the LIBOR rate plus an applicable margin initially equal to 1.75% per annum, or the prime lending rate plus an applicable margin equal to 0.75% per annum. The applicable margins for the Term Loan and loans under the Revolving Credit Facility are subject to reduction or increase based upon the Company’s consolidated first lien net leverage ratio as of the end of each fiscal quarter. The Company must also pay (i) a commitment fee initially equal to 0.30% per annum on the actual daily amount by which the revolving credit commitment exceeds then-outstanding usage under the Revolving Credit Facility, also subject to reduction or increase based upon the Company’s consolidated first lien net leverage ratio, (ii) a letter of credit fee equal to the applicable margin that applies to LIBOR loans under the Revolving Credit Facility and (iii) a fronting fee of 0.125% per annum, calculated on the daily amount available to be drawn under each letter of credit issued under the Revolving Credit Facility.

The Company is permitted to make voluntary prepayments with respect to the Revolving Credit Facility and the Term Loan at any time without payment of a premium. The Company is required to make mandatory prepayments of the Term Loan with (i) net cash proceeds from certain asset sales (subject to reinvestment rights) and (ii) net cash proceeds from certain issuances of debt. The Company is also required to maintain certain financial ratios under the Credit Agreement and there are customary covenants that limit the incurrence of debt, the payment of dividends, the disposition of assets, and making of certain payments. Substantially all of the Company's and certain of its domestic subsidiaries' tangible and intangible assets are pledged as collateral under the Credit Agreement.

The aforementioned amendments were principally accounted for as modifications of the Credit Agreement and as a result, $3.0 million and $1.9 million of additional loan origination discounts and bank lender fees were capitalized during the quarters ended June 30, 2018 and June 30, 2017, respectively. A partial loss on extinguishment of debt resulted from a certain bank that chose to substantially reduce their syndication of the Term Loan. As a result, the Company recorded a $0.4 million loss for the portion of the debt that was extinguished. An additional loss on debt extinguishment of $0.1 million resulted from the Company's prepayment of $10.0 million on the Term Loan.

The Company has $398.2 million of available borrowings under the Revolving Credit Facility as of June 30, 2018.

Outstanding long-term debt and the interest rates in effect at June 30, 2018 and December 31, 2017 consist of the following (in thousands):

	June 30, 2018	December 31, 2017
Revolving Credit Facility maturing 2023, based on LIBOR plus 1.75%	$ —	$ 10,000
Term Loan due 2023, 3.84% based on LIBOR plus 1.75%, less unamortized discount of $4,175 at June 30, 2018, effective rate of 3.99%	385,825	385,934
Senior Convertible Notes, maturing 2018, 1.00%, less unamortized discount of $1,528 at June 30, 2018, effective rate of 5.88%	257,222	251,036
Total Outstanding Debt	643,047	646,970
Less: Current Portion of Long-Term Debt	(4,946)	(16,612)

Long-Term Portion	$ 638,101	$ 630,358

Debt discount and issuance costs

The Company recorded $3.6 million and $3.4 million of expense from amortizing debt issuance and discount costs during the three months ended June 30, 2018 and 2017, respectively. During the six months ended June 30, 2018 and 2017, $7.2 million and $6.8 million of amortization expense was recorded, respectively.

Total estimated principal payments due for the next five years as of June 30, 2018 are as follows:

Year 1	$ 5,000
Year 2	20,000
Year 3	20,000
Year 4	20,000
Year 5	583,750
Total principal payments	$ 648,750

8. Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss were as follows (in thousands):

	June 30, 2018	December 31, 2017
Foreign currency translation adjustments	$ (6,519)	$ (4,503)
Total accumulated other comprehensive loss	$ (6,519)	$ (4,503)

9. Fair Value

The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels as follows:

Level 1-Quoted prices in active markets for identical assets or liabilities.

Level 2-Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3-Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

The Company has financial assets and liabilities that are not required to be remeasured to fair value on a recurring basis. The carrying value of the Company's cash and cash equivalents, accounts receivable, accounts payable, deferred consideration and accrued expenses approximates fair market value as of June 30, 2018 and December 31, 2017 due to the short maturity of these items. As of June 30, 2018, the fair value and carrying value of the Company's 2018 Notes totaled $257.1 million and $257.2 million, respectively. As of December 31, 2017, the fair value and carrying value of the Company's 2018 Notes was $255.3 million and $251.0 million, respectively. The fair value of the 2018 Notes, including the equity component, was calculated by taking the quoted market price for the instruments multiplied by the principal amount. This is based on a Level 2 fair value hierarchy calculation obtained from quoted market prices for the Company's long-term debt instruments that may not be actively traded at each respective period end. The Revolving Credit Facility and Term Loan are variable rate debt instruments indexed to 1-Month LIBOR that resets monthly and the fair value approximates the carrying value as of June 30, 2018 and December 31, 2017. See Note 7, *Long-term Debt*, for additional information surrounding the amendment.

10. Income Taxes

The Company accounts for income taxes under the provisions of ASC 740, *Income Taxes*, using the liability method. ASC 740 requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the difference is expected to reverse.

The Company recorded income tax expense of $3.1 million and $6.8 million during the three months ended June 30, 2018 and 2017, and $5.3 million and $12.9 million during the six months ended June 30, 2018 and 2017, respectively, based upon the estimated annual effective tax rates for each year. The estimated annual effective tax rate for 2018 and 2017 reflects the impact of net unfavorable permanent book-tax differences, primarily driven by transaction and stock compensation costs and an increase in the projected year-end valuation allowance related to certain state and foreign deferred tax assets.

On December 22, 2017, the Act was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017, the transition of U.S international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of foreign earnings. The Company has estimated its provision for income taxes in accordance with the Act and guidance available as of the date of this filing. The effective tax rate for the six months ended June 30, 2018 and 2017 was 33.1% and 47.1%, respectively. The decrease in the effective tax rate was primarily due to the adoption of the Act.

On December 22, 2017, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. Additional work is necessary for a more detailed analysis of our deferred tax assets and liabilities and the transition tax on our historical foreign earnings as well as potential correlative adjustments. Any subsequent adjustment to these amounts will be recorded to tax expense in 2018 when the analysis is complete. The Company recorded a discrete item a benefit of $0.5 million for the six months ended June 30, 2018 after further evaluation of its review of the transition tax. The Company has not provided an estimate for foreign derived intangible income, as it is still in the process of obtaining the requisite information.

11. Commitments and Contingencies

Standby Letters of Credit

The Company utilizes letters of credit to back certain payment obligations relating to its facility operating leases. The Company had approximately $6.7 million in standby letters of credit as of June 30, 2018, $1.8 million of which were issued under the Revolving Credit Facility.

Legal Proceedings

On July 13, 2017, the Company was named as a defendant in a lawsuit filed in the United States District Court for the Middle District of Florida. The plaintiff in the case alleges that the Company infringed upon certain copyrights, misappropriated trade secrets, breached contracts, and violated the Florida Deceptive and Unfair Trade Practices Act in connection with the Company's Ignite products. The plaintiff seeks damages in an unspecified amount, plus the recovery of its costs and attorneys' fees incurred in the suit. The Company believes that it has meritorious defenses against the asserted claims and is no longer offering the afore mentioned products for sale. A preliminary injunction against the Company was entered and the appeal is pending. The Company has reserved an immaterial amount which it determined to be commensurate with the liability, damage and coverage issues presented by the subject claims at this early stage of the pending lawsuit. It is also not currently possible to reasonably estimate the amount or range of any amounts that the Company may be required to pay as damages in the event that liability is found against the Company in excess of the amount reserved without plaintiff providing more detail on its claims and without expert discovery on the damage and apportionment issues presented by the claims.

From time to time, the Company and its subsidiaries receive inquiries from foreign, federal, state and local regulatory authorities or are named as defendants in various investigations, inquires or legal actions that are incidental to its business and arise out of or are related to claims made in connection with its marketing practices, customer and vendor contracts and employment related disputes. The Company believes that the resolution of these investigations, inquiries or legal actions will not have a material adverse effect on its financial position, marketing practices or results of operations.

Indemnifications

The Company has agreed to indemnify its directors and executive officers for costs associated with any fees, expenses, judgments, fines and settlement amounts incurred by them in any action or proceeding to which any of them is, or is threatened to be, made a party by reason of their service as a director or officer, including any action by the Company, arising out of their services as the Company’s director or officer or their services provided to any other company or enterprise at the Company’s request.

Other

The Company is responsible for charging end customers certain taxes in numerous jurisdictions. In the ordinary course of its business, there are many transactions and calculations where the ultimate tax determination is uncertain. In the future, the Company may come under audit, which could result in changes to its tax estimates. The Company routinely assesses these matters and although the Company believes its tax estimates are reasonable, the final determination of tax audits could be materially different than the Company’s estimates, which would result in the Company recording an expense in the period in which a final determination is made.

12. Stock-Based Compensation and Stockholders' Equity

The Company records compensation expense for employee and director stock-based compensation plans based upon the fair value of the award in accordance with ASC 718, Compensation-Stock Compensation.

Equity Incentive Plans

The Company has the 2014 Equity Incentive Plan for the issuance of stock-based compensation, including but not limited to, common stock options and restricted shares to employees. In addition, the Company’s plan provides for grants of non-statutory stock options and restricted shares awards (“RSA’s”) to non-employee directors. The Company issues shares out of treasury stock, if available, upon the exercise of stock options, otherwise new shares of common stock are issued. Restricted shares are issued out of common stock when they are granted.

Incentive stock options and non-statutory stock options issued generally vest ratably over three to four years, are contingent upon continued service and expire ten years from the grant date. Restricted share awards generally vest 25 percent each year over a four year period.

The Board of Directors, or a committee thereof, administers all of the equity incentive plans and establishes the terms of options granted, including the exercise price, the number of shares subject to individual option awards and the vesting period of options, within the limits set forth in the plans. Options have a maximum term of 10 years and vest as determined by the Board of Directors.

The Company has additional equity incentive plans that are established in conjunction with its acquisitions. These plans are considered one-time, inducement awards of incentive stock options, non-statutory stock options and restricted shares. Once the inducement awards are granted, no additional shares, including forfeitures and cancellations, are available for future grant under these plans.

Performance Shares

During the first six months of 2018 and 2017, the Compensation Committee of the Board of Directors approved the issuance of performance share equity awards. The targeted number of shares under a 100 percent payout scenario for each of the 2018 and 2017 awards granted are 0.2 million shares, earned over the three year vesting periods, with one-third vesting each year. The actual number of shares that may be earned and issued, if any, may range from 0-200% of the target number of shares granted. The range is based upon (1) the number of shares earned based upon the over achievement or under achievement of the financial measures for the annual performance period and (2) the number of shares earned being adjusted higher or lower depending on the performance of the Company's total shareholder return, compared against the Company's peer group.

Compensation expense related to the performance share stock plan for the three months ended June 30, 2018 and 2017 was approximately and $0.4 million and $1.2 million, respectively. Compensation expense for the six months ended June 30, 2018 and 2017 was $1.0 million and $1.9 million respectively. The 2017 tranche of the performance share award resulted in a payout of 71% of the target shares, or approximately 113 thousand shares during the first quarter of 2018. During the six months ended June 30, 2018, approximately 41 thousand shares totaling $0.7 million were withheld by the Company for minimum income tax withholding requirements.

Stock Options

Compensation expense related to the Company’s stock option plans was $1.4 million and $2.0 million for the three months ended June 30, 2018 and 2017, respectively. Compensation expense for the six months ended June 30, 2018 and 2017 was $3.1 million and $4.0 million, respectively. During the three months ended June 30, 2018 and 2017, 0.5 million and 0.3 million common shares were issued for options exercised, respectively. During the six months ended June 30, 2018 and 2017, 0.6 million and 0.6 million common shares were issued for options exercised, respectively. During the six months ended June 30, 2018 and 2017, 0.9 million and 1.0 million options were granted, respectively. The weighted-average grant-date fair value of an option granted during the six months ended June 30, 2018 and 2017 was $6.99 and $8.60, respectively.

The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. Below are the ranges of assumptions used in calculating the fair value of options granted during the following periods:

	Six months ended June 30,					
	2018			2017		
Risk-free interest rate	2.54%	-	2.81%	1.90%	-	1.98%
Dividend yield		N/A			N/A	
Expected life (in years)	4.99	-	5.04	5.05	-	5.07
Volatility	41.47%	-	42.36%	43.54%	-	44.67%

Restricted Stock

Compensation expense related to restricted stock plans for the three months ended June 30, 2018 and 2017, was approximately $3.9 million and $3.0 million, respectively. Compensation expense for the six months ended June 30, 2018 and 2017 was $7.4 million and $5.8 million, respectively. During the six months ended June 30, 2018 and 2017, approximately 0.2 million and 0.2 million shares totaling approximately $3.2 million and $3.1 million, respectively, were withheld by the Company for minimum income tax withholding requirements. During the three months ended June 30, 2018 and 2017, 118 thousand and 136 thousand restricted common shares were granted, respectively. During the six months ended June 30, 2018 and 2017, 0.7 million and 0.9 million restricted common shares were granted, respectively. The weighted-average grant-date fair value of restricted stock granted during the three months ended June 30, 2018 and 2017 was $18.15 and $20.32, respectively. The weighted-average grant-date fair value of restricted stock granted during the six months ended June 30, 2018 and 2017 was $22.18 and $20.43, respectively.

Stock Repurchases

On November 5, 2014, the Company's Board of Directors authorized a share repurchase program of up to $100.0 million of the Company's common stock expiring on December 31, 2016. In October 2016, the Company's Board of Directors authorized that the share repurchase program of the Company's outstanding securities be extended through December 31, 2018 and be increased by an additional $100.0 million.

The aggregate amount remaining available for repurchase under this program was $33.8 million at June 30, 2018. Repurchases under the repurchase programs may take place in the open market or in privately negotiated transactions, including structured and derivative transactions such as accelerated share repurchase transactions, and may be made under a Rule 10b5-1 plan. During the three months and the six months ended June 30, 2018, the Company did not repurchase any common shares. No common shares were repurchased during the three months ended June 30, 2017. During the six months ended June 30, 2017, the Company repurchased approximately 0.1 million common shares for $2.1 million.

13. Restructuring

In March 2018, the Company completed a reorganization of its operations, designed to consolidate operations and rationalize infrastructure. Through this reorganization, the Company eliminated various positions and offered separation agreements to those impacted. During the six months ended June 30, 2018, the Company recognized $2.7 million of pre-tax restructuring charges. Of this amount, $2.0 million was paid during three months ended June 30, 2018. No additional pre-tax restructuring charges were recognized during the three months ended June 30, 2018 and the remaining balance of $0.7 million is expected to be paid in the third quarter of 2018.

During the six months ended June 30, 2017, the Company recorded $0.3 million in connection with severance charges. There were no amounts recorded during the three months ended June 30, 2017.

14. Subsequent Events

Effective July 1, 2018, the functional currency of the Company's Argentinian DonWeb operations will change to the U.S. dollar (its reporting currency) due to the Company's determination that Argentina's economy was highly inflationary at June 30, 2018. As such, non-monetary assets and liabilities will be measured at the historical rate while monetary assets and liabilities will be measured at current rates with foreign exchange gains and losses recorded in the Consolidated Statement of Comprehensive Income. Future fluctuations in foreign exchange rates cannot be reasonably predicted, therefore an estimate of the financial effect of this determination cannot be made.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to the "safe harbor" provisions created by those sections. Forward-looking statements are based on our management's beliefs and assumptions and on information currently available to our management. All statements other than statements of historical facts are "forward-looking statements" for purposes of these provisions, including any projections or earnings. In some cases, you can identify forward-looking statements by terms such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "should," "will," "would" and similar expressions intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance, time frames or achievements to be materially different from any future results, performance, time frames or achievements expressed or implied by the forward-looking statements. We discuss many of these risks, uncertainties and other factors in this Quarterly Report on Form 10-Q in greater detail under the heading "Risk Factors." Given these risks, uncertainties and other factors, you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this filing. You should read this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect. We hereby qualify our forward-looking statements by these cautionary statements. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

Safe Harbor

In the following discussion and analysis of results of operations and financial condition, certain financial measures may be considered "non-GAAP financial measures" under Securities and Exchange Commission rules. These rules require supplemental explanation and reconciliation, which is provided in this Quarterly Report on Form 10-Q.

We believe presenting non-GAAP revenue and average revenue per subscriber is useful to investors, because they describe the operating performance of the Company. We use these non-GAAP measures as important indicators of our past performance and in planning and forecasting performance in future periods. The non-GAAP financial information we present may not be comparable to similarly-titled financial measures used by other companies, and investors should not consider non-GAAP financial measures in isolation from, or in substitution for, financial information presented in compliance with GAAP.

Overview

Web.com Group, Inc. ("Web.com", the "Company" or "We") provides a full range of internet services to small businesses to help them compete and succeed online. Web.com meets the needs of small businesses anywhere along their lifecycle with affordable, subscription-based solutions including domains and related security products, hosting, website design and management, search engine optimization, online marketing campaigns, local sales leads, social media, mobile products and eCommerce solutions sold through three sales channel groupings. Those sales channel groupings are referred to herein as retail, premium services and Web.com for enterprise. Each of these sales channel groupings generally corresponds to size and needs of our customer base, with the retail channel grouping generally servicing smaller businesses or individual customers, premium services channel grouping generally servicing larger businesses with marketing budgets and Web.com for enterprise sales channel generally servicing multi-location or franchisor/franchisee customers. For more information about the company, please visit http://www.web.com. The information obtained on or accessible through the Company's website is not incorporated into this Quarterly Report on Form 10-Q and you may not consider it a part of this Quarterly Report on Form 10-Q.

Material Transactions

On June 20, 2018,Web.com Group, Inc., a Delaware corporation (the "Company"), entered into an Agreement and Plan of Merger (the "Merger Agreement") with Parker Private Holdings II LLC, a Delaware limited liability company ("Parent"), and Parker Private Merger Sub Inc., a Delaware corporation and wholly owned subsidiary of Parent ("Merger Sub").

Subject to the terms and conditions of the Merger Agreement, Merger Sub will merge with and into the Company (the "Merger"), with the Company continuing as the surviving corporation (the "Surviving Corporation"). As a result of the Merger, each share of the Company's common stock ("Company Stock") issued and outstanding immediately prior to the effective time of the Merger (the “Effective Time”) (other than shares held (1) by the Company, (2) by Parent, Merger Sub or any direct or indirect wholly owned subsidiary of either the Company or Parent or (3) by stockholders of the Company who have validly exercised and perfected their appraisal rights under Delaware law) will be converted at the Effective Time into the right to receive $25.00 in cash, without interest and subject to any required tax withholding.

At the Effective Time, each award of options to purchase shares of Company Stock that is outstanding immediately prior to the Effective Time (a “Company Stock Option Award”), regardless of whether vested or unvested, will be cancelled in exchange for an amount in cash, without interest and less applicable tax withholdings, equal to the product of (i) the excess, if any, of (a) the Merger Consideration over (b) the exercise price per share of Company Stock underlying such Company Stock Option Award multiplied by (ii) the number of shares of Company Stock underlying such Company Stock Option Award. At the Effective Time, each Company Stock Option Award with an exercise price per share of Company Stock underlying such Company Stock Option Award equal to or greater than the Merger Consideration will be canceled and terminated without any cash payment being made in respect thereof.

At the Effective Time, each share of (i) Company Common Stock subject to time-based vesting restrictions (a “Company Restricted Share”) shall fully vest and shall be converted automatically into the right to receive the Merger Consideration and (ii) Company Common Stock subject to performance-based vesting restrictions (a “Company Performance Share”) shall vest (based on assumed achievement of 100% of the target level of performance-based vesting criteria in each and every performance year remaining) and shall be converted automatically into the right to receive the Merger Consideration.

At the Effective Time, each award of restricted stock units covering shares of Company Stock (a “Company RSU Award”), regardless of whether vested or unvested, will be cancelled in exchange for an amount in cash (without interest and subject to applicable tax withholdings), equal to the product of (i) the Merger Consideration multiplied by (ii) the number of shares of Company Stock underlying such Company RSU Award.

As of June 18, 2018, the Company had basic shares outstanding, inclusive of restricted share awards, of 49,778,916; restricted stock units of 226,438; performance share units of 385,001 and net common shares resulting from the exercise of in the money options at $25 per share of 1,738,871.

Parent and Merger Sub have provided customary equity commitment letters from investment funds affiliated with Siris Capital Group, LLC and have also obtained secured committed debt financing from Morgan Stanley Co. LLC, RBC Capital Markets and Macquarie Capital, which, combined with the cash on hand of the Company, will enable Parent and Merger Sub to consummate the Merger, to refinance any indebtedness required to be refinanced in connection with the consummation of the Merger and to pay all related fees and expenses. The Merger is not subject to a financing condition.

Consummation of the Merger is subject to customary closing conditions, including, without limitation, (i) the absence of certain legal impediments, (ii) the expiration or termination of the required waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (iii) any applicable waiting period imposed by foreign antitrust laws, and (iv) approval by the Company’s stockholders of the Merger (the “Company Stockholder Approval”).

Under the Merger Agreement, the Company has certain rights to facilitate competing acquisition proposals from the date of the Merger Agreement until August 5, 2018. During the period beginning on the date of the Merger Agreement and continuing until 11:59 p.m. New York time on August 5, 2018 (the “Go-Shop Period”), the Company may solicit, initiate, encourage and facilitate any competing acquisition proposal from third parties, participate in discussions and negotiations with such third parties regarding such competing acquisition proposals and provide nonpublic information to such third parties pursuant to an Acceptable Confidentiality Agreement (as defined in the Merger Agreement) with each such third party. Following expiration of the Go-Shop Period and until the earlier of the Effective Time of the Merger or termination of the Merger Agreement in accordance with its terms, the Company will be subject to customary “no-shop” restrictions on its ability to solicit, initiate, encourage and facilitate any competing acquisition proposals from third parties, participate in discussions and negotiations with such third parties regarding such competing acquisition proposals and provide nonpublic information to such third parties pursuant to an Acceptable Confidentiality Agreement with each such third party, except that the Company may continue solicitation of, or discussions or negotiations with, third parties engaged by the Company during the Go-Shop Period with whom a written acquisition proposal remains pending as of and following the expiration of the Go-Shop Period and which acquisition proposal the Company’s Board of Directors (the “Board”) determines in good faith, after consultation with outside counsel and its financial advisors, constitutes or could reasonably be expected to result in a Superior Proposal (as defined in the Merger Agreement) (each such third party, an “Excluded Party”). Following expiration of the Go-Shop Period, the Company is not permitted to solicit competing acquisition proposals from third parties or take certain other actions, provided that before the Company has obtained the Company Stockholder Approval, if the Company receives a written acquisition proposal from a third party, the Company may furnish information and provide access to such third party and participate in discussions or negotiations with such third party, subject to (i) the Board first determining in good faith (a) after consultation with its outside legal counsel, that the failure to take such action would be inconsistent with the directors' fiduciary duties under applicable law and (b) after consultation with its financial advisor and outside legal counsel, that such proposal either constitutes, or could reasonably be expected to result in a Superior Proposal, and (ii) if the Company will provide nonpublic information, the Company provides any such nonpublic information to such third party pursuant to an Acceptable Confidentiality Agreement.

Prior to the Company obtaining the Company Stockholder Approval, the no-shop restrictions above are subject to a "fiduciary out" provision, which permits the Board, subject to the Company's compliance with certain obligations described below, to change its recommendation to the Company's stockholders regarding the Merger in connection with certain intervening events, or authorize or adopt an alternative acquisition agreement with respect to a competing acquisition proposal from a third party (each such action, a "Change in Company Board Recommendation"). With respect to certain Changes in Company Board Recommendation, the Board may take any such actions with respect to a competing acquisition proposal from a third party if the Board determines in good faith (after consultation with its financial advisor and outside legal counsel) that such proposal constitutes a Superior Proposal and that the failure to take such action would be inconsistent with the directors' fiduciary duties under applicable law. The Company would be permitted to enter an alternative acquisition agreement with respect to such Superior Proposal only if it terminated the Merger Agreement and paid certain fees owed to Parent as described further below. However, before the Board may make any Change in Company Board Recommendation or the Company may terminate the Merger Agreement in light of a Superior Proposal, the Company must comply with certain notice obligations with respect to Parent and negotiate with Parent in good faith to adjust the terms of the Merger Agreement and related documents as would permit the Board to determine that such Superior Proposal no longer constitutes a Superior Proposal.

The Merger Agreement contains certain termination rights for the Company and Parent. The Merger Agreement can be terminated by either Parent or the Company if (i) the Merger is not consummated on or before December 20, 2018 (the "Outside Date"), (ii) the Merger becomes subject to a final, non-appealable law or order restraining, enjoining, rendering illegal or otherwise prohibiting the Merger, or (iii) the Company Stockholder Approval is not obtained following a vote of stockholders taken thereon. In addition, the Merger Agreement includes the following termination rights:

- If the Merger Agreement is terminated by either Parent or the Company in connection with the Company's entry into a definitive agreement with respect to a Superior Proposal with an Excluded Party and such agreement is entered into by the Company no later than five business days following the end of the Go-Shop Period, then the Company will be required to pay Parent a termination fee equal to $13.0 million;

- If the Merger Agreement is terminated (i) by Parent because the Board effects a Change in Company Board Recommendation, the Company fails to recommend the Merger and approval of the Merger Agreement by the stockholders of the Company, the Company enters into an agreement with respect to an alternative Acquisition Proposal, the Company fails to reject a third party tender offer to acquire the Company's securities within ten business days of its commencement; or the Company materially breaches certain of its covenants under the Merger Agreement relating to the no-shop restrictions or regarding the stockholders meeting to approve the Merger; or (ii) by the Company in connection with the Company's entry into a definitive agreement with respect to a Superior Proposal with an Excluded Party and such agreement is entered into by the Company more than five business days following the end of the Go-Shop Period, then the Company will be required to pay Parent a termination fee equal to $39.1 million;

- If the Merger Agreement is terminated by the Company (i) because Parent or Acquisition Sub have breached their respective representations, warranties, covenants or other agreements in the Merger Agreement in certain circumstances and have failed to cure such breach within a certain period or (ii) because Parent has failed to consummate the Merger pursuant to the Merger Agreement notwithstanding the satisfaction or waiver of the conditions to Parent's and Merger Sub's obligations to do so and certain notice of such failure from the Company to Parent, then Parent will be required to pay the Company a reverse termination fee equal to $78.2 million.

The Merger Agreement is filed as Exhibit 2.1 to our Current Report on Form 8-K filed with the SEC on June 21, 2018.

Acquisitions

On January 31, 2017, the Company acquired 100% of the outstanding shares of DonWeb, a hosting and domain registration company catering to the Spanish-speaking market, located in Rosario, Argentina. The Company paid approximately $8.6 million at closing. The Company may pay the seller additional consideration of up to $2.0 million on January 31, 2021, present valued to $1.7 million as of the acquisition date subject to certain indemnification provisions, for total consideration of $10.3 million. In addition, the agreement includes a four-year earnout provision that entitles the seller up to $3.0 million of consideration contingent upon the post-acquisition business performance and employment. Earnout amounts are recorded as compensation expense. Transaction costs associated with the acquisition were not significant.

On November 1, 2017, the Company acquired certain assets and liabilities of Acquisio, Inc., a provider of online advertising management. The Company paid approximately $8.7 million from acquisition closing through December 31, 2017 and an additional $0.6 million, through June 30, 2018. Transaction costs associated with the acquisition were not significant.

See Note 3, *Business Combinations*, for additional information surrounding the acquisitions.

Key Business Metrics

Management periodically reviews certain key business metrics to evaluate the effectiveness of our operational strategies, allocate resources and maximize the financial performance of our business. These key business metrics include:

Average Revenue per User (Subscriber)

Monthly average revenue per user, or ARPU, is a metric we measure on a quarterly basis. We define ARPU as quarterly non-GAAP subscription revenue divided by the average of the number of subscribers at the beginning of the quarter and the number of subscribers at the end of the quarter, divided by the measurement period in months. We exclude from subscription revenue the impact of the fair value adjustments to deferred revenue resulting from acquisition-related write downs. The fair market value adjustments were $1.2 million and $1.3 million for the three months ended June 30, 2018 and 2017, respectively. The fair market value adjustments were $2.2 million and $3.0 million for the six months ended June 30, 2018 and 2017, respectively. ARPU is the key metric that allows management to evaluate the impact on monthly revenue from product pricing, product sales mix trends, and up-sell/cross-sell effectiveness.

Customer Retention Rate (Retention Rate)

Customer retention rate is defined as the trailing twelve month retention metric which we measure as the subscribers at the end of the period (less acquired customers, if applicable) divided by the sum of the subscribers at the beginning of the period and the new subscribers added during the last twelve months. Customer cancellations in the trailing twelve months include cancellations from subscriber additions, which is why we include subscriber additions in the denominator. Retention rate is the key metric that allows management to evaluate whether we are retaining our existing subscribers in accordance with our business plan.

Net Subscriber Additions

We define total subscribers as the approximate number of subscribers that, as of the end of a period, are identified as subscribing to our products on a paid basis. A unique subscriber with subscriptions of more than one brand or with more than one distinct billing relationship or product subscription with us, are counted as one subscriber. 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.

We maintain and grow our subscriber base through a combination of adding new subscribers and retaining existing subscribers. We define net subscriber additions in a particular period as the gross number of new subscribers added during the period, less subscriber cancellations during the period. For this purpose, we only count as new subscribers those customers whose subscriptions have extended beyond the free trial period, if applicable.

We review this metric to evaluate whether we are effectively implementing our business plan. An increase in net subscriber additions could signal an increase in subscription revenue, higher customer retention, and an increase in the effectiveness of our sales efforts. Similarly, a decrease in net subscriber additions could signal decreased subscription revenue, lower customer retention, and a decrease in the effectiveness of our sales efforts. Net subscriber additions above or below our business plan could have a long-term impact on our operating results due to the subscription nature of our business.

Sources of Revenue

Subscription Revenue

We currently derive a substantial majority of our revenue from fees associated with our subscription services, which generally include web services, online marketing, eCommerce, and domain name registration offerings. We bill a majority of our customers in advance through their credit cards, bank accounts, or business merchant accounts. The revenue is recognized on a daily basis over the life of the contract.

Professional Services and Other Revenue

We generate professional services revenue from custom website design, eCommerce store design and support services. Our custom website design and eCommerce store design work is typically billed on a fixed price basis and over very short periods. Generally, revenue is recognized when the service has been completed.

Cost of Revenue

Cost of revenue consists of expenses related to compensation of our web page development staff, domain name registration costs, directory listing fees, eCommerce store design, online marketing costs for services provided, billing costs, hosting expenses, and allocated occupancy overhead costs. The Company allocates occupancy overhead costs such as rent and utilities to all departments based on headcount. Accordingly, general overhead expenses are reflected in each cost of revenue and operating expense category.

Operating Expenses

Sales and Marketing Expense

The Company's direct marketing expenses include the costs associated with the online marketing channels used to promote our services and acquire customers. These channels include search marketing, affiliate marketing, direct television advertising and partnerships. Sales and marketing costs consist primarily of compensation and related expenses for our sales and marketing staff as well as our customer support staff and allocated occupancy overhead costs. Sales and marketing expenses also include marketing programs, such as advertising, corporate sponsorships and other corporate events and communications.

We plan to continue to invest in sales and marketing to add new subscription customers, and increase sales of additional and new services and products to our existing customer base. We also plan to continue investing in direct response television and radio advertising. We have invested a portion of our incremental marketing budget in branding activities such as the umbrella sponsorship of the Web.com Tour and other sports marketing activities.

Technology and development

Technology and development represents costs associated with creation, development and distribution of our products and websites. Technology and development expenses primarily consist of headcount-related costs associated with the design, development, deployment, testing, operation, enhancement of our products and costs associated with the data centers and all systems infrastructure costs supporting those products as well as all administrative platforms and allocated occupancy overhead costs.

General and Administrative Expense

General and administrative expenses consist of compensation and related expenses for executive, finance, and administration, as well as professional fees, corporate development costs, other corporate expenses, and allocated occupancy overhead costs.

Depreciation and Amortization Expense

Depreciation and amortization expenses relate primarily to our intangible assets recorded due to the acquisitions we have completed, as well as depreciation expense from computer and other equipment, internally developed software, furniture and fixtures, and building and improvement expenditures.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements requires us to make estimates, assumptions and judgments that affect our assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. We base these estimates and assumptions on historical data and trends, current fact patterns, expectations and other sources of information we believe are reasonable. Actual results may differ from these estimates. For a full description of our critical accounting policies, see Item 7 — *Management's*

Discussion and Analysis of Financial Condition and Results of Operations in our 2017 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 23, 2018 as well as Note 1, *The Company and Summary of Significant Accounting Policies,* to the unaudited consolidated financial statements included herein.

Results of Operations

Comparison of the results for the three months ended June 30, 2018 to the three months ended June 30, 2017

The operations of DonWeb.com and Acquisio began integrating with the existing legacy Web.com operations immediately following the closing of the acquisitions on January 31, 2017 and November 1, 2017, respectively. As such, our results of operations including revenue and ARPU are not specifically segregated subsequent to these acquisitions, nor would it be indicative of each of the standalone entities.

The following table sets forth our key business metrics:

	Three months ended June 30,	
	2018	**2017**
	(unaudited)	
Ending Subscribers as of June 30,	3,280,000	3,490,000
Net subscriber reductions	(69,000)	(12,000)
Average revenue per user (monthly)	$ 18.70	$ 17.72

Subscriber counts decreased by approximately 69,000 subscribers during the three months ended June 30, 2018, as compared to a decrease of approximately 12,000 subscribers during the three months ended June 30, 2017. The decline in subscriber counts was in part driven by a shift in our sales strategy towards higher ARPU services, which results in lower new customer additions. Our rolling twelve month retention rate as of June 30, 2018 increased to 86.1% compared to 84.4% during the same prior year period. The improvement in our retention rate is due to an overall strategy to improve customer retention. During the three months ended June 30, 2018, we continued to make progress positioning our product portfolio and aligning our sales channels to improve customer satisfaction and ultimately retention.

Revenue

	Three months ended June 30,	
	2018	**2017**
	(unaudited, in thousands)	
Revenue:		
Subscription	$ 184,757	$ 184,511
Professional services and other	1,933	2,220
Total revenue	$ 186,690	$ 186,731

Total revenue of $186.7 million in the three months ended June 30, 2018 was essentially the same compared to the three months ended June 30, 2017 as revenue increases from platform, online marketing services and vertical market solutions were offset by lower Do-It-For-Me ("DIFM") and Do-It-Yourself ("DIY") web services revenues. Total revenue for the respective 2018 and 2017 periods includes $1.2 million and $1.3 million of unfavorable impact resulting from amortizing acquisition-related deferred revenue fair value adjustments previously recorded.

Subscription Revenue. Subscription revenue increased during the three months ended June 30, 2018, to $184.8 million from $184.5 million during the three months ended June 30, 2017. The increase is primarily due to drivers mentioned above.

Professional Services and Other Revenue. Professional services revenue of $1.9 million was 13% lower in the three months ended June 30, 2018 down from $2.2 million for the three months ended June 30, 2017. The slight decrease was principally driven by a lower volume of custom design professional services.

The following table disaggregates our revenue by major sales channel groupings (in thousands):

	Three months ended June 30,	
	2018	2017
	(unaudited, in thousands)	
Retail	$ 121,810	$ 124,469
Premium Services	45,007	43,486
Web.com for Enterprise	19,873	18,776
Total Revenues	$ 186,690	$ 186,731

Retail. Retail revenue decreased $2.7 million to $121.8 million in the three months ended June 30, 2018 from $124.5 million in the three months ended June 30, 2017, primarily as a result of lower DIFM and DIY web services revenues and custom design services stemming from the Company's lower marketing investments.

Premium Services. Premium services revenue of $45.0 million for the three months ended June 30, 2018 increased $1.5 million from the three months ended June 30, 2017 primarily as a result of higher online marketing and vertical market solutions (TorchX and Lighthouse) revenues, partially offset by lower legacy website revenues.

Web.com for Enterprise. Web.com for Enterprise revenue increased $1.1 million in the three months ended June 30, 2018 over the three months ended June 30, 2017, driven by an increase in platform revenues.

Cost of Revenue and Operating Expenses

	Three months ended June 30,	
	2018	2017
	(unaudited, in thousands)	
Cost of Revenue and Operating Expenses:		
Cost of revenue	$ 61,304	$ 58,527
Sales and marketing	47,643	49,230
Technology and development	17,157	17,323
General and administrative	24,741	21,252
Asset impairment	193	—
Depreciation and amortization	17,475	17,401
Total cost of revenue and operating expenses	$ 168,513	$ 163,733

Cost of Revenue. Cost of revenue increased $2.8 million during the three months ended June 30, 2018, compared to the three months ended June 30, 2017. The increase was due to traffic acquisition costs and domain related expenses, partially offset by a decrease in online marketing expenses. In addition, the inclusion of operating costs from the acquisition of Acquisio contributed to the increase in cost of revenue during the three months ended June 30, 2018 compared to the same prior year period.

Sales and Marketing Expenses. Sales and marketing expenses decreased 3% or $1.6 million to $47.6 million, or 26% of total revenue, from $49.2 million, or 26% of revenue, for the comparable prior year period. The decline of $1.6 million was primarily due to lower marketing expenses of $1.3 million and lower salaries and benefits of $0.3 million.

Technology and Development Expenses. Technology and development expenses of $17.2 million, or 9% of total revenue, decreased by $0.2 million during the three months ended June 30, 2018 from $17.3 million, or 9% of total revenue during the three months ended June 30, 2017. The decrease was driven by lower salaries and benefits of $0.8 million and lower facilities expense of $0.3 million partially offset by higher development costs of $0.9 million.

General and Administrative Expenses. General and administrative expenses increased $3.5 million to $24.7 million, or 13% of total revenue, during the three months ended June 30, 2018, as compared to $21.3 million, or 11% of total revenue during the three months ended June 30, 2017. The increase was due to $4.0 million of higher corporate development expenses related to the Merger Agreement as well as $0.6 million of higher incentive-based benefits during the second quarter ended June 30, 2018 when compared to the same prior year period. Partly offsetting these increases was a $1.0 million decline in legal fees.

Depreciation and Amortization Expense. Depreciation and amortization expense of $17.5 million for the three months ended June 30, 2018 was essentially flat compared to $17.4 million for the three months ended June 30, 2017.

Interest Expense, net. Net interest expense totaled $8.3 million and $8.1 million for the three months ended June 30, 2018 and 2017, respectively. Included in the interest expense for each of the three months ended June 30, 2018 and 2017, respectively, was $3.6 million and $3.7 million, primarily from amortizing deferred financing fees and loan origination discounts. Loan interest expense, excluding amortization, increased $0.3 million during the second quarter ended June 30, 2018, compared to the second quarter of 2017, primarily due to higher average LIBOR interest rates on the Term Loan during the three months ended June 30, 2018.

Income Tax Expense. We recorded income tax expense of $3.1 million and $6.8 million during the three months ended June 30, 2018 and 2017, respectively, based upon our estimated annual effective tax rates for each year. Our estimated annual effective tax rate for 2018 and 2017 reflects the impact of net unfavorable permanent book-tax differences primarily driven by transaction and stock compensation costs and an increase in the projected year-end valuation allowance related to certain state and foreign deferred tax assets.

Comparison of the results for the six months ended June 30, 2018 to the six months ended June 30, 2017.

The operations of DonWeb.com and Acquisio began integrating with the existing legacy Web.com operations immediately following the closing of the acquisitions on January 31, 2017 and November 1, 2017, respectively. As such, our results of operations including revenue and ARPU are not specifically segregated subsequent to these acquisitions, nor would it be indicative of each of the standalone entities.

Revenue

	Six months ended June 30,	
	2018	**2017**
	(unaudited, in thousands)	
Revenue:		
Subscription	$ 369,653	$ 367,859
Professional services and other	3,778	3,991
Total revenue	$ 373,431	$ 371,850

Total revenue increased to $373.4 million for the six months ended June 30, 2018 from $371.9 million for the six months ended June 30, 2017. Total revenue includes $2.2 million and $3.0 million of unfavorable impact resulting from amortizing into revenue, deferred revenue that was recorded at fair value on the respective acquisition dates, during the six months ended June 30, 2018 and 2017, respectively. The unfavorable impact decreased $0.8 million during the six months ended June 30, 2018 compared to the same prior period. The remaining $0.8 million increase in revenue during the six months ended June 30, 2018, was driven principally from platform, online marketing, domain registration and premium domain name sales revenues, partially offset by lower DIFM and professional services revenues.

Subscription Revenue. Subscription revenue increased during the six months ended June 30, 2018, to $369.7 million from $367.9 million during the six months ended June 30, 2017. The increase was due to the drivers discussed above.

Professional Services and Other Revenue. Professional services revenue decreased 5% to $3.8 million for the six months ended June 30, 2018 from $4.0 million for the six months ended June 30, 2017. The decrease was principally driven by a lower volume of custom design professional services.

The following table disaggregates our revenue by major sales channel groupings (in thousands):

	Six months ended June 30,	
	2018	**2017**

	(unaudited, in thousands)		
Retail	$ 242,875	$	248,738
Premium Services	89,564		86,109
Web.com for Enterprise	40,992		37,003
Total Revenues	$ 373,431	$	371,850

Retail. Retail revenue decreased $5.9 million to $242.9 million in the six months ended June 30, 2018 from $248.7 million in the six months ended June 30, 2017, primarily as a result of lower website revenue, including DIFM, DIY, and hosting, as well as lower professional services revenues, stemming from the Company's lower marketing investments. These decreases were partially offset by higher domain registrations, premium domain name sales, and security services revenue.

Premium Services. Premium services revenue of $89.6 million increased $3.5 million in the six months ended June 30, 2018 from $86.1 million in the six months ended June 30, 2017 primarily as a result of higher online marketing and professional services revenue.

Web.com for Enterprise. Web.com for Enterprise revenue increased $4.0 million in the six months ended June 30, 2018 over the six months ended June 30, 2017 driven by an increase in platform revenues.

Cost of Revenue and Operating Expenses

	Six months ended June 30,	
	2018	2017
	(unaudited, in thousands)	
Cost of Revenue and Operating Expenses:		
Cost of revenue	$ 124,018	$ 116,450
Sales and marketing	99,223	100,141
Technology and development	37,158	34,324
General and administrative	41,345	41,108
Restructuring expense	2,703	312
Asset impairment	286	143
Depreciation and amortization	34,989	35,834
Total cost of revenue and operating expenses	$ 339,722	$ 328,312

Cost of Revenue. Cost of revenue increased 6% or $7.6 million during the six months ended June 30, 2018, compared to the six months ended June 30, 2017. The increase was primarily the result of higher traffic acquisition costs of $5.3 million, higher domain related costs and commissions of $3.4 million, increased software related services of $0.6 million as well as the inclusion of operating costs from the Acquisio acquisition. These increases were partially offset by $2.6 million of costs related to online marketing products.

Sales and Marketing Expenses. Sales and marketing expenses decreased 1% to $99.2 million, or 27% of total revenue, during the six months ended June 30, 2018 from $100.1 million, or 27% of revenue, during the six months ended June 30, 2017. Sales and marketing expenses decreased year over year due to lower marketing expenses as we continued to focus on reducing these costs and lower software expenses partially offset by higher salary and benefit costs.

Technology and Development Expenses. Technology and development expenses of $37.2 million, or 10% of total revenue, increased by $2.8 million during the six months ended June 30, 2018, from $34.3 million, or 9% of total revenue during the six months ended June 30, 2017. The increase in technology and development expense is principally driven by $1.4 million of higher software and security costs, higher salaries and benefits of $1.2 million as well as the inclusion of operating costs from the Acquisio acquisition. These additional costs were partially offset by lower facilities costs.

General and Administrative Expenses. General and administrative expenses increased $0.2 million to $41.3 million, or 11% of total revenue, during the six months ended June 30, 2018, as compared to $41.1 million, or 11% of total revenue during the six months ended June 30, 2017. The increase was due to higher corporate development expenses related to the Merger Agreement, offset by lower salaries and benefit costs.

Restructuring Expense. For the six months ended June 30, 2018 and 2017, Restructuring expense was $2.7 million and $0.3 million, respectively. In the first quarter of 2018, the Company recorded a $2.7 million pre-tax restructuring charge stemming from the reorganization of Company operations, designed to consolidate and rationalize infrastructure. In the first quarter of 2017, the Company recorded a $0.3 million charge in connection with certain severance costs.

Depreciation and Amortization Expense. Depreciation and amortization expense decreased $0.8 million to $35.0 million during the six months ended June 30, 2018 from $35.8 million during the six months ended June 30, 2017. The decline was entirely the result of lower amortization as certain intangible assets became fully amortized.

Interest Expense, net. Net interest expense amounted to $17.1 million and $16.0 million for the six months ended June 30, 2018 and 2017, respectively. Included in the interest expense for each of the six months ended June 30, 2018 and 2017, is $7.4 million, primarily from amortizing deferred financing fees and loan origination discounts. Loan interest expense, excluding amortization, increased $1.1 million during the six months ended June 30, 2018, compared to the six months ended 2017, primarily due to higher average LIBOR interest rates on the Term Loan.

Income Tax Expense. We recorded income tax expense of $5.3 million and $12.9 million during the six months ended June 30, 2018 and 2017, respectively, based upon our estimated annual effective tax rates for each year. Our estimated annual effective tax rate for 2018 and 2017 reflects the impact of net unfavorable permanent book-tax differences primarily driven by transaction and stock compensation costs and an increase in the projected year-end valuation allowance related to certain state and foreign deferred tax assets.

Outlook. Due to the previously announced transaction with Siris Capital, the Company is not providing an outlook. The Company's previously issued guidance should no longer be relied upon.

Liquidity and Capital Resources

The following table summarizes total cash flows for operating, investing and financing activities for the six months ended June 30, (in thousands):

	Six months ended June 30, 2018	Six months ended June 30, 2017
	(unaudited, in thousands)	
Net cash provided by operating activities	$ 58,468	$ 76,966
Net cash used in investing activities	(9,149)	(19,160)
Net cash used in financing activities	(31,162)	(44,792)
Effect of exchange rate changes on cash	(200)	(12)
Net increase in cash and cash equivalents	$ 17,957	$ 13,002

Cash Flows

At June 30, 2018, we had $29.9 million of cash and cash equivalents and $156.8 million in negative working capital, as compared to $12.0 million of cash and cash equivalents and $219.9 million in negative working capital at December 31, 2017. The majority of the negative working capital continues to be due to significant balances of deferred revenue, partially offset by deferred expenses, which is amortized to revenue or expense rather than settled with cash. Negative working capital in the six months ended June 30, 2018 was favorably impacted by a reduction of $22.0 million in deferred consideration and the current portion of long-term debt decreased by $11.7 million compared to the same period ended June 30, 2017. We have included the 2018 Notes as long-term debt based upon our intent and ability to refinance these obligations. We expect cash generated from operating activities and available borrowing capacity on our Revolving Credit Facility to be more than sufficient to meet our future working capital and debt servicing requirements.

Net cash provided by operating activities for the six months ended June 30, 2018 decreased $18.5 million to $58.5 million, partially attributable to $4.4 million paid for the purchase of domain name inventory, $3.0 million paid for fees associated with the Merger Agreement, $2.0 million in restructuring related severance payments, and fees paid of approximately $1.3 million in association with the amendment to the Credit Agreement as described in Note 7, *Long-Term Debt* during the six months ended June 30, 2018.

Net cash used in investing activities during the six months ended June 30, 2018 was $9.1 million, as compared to $19.2 million in the six months ended June 30, 2017. The decrease from prior year is a result of the payment of $8.6 million for 100% of the outstanding shares of DonWeb.com and during the six months ended June 30, 2017.

Net cash used in financing activities during the six months ended June 30, 2018 of $31.2 million was $13.6 million lower than the $44.8 million during the six months ended June 30, 2017. The six month period ended June 2018 reflected $9.7 million, or a decrease of $17.3 million, in repayments of long-term debt and the revolving credit facility, net of borrowings associated with amendments to the Credit Agreement, as compared to $27.3 million for the six months ended June 30, 2017. During the six months ended June 30, 2018, a $22.0 million deferred consideration payment was made to the sellers of Yodle, which was $3.1 million higher than the $18.9 million payment made during the six months ended June 30, 2017. During the six months ended June 30, 2018, no common stock was repurchased in connection with the stock repurchase program, as compared to repurchases of 0.1 million common shares totaling $2.1 million for the six months ended June 30, 2017. Proceeds received from the exercise of stock options decreased by $1.2 million to $7.8 million in the six months ended June 30, 2018 when compared to the same prior year period. Approximately $4.2 million and $3.6 million of cash was used to pay employee minimum tax withholding requirements in lieu of receiving common shares during the six months ended June 30, 2018 and 2017, respectively. The six months ended June 30, 2018 and 2017 included payments of $3.0 million and $1.9 million for loan origination and lender fees, in connection with the respective April 2018 and May 2017 amendments to the Credit Agreement, respectively.

Debt Covenants

The Third Amendment to the Credit Agreement dated April 30, 2018 continues to require that we not exceed a maximum first lien net leverage ratio and that we maintain a minimum consolidated cash interest expense to consolidated EBITDA coverage ratio as set forth in the table below. The first lien net leverage ratio is defined as the total of the outstanding consolidated first lien debt minus up to $50.0 million of unrestricted cash and cash equivalents, divided by consolidated EBITDA. The consolidated interest coverage ratio is defined as consolidated EBITDA divided by consolidated cash interest expense. Consolidated EBITDA is defined as consolidated net income before (among other things) interest expense, income tax expense, depreciation and amortization, impairment charges, restructuring costs, changes in deferred revenue and deferred expenses, stock-based compensation expense, non-cash losses, acquisition-related costs and includes the benefit of annualized synergies as a result of business acquisitions.

Outstanding debt as of June 30, 2018 for purposes of the First Lien Net Leverage Ratio was approximately $360.1 million. The covenant calculations as of June 30, 2018 on a trailing 12-month basis are as follows:

Covenant Description	Covenant Requirement as of June 30, 2018	Ratio at June 30, 2018	Favorable
Consolidated Net Debt to EBITDA	Not greater than 4.00	1.91	2.09
Consolidated Interest Coverage Ratio	Greater than 2.00	8.73	6.73

In addition to the financial covenants listed above, the credit agreement includes customary covenants that limit (among other things) the incurrence of debt, the disposition of assets, and making of certain payments. Substantially all of our tangible and intangible assets collateralize the long-term debt as required by the credit agreement.

Stock Repurchase Plan

On November 5, 2014, our Board of Directors authorized a plan for the repurchase of up to $100.0 million of our outstanding common shares through December 31, 2016. In October 2016, our Board of Directors approved an increase in our current stock repurchase plan by $100.0 million and extended the expiration date of the outstanding available shares to December 31, 2018. As of June 30, 2018, there was $33.8 million available for repurchase under this program and no amounts were repurchased during the six months ended June 30, 2018.

The timing, price and volume of repurchases will be based on market conditions, restrictions under applicable securities laws and other factors. The repurchase program does not require us to repurchase any specific number of shares, and we may terminate the repurchase program at any time.

The repurchases may be made periodically in a variety of ways including open market purchases at prevailing market prices, in privately negotiated transactions, or pursuant to a 10b5-1 plan. See Item 2, *Issuer Repurchases of Equity Securities*, for additional information.

New Accounting Standards

See Note 1, *The Company and Summary of Significant Accounting Policies*, for a discussion of recently issued accounting pronouncements that may affect our financial results and disclosures in future periods.

Non-GAAP Financial Measures

In addition to our financial information presented in accordance with U.S. GAAP, management uses certain "non-GAAP financial measures" within the meaning of the SEC Regulation G. Generally, a non-GAAP financial measure is a numerical measure of a company's operating performance, financial position or cash flows that excludes or includes amounts that are included in or excluded from the most directly comparable measure calculated and presented in accordance with U.S. GAAP.

We believe presenting non-GAAP measures is useful to investors because it describes the operating performance of the company, excluding some recurring charges that are included in the most directly comparable measures calculated and presented in accordance with GAAP. Our management uses these non-GAAP measures as important indicators of the Company's past performance and in planning and forecasting performance in future periods. The non-GAAP financial information we present may not be comparable to similarly-titled financial measures used by other companies, and investors should not consider non-GAAP financial measures in isolation from, or in substitution for, financial information presented in compliance with GAAP. You are encouraged to review the reconciliation of non-GAAP financial measures to GAAP financial measures included in this Quarterly Report on Form 10-Q.

Relative to each of the non-GAAP measures Web.com presents, management further sets forth its rationale as follows:

- *Non-GAAP Revenue*. Web.com excludes from non-GAAP revenue the impact of the fair value adjustments to amortized deferred revenue because management believes that excluding such measure helps management and investors better understand the Company's revenue trends.
- *Monthly average revenue per user, or ARPU*. ARPU is a metric the Company measures on a quarterly basis. The Company defines ARPU as quarterly non-GAAP subscription revenue divided by the average of the number of subscribers at the beginning of the quarter and the number of subscribers at the end of the quarter, divided by three months. The Company excludes from subscription revenue the impact of the fair value adjustments to deferred revenue resulting from acquisition-related write downs.

In respect of the foregoing, Web.com provides the following supplemental information to provide additional context for the use and consideration of the non-GAAP financial measures used in this quarterly report Form 10-Q:

- *Fair value adjustments to deferred revenue*. Web.com has recorded fair value adjustments to acquired deferred revenue in accordance with ASC 805-10-65. Web.com excludes the impact of these adjustments from its non-GAAP revenue measures, because doing so results in non-GAAP revenue which is more reflective of ongoing operating results and more comparable to historical operating results, since the majority of the Company's revenue is recurring subscription revenue. Excluding the fair value adjustments to deferred revenue facilitates management's internal comparisons to Web.com's historical operating results.

Web.com Group, Inc.
Reconciliations of GAAP to Non-GAAP Results
(in thousands, except for per share data)
(unaudited)

	Three months ended June 30,	
	2018	**2017**
Reconciliation of GAAP revenue to non-GAAP subscription revenue used in ARPU		
GAAP revenue	$ 186,690	$ 186,731

Fair value adjustments to deferred revenue	1,153	1,328
Non-GAAP revenue	$ 187,843	$ 188,059
Professional services and other revenue	(1,933)	(2,220)
Non-GAAP subscription revenue used in ARPU	$ 185,910	$ 185,839
Average subscribers *(in thousands)*	3,314	3,497
ARPU (Non-GAAP subscription revenue per subscriber over 3 month period)	$ 18.70	$ 17.72

Contractual Obligations and Commitments

We have no material changes outside the ordinary course of business to the Contractual Obligations table as presented in Item 7 - *Management's Discussion and Analysis of Financial Condition and Results of Operations* of our 2017 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 23, 2018.

Off-Balance Sheet Arrangements

As of June 30, 2018 and December 31, 2017, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have not been any material changes to the disclosure about market risk since the year ended December 31, 2017. For a full description of our disclosures about market risk, see Item 7A — *Quantitative and Qualitative Disclosures About Market Risk,* in our 2017 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 23, 2018.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures.

Based on their evaluation as of June 30, 2018, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective at the reasonable assurance level to ensure that the information required to be disclosed by us in this quarterly report on Form 10-Q was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules, and that such information is accumulated and communicated to us to allow timely decisions regarding required disclosures.

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our Company have been detected.

Changes in Internal Controls Over Financial Reporting.

There have been no changes in our internal controls over financial reporting during the quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

On July 13, 2017, the Company was named as a defendant in a lawsuit filed in the United States District Court for the Middle District of Florida. The plaintiff in the case alleges that the Company infringed upon certain copyrights, misappropriated trade secrets, breached contracts, and violated the Florida Deceptive and Unfair Trade Practices Act in connection with the Company’s Ignite products. The plaintiff seeks damages in an unspecified amount, plus the recovery of its costs and attorneys’ fees incurred in the suit. The Company believes that it has meritorious defenses against the asserted claims and is no longer offering the afore mentioned products for sale. A preliminary injunction against the Company was entered and the appeal is pending. The Company has reserved an immaterial amount which it determined to be commensurate with the liability, damage and coverage issues presented by the subject claims at this early stage of the pending lawsuit. It is also not currently possible to reasonably estimate the amount or range of any amounts that the Company may be required to pay as damages in the event that liability is found against the Company in excess of the amount reserved without plaintiff providing more detail on its claims and without expert discovery on the damage and apportionment issues presented by the claims.

From time to time, the Company and its subsidiaries receive inquiries from foreign, federal, state and local regulatory authorities or are named as defendants in various investigations, inquires or legal actions that are incidental to our business and arise out of or are related to claims made in connection with our marketing practices, customer and vendor contracts and employment related disputes. We believe that the resolution of these investigations, inquiries or legal actions will not have a material adverse effect on our financial position, marketing practices or results of operations.

Item 1A. Risk Factors.

In evaluating Web.com and our business, you should carefully consider the risks and uncertainties set forth below, together with all of the other information in this report. The following risks should be read in conjunction with our “Management's Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes. The risks and uncertainties described below are not the only ones we face. If any of the following risks occur, our business, financial condition, operating results, and prospects could be materially harmed. In that event, the price of our common stock could decline, and you could lose part or all of your investment.

The risks relating to our business and industry, as set forth in our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission on February 28, 2018, are set forth below and except for the new risks relating to the Agreement and Plan of Merger (the "Merger Agreement") that the Company entered into with Parker Private Holdings II LLC, a Delaware limited liability company ("Parent"), and Parker Private Merger Sub Inc., a Delaware corporation and wholly owned subsidiary of Parent ("Merger Sub"), providing for the merger of Merger Sub with and into the Company (the "Merger"), with the Company continuing as the surviving corporation (the "Surviving Corporation"), have not materially changed.

If the proposed Merger is not completed, our business could be materially and adversely affected and our stock price could decline.

On June 20, 2018, we entered into the Merger Agreement, pursuant to which, upon the terms and subject to the conditions set forth therein, a wholly-owned, indirect subsidiary of Parent, Parker Private Merger Sub, Inc., a Delaware corporation, would merge with and into us, with us continuing on as the surviving entity and a wholly-owned, indirect subsidiary of Parent. The Merger is subject to closing conditions, including the adoption of the Merger Agreement by the holders of a majority of the outstanding shares of our common stock. Therefore, the Merger may not be completed or may not be completed as quickly as expected. If the Merger Agreement is terminated, the market price of our common stock will likely decline, as we believe that our market price reflects an assumption that the Merger will be completed. For example, on June 19, 2018, the last full trading day prior to the public announcement of the proposed Merger, Web.com common stock closed at $23.65 per share, and on the next trading day, following the announcement of our entering into the Merger Agreement, our stock price increased to a closing price of $25.85 per share. In addition, our stock price may be adversely affected as a result of the fact that we have incurred and will continue to incur significant expenses related to the Merger that will not be recovered if the Merger is not completed. If the Merger Agreement is terminated under certain circumstances, we may be obligated to pay Parent a termination fee equal to $13.0 million if the Company enters into a definitive agreement relating to a Superior Proposal with an Excluded Party not later than five business days following the end of the Go-Shop Period or a termination fee in certain other cases equal to $39.1 million after the Go-Shop Period. As a consequence of the failure of the Merger to be completed, as well as of some or all of these potential effects of the termination of the Merger Agreement, our business could be materially and adversely affected.

The fact that there is a Merger pending could have an adverse effect on our business, revenue and results of operations.

While the Merger is pending, it creates uncertainty about our future. While the Merger is pending, we are subject to a number of risks that may adversely affect our business, revenue and results of operations, including:

- the diversion of management and employee attention and the unavoidable disruption to our relationships with customers and vendors may detract from our ability to grow revenues and minimize costs;
- the fact that we have incurred and will continue to incur significant expenses related to the Merger;
- the fact that, pursuant to the Merger Agreement, we must generally conduct our business in the ordinary course and we are subject to a variety of other restrictions on the conduct of our business prior to the closing of the Merger or termination of the Merger Agreement; and
- the fact that we may be unable to respond effectively to competitive pressures, industry developments and future opportunities.

Our operating results are difficult to predict and fluctuations in our performance may result in volatility in the market price of our common stock.

Due to our evolving business model and the unpredictability of our evolving industry our operating results are difficult to predict. We expect to experience fluctuations in our operating and financial results due to a number of factors, such as:

- our ability to retain and increase sales to existing customers, attract new customers and satisfy our customers' requirements;
- the renewal rates and renewal terms for our services;
- changes in our pricing policies;
- the introduction of new services and products by us or our competitors;
- our ability to hire, train and retain members of our sales force;

- the rate of expansion and effectiveness of our sales force;
- technical difficulties or interruptions in our services;
- general economic conditions;
- additional investment in our services or operations;
- our ability to successfully identify acquisition targets and integrate acquired businesses and technologies; and
- our success in maintaining and adding strategic marketing relationships.

These factors and others all tend to make the timing and amount of our revenue unpredictable and may lead to greater period-to-period fluctuations in revenue than we have experienced historically.

Additionally, in light of current global and U.S. economic conditions, we believe that our quarterly revenue and results of operations are likely to vary significantly in the future and that period-to-period comparisons of our operating results may not be meaningful. The results of one quarter may not be relied on as an indication of future performance. If our quarterly revenue or results of operations fall below the expectations of investors or securities analysts, the price of our common stock could decline substantially.

We may expand through acquisitions of, or investments in, other companies or technologies, which may result in additional dilution to our stockholders, consume resources that may be necessary to sustain our business and increase debt for funding acquisitions.

One of our business strategies is to acquire complementary services, technologies or businesses. In connection with one or more of those transactions, we may:

- issue additional equity securities that would dilute our stockholders;
- use cash that we may need in the future to operate our business; and
- incur debt that could have terms unfavorable to us or that we might be unable to repay.

Business acquisitions also involve the risk of unknown liabilities associated with the acquired business. In addition, we may not realize the anticipated benefits of any acquisition, including securing the services of key employees. Incurring unknown liabilities or the failure to realize the anticipated benefits of an acquisition could seriously harm our business.

The failure to integrate successfully the businesses of Web.com and an acquired company, if any, in the future within the expected timeframe would adversely affect the combined company's future results.

One of our business strategies is to acquire complementary services, technologies or businesses. The success of any future acquisitions, including our acquisitions of Yodle, TORCHx and DonWeb, will depend, in large part, on the ability of the combined company to realize the anticipated benefits, including annual net operating synergies, from combining the businesses of Web.com and the acquired company. To realize these anticipated benefits, the combined company must successfully integrate the businesses of Web.com and an acquired company. This integration will be complex and time consuming.

The failure to integrate successfully and to manage successfully the challenges presented by the integration process may result in the combined company's failure to achieve some or all of the anticipated benefits of the acquisition.

Potential difficulties that may be encountered in the integration process include the following:

- lost sales and customers as a result of customers of either of the two companies deciding not to do business with the combined company;
- complexities associated with managing the larger, more complex, combined business;
- integrating personnel from the two companies while maintaining focus on providing consistent, high quality services and products;
- potential unknown liabilities and unforeseen expenses, delays or regulatory conditions associated with the acquisition; and
- performance shortfalls at one or both of the companies as a result of the diversion of management's attention caused by completing the acquisition and integrating the companies' operations.

Successful integration of Web.com's and an acquired company's operations, products and personnel may place a significant burden on the combined company's management and internal resources. Challenges of integration include the combined company's ability to incorporate acquired products and business technology into its existing product offerings, and its ability to sell the acquired products through Web.com's existing or acquired sales channels. Web.com may also experience difficulty in effectively integrating the different cultures and practices of the acquired company, as well as in assimilating its broad and geographically dispersed personnel. Further, the difficulties of integrating the acquired company could disrupt the combined company's ongoing business, distract its management focus from other opportunities and challenges, and increase the combined company's expenses and working capital requirements. The diversion of management attention and any difficulties encountered in the transition and integration process could harm the combined company's business, financial condition and operating results.

We rely heavily on the reliability, security, and performance of our internally developed systems and operations, and any difficulties in maintaining these systems may result in service interruptions, decreased customer service, or increased expenditures.

The software and workflow processes that underlie our ability to deliver our web services and products have been developed primarily by our own employees. The reliability and continuous availability of these internal systems are critical to our business, and any interruptions that result in our inability to timely deliver our web services or products, or that materially impact the efficiency or cost with which we provide these web services and products, would harm our reputation, profitability, and ability to conduct business. In addition, many of the software systems we currently use will need to be enhanced over time or replaced with equivalent commercial products, either of which could entail considerable effort and expense. If we fail to develop and execute reliable policies, procedures, and tools to operate our infrastructure, we could face a substantial decrease in workflow efficiency and increased costs, as well as a decline in our revenue.

System and Internet failures could harm our reputation, cause our customers to request reimbursement for services paid for and not received or cause our customers to seek another provider for services.

We must be able to operate the systems that manage our network around the clock without interruption. Our operations depend upon our ability to protect our network infrastructure, equipment, and customer files against damage from human error, fire, earthquakes, hurricanes, floods, power loss, telecommunications failures, sabotage, intentional acts of vandalism and similar events. Our networks are currently subject to various points of failure. For example, a problem with one of our routers (devices that move information from one computer network to another) or switches could cause an interruption in the services that we provide to some or all of our customers. In the past, we have experienced periodic interruptions in service. We have also experienced, and in the future we may again experience, delays or interruptions in service as a result of the accidental or intentional actions of Internet users, current and former employees, or others. Any future interruptions could:

- cause customers or end users to seek damages for losses incurred;
- require us to replace existing equipment or add redundant facilities;
- damage our reputation for reliable service;
- cause existing customers to cancel their contracts; or
- make it more difficult for us to attract new customers.

We have been adversely affected by information security breaches and cyber security attacks and could be adversely affected by breaches or attacks in the future.

Information security risks have generally increased in recent years, in part because of the proliferation of new technologies and the use of the Internet, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties, some of which may be linked to terrorist organizations or hostile foreign governments. Our web services involve the storage and transmission of our customers' and employees' proprietary information. Our business relies on our digital technologies, computer and email systems, software, and networks to conduct its operations. Our technologies, systems and networks may become the target of criminal cyberattacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary and other information of Web.com or third parties with whom we deal, or otherwise disrupt our or our customers' or other third parties' business operations. It is critical to our business strategy that our facilities and infrastructure remain secure and are perceived by the marketplace to be secure. Although we employ appropriate security technologies (including data encryption processes, intrusion detection systems), and conduct comprehensive risk assessments and other internal control procedures to assure the security of our customers' data, we cannot guarantee that these measures will be sufficient for this purpose.

In 2015, we were subject to an unauthorized breach of one of our computer systems. If our security measures are breached again as a result of third-party action, employee error or otherwise, and as a result our customers' or end users' data becomes available to unauthorized parties, we could incur liability and our reputation would be damaged, which could lead to the loss of current and potential customers. If we experience any breaches of our network security or sabotage, we might be required to expend significant capital and other resources to detect, remedy, protect against or alleviate these and related problems, and we may not be able to remedy these problems in a timely manner, or at all. Because techniques used by outsiders to obtain unauthorized network access or to sabotage systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or implement adequate preventative measures. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. Although we have insurance in place that covers such incidents, the cost of a breach or cyberattack could well exceed any such insurance coverage.

Our servers are also frequently subjected to denial of service attacks and other attempts to disrupt traffic to ours and our customers' websites. Although we have been able to minimize these disruptions in the past, there is no guarantee that we will be able to do so successfully in the future. Our customers and employees have been and will continue to be targeted by parties using fraudulent “spoof” and “phishing” emails to misappropriate personal information or to introduce viruses or other malware through “trojan horse” programs to our users' computers. These emails appear to be legitimate emails sent by us, but direct recipients to fake websites operated by the sender of the email or request that the recipient send a password or other confidential information through email or download malware. Despite our efforts to mitigate “spoof” and “phishing” emails through product improvements and user education, “spoof” and “phishing” activities remain a serious problem that may damage our brands, discourage use of our websites and services and increase our costs.

We could become involved in claims, lawsuits or investigations that may result in adverse outcomes.

We may become a target of government investigations, private claims, or lawsuits, involving but not limited to general business, patent, or employee matters, including consumer class actions challenging our business practices. Such proceedings may initially be viewed as immaterial but could prove to be material. Litigation is inherently unpredictable, and excessive verdicts do occur. Adverse outcomes could result in significant monetary damages, including indemnification payments, or injunctive relief that could adversely affect our ability to conduct our business. Given the inherent uncertainties in litigation, even when we are able to reasonably estimate the amount of possible loss or range of loss and therefore record an aggregate litigation accrual for probable and reasonably estimable loss contingencies, the accrual may change in the future due to new developments or changes in approach. In addition, such investigations, claims and lawsuits could involve significant expense or divert management's attention and resources from other matters.

If we cannot adapt to technological advances, our web services and products may become obsolete and our ability to compete would be impaired.

Changes in our industry occur very rapidly, including changes in the way the Internet operates or is used by small businesses and their customers. As a result, our web services and products could become obsolete quickly. The introduction of competing products employing new technologies and the evolution of new industry standards could render our existing products or services obsolete and unmarketable. To be successful, our web services and products must keep pace with technological developments and evolving industry standards, address the ever-changing and increasingly sophisticated needs of our customers, and achieve market acceptance. If we are unable to develop new web services or products, or enhancements to our web services or products, on a timely and cost-effective basis, or if our new web services or products or enhancements do not achieve market acceptance, our business would be seriously harmed.

In the future, we may be unable to generate sufficient cash flow to satisfy our debt service obligations.

As of June 30, 2018, we had $390.0 million of aggregate principal amount of our Term Loan (defined in Note 7, *Long-Term Debt*) and $258.8 million aggregate principal amount of 1.00% Senior Convertible Notes due August 15, 2018 ("2018 Notes") outstanding. Our ability to generate cash flow from operations to make principal and interest payments on our debt will depend on our future performance, which will be affected by a range of economic, competitive and business factors. If our operations do not generate sufficient cash flow from operations to satisfy our debt service obligations, we may need to seek additional capital to make these payments or undertake alternative financing plans, such as refinancing or restructuring our debt, selling assets or reducing or delaying capital investments and acquisitions. We cannot assure you that such additional capital or alternative financing will be available on favorable terms, if at all. Our inability to generate sufficient cash flow from operations or obtain additional capital or alternative financing on acceptable terms could harm our business, financial condition and results of operations. We may also choose to use cash flow from operations to repurchase shares of our common stock which would otherwise be available to pay down long-term debt.

We might require additional capital to support our growth, and this capital might not be available on acceptable terms or at all.

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop new services and products, enhance our existing web services, or our operating infrastructure and acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds.

In the event of another global financial crisis, such as the one experienced in 2008, which included, among other things, significant reductions in available capital from banks and other providers of credit and substantial reductions or fluctuations in equity and currency values worldwide, may make it difficult for us to obtain additional financing on terms favorable to us, if at all. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of our common stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly impaired.

Mobile devices are increasingly being used to access the Internet, and our cloud-based and mobile support products may not operate or be as effective when accessed through these devices, which could harm our business.

We offer our products across several operating systems and through the Internet. Mobile devices, such as smartphones and tablets, are increasingly being used as the primary means for accessing the Internet and conducting e-commerce. We are dependent on the functionality of our products with third-party mobile devices and mobile operating systems, as well as web browsers that we do not control. Any changes in such devices, systems or web browsers that impact the functionality of our products or give preferential treatment to competitive products could adversely affect usage of our products. In addition, because a growing number of our customers access our products through mobile devices, we are dependent on the interoperability of our products with mobile devices and operating systems. Improving mobile functionality is integral to our long-term product development and growth strategy. In the event that our customers have difficulty accessing and using our products on mobile devices, our customer growth, business and operating results could be adversely affected.

Our failure to build and maintain brand awareness could compromise our ability to compete and to grow our business.

As a result of the highly competitive nature of our market, and the likelihood that we will face competition from new entrants, we believe our own brand name recognition and reputation are important. If we do not continue to build and maintain brand awareness, we could be placed at a competitive disadvantage to companies whose brands are more recognizable than ours.

Providing web services and products to small businesses designed to allow them to Internet-enable their businesses is a fragmented and changing market; if this market fails to grow, we will not be able to grow our business.

Our success depends on a significant number of small businesses outsourcing website design, hosting, and management as well as adopting other online business solutions. The market for our web services and products is relatively fragmented and constantly changing. Custom website development has been the predominant method of Internet enablement, and small businesses may be slow to adopt our template-based web services and products. Further, if small businesses determine that having an online presence is not giving their businesses any advantages, they would be less likely to purchase our web services and products. If the market for our web services and products fails to grow or grows more slowly than we currently anticipate, or if our web services and products fail to achieve widespread customer acceptance, our business would be seriously harmed.

A portion of our web services are sold on a month-to-month basis, and if our customers are unable or choose not to subscribe to our web services, our revenue may decrease.

A portion of our web service offerings are sold pursuant to month-to-month subscription agreements and our customers generally can cancel their subscriptions to our web services at any time with little or no penalty.

There are a variety of factors, which have in the past led, and may in the future lead, to a decline in our subscription renewal rates. These factors include the cessation of our customers' businesses, the overall economic environment in the United States and its impact on small businesses, the services and prices offered by us and our competitors, and the evolving use of the Internet by small businesses. If our renewal rates are low or decline for any reason, or if customers demand renewal terms less favorable to us, our revenue may decrease, which could adversely affect our financial performance.

We were profitable for the years ended December 31, 2017, 2016 and 2015 and the three and six months ended June 30, 2018 and 2017, but we were not profitable for the years ended December 31, 2014, and 2013 and we may not be profitable in the future.

We were profitable for the years ended December 31, 2017, 2016 and 2015 and the three and six months ended June 30, 2018 and 2017, but we were not profitable for the years ended December 31, 2014, and 2013 and we may not be profitable in the future. As of June 30, 2018, we had an accumulated deficit of approximately $180.9 million. We expect that our expenses relating to the sale and marketing of our web services, technology improvements and general and administrative functions, as well as the costs of operating and maintaining our technology infrastructure, will remain consistent as a percentage of revenue. Accordingly, we may need to maintain or increase our revenue levels to be able to continue to maintain profitability. We may not be able to reduce in a timely manner or maintain our expenses in response to any decrease in our revenue, and our failure to do so would adversely affect our operating results and our level of profitability.

If Internet usage does not grow or if the Internet does not continue to be the standard for eCommerce, our business may suffer.

Our success depends upon the continued development and acceptance of the Internet as a widely used medium for eCommerce and communication. Rapid growth in the uses of, and interest in, the Internet is a relatively recent phenomenon and its continued growth cannot be assured. A number of factors could prevent continued growth, development and acceptance, including:

- the unwillingness of companies and consumers to shift their purchasing from traditional vendors to online vendors;
- the Internet infrastructure may not be able to support the demands placed on it, and its performance and reliability may decline as usage grows;
- security and authentication issues may create concerns with respect to the transmission over the Internet of confidential information; and
- privacy concerns, including those related to the ability of websites to gather user information without the user's knowledge or consent, may impact consumers' willingness to interact online.

Any of these issues could slow the growth of the Internet, which could limit our growth and revenues.

Charges to earnings resulting from acquisitions may adversely affect our operating results.

One of our business strategies is to acquire complementary services, technologies or businesses and we have a history of such acquisitions. Under applicable accounting, we allocate the total purchase price of a particular acquisition to an acquired company's net tangible assets and intangible assets based on their fair values as of the date of the acquisition, and record the excess of the purchase price over those fair values as goodwill. Our management's estimates of fair value are based upon assumptions believed to be reasonable but are inherently uncertain. Going forward, the following factors, among others, could result in material charges that would adversely affect our financial results:

- impairment of goodwill and/or intangible assets;
- charges for the amortization of identifiable intangible assets and for stock-based compensation;
- accrual of newly identified pre-merger contingent liabilities that are identified subsequent to the finalization of the purchase price allocation; and
- charges to eliminate certain of our pre-merger activities that duplicate those of the acquired company or to reduce our cost structure.

Additional costs may include costs of employee redeployment, relocation and retention, including salary increases or bonuses, accelerated amortization of deferred equity compensation and severance payments, reorganization or closure of facilities, taxes and termination of contracts that provide redundant or conflicting services. Some of these costs may have to be accounted for as expenses that would decrease our net income and earnings per share for the periods in which those adjustments are made.

Weakened global economic conditions may harm our industry, business and results of operations.

Our overall performance depends in part on worldwide economic conditions, which may remain challenging for the foreseeable future. Global financial developments, such as the United Kingdom's decision to exit the European Monetary Union, may adversely impact the economy of the European Union, seemingly unrelated to us or our industry may harm us. The United States and other key international economies have been impacted by falling demand for a variety of goods and services, poor credit, restricted liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, bankruptcies, and overall uncertainty with respect to the economy. These conditions affect spending and could adversely affect our customers' ability or willingness to purchase our service, delay prospective customers' purchasing decisions, reduce the value or duration of their subscriptions, or affect renewal rates, all of which could harm our operating results.

Our existing and target customers are small businesses. These businesses may be more likely to be significantly affected by economic downturns than larger, more established businesses. For instance, a financial crisis affecting the banking system or financial markets or the possibility that financial institutions may consolidate or go out of business would result in a tightening in the credit markets, which could limit our customers' access to credit. Additionally, these customers often have limited discretionary funds, which they may choose to spend on items other than our web services and products. If small businesses experience economic hardship, or if they behave more conservatively in light of the general economic environment, they may be unwilling or unable to expend resources to develop their online presences, which would negatively affect the overall demand for our services and products and could cause our revenue to decline.

If we fail to comply with the established rules of credit card associations, we will face the prospect of financial penalties and could lose our ability to accept credit card payments from customers, which would adversely affect our business and financial condition.

A substantial majority of our revenue originates from online credit card transactions. Under credit card association rules, penalties may be imposed at the discretion of the association. Any such potential penalties would be imposed on our credit card processor by the association. Under our contract with our processor, we are required to reimburse our processor for such penalties. We face the risk that one or more credit card associations may, at any time, assess penalties against us or terminate our ability to accept credit card payments from customers, which would have a material adverse effect on our business, financial condition and results of operations.

Our data centers are maintained by third parties. A disruption in the ability of one of these service providers to provide service to us could cause a disruption in service to our customers.

A substantial portion of the network services and computer servers we utilize in the provision of services to customers are housed in data centers owned by other service providers. In particular, a significant number of our servers are housed in data centers in Atlanta, Georgia, Jacksonville, Florida and New York, New York. We obtain Internet connectivity for those servers, and for the customers who rely on those servers, in part through direct arrangements with network service providers and in part indirectly through the owners of those data centers. We also utilize other third-party data centers in other locations. In the future, we may house other servers and hardware items in facilities owned or operated by other service providers.

A disruption in the ability of one of these service providers to provide service to us could cause a disruption in service to our customers. A service provider could be disrupted in its operations through a number of contingencies, including unauthorized access, computer viruses, accidental or intentional actions, electrical disruptions, and other extreme conditions. Although we believe we have taken adequate steps to protect our business through contractual arrangements with our service providers, we cannot eliminate the risk of a disruption in service resulting from the accidental or intentional disruption in service by a service provider. Any significant disruption could cause significant harm to us, including a significant loss of customers. In addition, a service provider could raise its prices or otherwise change its terms and conditions in a way that adversely affects our ability to support our customers or could result in a decrease in our financial performance.

We face intense and growing competition. If we are unable to compete successfully, our business will be seriously harmed.

The market for our web services and products is highly competitive and is characterized by relatively low barriers to entry. Our competitors vary in terms of their size and what services they offer. We encounter competition from a wide variety of company types, including:

- website design and development service and software companies;
- Internet service providers and application service providers;
- Internet search engine providers;
- local business directory providers;
- website domain name providers and hosting companies; and
- eCommerce platform and service providers.

In addition, due to relatively low barriers to entry in our industry, we expect the intensity of competition to increase in the future from both established and emerging companies. Increased competition may result in reduced gross margins, the loss of market share, or other changes which could seriously harm our business. We also expect that competition will increase as a result of industry consolidations and formations of alliances among industry participants.

Many of our current and potential competitors have longer operating histories, significantly greater financial, technical, marketing and other resources, greater brand recognition and, we believe, a larger installed base of customers. These competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements. They may also be able to devote greater resources to the promotion and sale of their services and products than we can. If we fail to compete successfully against current or future competitors, our revenue could increase less than anticipated or decline and our business could be harmed.

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

Our business activities are subject to various restrictions under U.S. export controls and trade and economic sanctions laws, including the U.S. Commerce Department's Export Administration Regulations and economic and trade sanctions regulations maintained by the U.S. Treasury Department's Office of Foreign Assets Control, or OFAC. If we fail to comply with these laws and regulations, we could be subject to civil or criminal penalties and reputational harm. U.S. export control laws and economic sanctions laws also prohibit certain transactions with U.S. embargoed or sanctioned countries, governments, persons and entities.

Our business depends in part on our ability to continue to provide value-added web services and products, many of which we provide through agreements with third parties. Our business will be harmed if we are unable to provide these web services and products in a cost-effective manner.

A key element of our strategy is to combine a variety of functionalities in our web service offerings to provide our customers with comprehensive online solutions, such as Internet search optimization, local yellow pages listings, and eCommerce capabilities. We provide many of these services through arrangements with third parties, and our continued ability to obtain and provide these services at a low cost is central to the success of our business. For example, we currently have agreements with several service providers that enable us to provide, at a low cost, Internet yellow pages advertising. However, these agreements may be terminated on short notice, typically 30 to 90 days, without penalty. If any of these third parties were to terminate their relationships with us, or to modify the economic terms of these arrangements, we could lose our ability to provide these services at a cost-effective price to our customers, which could cause our revenue to decline or our costs to increase.

The Company's ability to use its net operating loss carry forwards ("NOLs") to offset future taxable income may be limited if taxable income does not reach sufficient levels, or as a result of a change in control which could limit available NOLs.

As of December 31, 2017, the Company had U.S. Federal NOLs of approximately $182.2 million available to offset future taxable income and expire between 2020 and 2036. These NOLs are subject to various limitations under Section 382 of the Internal Revenue Code, as amended (the "Code"). If the Company experiences any future "ownership change" as defined in Section 382 of the Code, the Company's ability to further utilize its U.S. Federal NOLs could be limited. Similar results could apply to our U.S. state NOLs because the states in which we operate generally follow Section 382.

As of December 31, 2017, the Company also had $57.5 million of NOLs in the United Kingdom ("UK") related to Scoot, of which the substantial portion was incurred in pre-acquisition periods. Although not subject to expiration, pre-acquisition NOLs could be eliminated under certain circumstances, as determined under applicable tax laws in the United Kingdom, in the three year periods both before and after the acquisition date. Although the Company does not believe the pre-acquisition NOLs are subject to any such limitations to date, future activities could subject these NOLs to limitation. As of December 31, 2017, the Company continued to maintain a full valuation allowance against its net deferred tax asset in the UK, excluding indefinite lived intangibles, as it more likely than not that these net deferred tax assets will not be realized. The net deferred tax values related to the net UK deferred tax assets and associated valuation allowance increased as a result of changes in foreign exchange rates during the year.

The Company's ability to use its NOLs will also depend on the amount of taxable income generated in future periods. The U.S. NOLs may expire before the Company can generate sufficient taxable income to utilize the NOLs.

Any growth could strain our resources and our business may suffer if we fail to implement appropriate controls and procedures to manage our growth.

Growth in our business may place a strain on our management, administrative, and sales and marketing infrastructure. If we fail to successfully manage our growth, our business could be disrupted, and our ability to operate our business profitably could suffer. Growth in our employee base may be required to expand our customer base and to continue to develop and enhance our web service and product offerings. To manage growth of our operations and personnel, we will need to enhance our operational, financial, and management controls and our reporting systems and procedures. This will require additional personnel and capital investments, which will increase our cost base. The growth in our fixed cost base may make it more difficult for us to reduce expenses in the short term to offset any shortfalls in revenue.

If we fail to maintain an effective system of internal controls, we may not be able to accurately or timely report our financial results, which could cause our stock price to fall or result in our stock being delisted.

Effective internal controls are necessary for us to provide reliable and accurate financial reports. We will need to devote significant resources and time to comply with the requirements of Sarbanes-Oxley with respect to internal control over financial reporting. In addition, Section 404 under Sarbanes-Oxley requires that we assess and our auditors attest to the design and operating effectiveness of our internal control over financial reporting. Our ability to comply with the annual internal control report requirement in future years will depend on the effectiveness of our financial reporting and data systems and controls across our company and our operating subsidiaries. We expect these systems and controls to become increasingly complex as we integrate acquisitions and our business grows. To effectively manage this complexity, we will need to continue to improve our operational, financial, and management controls and our reporting systems and procedures. Any failure to implement required new or improved controls, or difficulties encountered in the implementation or operation of these controls, could harm our operating results or cause us to fail to meet our financial reporting obligations, which could adversely affect our business and jeopardize our listing on the NASDAQ Global Select Market, either of which would harm our stock price.

We are dependent on our executive officers, and the loss of any key personnel may compromise our ability to successfully manage our business and pursue our growth strategy.

Our future performance depends largely on the continuing service of our executive officers and senior management team, especially that of David Brown, our Chief Executive Officer. Our executives are not contractually obligated to remain employed by us. Accordingly, any of our key employees could terminate their employment with us at any time without penalty and may go to work for one or more of our competitors after the expiration of their non-compete period. The loss of one or more of our executive officers could make it more difficult for us to pursue our business goals and could seriously harm our business.

Our growth will be adversely affected if we cannot continue to successfully retain, hire, train, and manage our key employees, particularly in the telesales and customer service areas.

Our ability to successfully pursue our growth strategy will depend on our ability to attract, retain, and motivate key employees across our business. We have many key employees throughout our organization that do not have non-competition agreements and may leave to work for a competitor at any time. In particular, we are substantially dependent on our telesales and customer service employees to obtain and service new customers. Competition for such personnel and others can be intense, and there can be no assurance that we will be able to attract, integrate, or retain additional highly qualified personnel in the future. In addition, our ability to achieve significant growth in revenue will depend, in large part, on our success in effectively training sufficient personnel in these two areas. New hires require significant training and in some cases may take several months before they achieve full productivity, if they ever do. Our recent hires and planned hires may not become as productive as we would like, and we may be unable to hire sufficient numbers of qualified individuals in the future in the markets where we have our facilities. If we are not successful in retaining our existing employees, or hiring, training and integrating new employees, or if our current or future employees perform poorly, growth in the sales of our services and products may not materialize and our business will suffer.

Increases in payment processing fees, changes to operating rules, the acceptance of new types of payment methods or payment fraud could increase our operating expenses and adversely affect our business and results of operations.

Our customers pay for our services predominately using credit and debit cards (together, "payment cards"). Our acceptance of these payment cards requires our payment of certain fees. From time to time, these fees may increase, either as a result of rate changes by the payment processing companies or as a result of a change in our business practices which increase the fees on a cost-per-transaction basis. Such increases may adversely affect our results of operations.

As our services continue to evolve and expand internationally, we will likely explore accepting various forms of payment, which may have higher fees and costs than our currently accepted payment methods. In addition, if more of our customers utilize higher cost payment methods, our payment costs could increase and our results of operations could be adversely impacted.

Furthermore, we do not obtain signatures from customers in connection with their use of payment methods. To the extent we do not obtain customer signatures, we may be liable for fraudulent payment transactions, even when the associated financial institution approves payment of the orders.

From time to time, fraudulent payment methods are used to obtain service. While we do have certain safeguards in place, we nonetheless experience some fraudulent transactions. The costs to us of these fraudulent transaction includes the costs of implementing as well as updating our safeguards. These fraudulent accounts also increase our bad debt expense and complicate our forecasting efforts as they result in almost 100% customer loss when they are discovered. We do not currently carry insurance against the risk of fraudulent payment transactions. A failure to adequately control fraudulent payment transactions may harm our business and results of operations.

Our business could be affected by new governmental regulations regarding the Internet.

To date, government regulations have not materially restricted the use of the Internet in most parts of the world. The legal and regulatory environment pertaining to the Internet, however, is uncertain and may change. New laws may be passed, existing but previously inapplicable or unenforced laws may be deemed to apply to the Internet or regulatory agencies may begin to rigorously enforce such formerly unenforced laws, or existing legal safe harbors may be narrowed, both by U.S. federal or state governments and by governments of foreign jurisdictions. These changes could affect:

- the liability of online resellers for actions by customers, including fraud, illegal content, spam, phishing, libel and defamation, infringement of third-party intellectual property and other abusive conduct;
- other claims based on the nature and content of Internet materials;
- user privacy and security issues;
- consumer protection;
- sales taxes by the states in which we sell certain of our products and other taxes, including the value-added tax of the European Union member states, which could impact how we conduct our business by requiring us to set up processes to collect and remit such taxes and could increase our sales audit risk;
- characteristics and quality of services; and
- cross-border eCommerce.

The adoption of any new laws or regulations, or the application or interpretation of existing laws or regulations to the Internet, could hinder growth in use of the Internet and online services generally, and decrease acceptance of the Internet and online services as a means of communication, ecommerce and advertising. In addition, such changes in laws could increase our costs of doing business, subject our business to increased liability or prevent us from delivering our services over the Internet, thereby harming our business and results of operations.

Data protection laws and self-regulatory codes may restrict our activities, increase our costs and increase our liability.

Data protection laws and self-regulatory codes may restrict our activities, increase our costs and increase our liability.

We collect personally identifiable information, including payment card information, and other data from our current and prospective customers, website users and employees. We are subject to a variety of laws and regulations governing privacy and data security imposed by federal and state laws, as well as many other countries where we offer our software and services. Many federal, state, and foreign government bodies and agencies, including the Federal Trade Commission ("FTC"), Federal Communications Commission ("FCC"), and state and local agencies, and the European Union. The U.S. federal and various state and foreign governments have adopted or proposed limitations on, or requirements regarding, the collection, processing, distribution, use, security and storage of personally identifiable information of individuals, including payment card information, and the FTC and many state attorneys general are applying federal and state consumer protection laws to impose standards on the online collection, use and dissemination of data.

On April 27, 2016, the European Union ("EU") adopted the General Data Protection Regulation 2016/679, or GDPR, which became effective on May 25, 2018, replacing existing data protection laws of each EU member state. The GDPR applies to any company established in the EU as well as to those outside the EU if they process the personal data of EU data subjects, including payment card information, and the processing activities are related to either (1) the offering goods or services (whether or not a payment by the data subject is required) to such data subjects or (2) the monitoring of their behavior as far as such behavior takes place within the EU. The GDPR enhances data protection obligations for processors and controllers of personal data of EU data subjects, including, for example, by requiring expanded disclosures about how personal information is to be used, imposing limitations on retention of such information, requiring mandatory notification to the relevant supervisory authority, and in some cases to the data subject, of data breaches, and requiring that data controllers enter into written contracts imposing new obligations on service providers to which such information is disclosed. The GDPR significantly increases the level of sanctions for non-compliance from those in prior EU data protection laws. EU data protection authorities have the power to impose administrative fines for violations of the GDPR up to a maximum of €20 million or 4% of the data controller’s or data processor’s total worldwide global turnover for the preceding financial year, whichever is higher, and violations of the GDPR may also lead to damages claims by data controllers or data subjects. We may experience reluctance or refusal by current or prospective European customers to use our products, and we may find it necessary or desirable to make further changes to our handling of personal data of European Economic Area residents.

If our privacy or data security measures fail to comply with current or future laws, regulations, policies, legal obligations or industry standards, we may be subject to litigation, regulatory investigations, fines or other liabilities, as well as negative publicity and a potential loss of business. Moreover, if future laws, regulations, other legal obligations or industry standards, or any changed interpretations of the foregoing, limit our customers' ability to use and share personally identifiable information, including payment card information, or our ability to store, process and share such personally identifiable information or other data, demand for our products could decrease, our costs could increase, and our business, operating results and financial condition could be harmed.

Changes in legislation or governmental regulations, policies or standards applicable to our product offerings may have a significant impact on our ability to compete in our target markets.

The telecommunications industry is regulated by the FCC in the U.S. While most such regulations do not affect us directly, certain of those regulations may affect our product offerings. For example, effective October 16, 2013, FCC rules were adopted to require companies to obtain prior express written consent from consumers before calling them with prerecorded telemarketing "robocalls" or before using an autodialer to call their wireless numbers with telemarketing messages unless an unambiguous written consent is obtained before the telemarketing call or text message. If we are unable to satisfy such FCC rules, we could be prevented from providing such product offering to our customers, which could materially and adversely affect our future revenues.

Our business could be materially harmed if the administration and operation of the Internet no longer rely upon the existing domain system.

The domain registration industry continues to develop and adapt to changing technology. This development may include changes in the administration or operation of the Internet, including the creation and institution of alternate systems for directing Internet traffic without the use of the existing domain system. The widespread acceptance of any alternative systems could eliminate the need to register a domain to establish an online presence and could materially adversely affect our business, financial condition and results of operations.

Activities of customers or the content of their websites could damage our reputation and brand or harm our business and financial results.

As a provider of domain name registration and hosting products and services, we may be subject to potential liability for the activities of our customers in connection with their use (including their misuse) of our offerings. Although our agreements with our customers prohibit unauthorized use of our products and services and permit us to take appropriate actions for such use, customers may nonetheless engage in prohibited activities, which could subject us to liability. Our reputation and brand may also be negatively impacted by the actions of customers. We do not proactively monitor or review the appropriateness of customers’ use of our products or services, and we do not have control over customer activities. While we have safeguards in place, these mechanisms may not be sufficient to avoid harm to our reputation and brand.

Certain federal statutes may apply to us with respect to various activities of our customers, including: the Digital Millennium Copyright Act of 1998 (“DMCA”); the Communications Decency Act of 1996 (“CDA”); and the Anticybersquatting Consumer Protection Act (“ACPA”). The DMCA and the CDA generally protect online service providers like us from liability for certain activities of their customers. For example, the safe harbor provisions of the DMCA shield Internet service providers and other intermediaries from direct or indirect liability for copyright infringement. Under the CDA, we are generally not responsible for the customer-created content hosted on our servers and thus are generally immunized from liability for torts committed by others. Under the safe harbor provisions of the ACPA, domain name registrars are shielded from liability in many circumstances.

Changes to these laws and/or court rulings in pending or future litigation may narrow the scope of protection afforded us. Regardless of these protections, the activities of our customers may result in threatened or actual litigation against us. If such claims are successful, our business and operating results could be adversely affected, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and adversely affect our business and operating results.

We may be unable to protect our intellectual property adequately or cost-effectively, which may cause us to lose market share or otherwise harm our competitive position.

Our success depends, in part, on our ability to protect and preserve the proprietary aspects of our technology, web services, and products. If we are unable to protect our intellectual property, our competitors could use our intellectual property to market services and products similar to those offered by us, which could decrease demand for our web services and products. We may be unable to prevent third parties from using our proprietary assets without our authorization. We do not currently rely on patents to protect all of our core intellectual property. To protect, control access to, and limit distribution of our intellectual property, we generally enter into confidentiality and proprietary inventions agreements with our employees, and confidentiality or license agreements with consultants, third-party developers, and customers. We also rely on copyright, trademark, and trade secret protection. However, these measures afford only limited protection and may be inadequate. Enforcing our rights to our technology could be costly, time-consuming and distracting. Additionally, others may develop non-infringing technologies that are similar or superior to ours. Any significant failure or inability to adequately protect our proprietary assets will harm our business and reduce our ability to compete.

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

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

Provisions in our amended and restated certificate of incorporation and bylaws or under Delaware law might discourage, delay, or prevent a change of control of our company or changes in our management and, therefore, depress the trading price of our common stock.

Our amended and restated certificate of incorporation and bylaws contain provisions that could depress the trading price of our common stock by acting to discourage, delay, or prevent a change of control of our company or changes in our management that the stockholders of our company may deem advantageous. These provisions:

- establish a classified board of directors so that not all members of our board are elected at one time;
- provide that directors may only be removed for cause and only with the approval of 66 2/3% of our stockholders;
- require super-majority voting to amend some provisions in our amended and restated certificate of incorporation and bylaws;
- authorize the issuance of blank check preferred stock that our board of directors could issue to increase the number of outstanding shares to discourage a takeover attempt;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter, or repeal our bylaws; and
- establish advance notice requirements for nominations for elections to our board or for proposing matters that can be acted upon by stockholders at stockholder meetings.

Additionally, we are subject to Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any “interested” stockholder for a period of three years following the date on which the stockholder became an “interested” stockholder and which may discourage, delay, or prevent a change of control of our company.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Issuer Repurchases of Equity Securities

There were no share repurchases during the three months ended June 30, 2018. Cumulative repurchases of 7.9 million common shares totaling $166.2 million have been made since we announced our stock repurchase program on November 5, 2014, which authorized the repurchase of up to an aggregate of $100 million of our outstanding shares of common stock from time to time. This program, according to its terms, was scheduled to expire on December 31, 2016. In October 2016, the Company's Board of Directors authorized that the share repurchase program of the Company's outstanding securities be extended through December 31, 2018 and be increased by an additional $100.0 million. Repurchases under the programs may take place in the open market or in privately negotiated transactions, including derivative transactions, and may be made under a Rule 10b5-1 plan. The approximate dollar value of shares that may yet be purchased under the program is $33.8 million.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit No.	Description of Document
2.4	Agreement and Plan of Merger dated February 11, 2016 by an among the Company, Barton Creek, Web.com LLC and Yodle, Inc. (1)
2.5	Amendment No. 1 to Agreement and Plan of Merger dated February 11, 2016 by an among the Company, Barton Creek, Web.com LLC and Yodle, Inc. (2)
2.6	Agreement and Plan of Merger dated June 20, 2018, by and among the Company, Parker Private Holdings II LLC, a Delaware limited liability company, and Parker Private Merger Sub Inc., a Delaware corporation and wholly owned subsidiary of Parent. (3)
3.1	Amended and Restated Certificate of Incorporation of Web.com Group, Inc. (4)
3.2	Amended and Restated Bylaws of Web.com Group, Inc. (5)
3.3	Certificate of Ownership and Merger of Registration (6)
4.1	Reference is made to Exhibits 3.1 and 3.2
4.2	Specimen Stock Certificate. (7)
4.3	Indenture dated August 14, 2013 between the Company and Wells Fargo Bank, National Association, as Trustee. (8)
4.4	First Supplemental Indenture, dated August 14, 2013, between the Company and Wells Fargo Bank, National Association, as Trustee (including the form of 1.00% Senior Convertible Notes due 2018). (9)
10.1	Amendment to Credit Agreement, dated as of February 11, 2016, by and among the Company, the guarantor's party thereto, JPMorgan Chase Bank, N.A., as administrative agent and the lender's party thereto. (10)
10.2	Amendment to Credit Agreement, dated as of May 18, 2017, by and among the Company, the guarantors party thereto, JPMorgan Chase Bank, N.A., as administrative agent and the lender's party thereto. (11)

10.3	Amendment to Credit Agreement, dated as of April 30, 2018, by and among the Company, the guarantors party thereto, JPMorgan Chase Bank, N.A., as administrative agent and the lender's party thereto. (12)
31.1	Chief Executive Officer Certification required by Rule 13a-14(a) or Rule 15d-14(a).
31.2	Chief Financial Officer Certification required by Rule 13a-14(a) or Rule 15d-14(a).
32.1	Certifications of Chief Executive Officer and Chief Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350). (13)
EX-101.INS	XBRL Instance Document.*
EX-101.SCH	XBRL Taxonomy Extension Schema Document.*
EX-101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
EX-101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.*
EX-101.LAB	XBRL Taxonomy Extension Label Linkbase Document.*
EX-101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.*

* The XBRL information is being furnished with this Form 10-Q, not filed

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(1)Filed as an Exhibit to the Registrant's current report on Form 8-K (000-51595), filed with the SEC on February 17, 2016, and incorporated herein by reference.
(2)Filed as an Exhibit to the Registrant's current report on Form 8-K (000-51595), filed with the SEC on March 11, 2016, and incorporated herein by reference.
(3)Filed as an Exhibit to the Registrant’s current report on Form 8-K (000-51595), filed with the SEC on June 21, 2018, and incorporated herein by reference.
(4)Filed as an Exhibit to the Registrant’s registration statement on Form S-1 (No. 333-124349), filed with the SEC on April 27, 2005, as amended, and incorporated herein by reference.
(4)Filed as an Exhibit to the Registrant’s current report on Form 8-K (000-51595), filed with the SEC on June 21, 2018, and incorporated herein by reference.
(5)Filed as an Exhibit to the Registrant’s current report on Form 8-K (000-51595), filed with the SEC on October 30, 2008, and incorporated herein by reference.
(7)Filed as an Exhibit to the Registrant’s current report on Form 8-K (000-51595), filed with the SEC on October 30, 2008, and incorporated herein by reference
(8)Filed as an Exhibit to the Registrant's current report on Form 8-K (000-51595), filed with the SEC on August 14, 2013, and incorporated herein by reference.
(9)Filed as an Exhibit to the Registrant's current annual report on Form 10-K (000-51595), filed with the SEC on August 14, 2013, and incorporated herein by reference.
(10)Filed as an Exhibit to the Registrant's annual report on Form 1-K (000-51595), filed with the SEC on February 16, 2016, and incorporated herein by reference.
(11)Filed as an Exhibit to the Registrant's quarterly report on Form 10-Q (000-51595), filed with the SEC on August 4, 2017 and incorporated herein by reference.
(12)Filed as an Exhibit to the Registrant's current report on Form 8-K (000-51595), filed with the SEC on May 3, 2018, and incorporated herein by reference
(13)The certification attached as Exhibit 32.1 accompanying this Quarterly Report on Form 10-Q, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Web.com Group, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

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.

	Web.com Group, Inc.
	(Registrant)
July 31, 2018	/s/ Jennifer L. Lada
Date	**Jennifer L. Lada** **Chief Financial Officer** **(Principal Financial and Accounting Officer)**

Exhibit 31.1

CERTIFICATION

I, David L. Brown, certify that:

1. I have reviewed this Form 10-Q of Web.com Group, 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(s) 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(s) 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: July 31, 2018

By: /s/ David L. Brown

David L. Brown
Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Jennifer L. Lada, certify that:

1. I have reviewed this Form 10-Q of Web.com Group, 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(s) 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(s) 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: July 31, 2018

By: /s/ Jennifer L. Lada

Jennifer L. Lada
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. Section 1350), David L. Brown, Chief Executive Officer of Web.com Group, Inc., a Delaware corporation (the "Company") and Kevin M. Carney, Chief Financial Officer of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company's quarterly report on Form 10-Q for the period ended June 30, 2018, to which this Certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act, and

2. The information contained in the Period Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, the undersigned has set his hand hereto as of July 31, 2018.

By:	/s/ David L. Brown	By:	/s/ Jennifer L. Lada
	David L. Brown		**Jennifer L. Lada**
	Chief Executive Officer and Chairman of the Board		**Chief Financial Officer**
	(Principal Executive Officer)		***(Principal Financial and Accounting Officer)***

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Web.com Group, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.