RIGHTSIDE GROUP, LTD.

FORM 10-Q
(Quarterly Report)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2017

OR

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

For the transition period from ______to ______

Commission File: Number 001-36262

RIGHTSIDE GROUP, LTD.
(Exact name of registrant as specified in its charter)

Delaware	**32-0415537**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

5808 Lake Washington Blvd. NE, Suite 300
Kirkland, WA 98033
(Address of principal executive offices)

Registrant's telephone number, including area code: (425) 298-2500

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

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

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

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

As of May 3, 2017, the registrant had 19,424,529 shares of common stock, $0.0001 par value per share, outstanding.

RIGHTSIDE GROUP, LTD.

QUARTERLY REPORT ON FORM 10-Q

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Item 1. Financial Statements (Unaudited)

Rightside Group, Ltd.

Condensed Consolidated Balance Sheets

(In thousands, except per share amounts)
(Unaudited)

	March 31, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$ 69,949	$ 31,922
Accounts receivable, net	6,094	3,498
Available-for-sale investments, at fair value (amortized cost of $13,026)	13,024	—
Prepaid expenses and other current assets	2,967	2,590
Deferred registration costs	8,504	9,063
Assets of discontinued operations	—	129,053
Total current assets	100,538	176,126
Deferred registration costs, less current portion	1,640	1,594
Property and equipment, net	5,392	5,746
Intangible assets, net	45,129	46,961
Goodwill	70,921	70,921
gTLD deposits	1,517	2,169
Other assets	510	671
Total assets	$ 225,647	$ 304,188
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 771	$ 1,080
Accrued expenses and other current liabilities	7,417	8,887
Debt	—	12,800
Capital lease obligation	—	983
Deferred revenue	20,111	19,475
Liabilities of discontinued operations	—	133,588
Total current liabilities	28,299	176,813
Deferred revenue, less current portion	4,917	4,429
Deferred tax liabilities, net	8,179	8,102
Other liabilities	372	261
Total liabilities	41,767	189,605
Commitments and contingencies (Note 7)		
Stockholders' equity		
Preferred stock, $0.0001 par value per share; 20,000 shares authorized Shares issued and outstanding: 0 and 0	—	—
Common stock, $0.0001 par value per share; 100,000 shares authorized Shares issued and outstanding: 19,503 and 19,539	2	2
Additional paid-in capital	151,969	152,421
Accumulated other comprehensive loss	(2)	—
Retained earnings (accumulated deficit)	31,911	(37,840)
Total stockholders' equity	183,880	114,583
Total liabilities and stockholders' equity	$ 225,647	$ 304,188

The accompanying notes are an integral part of these condensed consolidated financial statements.

Rightside Group, Ltd.

Condensed Consolidated Statements of Operations

(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Revenue	$ 14,426	$ 16,606
Cost of revenue (excluding depreciation and amortization)	8,480	10,539
Sales and marketing	1,897	2,111
Technology and development	2,372	3,137
General and administrative	4,572	4,652
Depreciation and amortization	2,537	3,178
(Gain) loss on other assets, net	(120)	1
Interest expense	124	1,235
Other income, net	(51)	(50)
Loss from continuing operations before income tax	(5,385)	(8,197)
Income tax expense (benefit)	247	(1,945)
Loss from continuing operations	(5,632)	(6,252)
Income from discontinued operations, net of income tax of $39 and $1,577	75,383	1,145
Net income (loss)	$ 69,751	$ (5,107)
Basic income (loss) per share attributable to common stockholders:		
Continuing operations	$ (0.29)	$ (0.33)
Discontinued operations	3.85	0.06
Basic income (loss) per share	$ 3.56	$ (0.27)
Diluted income (loss) per share attributable to common stockholders:		
Continuing operations	$ (0.29)	$ (0.33)
Discontinued operations	3.85	0.06
Diluted income (loss) per share	$ 3.56	$ (0.27)
Weighted average number of shares outstanding:		
Basic	19,583	19,146
Diluted	19,583	19,146

The accompanying notes are an integral part of these condensed consolidated financial statements.

Rightside Group, Ltd.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2017	2016
Net income (loss)	$ 69,751	$ (5,107)
Other comprehensive loss:		
Unrealized loss on available-for-sale securities	(2)	—
Tax effect	—	—
Other comprehensive loss, net of tax	(2)	—
Comprehensive income (loss)	$ 69,749	$ (5,107)

The accompanying notes are an integral part of these condensed consolidated financial statements.

Rightside Group, Ltd.

Condensed Consolidated Statements of Cash Flows

(In thousands)
(Unaudited)

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Cash flows from operating activities		
Net income (loss)	$ 69,751	$ (5,107)
Less: Income from discontinued operations, net of income tax	75,383	1,145
Loss from continuing operations	(5,632)	(6,252)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,537	3,178
Amortization of discount and issuance costs on debt	50	452
Deferred income taxes	77	(1,961)
Stock-based compensation expense	1,462	1,234
(Gain) loss on gTLD application withdrawals, net	(120)	1
Gain on sale and disposal of assets, net	(4)	(14)
Change in operating assets and liabilities:		
Accounts receivable	(2,230)	(1,016)
Prepaid expenses and other current assets	(378)	768
Deferred registration costs	512	81
Other long-term assets	(99)	76
Accounts payable	(309)	657
Accrued expenses and other liabilities	(596)	(51)
Deferred revenue	1,124	1,228
Net cash used in operating activities from continuing operations	(3,606)	(1,619)
Net cash (used in) provided by operating activities from discontinued operations	(2,300)	2,124
Net cash (used in) provided by operating activities	(5,906)	505
Cash flows from investing activities		
Purchases of property and equipment	(429)	(479)
Purchases of intangible assets	(6)	(207)
Purchases of fixed maturities	(13,027)	—
Payments, deposits and returns of deposits for gTLD applications	259	3,021
Proceeds from gTLD withdrawals	125	125
Proceeds from sale of assets	31	116
Net cash (used in) provided by investing activities from continuing operations	(13,047)	2,576
Net cash provided by (used in) investing activities from discontinued operations	72,677	(243)
Net cash provided by investing activities	59,630	2,333
Cash flows from financing activities		
Principal payments on capital lease obligations	(983)	(250)
Principal payments on debt	(12,800)	(375)
Shares repurchased	(1,620)	—
Proceeds from stock option exercises	31	3
Payments of tax withholdings on restricted stock awards	(325)	(332)
Net cash used in financing activities from continuing operations	(15,697)	(954)
Change in cash and cash equivalents	38,027	1,884
Cash and cash equivalents, beginning of period	31,922	45,095
Cash and cash equivalents, end of period	$ 69,949	$ 46,979
Supplemental disclosure of cash flows		
Cash paid for interest	$ 168	$ 744
Cash paid for income taxes	26	41

The accompanying notes are an integral part of these condensed consolidated financial statements.

Rightside Group, Ltd.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Company Background and Basis of Presentation

Description of Business

Rightside Group, Ltd. (together with its subsidiaries, "Rightside," the "Company," "our," "we," or "us") provides domain name registration and related value-added service subscriptions to third parties. We are also an accredited registry for new generic Top Level Domains ("gTLDs") made available by the expansion (the "New gTLD Program") of new gTLDs by the Internet Corporation for Assigned Names and Numbers ("ICANN").

eNom Divestiture

On January 20, 2017, we completed the sale of eNom, Incorporated ("eNom"), our wholly-owned registrar, through a Stock Purchase Agreement with Tucows Inc. ("Tucows") in exchange for $83.5 million, less a net working capital adjustment of $5.8 million, resulting in net cash at closing of $77.7 million.

Basis of Presentation

Our condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP"). All significant intercompany accounts and transactions have been eliminated in consolidation. We will refer to our condensed consolidated financial statements as "financial statements," "balance sheets," "statements of operations," "statements of comprehensive income (loss)," "statements of stockholders' equity," and "statements of cash flows" herein.

Interim Financial Statements

We have prepared the unaudited condensed consolidated interim financial statements on the same basis as the audited financial statements and have included all adjustments, consisting of normal recurring adjustments and accruals, necessary for the fair statement of our financial statements. The results for the three months ended March 31, 2017 are not necessarily indicative of the results expected for the full year.

The unaudited condensed consolidated interim financial statements have been prepared in accordance with GAAP. They do not include all of the information and footnotes required by GAAP for complete financial statements. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. Therefore, these condensed consolidated financial statements should be read in conjunction with our audited financial statements and notes thereto included in our Form 10-K for the year ended December 31, 2016 as filed with the Securities and Exchange Commission ("SEC") on March 15, 2017.

Reclassifications

Certain amounts previously presented for prior periods have been reclassified to conform to current presentation. These reclassifications did not affect assets, liabilities, net income, cash flows or equity for the periods presented.

Revisions

We determined that the change in unpaid purchases of assets was misclassified in the statements of cash flows for the three months ended March 31, 2016. For the three months ended March 31, 2016, this classification error resulted in an overstatement of cash outflows from operations of $0.4 million and an overstatement of cash inflows from investing activities of $0.4 million.

2. Summary of Significant Accounting Policies and Accounting Pronouncements

Refer to our audited financial statements included in our Form 10-K as filed with the SEC on March 15, 2017, for a complete discussion of all significant accounting policies.

Adoption of New Accounting Pronouncements

In March 2016, the FASB issued ASU 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting,* which is intended to simplify several aspects of share-based payment accounting, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows . We adopted this standard on January 1, 2017 and now withhold shares up to the employees' maximum statutory tax rate in the employees' applicable jurisdictions. We also now recognize the income tax effects of share-based compensation in the statements of operations.

Accounting Pronouncements Not Yet Adopted

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* The new standard simplifies the test for goodwill impairment by eliminating Step 2. The new standard is effective for interim and annual reporting periods beginning after December 15, 2019 with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. This standard will be applied on a prospective basis. We expect the adoption of ASU 2017-04 will reduce the complexity surrounding the evaluation of goodwill for impairment. The impact of this standard will depend on the outcomes of future goodwill impairment tests.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.* The new standard provides specific guidance on eight cash flow classification issues, thereby reducing the diversity in practice on these issues. The new standard is effective for interim and annual reporting periods beginning after December 15, 2017 with early adoption permitted. ASU 2016-15 will be applied using the retrospective transition method. We have not determined the impact of the adoption on our financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* . The new standard replaces the current incurred loss impairment methodology with one that reflects expected credit losses and utilizes a broader range of information to make credit loss estimates. The new standard is effective for interim and annual reporting periods beginning after December 15, 2019 with early adoption permitted. We have not determined the impact of the adoption on our financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842),* which increases transparency and comparability for lease transactions. The new standard brings substantially all leases on the balance sheets for operating lease arrangements with lease terms greater than 12 months for lessees. This standard will require a modified retrospective application, which includes a number of optional practical expedients related to the identification and classification of leases commenced before the effective date. The new standard is effective for interim and annual reporting periods beginning after December 15, 2018 with early adoption permitted. We do not intend to adopt the standard early and are currently assessing the impact of ASU 2016-02 on our financial statements.

In May 2014, the FASB issued ASU 2014 -09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 provides new criteria for recognizing revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which an entity expects to be entitled in exchange for those goods or services. It also requires expanded disclosures 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. Quantitative and qualitative information will be provided about the significant judgments and changes in those judgments that management made to determine the revenue that is recorded. ASU 2014-09 was set to be effective for interim and annual periods beginning after December 15, 2016. In August 2015, the FASB issued ASU 2015-14, *"Deferral of the Effective Date,"* which changed the effective date to interim and annual periods beginning after December 15, 2017, with early adoption permitted as of the original effective date. In March 2016, the FASB issued ASU 2016-08, *"Principal versus Agent Considerations (Reporting Revenue Gross versus Net) , "* which clarifies the implementation guidance on determining the proper unit of account and applying the control principle. In April 2016, the FASB issued ASU 2016-10, *"Identifying Performance Obligations and Licensing , "* which clarifies the implementation guidance on identifying when a performance obligation has been satisfied and determining how to recognize revenue when an entity grants a license to use or access its intellectual property. In May 2016, the FASB issued ASU 2016-12, *"Narrow-Scope Improvemen ts and Practical Expedients,"* which aims to reduce the risk of diversity in practice for certain aspects of Topic 606, including collectibility, noncash consideration, presentation of sales tax, and transition. The new standard may be applied retrospective ly to each prior period presented (full retrospective method) or retrospectively with a cumulative-effect adjustment recognized at the date of adoption (modified retrospective method). We do not intend to adopt the standard early and are currently assessin g the provisions of the new standard. We have not yet determined the transition method or quantitative impact of the adoption on our financial statements. We are in the process of reviewing our historical revenue and contract cost arrangements in order to assess all potential impacts of the standard. As part of this review, we are identifying distinct performance obligations, determining whether a significant financing component exists in certain arrangements with upfront payments, determining when performa nce obligations transfer to customers and selecting the appropriate method for measuring progress toward complete satisfaction. In addition, we are determining methodologies for estimating variable consideration related to our collaboration agreement for p roviding back-end registry services, presentation of incremental costs to obtain a contract, and principle versus agent considerations.

3. Business Divestiture

Discontinued Operations

On January 20, 2017, Rightside completed the divestiture (the "eNom Divestiture") of eNom, our wholly-owned registrar, to Tucows, in exchange for $83.5 million, less a net working capital adjustment of $5.8 million, resulting in net cash at closing of $77.7 million. Under the Stock Purchase Agreement, we will indemnify Tucows against losses arising from, among other things, breaches of representations and warranties, breaches of covenants, any pre-closing taxes, any unpaid debt or transaction expenses and certain other specified matters. In addition, we are required to maintain certain unrestricted cash and cash equivalents balances. Upon completion of the eNom Divestiture, we recognized a gain of $75.6 million on the statements of operations within income from discontinued operations, net of income tax. The eNom Divestiture resulted in a loss for tax purposes since Rightside's tax basis in its eNom stock exceeded the proceeds from the sale.

In connection with the eNom Divestiture, we and Tucows entered into a transition services agreement under which each party will compensate the other for the provision of various services to the other party, including information technology, accounting and finance, human resources and facilities services. The obligations under this transition services agreement began on January 20, 2017 and ends on various dates through June 30, 2019.

The eNom Divestiture met the criteria of a "discontinued operation" as defined by ASC 205-20. eNom's assets and liabilities are classified as discontinued operations in our balance sheet for all periods presented and eNom's results of operations and gain on sale, net of income taxes, of $75.4 million are included in income from discontinued operations in our statements of operations for all periods presented.

The major classes of assets and liabilities included as discontinued operations related to eNom are as follows (in thousands):

	March 31, 2017	December 31, 2016
Assets		
Accounts receivable, net	$ —	$ 6,422
Prepaid expenses and other current assets	—	3,332
Deferred registration costs	—	65,982
Deferred registration costs, less current portion	—	14,441
Property and equipment, net	—	4,718
Intangible assets, net	—	1,955
Goodwill	—	32,121
Other assets	—	82
Total assets of discontinued operations	$ —	$ 129,053
Liabilities		
Accounts payable	$ —	$ 5,494
Accrued expenses and other current liabilities	—	12,988
Deferred revenue	—	77,082
Deferred revenue, less current portion	—	18,457
Deferred tax liabilities, net	—	19,099
Other liabilities	—	468
Total liabilities of discontinued operations	$ —	133,588

The major classes of line items constituting the income from discontinued operations in the statements of operations are as follows (in thousands):

	Three Months Ended March 31,	
	2017	2016
Revenue	$ 7,798	$ 38,975
Cost of revenue (excluding depreciation and amortization)	6,909	31,838
Sales and marketing	196	527
Technology and development	655	2,747
General and administrative	82	273
Depreciation and amortization	174	868
(Loss) income from discontinued operations before income tax	(218)	2,722
Income tax expense	39	1,577
(Loss) income from discontinued operations, net of income tax	$ (257)	$ 1,145
Gain on sale	75,640	—
Income from discontinued operations	$ 75,383	$ 1,145

Loss from continuing operations includes $0.1 million and $0.5 million of revenue for the three months ended March 31, 2017 and 2016, respectively, which was previously eliminated in the consolidated financial statements. These amounts relate to transactions between eNom and our Registry services business that were eliminated upon consolidation prior to the eNom Divestiture.

4. Intangible Assets

Intangible assets consisted of the following (in thousands):

	March 31, 2017			December 31, 2016		
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Owned website names	$ 13,625	$ (11,216)	$ 2,409	$ 13,935	$ (11,198)	$ 2,737
Customer relationships	8,224	(8,224)	—	8,090	(8,037)	53
Technology	416	(416)	—	416	(416)	—
Non-compete agreements	207	(174)	33	207	(164)	43
Trade names	1,276	(584)	692	1,276	(548)	728
gTLDs	54,348	(12,353)	41,995	54,348	(10,948)	43,400
Total	$ 78,096	$ (32,967)	$ 45,129	$ 78,272	$ (31,311)	$ 46,961

Amortization expense of intangible assets was $1.8 million and $2.2 million for the three months ended March 31, 2017 and 2016, respectively.

Estimated future amortization expense related to intangible assets held as of March 31, 2017 (in thousands):

Years Ending December 31,	Amount
2017 (April 1, 2017 to December 31, 2017)	$ 5,081
2018	6,490
2019	6,190
2020	5,970
2021	5,855
Thereafter	15,543
Total	$ 45,129

5. gTLD Deposits

As of March 31, 2017 and December 31, 2016, our gTLD deposits were $1.5 million and $2.2 million, respectively. During the three months ended March 31, 2017, we received $0.3 million related to the settlement of certain gTLD applications under the New gTLD Program. Payments, deposits and returns of deposits for gTLD applications represent amounts paid directly to ICANN or third parties in the pursuit of gTLD operator rights, the majority of which was paid to Donuts Inc. These deposits would be applied to the purchase of the gTLD if we are awarded the gTLD operator rights or these deposits may be returned to us if we withdraw our interest in the gTLD application. Gains on the sale of our interest in gTLDs applications are recognized when realized, while losses are recognized when deemed probable.

The settlement of our interest in certain gTLD applications resulted in a net gain of $0.1 million for the three months ended March 31, 2017 and the withdrawal of our interest in certain gTLD applications resulted in a net loss of $1,000 for the three months ended March 31, 2016. We recorded these gains and losses in (gain) loss on other assets, net, on the statements of operations.

6. Debt

Silicon Valley Bank Credit Facility

On January 20, 2017, we fully repaid the $12.8 million draw on our revolving line of credit with Silicon Valley Bank (“SVB Credit Facility”) and entered into a Limited Consent and Amendment No. 4 to Credit Agreement (“Amendment No. 4”) with Silicon Valley Bank to release eNom as a party to the SVB Credit Facility in connection with the eNom Divestiture. In addition, Amendment No. 4 suspends the availability period for revolving loans, lowers the total commitment from $30.0 million to $15.0 million and amends certain financial covenants.

7. Commitments and Contingencies

Letters of Credit

As of March 31, 2017, we have letters of credit totaling $2.8 million under the SVB Credit Facility.

Litigation

From time to time, we are party to various litigation matters incidental to the conduct of our business. There is no pending or threatened legal proceeding to which we are a party that, in our belief, could have a material adverse effect on our future financial results.

8. Investments

Our available-for-sale investments by major security type are as follows (in thousands):

As of March 31, 2017	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities:				
Asset-backed securities	$ 3,495	$ —	$ —	$ 3,495
Corporate securities	3,604	—	(2)	3,602
Commercial paper	5,927	—	—	5,927
Total	$ 13,026	$ —	$ (2)	$ 13,024

The following table presents gross unrealized losses and fair values of our available-for-sale investments (in thousands). The table is aggregated by investment category and presents separately those securities that have been in a continuous unrealized loss position for less than twelve months and for twelve months or more.

	Less than 12 Months		12 Months or More	
As of March 31, 2017	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities:				
Asset-backed securities	$ 1,251	$ —	$ —	$ —
Corporate securities	2,351	(2)	—	—
Total	$ 3,602	$ (2)	$ —	$ —

We had no investments as of December 31, 2016.

We invest in securities that are rated investment grade or better. As of March 31, 2017, our investments are all due within one year or less.

We review the individual securities in our portfolio to determine whether a decline in a security's fair value below the amortized cost basis is other-than-temporary. We determined that as of March 31, 2017, there were no investments in our portfolio that were other-than-temporarily impaired.

9. Stockholders' Equity

Stock repurchase program

In February 2017, we announced that our board of directors authorized a stock repurchase program of up to $50 million of our outstanding common stock, effective immediately. The stock repurchase program will be in place for up to 24 months. Under the stock repurchase program, repurchases may be made from time to time in the open market. The share repurchase program does not obligate us to repurchase any specific dollar amount or to acquire any specific number of shares. The repurchase program may be limited, suspended or discontinued at any time without prior notice.

The following table presents the open-market share purchase activity, exclusive of purchase and administrative costs (in thousands, except per share data):

	Three Months Ended March 31,	
	2017	2016
Total number of shares purchased	174	—
Average price paid per share	$ 9.32	$ —
Total cost	$ 1,620	$ —

10. Fair Value of Financial Instruments

We measure our financial assets and liabilities in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

- Level 1—valuations for assets and liabilities traded in active exchange markets, or interest in open-end mutual funds that allow a company to sell its ownership interest back at net asset value on a daily basis. Valuations are obtained from readily available pricing sources for market transactions involving identical assets, liabilities or funds.

- Level 2—valuations for assets and liabilities traded in less active dealer, or broker markets, such as quoted prices for similar assets or liabilities or quoted prices in markets that are not active. Level 2 includes U.S. Treasury, U.S. government and agency debt securities, and certain corporate obligations. Valuations are usually obtained from third-party pricing services for identical or comparable assets or liabilities.

- Level 3—valuations for assets and liabilities that are derived from other valuation methodologies, such as option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and consider counterparty credit risk in our assessment of fair value. Our assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

The following tables present the fair value of our financial instruments classified by the valuation hierarchy described above. The financial instruments are separated between those measured at fa ir value on a recurring basis and those not carried at fair value, but for which disclosure of fair value is required (in thousands):

As of March 31, 2017	Carrying Value	Fair Value Measurement Using Level 1	Level 2	Level 3	Total Fair Value
Measured at fair value on a recurring basis:					
Assets					
Fixed maturities:					
Asset-backed securities	$ 3,495	$ —	$ 3,495	$ —	$ 3,495
Corporate securities	3,602	—	3,602	—	3,602
Commercial paper	5,927	—	5,927	—	5,927
Total fixed maturities	13,024	—	13,024	—	13,024
Subject to fair value disclosure requirements:					
Cash equivalents	$ 31,959	$ 31,959	$ —	$ —	$ 31,959
Note receivable	10	—	—	10	10

As of December 31, 2016	Carrying Value	Fair Value Measurement Using Level 1	Level 2	Level 3	Total Fair Value
Subject to fair value disclosure requirements:					
Assets					
Note receivable	$ 10	$ —	$ —	$ 10	$ 10
Liabilities					
Debt	12,800	—	—	12,800	12,800

Our note receivable is short-term in nature and its carrying value approximates fair value. This is classified as a Level 3 measurement.

The fair value of our debt, the draw on our revolving line of credit, is short-term in nature and its carrying value approximates fair value. This is classified as a Level 3 measurement.

The following table presents a reconciliation of our debt measured at fair value using unobservable inputs (Level 3) (in thousands):

	Amount
Balance as of December 31, 2016	$ 12,800
Repayment of debt	(12,800)
Balance as of March 31, 2017	$ —

The following table presents a reconciliation of our note receivable measured at fair value using unobservable inputs (Level 3) (in thousands):

	Amount
Balance as of December 31, 2016	$ 10
Repayments on note receivable	—
Balance as of March 31, 2017	$ 10

11. Business Segments

We follow the authoritative literature that established annual and interim reporting standards for an entity's operating segments and related disclosures about its products and services, geographic regions and major customers. We operate in one operating segment. Our chief operating decision maker ("CODM") manages our operations on a global basis for purposes of evaluating financial performance and allocating resources. The CODM reviews separate revenue information for our Registrar services, Registry services, and Aftermarket and other services. All other financial information is reviewed by the CODM on a global basis. Our operations are located in the United States, Ireland, Canada and Cayman Islands. We also have a wholly foreign-owned enterprise in China.

Revenue derived from our Registrar services, Registry services, and Aftermarket and other offerings are as follows (in thousands):

	Three Months Ended March 31,	
	2017	2016
Registrar services	$ 7,259	$ 7,038
Registry services	3,176	2,639
Aftermarket and other	4,348	7,275
Eliminations	(357)	(346)
Total revenue	$ 14,426	$ 16,606

Amounts in the Eliminations line reflect the elimination of intercompany charges between our Registrar and Registry services businesses.

Revenue by geographic location is as follows (in thousands):

	Three Months Ended March 31,	
	2017	2016
United States	$ 10,077	$ 12,290
International	4,349	4,316
Total	$ 14,426	$ 16,606

No international country represented more than 10% of total revenue in any period presented.

12. Earnings (Loss) Per Share

Basic and diluted earnings (loss) per share were calculated using the following (in thousands, except per share amounts):

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Loss from continuing operations	$ (5,632)	$ (6,252)
Income from discontinued operations	75,383	1,145
Net income (loss)	69,751	(5,107)
Weighted average number of shares outstanding:		
Basic	19,583	19,146
Diluted	19,583	19,146
Basic income (loss) per share attributable to common stockholders:		
Continuing operations	$ (0.29)	$ (0.33)
Discontinued operations	3.85	0.06
Basic income (loss) per share	$ 3.56	$ (0.27)
Diluted income (loss) per share attributable to common stockholders:		
Continuing operations	$ (0.29)	$ (0.33)
Discontinued operations	3.85	0.06
Diluted income (loss) per share	$ 3.56	$ (0.27)

For the three months ended March 31, 2017 and 2016, we excluded approximately 108 thousand and 131 thousand shares, respectively, of restricted stock units and stock options from the calculation of diluted weighted average shares outstanding as their inclusion would have been antidilutive. The $15.05 exercise price per share on the stock warrants related to the Tennenbaum Credit Facility did not have a dilutive effect for any period presented.

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 the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q, are forward-looking statements. Forward-looking statements are identified by words such as "believe," "anticipate," "expect," "intend," "plan," "will," "may," and other similar expressions. These forward-looking statements include, but are not limited to:

- our future operating results, including our expectations regarding total revenue, operating margins and net loss;
- trends in sales, marketing, technology, development and general and administrative expenses as a percentage of our revenue;
- our ability to develop, maintain and grow significant market share for our generic Top Level Domains ("gTLDs") in a competitive environment;
- our ability to attract new customers and to retain existing customers;
- the implementation of our business model and strategic plans for our business, including our ability to improve margin structure through pricing optimization, restructuring and cost reduction initiatives;
- our expectations regarding the level of consumer demand for new gTLDs and our ability to capitalize on this demand;
- the possibility that acquisitions and divestitures may not achieve their intended benefits, and involve unexpected costs or delays;
- our ability to effectively manage excess cash and related investment strategies;
- our ability to generate sufficient cash flows to implement our business strategy;
- legal, regulatory, accounting and tax developments, including additional requirements imposed by changes in federal, state or foreign laws and regulations;
- our strategic relationships, including with the Internet Corporation for Assigned Names and Numbers ("ICANN");
- our ability, or our third party advertising partners' ability, to adapt to policy changes by online networks;
- our ability to enter into and maintain agreements on favorable terms with commercial partners, including with registry operators, registrars, service providers and distributors;
- our ability to effectively manage our growth;
- our ability to enhance our existing products and services and introduce new products and services;
- our ability to evaluate and respond to unsolicited proposals to acquire certain of our assets;
- our ability to adequately protect our intellectual property rights;
- the impact of our share repurchase program;

- our ability to timely and effectively maintain, scale and adapt our existing technology and network infrastructure and security;
- our ability to hire and retain key personnel, and attract qualified officers and directors; and
- the impact of actions by stockholder activists.

You should not rely upon forward-looking statements as guarantees of future performance. We have based these forward-looking statements largely on our estimates of our financial results and our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in the section entitled "Item 1A. Risk Factors." Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. We undertake no obligation to revise or update any forward-looking statements for any reason after the date of this Quarterly Report on Form 10-Q, except as required by law.

You should read this Quarterly Report on Form 10-Q and the documents that we reference in this Quarterly Report on Form 10-Q and have filed with the Securities and Exchange Commission ("SEC") with the understanding that our actual future results, levels of activity, performance, and events and circumstances may be materially different from what we expect.

As used in this report, "Rightside," the "Company," "our," "we," or "us" and similar terms include Rightside Group, Ltd. and its subsidiaries, unless the context indicates otherwise. "Rightside" and our other trademarks appearing in this report are our property. This report contains additional tradenames and trademarks of other companies. We do not intend our use or display of other companies' trade names or trademarks to imply an endorsement or sponsorship of us by such companies, or any relationship with any of these companies.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated interim financial statements and related notes included elsewhere in this report. Throughout this discussion and analysis, where we provide discussion of the three months ended March 31, 2017, compared to the same periods in 2016, we refer to the prior periods as "2016."

Overview

As a leading provider of domain name services, we enable businesses and consumers to find, establish, and maintain their digital address—the starting point for connecting with their online audience. Millions of digital destinations, and businesses and consumers rely upon our comprehensive platform for the discovery, registration, usage and monetization of domain names. As a result, we are a leader in the multi-billion dollar domain name services industry, with a complete suite of services that our customers use as the foundation to build their entire online presence.

On January 20, 2017, we completed the divestiture (the "eNom Divestiture") of eNom, Incorporated ("eNom"), our wholly-owned registrar services business, to Tucows Inc. ("Tucows"). eNom's registrar services business provides infrastructure services that enable a network of active resellers to offer domain name registration services to their customers. As part of the eNom Divestiture, Tucows also acquired eNom's interest in its joint venture with Web.com for NameJet, LLC ("NameJet"), which offers domain name auction services to consumers. All references made to financial data, non-financial metrics and our business in this Quarterly Report on Form 10-Q are to the Company's continuing operations (after giving effect to the eNom Divestiture), unless specifically noted. See Note 3—Business Divestiture within the accompanying consolidated financial statements for additional information.

We are a leading domain name registry with a portfolio of 40 gTLDs acquired from ICANN's New gTLD Program. To date, we have launche d all 40 of our gTLDs into the market, including .LIVE, .NEWS, and .ROCKS. Our registry services business continues to build a diverse distribution network of over 135 ICANN accredited registrars, including Name.com, eNom and GoDaddy, as well as other comp lementary distribution partners such as website builders and email service providers that offer our gTLD domain names to businesses and consumers. Furthermore, our distribution network includes registrars and other partners in international markets, positi oning our company to capture additional sales on a global scale. In addition to operating our own registry, we provide technical back-end infrastructure services to Donuts, a third-party operator of new gTLDs (collectively with the New gTLD Program, our "g TLD Initiative").

Our retail registrar, Name.com, directly offers domain name registration services to almost 0.25 million consumers and businesses worldwide. As of March 31, 2017, we had approximately 1.9 million domain names under management. Our domain name registration and related services, as well as our developed proprietary tools and services enable us to identify and acquire, as well as monetize and sell, domain names, both for our own portfolio of domain names as well as for our customers' domain names.

The combination of our registry and registrar services businesses makes us a leading provider of end-to-end domain name services. This uniquely positions us to capitalize on the New gTLD Program because we can distribute owned and third-party gTLDs through our retail registrar brand, Name.com, and our third-party registrar distribution channel.

We generate the majority of our revenue through domain name registration subscriptions, including registrations of domain names for our owned gTLDs, and related value-added services. We also generate revenue from advertising on, and from the sale of, domain names that are registered to our customers or ourselves. Our business model is characterized by non-refundable, up-front payments, which lead to recurring revenue and positive operating cash flows.

First Quarter Highlights

Below are our key highlights as of and for the three months ended March 31, 2017. All comparisons are relative to the fiscal first quarter 2016.

- Total revenue was $14.4 million compared to $16.6 million.
- Registrar services revenue was $7.3 million compared to $7.0 million.
- Registry services revenue increased 20% to $3.2 million from $2.6 million.
- Net income was $69.8 million, inclusive of a $75.6 million gain from the sale of eNom, compared to net loss of $5.1 million.
- Adjusted earnings before interest, income taxes, depreciation and amortization from continuing operations ("Adjusted EBITDA from continuing operations"), a non-GAAP financial measure, was $(0.9) million compared to $(2.2) million.
- Cash, cash equivalents and available-for-sale investments totaled approximately $83.0 million.

Opportunities, Challenges and Risks

Our revenue is derived from domain name registrations and related value-added service subscriptions from our retail customers of our registrar platform, as well as from our Aftermarket and other services business. Over the past few years our revenue growth has been driven by strong growth in Name.com, our retail registrar, and significant growth from our Registry services business since its launch in the first quarter of 2014. Going forward, we expect growth in our Registry services business as we narrow our focus on this faster growing, stronger margin and more profitable business.

Growth in revenue from our Reg istrar services business is dependent upon our ability to attract retail customers to our registrar platform, to sustain those recurring revenue relationships by maintaining consistent domain name registration and value -added service renewal rates and to g row those relationships through competitive pricing on domain name registrations, differentiated value -added services and customer service offerings. We also generate advertising revenue through our monetization platform for websites or domain names that w e or our customers own. Going forward, we expect downward pressure on the revenue associated with these websites as we continue to see low traffic and advertising yields in the marketplace.

We received refunds of deposits of $0.3 million and $3.0 million for the three months ended March 31, 2017 and 2016, respectively, for gTLD applications under the New gTLD Program. These payments and deposits represent amounts paid directly to ICANN and third parties in the pursuit of certain exclusive gTLD operator rights. We capitalize payments made for gTLD applications and other acquisition related costs, and include them in other long-term assets and intangible assets on the balance sheets. As part of the New gTLD Program, we have received partial cash refunds for certain gTLD applications and to the extent we elect to sell or withdraw certain gTLD applications throughout the process, we will continue to incur gains or losses on amounts invested. Gains on the sale of our interest in gTLDs applications are recognized when realized, while losses are recognized when deemed probable. Upon the delegation of operator rights for each gTLD by ICANN, gTLD application fees and other acquisition-related costs are reclassified as finite-lived intangible assets and amortized on a straight-line basis over their estimated useful life. We expense as incurred other costs incurred as part of this gTLD Initiative and not directly attributable to the acquisition of gTLD operator rights.

Our cost of revenue, which is the largest component of our operating expenses, can vary from period to period, particularly as a percentage of revenue. With the recent revenue growth coming from the sales of our higher margin Registry services business and the realization of pricing optimization initiatives launched in early 2016, our cost of revenue as a percentage of revenue has decreased for the three months ended March 31, 2017 compared to the same period in 2016.

Our marketing expense has grown in recent years as we have promoted our Name.com retail registrar and the New gTLD Program. Marketing activity primarily flows through our sales and marketing expense line item. Although to the extent that our registry offers performance incentive rebates or other business incentives to our partners, those incentives are recognized as a reduction to revenue.

Over the long term, we expect our overall revenue and margin to increase as the Registry services business becomes a larger contributor to our overall revenue mix. In addition, we are driving initiatives in the area of price optimization and other operating cost reduction programs that we believe will further expand our direct profit in the Registrar services business.

Key Operating Metrics

We review a number of business metrics, including the following key metrics, to evaluate our Registry and Registrar services business, measure the performance of our business model, identify trends impacting our business, determine resource allocations, formulate financial projections and make strategic business decisions.

We believe the following measures are the primary indicators of our performance:

- **Domain:** We define a domain as an individual domain name registered by a third-party customer on Rightside's registry or registrar platforms for which Rightside has begun to recognize revenue.

- **Average revenue per domain ("ARPD"):** We calculate Registry ARPD by dividing Registry services revenue for a period by the average number of domains registered on Rightside's registry platform in that period. We calculate Registrar ARPD by dividing Registrar services revenue for a period by the average number of domains registered on Rightside's registrar platform in that period. ARPD for partial year periods is annualized.

- **Renewal rate:** We define the renewal rate as the percentage of domain names on our registry or registrar platform that are renewed after their original term expires.

Registry Services Metrics

The following table sets forth performance highlights of key business metrics for our Registry services for the periods presented (in thousands, except for per domain and percentage data):

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	Change
End of period domains	590	470	25.5 %
Average revenue per domain	$ 22.01	$ 24.23	-9.2 %

Renewal Rate

The final Registry services renewal rate for the fourth quarter 2016 was 59.4% compared with 52.6% for the same quarter in 2015. Renewal rates are not fully measurable until 45 days after the end of the quarter.

Average Revenue per Domain

The average revenue per domain for the three months ended March 31, 2017 decreased 9.2% to $22.01 from $24.23 in 2016. The decrease was primarily due to an increasing mix of promotional units.

Registrar Services Metrics

The following table sets forth performance highlights of key business metrics for our Registrar services for the periods presented (in millions, except for per domain and percentage data):

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	Change
End of period domains	1.9	1.8	5.6 %
Average revenue per domain	$ 15.55	$ 15.39	1.0 %
Renewal rate	68.6 %	71.8 %	

Renewal Rate

The renewal rate for the three months ended March 31, 2017 was 68.6% compared to 71.8% in 2016. The decrease was primarily driven by an increasing mix of year 1 registrations and promotional units which have a lower renewal rate.

Components of Results of Operations

Revenue

Our revenue is principally comprised of registration fees charged to businesses and consumers in connection with new, renewed and transferred domain name registrations, including registrations of domain names for our own gTLDs. In addition, our registrar also generates revenue from the sale of other value-added services that are designed to help our customers easily build, enhance and protect their domain names, including security services, email accounts and web hosting, and the performance of services for registries. Finally, we generate advertising and domain name sales revenue as part of our aftermarket service offering. We generate this aftermarket revenue on domain names that we own, as well as by providing these services to third parties. Our revenue varies based upon the number of domain names registered or utilizing our aftermarket service offerings, the rates we charge our customers, our ability to sell value-added services, our ability to sell domain names from our portfolio, and the monetization we are able to achieve through our aftermarket service offerings. Performance incentive rebates and certain other business incentives are recognized as a reduction in revenue. We primarily market our retail registration services under our Name.com brand.

Our revenue also includes registration fees from our portfolio of 40 gTLDs in general availability for which we are the exclusive registry operator, as part of the gTLD Initiative. The amount as well as the timing of revenue is uncertain and is dependent upon the demand and level of user adoption of new gTLDs, the timing and number of our back-end registry customers' launches of gTLDs, and the continued progress of the New gTLD Program. To the extent that our registry offers performance incentive rebates or certain other business incentives to our partners, those incentives are recognized as a reduction to revenue.

Costs and Expenses

Cost of Revenue

Cost of revenue consists primarily of direct costs we incur with selling an incremental product to our customers. Substantially all cost of revenue relates to domain name registration costs, payment processing fees, third-party commissions and customer care. Similar to our billing practices, we pay domain costs at the time of purchase, but recognize the costs of service ratably over the life of the registration. Customer care expense represents the costs to consult, advise and service our customers' needs. Customer care expenses primarily consist of personnel-related costs (including stock-based compensation expense) and are expensed as incurred. Domain name costs include fees paid to the various domain registries and ICANN. We prepay these costs in advance for the life of the registration. The terms of registry pricing are established by an agreement between registries and registrars. Cost of revenue may increase or decrease as a percentage of total revenue, depending on the mix of products sold in a particular period and the sales and marketing channels used.

Sales and Marketing

Sales and marketing consists primarily of sales and marketing personnel-related costs (including stock-based compensation expense), sales support, advertising, marketing and general promotional expenditures. We anticipate that our sales and marketing expenses will decline in the near term as a percent of revenue as we realize the benefits of restructuring after the eNom Divestiture.

Technology and Development

Technology and development consists primarily of costs associated with creation, development and distribution of our products and websites. These expenses primarily consist of personnel-related costs (including stock-based compensation expense) associated with the design, development, deployment, testing, operation and enhancement of our products, as well as costs associated with the data centers and systems infrastructure supporting those products. Technology and development expenses may increase or decrease as a percentage of total revenue depending on our level of investment in future headcount and global infrastructure footprint. We anticipate that our technology and development expenses will decline in the latter half of 2017 as a percent of revenue as we continue restructuring after the eNom Divestiture.

General and Administrative

General and administrative consists primarily of personnel-related costs (including stock-based compensation expense) from our executive, legal, finance, human resources and information technology organizations and facilities-related expenditures, as well as third-party professional fees, and insurance expenses. Professional fees are largely comprised of outside legal, audit and information technology consulting. We anticipate that our general and administrative expenses will decline in the latter half of 2017 as a percent of revenue as we continue restructuring after the eNom Divestiture.

Depreciation and Amortization

Depreciation expense consists of charges relating to the depreciation of the property and equipment used in our business. Depreciation expense may increase or decrease in absolute dollars in future periods depending on the future level of capital investments in hardware and other equipment. We expect the depreciation of property and equipment to remain relatively flat in the near term.

Amortization expense consists of charges relating to the amortization of capitalized identifiable intangible assets from the acquisition of domain names, including initial registration costs, as well as costs to acquire gTLDs, and intangible assets acquired in connection with business combinations. We amortize these costs on a straight-line basis over the related expected useful lives of these assets. We determine the appropriate useful life of intangible assets by performing an analysis of expected cash flows based on its historical experience of intangible assets of similar quality and value. We capitalize gTLD assets once they become available for their intended use and amortize them on a straight-line basis over the remaining contractual period of the registry operator agreement, which is approximately 10 years. We expect the amortization of intangible assets to remain relatively flat in the near term.

(Gain) Loss on Other Assets, Net

(Gain) loss on other assets, net consists of gains and losses on withdrawals or settlement of costs related to our interest in certain gTLD applications, as well as other sales of assets. We expect our gains and losses will vary depending upon potential gains or losses resulting from our resolution of gTLD applications for which there were multiple bidders.

Interest Expense

Interest expense consists primarily of interest expense on our credit facilities. Interest expense includes amortization of deferred financing costs and debt discount. We expect our interest expense to be nominal in the near term, as we fully paid off all debt during the first quarter 2017.

Other (Income) Expense, Net

Other (income) expense, net, consists primarily of transaction gains and losses on foreign currency-denominated assets and liabilities and interest income.

Income Tax Expense (Benefit)

We are subject to income taxes principally in the United States, and certain other countries where we have a legal presence, including Ireland, Canada and Cayman Islands. We anticipate that as we expand our operations outside the United States, we will become subject to taxation based on foreign statutory rates, and our effective tax rate could fluctuate accordingly.

Income taxes are computed using the asset and liability method, under which deferred tax assets and liabilities 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 differences are expected to affect taxable income. We recognize the effect on deferred taxes of a change in tax rates on income in the period that includes the enactment date.

Basis of Presentation

Please refer to Note 1—Company Background and Basis of Presentation within the accompanying unaudited condensed consolidated interim financial statements for information on our basis of presentation.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with generally accepted accounting principles in the United States (“GAAP”). The preparation of these financial statements requires us to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions. Our actual results may differ from these estimates under different assumptions or conditions.

During the three months ended March 31, 2017, there were no significant changes to our critical accounting policies and estimates. Please refer to the critical accounting policies and estimates as described in the financial statements contained in the Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on March 15, 2017.

Recent Accounting Pronouncements

Please refer to Note 2—Summary of Significant Accounting Policies and Accounting Pronouncements within the accompanying unaudited condensed consolidated interim financial statements for information on our recently adopted accounting guidance and accounting guidance not yet adopted.

Discontinued Operations

On January 20, 2017, we completed the eNom Divestiture. eNom’s wholesale and retail registrar provided infrastructure services that enabled a network of active resellers to offer domain name registration services and related value-added services to their customers. This revenue was previously included as part of the Registrar services revenue line item. Additionally, revenue and cost of revenue from NameJet related to eNom were included as part of the divestiture. This revenue was previously included as part of the Aftermarket and other services revenue line item.

Only those costs and expenses directly attributable to the eNom business were included in the results of discontinued operations. Additionally, transaction costs associated with the eNom Divestiture were included in the results of discontinued operations. Corporate overhead allocations were not included in discontinued operations.

The eNom Divestiture met the criteria of a "discontinued operation" as defined by ASC 205-20. eNom's assets and liabilities are classified as discontinued operations in the Company's balance sheet for all periods presented and eNom' s results of operations and gain on sale, net of income taxes, of $75.4 million are included in income from discontinued operations for all periods presented. The eNom Divestiture resulted in a loss for tax purposes since Rightside's tax basis in its eNom stock exceeded the proceeds from the sale, and as such, there was no tax on the sale.

The following table sets forth our results of discontinued operations for the periods presented (in thousands):

	Three Months Ended March 31,	
	2017	2016
Revenue	$ 7,798	$ 38,975
Cost of revenue (excluding depreciation and amortization)	6,909	31,838
Sales and marketing	196	527
Technology and development	655	2,747
General and administrative	82	273
Depreciation and amortization	174	868
(Loss) income from discontinued operations before income tax	(218)	2,722
Income tax expense	39	1,577
(Loss) income from discontinued operations, net of income tax	$ (257)	$ 1,145
Gain on sale	75,640	—
Income from discontinued operations	$ 75,383	$ 1,145

Results of Continuing Operations

The following tables set forth our results of operations for the periods presented (in thousands). The following information has been adjusted to remove the impact of the eNom Divestiture. As such, our results of operations for the periods presented are shown on a continuing operations basis. The period-to-period comparison of financial results is not necessarily indicative of future results.

	Three Months Ended March 31,	
	2017	2016
Revenue	$ 14,426	$ 16,606
Cost of revenue (excluding depreciation and amortization)	8,480	10,539
Sales and marketing	1,897	2,111
Technology and development	2,372	3,137
General and administrative	4,572	4,652
Depreciation and amortization	2,537	3,178
(Gain) loss on other assets, net	(120)	1
Interest expense	124	1,235
Other income, net	(51)	(50)
Loss from continuing operations before income tax	(5,385)	(8,197)
Income tax expense (benefit)	247	(1,945)
Loss from continuing operations	$ (5,632)	$ (6,252)

The following table presents our stock -based compensation expense included in the above line items (in thousands):

	Three Months Ended March 31,	
	2017	2016
Cost of revenue	$ (4)	$ 10
Sales and marketing	128	152
Technology and development	134	186
General and administrative	1,204	886
Total stock-based compensation expense	$ 1,462	$ 1,234

The following table presents our depreciation and amortization by expense classification (in thousands):

	Three Months Ended March 31,	
	2017	2016
Cost of revenue	$ 1,740	$ 1,870
Sales and marketing	53	320
Technology and development	388	674
General and administrative	356	314
Total depreciation and amortization	$ 2,537	$ 3,178

Revenue

Revenue by service line was as follows (in thousands, except percentage data):

	Three Months Ended March 31,		
	2017	2016	Change
Registrar services	$ 7,259	$ 7,038	3 %
Registry services	3,176	2,639	20
Aftermarket and other	4,348	7,275	(40)
Eliminations	(357)	(346)	3
Total revenue	$ 14,426	$ 16,606	(13) %

Amounts in the Eliminations line reflect the elimination of intercompany charges between our Registrar and Registry services businesses.

Registrar Services

Registrar services revenue for the three months ended March 31, 2017, increased by $0.3 million, or 3%, to $7.3 million compared to $7.0 million in 2016. The increase was primarily driven by our pricing optimization initiatives and improved merchandizing of our value-added services.

Registry Services

Registry services revenue for the three months ended March 31, 2017, increased by $0.6 million, or 20%, to $3.2 million from $2.6 million in 2016. The increase was primarily driven by a growing base of domains registered on our owned and operated gTLDs, as end of period domains increased 26% to 590,000 from 470,000 as of March 31, 2016.

Aftermarket and Other

Aftermarket and other revenue for the three months ended March 31, 2017, decreased by $3.0 million, or 40%, to $4.3 million compared to $7.3 million in 2016. The decrease is primarily driven by challenges in the lower margin third party syndication business.

Cost and Expenses

Costs and expenses were as follows (in thousands, except percentage data):

	Three Months Ended March 31,		
	2017	2016	Change
Cost of revenue (excluding depreciation and amortization)	$ 8,480	$ 10,539	(20) %
Sales and marketing	1,897	2,111	(10)
Technology and development	2,372	3,137	(24)
General and administrative	4,572	4,652	(2)
Depreciation and amortization	2,537	3,178	(20)
(Gain) loss on other assets, net	(120)	1	*
Interest expense	124	1,235	(90)
Other income, net	(51)	(50)	2
Income tax expense (benefit)	247	(1,945)	(113)

* Represents percentage variances that are not meaningful.

Cost of Revenue

Cost of revenue for the three months ended March 31, 2017, decreased by $2.0 million, or 20%, to $8.5 million compared to $10.5 million in 2016. The decrease was primarily due to a decline in revenue sharing costs paid to our domain name monetization customers.

Sales and Marketing

Sales and marketing expenses for the three months ended March 31, 2017, decreased by $0.2 million, or 10%, to $1.9 million compared to $2.1 million in 2016. The decrease was primarily due to a decrease in marketing activities as we shifted to channel rebate programs. These rebates are net against revenue rather than accounted for as sales and marketing expense.

Technology and Development

Technology and development expenses for the three months ended March 31, 2017, decreased by $0.7 million, or 24%, to $2.4 million compared to $3.1 million in 2016. The decrease was primarily due to a reduction of $0.5 million in infrastructure and technology costs to support our service platforms and a decrease of $0.3 million in personnel-related costs.

General and Administrative

General and administrative expenses for the three months ended March 31, 2017, decreased by $0.1 million, or 2%, to $4.6 million compared to $4.7 million in 2016. The decrease was primarily due to a decrease of $0.4 million in personnel-related costs and professional fees, partially offset by an increase of $0.3 million in stock-based compensation expense.

Depreciation and Amortization

Depreciation and amortization expense for the three months ended March 31, 2017, decreased by $0.7 million, or 20%, to $2.5 million compared to $3.2 million in 2016.The decrease was primarily due to a decrease in amortization expense as intangible assets reached the end of their useful lives, as well as a decrease in depreciation expense as we purchased less property and equipment.

(Gain) Loss on Other Assets, Net

Gain on other assets, net for the three months ended March 31, 2017 was $0.1 million compared to a loss on other assets, net of $1,000 in 2016. The change was due to payments received in exchange for the withdrawals of our interest in certain gTLD applications as well as lower costs incurred related to gTLD activity.

Interest Expense

Interest expense for the three months ended March 31, 2017 was $0.1 million and $1.2 million in 2016. Interest expense consisted of cash interest paid and amortization of deferred financing costs and debt discount for our SVB Credit Facility. The decrease in interest expense was due to the full repayment and extinguishment of our term loan credit facility with Tennenbaum Capital Partners LLC in November 2016.

Income Tax Benefit

The effective tax rate was (4.6)% and 23.7% for the three months ended March 31, 2017 and 2016, respectively. Our effective tax rate differs from the statutory rate primarily as a result of state taxes and the impact of the amortization of indefinite lived assets on our valuation allowance. Income tax expense was $0.2 million and income tax benefit was $1.9 million for the three months ended March 31, 2017 and 2016, respectively. The decrease in tax benefit was primarily due to state taxes and the impact of the amortization of indefinitely lived assets on our valuation allowance.

Non-GAAP Financial Measures

To supplement our financial results presented in GAAP, we use Adjusted EBITDA from continuing operations, a non-GAAP financial measure, to evaluate our business. We define Adjusted EBITDA from continuing operations as net income (loss) from continuing operations adjusted for interest, income taxes, depreciation and amortization, stock-based compensation, and certain gains, losses, and expenses that we do not believe are indicative of ongoing core business operating results.

We believe that Adjusted EBITDA from continuing operations is helpful in understanding our financial performance and potential future results. These are not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read in conjunction with the financial statements prepared in accordance with GAAP. Adjusted EBITDA from continuing operations may differ from non-GAAP financial measures with the same or similar captions that are used by other companies and do not reflect a comprehensive system of accounting. We use Adjusted EBITDA from continuing operations internally to understand, manage, and evaluate our business and make operating decisions. In addition, we believe that the presentation of Adjusted EBITDA from continuing operations is useful to investors because they enhance the ability of investors to compare our results from period to period and allows for greater transparency with respect to key financial metrics we use in making operating decisions.

The following is a reconciliation of loss from continuing operations to Adjusted EBITDA from continuing operations (in thousands):

	Three Months Ended March 31,	
	2017	2016
Loss from continuing operations	$ (5,632)	$ (6,252)
Add (deduct):		
Income tax expense (benefit)	247	(1,945)
(Gain) loss on other assets, net	(120)	1
Interest expense	124	1,235
Depreciation and amortization	2,537	3,178
Stock-based compensation expense	1,462	1,234
Acquisition and realignment costs	437	314
Adjusted EBITDA from continuing operations	$ (945)	$ (2,235)

Adjusted EBITDA from continuing operations improved $1.3 million, to $(0.9) million in the three months ended March 31, 2017, compared to $(2.2) million in 2016. The improvement was primarily driven by a decrease of $0.6 million in personnel-related costs and a decrease of $0.5 million in infrastructure and technology costs to support our service platforms.

Liquidity and Capital Resources

Historically, we have principally financed our operations from net cash provided by our operating activities. Our cash flows from operating activities are significantly affected by our cash based investments in operations, including working capital, and corporate infrastructure to support our ability to generate revenue and conduct operations through cost of revenue, technology and development, sales and marketing and general and administrative activities. Cash used in investing activities has historically been, and is expected to be, significantly impacted by our ongoing investments in our platform, company infrastructure, equipment and our investments in gTLD applications. Our capital expenditures and investments in gTLDs have to date been funded by cash flows from operations, as well as proceeds from our credit facility. In January 2017, in connection with the eNom Divestiture, we received net proceeds from the sale of approximately $72 million after payment of deal-related expenses.

As of March 31, 2017, our principal sources of liquidity were our cash, cash equivalents and available-for-sale investments totaling approximately $83.0 million along with our $15.0 million revolving credit facility.

In February 2017, we announced that our board of directors authorized a stock repurchase program of up to $50 million of our outstanding common stock, effective immediately. The stock repurchase program will be in place for up to 24 months. During the three months ended March 31, 2017, we repurchased 173,840 shares for $1.6 million. The timing and amount of repurchases will depend upon several factors, including market and business conditions, the trading price of our common stock, the nature of other investment opportunities and other factors.

In March 2017, we began a program to invest excess cash in a managed portfolio of investment-grade, fixed income securities. The objectives of our investment program are to preserve principal, maintain liquidity that is sufficient to meet cash flow requirements and maximize total return. As of March 31, 2017, we had invested $13.0 million in fixed maturities available-for-sale securities. Additionally, we invested approximately $32.0 million in highly liquid investments included in cash and cash equivalents on the balance sheets.

In connection with the Stock Purchase Agreement related to the eNom Divestiture, we are required to maintain unrestricted cash and cash equivalents of at least $8.35 million until September 20, 2017. This required amount will then be reduced to $6.35 million until January 20, 2018, and further reduced to $5.35 million until April 20, 2018, subject to certain conditions set forth in the stock purchase agreement.

On January 20, 2017, we fully paid off and extinguished the ou tstanding principal balance of $12.8 million of our SVB Credit Facility and entered into a Limited Consent and Amendment No. 4 to Credit Agreement with Silicon Valley Bank to release eNom as a party to the SVB Credit Facility in connection with the eNom Di vestiture. In addition, the availability period for revolving loans under our credit facility is currently suspended until we satisfy certain conditions, including delivery of financial projections after giving effect to the eNom Divestiture. During this p eriod of suspension, we are not required to comply with certain liquidity financial covenants under our credit facility until the availability period for our revolving loan is reinstated. For more information, see the section entitled "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Credit Facilities" in our Annual Report on Form 10-K which was filed with the SEC on March 15, 2017.

We believe our capital structure is appropriate for this stage of our operations and is sufficient to grow the business while pursuing our strategic objectives. However, we are participating in a dynamic and emerging environment, and will continuously evaluate our position relative to the opportunities available in the marketplace. We believe that our current cash balance and future cash from operations, together with our ability to access sources of financing, including debt and equity, will provide sufficient resources to fund both short term and long term operating requirements, capital expenditures, acquisitions and new business development activities for at least the next 12 months from the date of issuance of these financial statements.

Historical Cash Flow Trends

The following table sets forth our major sources and (uses) of cash for each period as set forth below (in thousands):

	Three Months Ended March 31,	
	2017	**2016**
Net cash used in operating activities from continuing operations	$ (3,606)	$ (1,619)
Net cash (used in) provided by investing activities from continuing operations	(13,047)	2,576
Net cash used in financing activities from continuing operations	(15,697)	(954)

Cash Flows from Operating Activities from Continuing Operations

Our primary source of cash from operating activities consists of cash collections from our customers. Our primary uses of cash from operating activities consist of domain registration costs paid to registries, personnel-related costs, discretionary marketing and advertising costs, and technology and development costs.

Net cash used in operating activities from continuing operations was $3.6 million and $1.6 million for the three months ended March 31, 2017 and 2016, respectively. The activity that comprised our net cash used in operating activities is described below.

Our loss from continuing operations for the three months ended March 31, 2017, was $5.6 million, which included non-cash charges of $4.1 million such as depreciation and amortization, stock-based compensation expense, and deferred taxes. In addition, changes in our working capital resulted in a $2.0 million reduction in cash, inclusive of a $0.4 million receivable from Tucows related to the transition services agreement.

Cash Flows from Investing Activities from Continuing Operations

Our investing activities primarily consist of strategic acquisitions of gTLDs, purchases of investments, purchases of intangible assets and purchases of property and equipment to support the overall growth in our business.

Net cash (used in) provided by investing activities from continuing operations was $(13.0) million for the three months ended March 31, 2017, compared to $2.6 million for the three months ended March 31, 2016. The activity that comprised our net cash (used in) provided by investing activities is described below.

During the three months ended March 31, 2017, we received returns of deposits of $0.3 million for investments in gTLD applications in pursuit of our ownership of cert ain gTLD operator rights. These proceeds were partially offset by purchases of $13.0 million of available-for-sale fixed maturities and $0.4 million of property and equipment.

Cash Flows from Financing Activities from Continuing Operations

Our financing activities primarily consist of the repayment of the revolving credit facility, stock repurchase activity and restricted stock unit activity.

Net cash used in financing activities from continuing operations increased $14.7 million, to $15.7 million for the three months ended March 31, 2017, from $1.0 million for the three months ended March 31, 2016. The increase in net cash used in financing activities was primarily due to the full repayment of our revolving credit facility with Silicon Valley Bank of $12.8 million, the repurchase and retirement of shares as a result of the stock repurchase program of $1.6 million and an increase in the principal payments on the capital lease obligation of $0.7 million due to the full repayment of our capital lease obligation.

Off-Balance Sheet Arrangements

As of March 31, 2017, we were not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, revenue or expenses, results of operations, liquidity or capital resources.

Contractual Obligations

On January 20, 2017, we entered into a sublease agreement with eNom in connection with the eNom Divestiture for approximately 20,500 square feet of our headquarters in Kirkland, Washington.

There were no other material changes outside the ordinary course of business to any contractual obligations disclosed within “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” as contained in our Annual Report on Form 10-K filed with the SEC on March 15, 2017.

Litigation

From time to time, we are party to various litigation matters incidental to the conduct of our business. There is no pending or threatened legal proceeding to which we are a party that, in our belief, could have a material adverse effect on our future financial results.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate, foreign exchange and concentration of credit risk. To reduce and manage these risks, we assess the financial condition of our large registrar resellers and other large customers when we enter into or amend agreements with them and we limit credit risk by collecting in advance when possible and setting and adjusting credit limits where we deem appropriate. In addition, our recent investment strategy has been to invest in high credit quality financial instruments, which are highly liquid, are readily convertible into cash and that mature within three to six months from the date of purchase.

Interest Rate Risk

On January 20, 2017, we fully paid off all outstanding debt and expect interest rate risk to be nominal.

We had cash and cash equivalents of $69.9 million as of Ma rch 31, 2017. Our cash and cash equivalents are held in operating accounts and money market funds for working capital purposes. Due to the short-term nature of these instruments, we believe that we do not have any material exposure to changes in the fair v alue of our cash and cash equivalents as a result of changes in interest rates.

We maintain an available-for-sale investment portfolio of various holdings, types, and maturities. Our primary objective for holding fixed maturities securities is to achieve an appropriate investment return consistent with preserving principal and managing risk. A sharp rise in market interest rates could have a material adverse impact on the fair value of our fixed maturities investment portfolio. Conversely, declines in interest rates could have a material adverse impact on interest income for our investment portfolio.

Foreign Currency Exchange Risk

While relatively small, we have operations outside of the United States. We have foreign currency risks related to a relatively small percentage of our expenses being denominated in currencies other than the U.S. dollar, principally in the Euro. We do not believe movements in the foreign currencies in which we transact will significantly affect future net earnings or losses. However, as our international operations grow, our risks associated with fluctuation in currency rates will become greater, and we intend to continue to assess our approach to managing this risk.

Concentrations of Credit Risk

As of March 31, 2017, our cash and cash equivalents were maintained with one major U.S. financial institution and two foreign banks. We also maintained cash balances with three internet payment processors. Deposits with these institutions at times exceed the federally insured limits, which potentially subject us to concentration of credit risk. Historically, we have not experienced any losses related to these balances and believe that there is minimal risk of expected future losses. However, there can be no assurance that there will not be losses on these deposits.

We are also exposed to credit risk with respect to our large customers. To reduce and manage these risks, we assess the financial condition of our large customers when we enter into or amend agreements with them and we limit credit risk by collecting in advance when possible and setting and adjusting credit limits where we deem appropriate.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, have evaluated 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) prior to the filing of this quarterly report. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, as of the end of the period covered by this quarterly report, our disclosure controls and procedures were effective at a reasonable level of assurance.

Changes in internal control over financial reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHE R INFORMATION

Item 1. Legal Proceedings

There is no pending or threatened legal proceeding to which we are a party that, in our belief, could have a material adverse effect on our business, financial results and existing or future operations.

Item 1A. Risk Factors

You should carefully consider the following risk factors, in addition to the other information contained in this report, including the section of this report captioned "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our unaudited condensed consolidated interim financial statements and related notes. If any of the events described in the following risk factors and the risks described elsewhere in this report occurs, our business, operating results and financial condition could be seriously harmed. This report also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of factors that are described below and elsewhere in this report.

Risks Relating to Our Businesses

If we are unsuccessful in marketing and selling our gTLDs or there is insufficient consumer demand for our gTLDs, our future business and results of operations would be materially and adversely affected.

Our registry services business, which derives most of its revenue from registration fees for domain names, generates a significant portion of our revenue and margin. It is unclear what the ultimate market size or demand is or will be for the new gTLDs that we offer to the market. There can be no guarantees that consumers will demand or accept new gTLDs in general or our new gTLDs in particular.

We face significant competition to our registry services business and we may not be able to develop or maintain significant market share.

Prior to the launch of the New gTLD Program, there were over 20 gTLD registries and over 290 ccTLD registries. We face competition in the registry services space from other established and more experienced operators in these service offerings, including other gTLD and ccTLD registries, as well as new entrants into the domain name services industry, some of which have greater financial, marketing and other resources. In particular, we face direct competition with other new gTLD registries offering gTLDs similar to our offerings. For example, our .DENTIST domain names compete directly with another registry's .DENTAL domain names.

Other registries with more experience or with greater resources may launch marketing campaigns for new or existing TLDs, which result in registrars or their resellers giving other gTLDs greater prominence on their websites, advertising or marketing materials. In addition, such registries could offer aggressive price discounts on the gTLDs they offer or bundle gTLDs as a loss leader with other services. If we are unable to match or beat such marketing and pricing initiatives, or are otherwise unable to successfully compete with other registries, we may not be able to develop, maintain and grow significant market share for our new gTLD offerings, and our business, financial condition and results of operation would be adversely affected.

Our registry services business is substantially dependent upon third -parties to market and distribute our gTLDs and we would be adversely affected i f these relationships are terminated or diminished.

A large portion of our gTLD sales are made through third-party channels, including resellers currently on our platform and third-party registrars. Our distribution partners also offer our competitors' gTLDs. The extent to which our third-party distribution partners sell our gTLDs is partly a function of pricing, terms and special marketing promotions offered by us and our competitors. Our agreements with our third-party distribution partners are generally nonexclusive and may be terminated by them without cause. Our business would be adversely affected if such distribution partners chose not to offer our gTLDs in the future or chose to sell or offer greater amounts of competitive gTLDs relative to the amount of our gTLDs they sell or offer.

Our marketing efforts may not be successful or may become more expensive, either of which could increase our costs and materially and adversely affect our business, financial condition, results of operations, and cash flows.

We spend significant resources marketing our brands, services and new gTLDs. We rely on relationships with a wide variety of third parties, including registrars, resellers and other partners, to source new customers and to promote our new gTLDs and domain name services. In addition, from time to time, we may spend a significant amount on marketing, including through bundling, price promotions and online advertising . With any of our brands, services and new gTLDs, if our marketing activities are inefficient or unsuccessful, if important third-party relationships or marketing strategies become more expensive or unavailable, or are suspended or terminated, for any reason, our business, financial condition, results of operations, and cash flows could be materially and adversely affected.

As a new gTLD registry, we are subject to ICANN's registry agreement and governing policies, which may change to our detriment.

We are required to enter into a registry agreement with ICANN (each, a "Registry Agreement") for each new gTLD that we operate. To date, we have entered into 40 Registry Agreements. Of the 40 new gTLDs for which we are the registry operator, all of them have been delegated to us and inserted into the authoritative database for the internet, known as the "Root Zone."

We face risks arising from our Registry Agreements with ICANN, including the following:

- ICANN could adopt or promote policies, procedures or programs that in each case are inconsistent with our current or future plans, or that affect our competitive position. For example, each of the Registry Agreements contains guidelines for the operation of vertically integrated enterprises operating both a registrar and a registry. If ICANN were to materially change those guidelines or prohibit such vertical integration, such a change would materially and adversely affect our future growth, business and results of operations;

- under certain circumstances, ICANN could terminate one or more of our Registry Agreements; and

- ICANN has the right to increase the fees due from the registry operator under the Registry Agreements. The increase in these fees with respect to any gTLDs for which we act as the registry either must be included in the prices we charge to registrars or absorbed by us. If we absorb such cost increases or if increased prices to registrars act as a deterrent to registration, our profits may be adversely impacted.

If our customers do not renew their domain name registrations or if they transfer their existing registrations to our competitors and we fail to replace their business, our business would be adversely affected.

Our success depends in large part on our registry and registrar customers' renewals of their domain name registrations. If we are unable to maintain our overall renewal rates for domain name registrations or if any decrease in our renewal rates, including due to transfers, is not offset by increases in new customer growth rates, our customer base and our revenue would likely decrease. This would also reduce the number of domain name registration customers to whom we could market our other higher margin services, which could further harm our revenue and profitability, drive up our customer acquisition costs and negatively impact our operating results. Any significant decline in renewals of domain name registrations not offset by new domain name registrations would likely have an adverse effect on our business, financial condition and results of operations.

Governmental and regulatory policies or claims concerning the domain name registration system, and industry reactions to those policies or claims, may cause instability in the industry and negatively impact our business.

ICANN is a private sector, not-for-profit corporation formed in 1998 for the express purpose of managing a number of internet infrastructure related tasks previously performed directly by the U.S. Department of Commerce, including managing the domain name registration system ("DNS"). ICANN has been the subject of scrutiny by the public and by the United States and other governments around the world with many of those governments becoming increasingly interested in ICANN's role in internet governance. For example, the U.S. Congress held hearings to evaluate ICANN's selection process for new TLDs and its transition of the IANA functions from coordination by the U.S. Department of Commerce to ICANN. ICANN may continue to evolve both its long-term structure and mission to address perceived shortcomings such as a lack of accountability to the public and a failure to maintain a strong, effective multi-stakeholder internet governance institution.

As a key participant in the DNS, we continue to face the following risks:

- the U.S. or any other government may seek to influence ICANN's role in overseeing the security and stability of the DNS;

- the internet community, the U.S. or other governments may (1) refuse to recognize ICANN's authority or support its policies, (2) attempt to exert pressure on ICANN to implement policies favorable to certain national interests, or (3) enact laws that conflict with ICANN's policies, each of which could create challenges for companies dependent on smooth operation of the DNS;

- some of ICANN's policies and practices, and the policies and practices adopted by registries and registrars, could be found to conflict with the laws of one or more jurisdictions;

- the terms of the Registrar Accreditation Agreement (the "RAA"), under which we are accredited as a registrar, could change in ways that are disadvantageous to us or under certain circumstances could be terminated by ICANN preventing us from operating our registrar service, or ICANN could adopt unilateral changes to the RAA that are unfavorable to us, that are inconsistent with our current or future plans, or that affect our competitive position;

- international regulatory or governing bodies, such as the International Telecommunications Union or the European Union, may gain increased influence over management and regulation of certain aspects of the internet, such as data security, taxation, intellectual property rights, privacy and data protection;

- ICANN or any third-party registries may implement contract or policy changes that would impact our ability to run our current business practices throughout the various stages of the life cycle of a domain name;

- legal, regulatory or other challenges could be brought, including challenges to the agreements governing our relationship with ICANN, or to the legal authority underlying the roles and actions of ICANN or us; and

- the U.S. Congress or other legislative bodies in the United States could take action that is unfavorable to us or that influences customers to move their business from our services to those located outside the United States.

Additionally, some governments and governmental authorities outside the United States have in the past disagreed, and may in the future disagree, with the actions, policies or programs of ICANN, the U.S. government and registries relating to the DNS. The Affirmation of Commitments established several multi-party review panels and contemplates a greater involvement by foreign governments and governmental authorities in the oversight and review of ICANN. These periodic review panels may recommend changes to ICANN that are unfavorable to our business.

The occurrence of any of these events could create instability in the DNS and may make it difficult for us to introduce new services in our registrar and registry services business. These events could also disrupt or suspend portions of our domain name registration solution and subject us to additional restrictions on how the registrar and registry services businesses are conducted, which would result in reduced revenue.

We may not be able to maintain our strategic relationships with third parties.

We have formed strategic alliances with certain business partners. For example, the gTLD acquisition process requires us to rely upon or negotiate and collaborate with independent third parties, including Donuts. We have also contracted to provide Donuts with registry back end infrastructure services.

There can be no assurance that these strategic partners will continue their relationships with us in the future or that we will be able to pursue our stated strategies with respect to these arrangements. Furthermore, our partners may (1) have economic or business interests or goals that are inconsistent with ours; (2) take actions contrary to our policies or objectives; (3) undergo a change of control; (4) experience financial and other difficulties; or (5) be unable or unwilling to fulfill their obligations under our agreements, which may affect our financial condition or results of operations.

In addition, we have or intend to enter into agreements with service providers or distribution partners who may partner with us in one area of our business and compete with us in other areas of our business. There can be no assurance that we will be successful in establishing or maintaining these relationships or that these relationships will be successful.

We face significant competition to our registrar service offering, which we expect will continue to intensify. We may not be able to maintain or improve our competitive position or market share.

We face significant competition from existing registrars and from new registrars that continue to enter the market. ICANN currently has over 2,900 registrars to register domain names in one or more of the gTLDs that it oversees. There are relatively few barriers to entry in this market, so as this market continues to develop we expect the number of competitors to increase. The continued entry into the domain name registration market by competitive registrars and unaccredited entities that act as resellers for registrars, and the rapid growth of some competitive registrars and resellers that have entered the market, may make it difficult for us to maintain our current market share.

The market for domain name registration and other related value-added web-based services is highly competitive and rapidly evolving. We expect competition to increase from existing competitors, as well as from new market entrants. These competitors include, among others, domain name registrars, website design firms, website hosting companies, internet service providers, internet portals and search engine companies, and include companies such as GoDaddy, Web.com, Microsoft, and Google. Some of these competitors have traditionally offered more robust value-added services, and some have greater resources, more brand recognition and consumer awareness, greater international scope and larger bases of existing customers. As a result, we may not be able to compete successfully against them in future periods.

In addition, these and other large competitors, in an attempt to gain market share, may offer aggressive price discounts on the services they offer. These pricing pressures may require us to match these discounts in order to remain competitive, which would reduce our margins, or cause us to lose customers who decide to purchase our competitors' discounted service offerings. In light of these factors, it may become increasingly difficult for us to compete successfully.

The relevant domain name registry and the ICANN regulatory body impose a charge upon each registrar for the administration of each domain name registration. If these fees increase, it could have a significant impact upon our operating results.

Each registry typically imposes a fee in association with the registration of each domain name. We have no control over these agencies and cannot predict when they may increase their respective fees. In addition, pricing of new gTLDs is generally not set or controlled by ICANN, which could result in aggressive price increases on any particularly successful new gTLDs. The increase in these fees with respect to any gTLDs for which we do not act as the registry either must be included in the prices we charge to our service providers, imposed as a surcharge or absorbed by us. Our profits may be adversely impacted if we absorb such cost increases or if surcharges deter registration.

Our failure to register, maintain, secure, transfer or renew the domain names that we process on behalf of our customers or to provide our other services to our customers without interruption could subject us to additional expenses, claims of loss or negative publicity that would materially and adversely affect our business.

Clerical errors and system and process failures made by us may result in inaccurate and incomplete information in our database of domain names and in our failure to properly register or to maintain, secure, transfer or renew the registration of domain names that we process on behalf of our customers. In addition, any errors of this type might result in the interruption of our other services. Failure to properly register or to maintain, secure, transfer or renew the registration of our customers' domain names or to provide our other services without interruption, even if we are not at fault, may result in our incurring significant expenses and may subject us to claims of loss or to negative publicity, which could harm our business, revenue, financial condition and results of operations.

We could face liability, or our corporate image might be impaired, as a result of the activities of our customers or the content of their websites.

Our role as a registry and as a registrar of domain names and a provider of website hosting and other value-added services may subject us to potential liability for illegal activities by domain name registrants on their websites. For example, allegations of liability have been made based on domain name registrants' alleged violations of copyrights or trademarks of third parties. Plaintiffs may argue that we are responsible because we benefited from or participated in the infringing conduct. In addition, we may be embroiled in complaints and lawsuits which, even if ultimately resolved in our favor, add to our costs of doing business and may divert management's time and attention.

We p rovide an automated service that enables a user to register a domain name and publish its content on a website hosted on that domain name. Our registrars do not monitor or review, nor do our registrar agreements with ICANN require that we monitor or review , the appropriateness of the domain names registered by domain name registrants or the content of registrant websites, and we have no control over the activities in which our domain name registrants engage. While we have policies in place to terminate doma in name registrations or to take other appropriate action if presented with a court order, governmental injunction or evidence of illegal conduct from law enforcement or a trusted industry partner, we have in the past been publicly criticized for not being more proactive in certain areas, such as policing online pharmacies acting in violation of U.S. law by consumer watchdogs, and we may encounter similar criticism in the future. This criticism could harm our reputation. Conversely, were we to terminate a d omain name registration in the absence of legal compulsion or clear evidence of illegal conduct from a legitimate source, we could be criticized for prematurely and improperly terminating a domain name registered by a customer. In addition, despite the pol icies we have in place to terminate domain name registrations or to take other appropriate actions, customers could nonetheless engage in prohibited activities.

Finally, existing bodies of law, including the criminal laws of various states, may be deemed to apply or new statutes or regulations may be adopted in the future, impacting domain name registrants or their websites, any of which could expose us to further liability and increase our costs of doing business.

We may face liability or become involved in disputes over registration of domain names and control over websites.

As a domain name registrar, we regularly become involved in disputes over registration of domain names and we may become involved in similar disputes with our registry services business. Most of these disputes arise as a result of a third-party registering a domain name that is identical or similar to another party’s trademark or the name of a living person. These disputes are typically resolved through the Uniform Domain‑Name Dispute‑Resolution Policy (the “UDRP”) or the Uniform Rapid Suspension System (the “URS”), ICANN’s administrative processes for domain name dispute resolution, or less frequently through litigation under the Anticybersquatting Consumer Protection Act (“ACPA”) or under general theories of trademark infringement or dilution. Therefore, we may face an increased volume of domain name registration disputes in the future as the overall number of registered domain names increases.

Domain name registrars also face potential tort law liability for their role in wrongful transfers of domain names. The safeguards and procedures we have adopted may not be successful in insulating us against liability from such claims in the future. In addition, we face potential liability for other forms of “domain name hijacking,” including misappropriation by third parties of our network of customer domain names and attempts by third parties to operate websites on these domain names or to extort the customer whose domain name and website were misappropriated. Furthermore, our risk of incurring liability for a security breach on a customer website would increase if the security breach were to occur following our sale to a customer of a Secure Socket Layer certificate that proved ineffective in preventing the security breach. Finally, we are exposed to potential liability as a result of our private domain name registration service, wherein we become the domain name registrant, on a proxy basis, on behalf of our customers. While we have a policy of providing the underlying Whois information and reserve the right to cancel privacy services on domain names giving rise to domain name disputes, including when we receive reasonable evidence of an actionable harm, the safeguards we have in place may not be sufficient to avoid liability in the future, which could increase our costs of doing business.

As the number of available domain names with commercial value in existing TLDs diminishes over time, our domain name registration revenue and our overall business could be adversely impacted.

As the number of domain name registrations increases and the number of available domain names with commercial value in existing TLDs diminishes over time and if it is perceived that the more desirable domain names are generally unavailable (and new gTLDs are not seen as a viable alternative), fewer internet users may register domain names with us. If this occurs, our domain name registration revenue and our overall business could be adversely affected.

Changes in internet use r behavior, either as a result of evolving technologies or user practices, may impact the demand for domain names.

Currently, internet users often navigate to a website either by directly typing its domain name into a web browser or through the use of a search engine. If (1) web browser or internet search technologies were to change significantly; (2) internet search engines were to change the value of their algorithms on the use of a domain name for finding a website; (3) internet users' preferences or practices were to shift away from direct navigation; (4) internet users were to significantly increase the use of web and mobile device applications to locate and access content; or (5) internet users were to increasingly use third level domains or alternate identifiers, such as social networking and microblogging sites, then in each case, the demand for domain names could decrease.

We may experience unforeseen liabilities in connection with our acquisitions of internet domain names or arising out of domain names included in our portfolio of domain names that are monetized via advertising, which could negatively impact our financial results.

Certain of our acquisitions involve the acquisition of a large portfolio of previously registered domain names. Furthermore, we have separately acquired, and may acquire in the future, additional previously registered domain names. In some cases, these acquired names may have trademark significance that is not readily apparent to us or is not identified by us in the bulk purchasing process. As a result we may face demands by third-party trademark owners asserting infringement or dilution of their rights and seeking transfer of acquired domain names under the UDRP, URS or actions under the ACPA. The potential violation of third-party intellectual property rights and potential causes of action under consumer protection laws may subject us to unforeseen liabilities including injunctions and judgments for money damages.

We depend upon the quality of traffic to our portfolio of domain names and the domain names of third parties to provide value to online advertisers who advertise on those domain names, and any failure in our quality control could materially and adversely affect the value of such domain names to our third-party advertisement distribution providers and online advertisers and thereby adversely affect our revenue.

We use technology and processes to monitor the quality of, and to identify any anomalous metrics associated with, the internet traffic that we deliver to online advertisers and to our network of customer domain names. These metrics may be indicative of low quality clicks such as non-human processes, including robots, spiders or other software, the mechanical automation of clicking, and other types of invalid clicks or click fraud. Even with such monitoring in place, there is a risk that a certain amount of low-quality traffic, or traffic that is deemed to be invalid by online advertisers, will be delivered to such online advertisers. As a result, we may be required to credit future amounts owed to us by our advertisers. Furthermore, low-quality or invalid traffic may be detrimental to our relationships with third-party advertisement distribution providers and online advertisers, and could adversely affect our revenue.

If, due to new regulations or otherwise, we are unable to acquire, renew or sell domain names, we may not be able to maintain our domain name aftermarket and advertising business.

Maintaining our domain name aftermarket and advertising services business depends on our ability to acquire domain names from a variety of sources. These sources include previously registered domain names that are not renewed at the domain name registry by the current owner, private sales of domain names, participation in domain name auctions and registering new domain names identified by us. The acquisition and renewal of domain names generally are governed by regulatory bodies. These regulatory bodies could establish additional requirements for previously registered domain names or modify the requirements for holding domain names. Any changes in the way expired registrations of domain names are made available for acquisition could make it more difficult to acquire domain names. Similarly, increasing competition from other potential buyers could make it more difficult for us to acquire domain names on a cost-effective basis. Any such adverse change in our ability to acquire high quality, previously registered domain names, as well as any increase in competition in the domain name reseller market, could materially and adversely affect our ability to maintain our domain name aftermarket and advertising business, which could adversely affect our business, financial condition and results of operations. In addition, our failure to renew our domain name registrations or any increase in the cost of renewal could materially and adversely affect our revenue and profitability.

Changes in the level of spending on online advertising and/or the way that online networks compensate owners of websites could impact the demand for domain names.

Many domain name registrants seek to generate revenue through advertising on their websites. Changes in the way these registrants are compensated or changes in the way the revenue share is retained (including in each case, changes in methodologies and metrics) by advertisers and advertisement placement networks, such as Google, Yahoo! and Bing, have, and may continue to, adversely affect the market for those domain names favored by such registrants. These changes have resulted in, and may continue to result in, a decrease in demand and/or the renewal rate for those domain names. For example, Google has in the past changed, and may in the future change, its search algorithm and pay-per-click advertising policies to provide less compensation for certain types of websites. This has made such websites less profitable, which has resulted in, and may continue to result in, fewer domain name registrations and renewals, which could adversely affect our revenue. In addition, as a result of the general economic environment, spending on online advertising and marketing may not increase as projected or may be reduced, which in turn, may result in a further decline in the demand for those domain names, which could adversely affect our revenue.

If the security measures for our systems are breached, or if our products or services are subject to attacks that degrade or deny the ability of users and customers to maintain or access them, our reputation and business may be harmed and we may incur significant legal and financial exposure.

Some of our systems, products and services, including through third-party service providers – some of which provide cloud-based offerings – store, process and transmit user, customers', and our own information. Therefore, the secure maintenance and transmission of customer information is an important element of our operations. Our information technology and other systems that maintain and transmit customer information, including location or personal information, or those of our service providers, may be compromised by a malicious third-party penetration of our network security, or that of a third-party service provider, or impacted by intentional or inadvertent actions or inactions by our employees, or those of a third-party service provider. Cyber-attacks, which include the use of malware, computer viruses, phishing attacks, social engineering and other means for disruption or unauthorized access, have increased in frequency, scope and potential harm in recent years. While, to date, we have not been the subject of cyber-attacks or other cyber incidents which, individually or in the aggregate, have been material to our operations or financial condition, the preventive actions we take to reduce the risk of cyber incidents and protect our information technology and networks may be insufficient to repel a major cyber-attack in the future. As a result, our users' and customers' information may be lost, disclosed, accessed, used, corrupted, destroyed or taken without their consent.

In addition, we and our third-party service providers process and maintain our proprietary business information, employee information and data related to our business-to-business customers or suppliers. Our information technology and other systems that maintain and transmit this information, or those of our service providers, may also be compromised by cyber-attacks or other malicious third-party penetration of our network security or that of a third-party service provider, or impacted by intentional or inadvertent actions or inactions by our employees or those of a third-party service provider. We also purchase equipment from third parties that could contain software defects, Trojan horses, malware, or other means by which third parties could access our network or the information stored or transmitted on such networks or equipment. As a result, our business information, employee information or customer or supplier data may be lost, disclosed, accessed, used, corrupted, destroyed or taken without consent. Any security breach involving the misappropriation, loss or other unauthorized disclosure of proprietary business information or personal information of employees, consumers or others could damage our reputation, expose us to the risk of litigation and liability, disrupt our operations and have a materially adverse effect on our business.

We are required to comply with guidelines issued under the Federal Trade Commission Act, which governs the collection, use and storage of consume r information, and establishes principles relating to notice, consent, access and data integrity and security. Several states have adopted legislation that requires businesses to implement and maintain reasonable security procedures and practices to protec t sensitive personal information and to provide notice to consumers in the event of a security breach. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any data-related consent orders, Federal Trade Commission req uirements or orders or other federal, state or international privacy or consumer protection-related laws, regulations or industry self-regulatory principles could result in claims, proceedings or actions against us by governmental entities or others, or ot her liabilities, which could adversely affect our business.

Any major compromise of our data or network security, failure to prevent or mitigate the loss of our services or information and delays in detecting any such compromise or loss could disrupt our operations, impact our reputation and customers' willingness to purchase our services and subject us to additional costs and liabilities, including litigation and regulatory investigations, which could be material. A determination by the Federal Trade Commission that we did not maintain "reasonable security" for our customer and/or employee information could also impact our reputation and customers' willingness to purchase our services and subject us to additional costs and liabilities, including litigation and regulatory investigations, which could be material.

We face a number of operational challenges to our business, which may make it difficult to predict our future performance.

Our revenue and operating results could fail to meet expectations if we are unable to adequately address a number of operational challenges, some of which are outside of our control, including:

- a reduction in the number of domain names under management or in the rate at which this number grows, due to slow growth or market contraction, lower renewal rates or other factors;
- reductions in the percentage of our domain name registration customers who purchase additional services from us;
- changes in our pricing policies, including our pricing optimization efforts, pricing policy changes of our competitors, changes in domain name fees charged to us by internet registries or ICANN, or other competitive pressures on our prices;
- changes in the way in which third parties compensate us for advertising placements on our owned and operated, as well as third-party websites;
- our ability to identify, develop and successfully launch and market new products and services, including new gTLDs, as well as our ability to introduce new opportunities or retire older existing products and services;
- the timing and success of new services and technology enhancements introduced by our competitors, which could impact both new customer growth and renewal rates;
- the entry of new competitors in our markets;
- our ability to keep our registrar and registry platforms and our domain name registration services operational at a reasonable cost and without service interruptions;
- increased development expenses relating to new services;
- the amount and timing of operating costs and capital expenditures related to the maintenance and changes to our services, operations and infrastructure;

- our ability to identify acquisition targets and successfully integrate acquired businesses into our operations or our ability to efficiently scale our operations upon strategic divestitures ;

- our focus on long-term goals over short-term results;

- any negative publicity or other actions which harm our brand;

- federal, state or foreign regulation or legislation affecting our business; and

- weakness or uncertainty in general political, economic or industry conditions.

It is possible that in one or more future quarters, due to any of the factors listed above, a combination of those factors or other reasons, our operating results may be below our expectations and the expectations of public market analysts and investors. Such an event could have a material adverse impact on the price of our shares.

Difficult political, economic and financial conditions could materially and adversely affect us.

The financial results of our business are both directly and indirectly dependent upon political and economic conditions throughout the world, which in turn can be impacted by conditions in the global financial markets. Uncertainty about global political or economic conditions may lead businesses to postpone spending in response to tighter credit and reductions in income or asset values. Factors such as interest rates, availability of credit, inflation rates, changes in laws (including laws relating to taxation), trade barriers, currency exchange rates and controls, and national and international political circumstances (including wars, terrorist acts or security operations) could materially and adversely affect our business and investments, which could reduce our revenue, profitability and value of our assets. These factors may also adversely affect the business, liquidity and financial condition of our customers. In addition, periods of poor economic conditions could increase our ongoing exposure to credit risks on our accounts receivable balances. This could materially and adversely affect our business, financial condition and results of operations.

If we do not effectively manage our growth, our operating performance will suffer and we may lose customers.

Overall growth will place significant demands on our management and our operational and financial infrastructure. In particular, continued growth may make it more difficult for us to accomplish the following:

- successfully scale our technology and infrastructure to support a larger business;

- maintain our customer service standards;

- develop and improve our operational, financial and management controls and maintain adequate reporting systems and procedures;

- acquire and integrate businesses; and

- respond effectively to competition and potential negative effects of competition on profit margins.

In addition, our personnel, systems, procedures and controls may be inadequate to support our current and future operations. The improvements required to manage our growth may require us to make significant expenditures, expand, train and manage our employee base and allocate valuable management resources. If we fail to effectively manage our growth, our operating performance will suffer and we may lose our customers and key personnel.

We may undertake acquisitions and divestitures that could entail significant execution, integration and operational risks.

From time to time, we may acquire other businesses and, based on an evaluation of our business portfolio, divest existing businesses. Any acquisitions and divestitures may present financial, managerial and operational challenges, including diversion of management attention from existing businesses, difficulty with integrating or separating personnel and financial and other systems, increased expenses and costs, assumptions of unknown liabilities and indemnities, and potential disputes with the buyers or sellers. If we are unable to consummate such transactions, or successfully integrate and grow acquisitions and achieve contemplated revenue synergies and cost savings, our financial results could be adversely affected.

On January 20, 2017, we completed the eNom Divestiture. There is no assurance that we will be able to realize the intended benefits of the transaction. The eNom Divestiture could also cause disruptions in our business, including potential adverse reactions or changes to business relationships and competitive responses to the transaction. Declines in our sales, earnings and cash flows as a result of the divestiture could also result in future asset impairments (including goodwill) and we also may be unable to fully recover the corporate overhead costs previously allocated to the eNom business through the pricing of our products and services in future periods. The anticipated benefits of the transaction may also be reduced by potential liabilities related to post-closing adjustments and indemnities. Any of the foregoing could adversely affect our business, financial condition and results of operations.

Restructuring and streamlining our business, including implementing reductions in workforce, discretionary spending, and other expense reductions, may materially harm our businesses.

We have in the past found and may in the future find it advisable to take measures to streamline operations and reduce expenses, including, without limitation, reducing our workforce or discontinuing or divesting products or businesses. For example, we effected a reduction in force in connection with the eNom Divestiture resulting in pre-tax restructuring costs of approximately $0.2 million for employee termination benefits and related costs, and approximately $0.2 million in other pre-tax restructuring charges. We may also incur liabilities from these measures, including liabilities from termination or assignment of contracts, potential failure to meet obligations due to loss of employees or resources, and resulting litigation. Such effects from restructuring and streamlining could have a materially negative impact on our business, financial condition and financial results.

There can be no assurances that we will be successful in investing the proceeds of the eNom Divestiture.

We received approximately $77.7 million in cash from the eNom Divestiture. We are evaluating future investment opportunities and uses for our cash. We may in the future elect to acquire another entity or invest the net proceeds from the eNom Divestiture in such manner as is determined by our board of directors and management. We will incur operating expenses, resulting from overhead and professional fees, while we are searching for appropriate opportunities to invest the proceeds of the eNom Divestiture. In February 2017, we announced a share repurchase program to repurchase up to $50 million of our outstanding common stock through February 2019. As of March 31, 2017, we repurchased a total of 173,840 shares at a cost of $1.6 million, including fees paid to our broker. There is no obligation to repurchase any specific number of shares or any specific dollar amount. These uses of proceeds could impair the Company’s future financial growth. We may not be successful in these investments or any other use of proceeds that our board of directors may determine.

Our cash investments are subject to numerous risks.

We may invest our excess cash in money market instruments, money market funds, or fixed income securities, such as U.S. government securities, corporate bonds or asset-backed securities. All securities are subject to risk, including fluctuations in interest rates, credit risk, market risk and systemic economic risk. Changes or movements in any of these risk factors may result in a loss or impairment to our invested cash and may have a material effect on our consolidated results of operations and financial position.

The historical financial information presented in this quarterly report may not be a reliable indicator of our future results.

The historical financial data that we have included in this quarterly report may not necessarily reflect what our financial position, results of operations or cash flows will be in the future, even taking into account that our historical eNom registrar business is reported in this quarterly report as discontinued operations. The historical financial statements included in this quarterly report were prepared on the basis of assumptions derived from available information that we believed to be reasonable. However, these assumptions may change or may be incorrect, and actual results may significantly differ. Significant changes have and will continue to occur in our cost structure, financing and business operations following the eNom Divestiture.

We and Tucows provide one another with certain services under a transition services agreement that may require us to divert resources from our business, which in turn may negatively impact our business, financial condition and results of operations.

In connection with the eNom Divestiture, we and Tucows entered into a transition services agreement under which each party will compensate the other for the provision of various services to the other party for specified periods beginning on January 20, 2017. For services on which we rely upon Tucows, including services relating to information technology, we cannot assure you that these services will be performed as efficiently or proficiently as they were prior to the eNom Divestiture. When Tucows ceases to provide services pursuant to the transition services agreement, our costs of procuring those services from third parties may increase. In addition, we may not be able to replace these services in a timely manner or enter into appropriate third-party agreements on terms and conditions, including cost, comparable to those under the transition services agreement. Furthermore, the personnel performing services for Tucows under the transition services agreement are employees and/or independent contractors of ours. In the course of performing our obligations under the transition services agreement, we will allocate certain of our resources, including assets and attention of our management and personnel for the benefit of Tucows' business, which may negatively impact our business, financial condition and results of operations.

We are obligated to indemnify Tucows for specified matters related to the eNom Divestiture and maintain unrestricted cash to cover our indemnification obligations.

Under the stock purchase agreement related to the eNom Di vestiture, we will indemnify Tucows against losses arising from, among other things, breaches of representations and warranties, breaches of covenants, any pre-closing taxes, any unpaid debt or transaction expenses and certain other specified matters. In addition, we are required to maintain unrestricted cash and cash equivalents of at least $8,350,000 until September 20, 2017, which amount will be reduced to $6,350,000 thereafter until January 20, 2018, and further reduced to $5,350,000 thereafter until April 20, 2018, subject to certain conditions set forth in the stock purchase agreement. Accordingly, these indemnification obligations could be substantial and could have an adverse effect on our results of operations, cash flows and financial position.

We are bound by covenants contained in our credit facility that may restrict our ability to pursue our business strategies, and the financing incurred under our credit facility could adversely affect our liquidity and financial condition.

On January 20, 2017, we fully paid off the outstanding draw on our revolving line of credit with Silicon Valley Bank in connection with the eNom Divestiture. The availability period for revolving loans under our credit facility is currently suspended until we satisfy certain conditions, including delivery of financial projections after giving effect to the eNom Divestiture. During this period of suspension, we are still required to comply with the covenants, other than certain liquidity financial covenants, under our credit facility.

Our credit facility requires us to comply with various covenants that limit our ability, among other things, to:

- incur additional indebtedness;
- grant additional liens;
- make investments;
- complete mergers or acquisitions;
- dispose of assets;
- pay dividends, redeem or repurchase stock; and
- engage in transactions with our affiliates.

These restrictions could inhibit our ability to pursue our business strategies. In addition, our credit facility includes financial covenants. Our revolving credit facility with Silicon Valley Bank ("SVB Credit Facility") currently requires us to maintain a minimum liquidity ratio. Once the lending commitments are reinstated, we will also be required to maintain a minimum consolidated EBITDA and a maximum consolidated net leverage ratio. Our failure to comply with any covenants in the SVB Credit Facility, including any of the financial covenants, could result in an event of default. Our ability to satisfy our financial covenants under our credit facility depends upon our ability to generate cash flows. Our ability to generate cash flows, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors that are beyond our control. There is no assurance that our business will generate sufficient cash flows from operations in an amount sufficient to enable us to meet our and financial covenants under our credit facility. If we are not able to generate sufficient cash flows from operations to service our obligations under our credit facility, we may need to refinance or restructure our credit facility, sell assets, reduce or delay capital investments, or seek to raise additional capital.

If an event of default occurs, and such event of default is not cured or waived, our lender could:

- terminate its lending commitments;
- accelerate all outstanding obligations under the credit facility and demand that all outstanding obligations be due and payable immediately; and
- exercise its remedies as a secured creditor with respect to all of the collateral that is securing the outstanding obligations under our credit facility.

Any of these events could have a material adverse effect on our business, financial condition and results of operations.

The availability of our revolving line of credit is curr ently suspended. We may need additional funding to meet our obligations and to pursue our business strategy. Additional funding may not be available to us and our financial condition could therefore be adversely affected.

The availability of borrowings under our credit facility is currently suspended following the divestiture of eNom until we satisfy certain conditions, including delivery of financial projections after giving effect to the eNom Divestiture. We may be unable to meet such conditions or satisfy them in a timely fashion to permit us to pursue certain opportunities. To the extent we do not maintain a sufficient amount of cash received from the eNom Divestiture or generate sufficient cash from operations, we will need to raise additional funds through public or private debt or equity financings to meet our ongoing obligations and to execute our growth strategy, which may include the selective acquisition of additional new gTLDs, domain names and technologies as well as other registry and registrar services providers. Adequate sources of capital funding may not be available when needed, or may not be available on favorable terms. If we raise additional funds by issuing equity or certain types of convertible debt securities, dilution to the holdings of our existing stockholders may result. If we raise debt financing, we will incur interest expense and the terms of such debt may be at unfavorable rates and could require the pledge of assets as security or subject us to financial and/or operating covenants that affect our ability to conduct our business.

If funding is insufficient at any time in the future, we will be required to delay, reduce the scope of, or eliminate material parts of the implementation of our business strategy, including potential additional acquisitions or internally developed business, and we may be unable to take advantage of business opportunities or respond to competitive pressures, any of which could harm our business, financial condition and results of operations.

We have received unsolicited, non-binding proposals to acquire certain assets of our business, which proposals may be disruptive to our business and threaten to adversely affect our business, financial condition and results of operations.

We have received and rejected unsolicited, non-binding proposals to purchase certain of our new gTLD assets, including from entities associated with our activist stockholders and other entities in the domain name industry. For example, on June 24, 2016, Donuts sent us a letter containing an unsolicited proposal to acquire our registry business for $70 million in an all-cash transaction, which Donuts made public on the same day. After comprehensive evaluation and review, our board of directors rejected the proposal, concluding that it substantially undervalued our registry business and our future growth prospects and was not in the best interests of Rightside’s stockholders. In addition, we have received and rejected various other unsolicited, non-binding proposals to purchase certain of our new gTLD assets. The uncertainty regarding future actions of these and other third parties may disrupt our business, having a negative effect on our business operations, financial condition, or results of operations. Responding to these offers has been, and may continue to be, a distraction for management and employees, and has required and may continue to require, us to incur additional expenses and costs.

If we do not continue to innovate and provide products and services that are useful to our customers, we may not remain competitive, and our revenue and operating results could suffer.

Our success depends on our ability to innovate and provide products and services useful to our customers in our registrar and registry service offerings. Our competitors are constantly developing innovations in domain name registration and related services, such as web hosting, email and website creation solutions. As a result, we must continue to invest significant resources in product development in order to maintain and enhance our existing products and services and introduce new products and services that deliver a sufficient return on investment and that our customers can easily and effectively use. If we are unable to provide quality products and services, we may lose customers, and our revenue and operating results would suffer.

We may have difficulty scaling and adapting our existing technology and network infrastructure to accommodate increased traffic and technology advances or changing business requirements, whic h could lead to the loss of consumers, and cause us to incur expenses to make architectural changes.

To be successful, our network infrastructure has to perform well and be reliable. The greater the user traffic and the greater the complexity of our products and services, the more computing power we will need. In the future, we may spend substantial amounts to purchase or lease data centers and equipment, upgrade our technology and network infrastructure to handle increased traffic on our owned and operated websites and roll out new products and services. This expansion could be expensive and complex and could result in inefficiencies or operational failures. If we do not implement this expansion successfully, or if we experience inefficiencies and operational failures during its implementation, the quality of our products and services and our customers' experience could decline. This could damage our reputation and lead us to lose current and potential customers. The costs associated with these adjustments to our architecture could harm our operating results. Cost increases, failure to accommodate new technologies or changing business requirements could harm our business, revenue and financial condition.

We rely on technology infrastructure and a failure to update or maintain this technology infrastructure could adversely affect our business.

Significant portions of our products and services, as well as internal processes and systems, are dependent on technology infrastructure that was developed over multiple years. Updating and replacing our technology infrastructure may be challenging to implement and manage, may take time to test and deploy, may cause us to incur substantial costs and may cause us to suffer data loss or delays or interruptions in service. For example, we have suffered a number of server outages at our data center facilities, which resulted from certain failures that triggered data center wide outages and disrupted critical technology and infrastructure service capabilities. These events impacted service to some of our customers. As a result of these data center outages, we have developed initiatives to create automatic backup capacity at an alternate facility for our top revenue generating services to address similar scenarios in the future. However, we cannot guarantee that our backup systems, regular data backups, security protocols, network protection mechanisms and other procedures currently in place, or that may be in place in the future will be adequate to prevent similar network and service interruption, system failure, damage to one or more of our systems or data loss. Such delays or interruptions in our service may cause our consumers to become dissatisfied with our offerings and could adversely affect our business. Failure to update our technology infrastructure as new technologies become available may also put us in a weaker position relative to a number of our key competitors. Competitors with newer technology infrastructure may have greater flexibility and be in a position to respond more quickly to new opportunities, which may impact our competitive position in certain markets and adversely affect our business.

The interruption or failure of our information technology and communications systems, or those of third parties that we rely upon, could adversely affect our business, financial condition and results of operations.

The availability of our products and services depends on the continuing operation of our information technology and communications systems. Any damage to or failure of our systems, or those of third parties that we rely upon (e.g., co-location providers for data servers, storage devices, including cloud-based storage, or our registry DNS services provider for our registry and network access) could result in interruptions in our service, which could reduce our revenue and profits, and damage our brand. Our systems are also vulnerable to damage or interruption from natural disasters, power loss, telecommunications failures, computer viruses or other attempts to harm our systems. We have experienced a number of computer distributed denial of service attacks which have forced us to shut down certain of our websites, including *www.name.com* , and future denial of service attacks may cause all or portions of our websites to become unavailable. In addition, some of our data centers are located in areas with a high risk of major earthquakes. Our data centers are also subject to break-ins, sabotage and intentional acts of vandalism, and to potential disruptions if the operators of these facilities have financial difficulties. Some of our systems are not fully redundant, and our disaster recovery planning is currently underdeveloped and does not account for all eventualities. The occurrence of a natural disaster, a decision to close a facility we are using without adequate notice for financial reasons or other unanticipated problems at our data centers could result in lengthy interruptions in our service. In addition to dedicated data centers, certain of our products are also cloud-based, and the amount of customer data stored on our servers has increased as our business has grown. Despite implementing security measures, our infrastructure may be vulnerable to computer viruses, worms, other malicious software programs, illegal or abusive content or similar disruptive problems caused by our customers, employees, consultants or other internet users who attempt to invade or disrupt public and private data networks.

Furthermore, third-party service providers may experience an interruption in operations or cease operations for any reason. For example, Root Zone servers are administered and operated by a number of independent operators on a non-regulated basis. Root Zone servers are name servers that contain authoritative data for the very top of the DNS hierarchy. These servers have the software and data needed to locate name servers that contain authoritative data for the TLDs. These Root Zone servers are critical to the functioning of the internet. Consequently, our registry services business could be harmed if any of the independent operators fails to include or provide accessibility to the data that it maintains in the Root Zone servers that it controls, or if it or any of the third parties routing internet communications presents inconsistent data for the TLDs or DNS generally. We may also be limited in our remedies against these providers in the event of a failure of service. We also rely on third-party providers for components of our technology platform, such as hardware and software providers and DNS services. A failure or limitation of service or available capacity by any of these third-party providers could adversely affect our business, financial condition and results of operations.

We depend on key personnel to operate our business, and if we are unable to retain our current personnel or hire additional personnel, our ability to develop and successfully market our business could be harmed.

We believe that our future success is highly dependent on the contributions of our executive officers as well as our ability to attract and retain highly skilled managerial, sales, technical, engineering and finance personnel. We do not maintain “key person” life insurance policies for any of our executive officers. Qualified individuals, including engineers, are in high demand, and we may incur significant costs to attract and retain them. All of our officers and other employees are at-will employees, which means they may terminate their employment relationship with us at any time, and their knowledge of our business and industry would be extremely difficult to replace. If we are unable to attract and retain our executive officers and key employees, our business, operating results and financial condition will be harmed.

Volatility or lack of performance in our stock price may also affect our ability to attract employees and retain our key employees, due to the impact of our stock price on the value of our equity incentive awards. Employees may be more likely to leave us if the equity incentive awards they are granted significantly appreciate in value and create a perceived windfall. In addition, employees may be more inclined to leave us if the value of their equity incentive awards declines with our stock price and these awards fail to provide appropriate incentives.

Our business could be negatively affected as a result of actions by activist stockholders.

Campaigns by stockholders to effect changes at publicly traded companies are sometimes led by investors seeking to increase short-term stockholder value through various corporate actions such as proxy contests, financial or operational restructuring, or sales of assets or the entire company. We have recently seen some investors increase their ownership positions in our common stock and initiate communications with us. For example, J. Carlo Cannell, the managing member of Cannell Capital LLC and the general partner of Tonga Partners, L.P. (collectively, "Cannell"), which in its most recent amended Schedule 13D reported ownership of approximately 8.69% of our common stock, notified us in March 2017 that it may nominate its own slate of three nominees to stand for election as directors. In April 2017, Cannell filed an amended Schedule 13D announcing its intent to vote "No" on the director nominees recommended by our board of directors, and in May 2017, Cannell filed an amended Schedule 13D noting that it did not intend to, and did not reserve the right to engage in, a control transaction or any contested solicitation for the election of directors. In addition, Cannell has engaged in discussions with our management, our board of directors and others, and publicly filed communications relating to strategic and operational opportunities for us, including other discussions regarding potential director candidates for director elections.

Actions by stockholder activists, including proxy contests for director elections, could adversely affect our business because:

- responding to a proxy contest and other actions by activist stockholders can be costly and time-consuming, disrupting our operations and diverting the attention of management and our employees;

- perceived uncertainties as to our future direction caused by activist activities may result in the loss of potential business opportunities, and may make it more difficult to attract and retain qualified personnel and business partners; and

- if individuals are elected to our board of directors with a specific agenda, it may adversely affect our ability to effectively and timely implement our business strategy and create stockholder value.

If we are unable to obtain and maintain adequate insurance, our financial condition could be adversely affected in the event of uninsured or inadequately insured loss or damage. Our ability to effectively recruit and retain qualified officers and directors may also be adversely affected if we experience difficulty in maintaining adequate directors' and officers' liability insurance.

While we currently have insurance for our business and property, we may not be able to obtain and maintain insurance policies on terms affordable to us that would adequately insure our business and property against damage, loss or claims by third parties. To the extent our business or property suffers any damages, losses or claims by third parties that are not covered or adequately covered by insurance, our financial condition may be materially adversely affected.

We currently have directors' and officers' liability insurance. If we are unable to maintain sufficient insurance to cover liability claims made against our officers and directors, we may not be able to retain or recruit qualified officers and directors to manage our company, which could materially and adversely affect our operations.

It may be difficult for us to retain or attract qualif ied officers and directors, which would adversely affect our business and our ability to maintain the listing of our common stock on NASDAQ.

We may be unable to attract and retain qualified officers, directors and members of board committees required to effectively manage our business as a result of changes in the rules and regulations which govern public companies, including, but not limited to, certifications from executive officers and requirements for financial experts on boards of directors. The perceived increased personal risk associated with these changes may deter qualified individuals from accepting these roles. Further, applicable rules and regulations of the SEC and NASDAQ heighten the requirements for board or committee membership, particularly with respect to an individual's independence from the corporation and level of experience in finance and accounting matters. We may have difficulty attracting and retaining directors with the requisite qualifications. If we are unable to attract and retain qualified officers and directors, our business and our ability to maintain the listing of our shares of common stock on NASDAQ would be adversely affected.

If we do not adequately protect our intellectual property rights, our competitive position and business may suffer.

Our intellectual property, consisting of trade secrets, trademarks, copyrights and patents, is, in the aggregate, important to our business. We rely on a combination of trade secret, trademark, copyright and patent laws in the United States and other jurisdictions together with confidentiality agreements and technical measures to protect our proprietary rights. We rely more heavily on trade secret protection than patent protection. To protect our trade secrets, we control access to our proprietary systems and technology and enter into confidentiality and invention assignment agreements with our employees and consultants and confidentiality agreements with other third parties. Effective trade secret, copyright, trademark and patent protection may not be available in all countries where we currently operate or in which we may operate in the future. We face risks related to our intellectual property including that:

- our intellectual property rights may not provide competitive advantages to us;
- our ability to assert our intellectual property rights against potential competitors or to settle current or future disputes may be limited by our agreements with third parties;
- our intellectual property rights may not be enforced in jurisdictions where competition is intense or where legal protection is weak;
- any of the patents, trademarks, copyrights, trade secrets or other intellectual property rights that we presently employ in our business could lapse or be invalidated, circumvented, challenged or abandoned;
- competitors could design around our protected systems and technology; or
- we could lose the ability to assert our intellectual property rights against others.

Policing unauthorized use of our proprietary rights can be difficult and costly. In addition, it may be necessary to enforce or protect our intellectual property rights through litigation or to defend litigation brought against us, which could result in substantial costs and diversion of resources and management attention and could adversely affect our business, even if we are successful on the merits.

Third parties may sue us for intellectual property infringement or misappropriation, which, if successful, could require us to pay significant damages or curtail our offerings.

We cannot be certain that our internally developed or acquired systems and technologies do not and will not infringe the intellectual property rights of others. In addition, we license content, software and other intellectual property rights from third parties and may be subject to claims of infringement or misappropriation if such parties do not possess the necessary intellectual property rights to the products or services they license to us. We have in the past received threats from non-practicing patent holders. We may in the future be subject to legal proceedings and claims that we have infringed the patent or other intellectual property rights of a third-party. These claims sometimes involve patent holding companies or other patent owners who have no relevant product revenue and against whom our own patents may provide little or no deterrence. In addition, third parties may in the future assert intellectual property infringement claims against our customers, which we have agreed in certain circumstances to indemnify and defend against such claims. Any intellectual property-related infringement or misappropriation claims, whether or not meritorious, could result in costly litigation and could divert management resources and attention. Moreover, should we be found liable for infringement or misappropriation, we may be required to seek to enter into licensing agreements, which may not be available on acceptable terms or at all, pay substantial damages or limit or curtail our systems and technologies. Any successful lawsuit against us could also subject us to the invalidation of our proprietary rights. Moreover, we may need to redesign some of our systems and technologies to avoid future infringement liability. Any of the foregoing could prevent us from competing effectively and increase our costs.

The use of open source software in our products and services may expose us to additional risks and negatively affect our intellectual property rights.

Some of our products and services use or incorporate software that is subject to one or more open source licenses. Open source software is typically freely accessible, usable, and modifiable. Certain open source software licenses require a user who intends to distribute the open source software as a component of the user’s software to disclose publicly part or all of the source code to the user’s software. In addition, certain open source software licenses require the user of such software to make any derivative works of the open source code available to others on potentially unfavorable terms or at no cost.

The terms of many open source licenses have not been interpreted by U.S. or foreign courts. Accordingly, there is a risk that those licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to commercialize our products. In that event, we could be required to seek licenses from third parties in order to continue offering our products or services, to re-develop our products or services, to discontinue sales of our products or services, or to release our proprietary software code under the terms of an open source license, any of which could harm our business. Further, given the nature of open source software, it may be more likely that third parties might assert copyright and other intellectual property infringement claims against us based on our use of these open source software programs.

While we monitor the use of all open source software in our products, solutions, processes, and technology and try to ensure that no open source software is used in such a way as to require us to disclose the source code to the related product or solution when we do not wish to do so, it is possible that such use may have inadvertently occurred in deploying our proprietary solutions. In addition, if a third-party software provider has incorporated certain types of open source software into software we license from such third-party for our products and services without our knowledge, we could, under certain circumstances, be required to disclose the source code to our products and services. This could negatively affect our intellectual property position and our business, results of operations, and financial condition.

Adverse results of legal proceedings could materially and adversely affect us.

We are subject to, and may in the future be subject to, a variety of legal proceedings and claims that arise out of the ordinary conduct of our business. Results of legal proceedings cannot be predicted with certainty. Irrespective of their merits, legal proceedings may be both lengthy and disruptive to our operations and may cause significant expenditure and diversion of management attention. We may be faced with significant monetary damages or injunctive relief against us that could materially and adversely affect all or a portion of our business operations or materially and adversely affect our financial condition and results of operations.

Certain U.S. and foreign laws could subject us to claims or otherwise harm our business.

We are subject to a variety of laws in the U.S. and abroad that may subject us to claims or other remedies. Our failure to comply with applicable laws may subject us to additional liabilities, which could adversely affect our business, financial condition and results of operations. Laws and regulations that are particularly relevant to our business address:

- domain name registration;
- information security and privacy;
- pricing, fees and taxes; and
- intellectual property rights, including secondary liability for infringement by others.

The costs of complying or failing to comply with existing and new laws and regulations could limit our ability to operate in our current markets, expose us to compliance costs and substantial liability and result in costly and time-consuming litigation. For example, the government of the PRC has announced that it will begin enforcing regulations that require registry operators to, among other things, obtain a government-issued license in order to provide registry services to registrars located in the PRC. These new regulations will likely impose additional costs on our provision of registry services in the PRC and could impact the growth or renewal rates of domain name registrations in the PRC. While we have been granted a business license and may be required to apply for additional required licenses under these new regulations, there can be no assurance that we will obtain any additional required licenses in a timely manner or at all. If we fail to obtain the necessary licenses, we could be restricted or prohibited from providing registry services to registrars located in the PRC. We anticipate that these new regulations will also require registrars in the PRC to obtain a government-issued license to sell domain names directly to registrants. Any failure by registrars to obtain these licenses could also impact the expansion of our business into the PRC.

Claims have been either threatened or filed against us under both U.S. and foreign laws for defamation, copyright infringement, patent infringement, privacy violations, cybersquatting and trademark infringement. In the future, claims may also be brought against us based on tort law liability and other theories based on our products and services.

Our business operations in countries outside the U.S. are subject to a number of U.S. federal laws and regulations, including restrictions imposed by the Foreign Corrupt Practices Act (“FCPA”), as well as trade sanctions administered by the Office of Foreign Assets Control (“OFAC”) and the U.S. Department of Commerce. The FCPA is intended to prohibit bribery of foreign officials or parties and requires U.S. public companies to keep books and records that accurately and fairly reflect their transactions. OFAC and the U.S. Department of Commerce administer and enforce economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign states, organizations and individuals.

If we fail to comply with these laws and regulations, we could be exposed to claims for damages, financial penalties, reputational harm, incarceration of our employees or restrictions on our operations, which could increase our costs of operations, reduce our profits or cause us to forgo opportunities that would otherwise support our growth.

With regard to transfers of personal data, as such term is used in the European Union, or EU Data Protection Directive and applicable EU member state legislation, from European customers to the U.S., we historically have relied upon adherence to the U.S. Department of Commerce's Safe Harbor Privacy Principles and compliance with the U.S.-EU and U.S.-Swiss Safe Harbor Frameworks agreed to by the U.S. Department of Commerce and the European Union and Switzerland. The U.S.-EU Safe Harbor Framework, which, together, with the U.S.-Swiss Safe Harbor Frame work, established the means for legitimizing the transfer of personal data by U.S. companies from the European Economic Area, or EEA, to the U.S., was invalidated in October 2015 by the ECJ Ruling. As a result of the ECJ Ruling, the Swiss data protection r egulator has questioned the status of the U.S.-Swiss Safe Harbor Framework. U.S. and EU authorities reached a political agreement on February 2, 2016 regarding a new means for legitimizing personal data transfers from the EEA to the United States, the EU-U .S. Privacy Shield, which was formally adopted on July 12, 2016. We have completed all necessary steps to self-certify to the EU-U.S. Privacy Shield and our registry and registrar privacy policies have been updated to reflect the changes mandated by the EU -US Privacy Shield regulations.

Additionally, the federal, state, local and foreign laws and regulations that apply to our business are complex and change frequently, with new laws and regulations proposed frequently and existing laws and regulations subject to different and conflicting interpretations. For example, the European Union is considering adoption of a general data protection regulation that would supersede current EU data protection legislation, impose more stringent EU data protection requirements, and provide for greater penalties for noncompliance. Complying with the laws and regulations applicable to us may require us to incur additional costs and restrict our business operations, and in the event we fail to comply with these laws and regulations, or new or differing interpretations of them, we may be subject to litigation, regulatory investigations, fines or other liabilities, as well as negative publicity and a loss of business. Any of these matters could materially adversely affect our business, financial condition or operational results.

Economic and other risks associated with international operations could impede our international expansion, which could limit our future growth.

We currently operate in the U.S. and through foreign subsidiaries in Dublin, Ireland; Ottawa, Canada; George Town, Grand Cayman; and Beijing, China and we may continue to expand into additional international markets. Our limited experience operating internationally exposes us to additional risks and operating costs. We cannot be certain that we will be successful in introducing or marketing our services internationally or that our services will gain market acceptance or that growth in commercial use of the internet internationally will continue. There are risks inherent in conducting business in international markets, including the need to localize our products and services to foreign customers' preferences and customs, difficulties in managing operations due to language barriers, distance, staffing and cultural differences, application of foreign laws and regulations, tariffs and other trade barriers, fluctuations in currency exchange rates, establishing management systems and infrastructures, reduced protection for intellectual property rights in some countries, changes in foreign political and economic conditions, and potentially adverse tax consequences. Our inability to expand and market our products and services internationally could have a negative effect on our business, revenue, financial condition and results of operations.

In addition, we expect that a substantial amount of our cash will be generated by our foreign subsidiaries and repatriation of that cash to the U.S. may be inefficient from a tax perspective. Any payment of distributions, loans or advances to us by our foreign subsidiaries could be subject to restrictions on, or taxation of, dividends or repatriation of earnings under applicable local law, monetary transfer restrictions and foreign currency exchange regulations in the jurisdictions in which our subsidiaries operate. These restrictions on our investment or repatriation of cash may have a negative effect on our business, revenue, financial condition and results of operations.

If we fail to comply with applicable payment card rules and regulatio ns, we may incur additional fees, fines and ultimately the revocation of the right to accept payment card payments, which could materially and adversely affect our business, financial condition and results of operations.

Many of our customers pay amounts owed to us using a credit card or debit card. For credit and debit card payments, we pay interchange and other fees, which may increase over time and raise our expenses and adversely affect our net income. We are also subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we fail to comply with these rules or requirements, or with the terms of our agreements with our merchant banks and card issuers, we could be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from our customers. We have experienced non-compliance with certain payment card association operating rules and information security standards, and may experience such failures in the future as such rules and standards evolve and our business changes and expands. Any failure to adequately secure payment card information or to appropriately control fraudulent payment card transactions would result in significantly higher payment card-related costs, fines or fees from card issuers, and expenses related to remediation of non-compliance, and could materially and adversely affect our business, financial condition and results of operations.

We are subject to a number of state, federal or international taxation laws and regulations and will become subject to additional taxation laws and regulations as we continue to expand our operations into new jurisdictions. Changes to taxation laws and regulations may adversely affect our business.

Due to the global nature of the internet, it is possible that, although our services and the internet transmissions related to them typically originate in California, Nevada, and Washington, governments of other states or foreign countries might attempt to regulate our transmissions or levy sales, income or other taxes relating to our activities. Tax authorities at the international, federal, state and local levels are currently reviewing the appropriate treatment of companies engaged in internet commerce. New or revised international, federal, state or local tax regulations may subject our customers or us to additional sales, income and other taxes. We cannot predict the effect of current attempts to impose sales, income or other taxes on commerce over the internet. New or revised taxes and, in particular, sales taxes, would likely increase the cost of doing business online and decrease the attractiveness of advertising and selling goods and services over the internet. New taxes could also create significant increases in internal costs necessary to capture data, and collect and remit taxes. Any of these events could have an adverse effect on our business and results of operations and discourage the registration or renewal of domain names for e-commerce.

We may in the future record further significant valuation allowances on our deferred tax assets, which may have a material impact on our results of operations and cause fluctuations in such results.

The need for a valuation allowance requires an assessment of both positive and negative evidence when determining whether it is more likely than not that deferred tax assets are recoverable; such assessment is required on a jurisdiction-by-jurisdiction basis. In making such assessment, significant weight is given to evidence that can be objectively verified. The timing of the reversal of deferred tax liabilities associated with tax deductible goodwill is not certain and thus not available to assure the realization of deferred tax assets. Due to the limitation associated with deferred tax liabilities from tax deductible goodwill, we have deferred tax assets in excess of deferred tax liabilities before application of a valuation allowance for the current period. As we have insufficient history of generating book income, the ultimate future realization of these excess deferred tax assets is not more likely than not and thus subject to a valuation allowance. Accordingly, we have established a full valuation allowance against our deferred tax assets.

Risks Relating to the Separation

We are bound by a number of agreements, including the Employee Matters Agreement, Separation and Distribution Agreement and the Tax Matters Agreement, that we entered into with Demand Media in connection with the Separation.

In connection with our August 2014 separation (the "Separation") from Demand Media, Inc., now known as Leaf Group Ltd ("Demand Media"), we entered into a number of agreements with Demand Media that govern our ongoing relationships.

The Employee Matters Agreement allocated certain liabilities and responsibilities between us and Demand Media relating to employee compensation and benefit plans and programs.

The Separation and Distribution Agreement governs certain aspects of our relationship with Demand Media, including providing information to the other party on the conduct of its business prior to the Separation reasonably necessary to prepare any reports or filings to be made with any governmental authority. In addition, each party is required to indemnify the other for certain liabilities in connection with the Separation, all liabilities to the extent relating to or arising out of our or their respective business as conducted at any time, and any breach by either party of this agreement.

The Tax Matters Agreement governs our and Demand Media's respective rights, responsibilities and obligations with respect to taxes. Taxes relating to or arising out of the failure of the Separation to qualify as a tax-free transaction for U.S. federal income tax purposes will be borne by Demand Media and us in proportion to Demand Media's and our respective fair market values as of the date of the Separation, except, in general, if such failure is attributable to our action or Demand Media's action, as the case may be, or certain transactions involving our stock or the stock of Demand Media, as the case may be, in which event the resulting liability will be borne in full by us or Demand Media, respectively.

If we are required to indemnify Demand Media for certain liabilities and related losses arising in connection with any of these agreements, or if Demand Media is required to indemnify us for certain liabilities and related losses arising in connection with any of these agreements and Demand Media does not fulfill its obligations to us, we may be subject to substantial liabilities, which could materially adversely affect our financial position.

If the Separation and related distribution of Rightside stock fails to qualify as a tax-free transaction for U.S. federal income tax purposes, then the distribution could result in significant tax liabilities.

Demand Media received a private letter ruling from the Internal Revenue Service ("IRS") and an opinion of tax counsel, each substantially to the effect that for U.S. federal income tax purposes, the Separation and the distribution of shares of Rightside common stock qualifies as a transaction that was tax-free for purposes of income, gain or loss by Demand Media or its stockholders. The IRS ruling and the tax opinion, rely on certain facts, assumptions, and undertakings, and certain representations from Demand Media and us, regarding the past and future conduct of both respective businesses and other matters, and the tax opinion relies on the IRS ruling. Notwithstanding the IRS ruling and the tax opinion, the IRS could determine that the distribution should be treated as a taxable transaction if it determines that any of these facts, assumptions, representations, or undertakings are not correct, or that the distribution should be taxable for other reasons, including if the IRS were to agree with the conclusions in the tax opinion that are not covered by the IRS ruling.

If the distribution ultimately w ere to be determined to be taxable, Demand Media would be subject to tax as if it had sold our common stock in a taxable sale for its fair market value, and our initial public stockholders would be subject to tax as if they had received a taxable distribut ion equal to the fair market value of our common stock that was distributed to them. Under the Tax Matters Agreement, we may be required to indemnify Demand Media against all or a portion of the taxes incurred by Demand Media and us in the event the Separa tion were to fail to qualify for tax-free treatment under the Internal Revenue Code of 1986, as amended (the "Code"). Further, even if we are not responsible for tax liabilities of Demand Media and its subsidiaries under the Tax Matters Agreement, we nonet heless could be liable under applicable tax law for such liabilities if Demand Media were to fail to pay them. The amounts, if we are required to pay any liabilities under the circumstances set forth in the Tax Matters Agreement or pursuant to applicable t ax law, may be significant.

We are subject to continuing contingent liabilities of Demand Media following the Separation.

There are several significant areas where the liabilities of Demand Media may become our obligations. For example, under the Code and the related rules and regulations, each corporation that was a member of the Demand Media combined tax reporting group during any taxable period or portion of any taxable period ending on or before the effective time of the Separation is jointly and severally liable for the U.S. federal income tax liability of the entire Demand Media combined tax reporting group for such taxable period. In connection with the Separation, we entered into a Tax Matters Agreement with Demand Media that allocates the responsibility for prior period taxes of the Demand Media combined tax reporting group between us and Demand Media. If Demand Media were unable to pay any prior period taxes for which it is responsible, however, we could be required to pay the entire amount of such taxes, and such amounts could be significant. Other provisions of federal, state, local, or foreign law may establish similar liability for other matters, including laws governing tax-qualified pension plans, as well as other contingent liabilities.

Certain of our directors and officers and entities related to them continue to own a substantial amount of Demand Media common stock and options to purchase Demand Media stock, and we have overlapping board membership with Demand Media, which may lead to conflicting interests.

One of our board members serves as a board member of Demand Media. Neither we nor Demand Media have any ownership interest in the other. Our executive officers and members of our board of directors have fiduciary duties to our stockholders. Likewise, any director who serves in a similar capacity at Demand Media has fiduciary duties to Demand Media's stockholders. Therefore, the overlapping director may have conflicts of interest or the appearance of conflicts of interest with respect to matters involving or affecting more than one of the companies to which he owes fiduciary duties. In addition, certain of our directors and officers and entities related to them continue to own a substantial amount of Demand Media common stock and options to purchase Demand Media stock. The direct interests of our directors and officers and related entities in common stock of Demand Media could create, or appear to create, potential conflicts of interest with respect to matters involving both Demand Media and us that could have different implications for Demand Media than they do for us.

As a result of the foregoing, there may be the potential for a conflict of interest when we or Demand Media consider acquisitions and other corporate opportunities that may be suitable for each of them. In addition, potential conflicts of interest could arise in connection with the resolution of any dispute that may arise between Demand Media and us regarding the terms of the agreements governing the internal reorganization, the Separation and the ongoing relationship between the companies, including with respect to the indemnification of certain matters. From time to time, we may enter into transactions with Demand Media and/or its subsidiaries or other affiliates. There can be no assurance that the terms of any such transactions will be as favorable to us as would be the case where there is no overlapping director or ownership of both companies.

Our overlapping director with Demand Media may result in the diversion of corporate op portunities to and other conflicts with Demand Media and provisions in our certificate of incorporation may provide us no remedy in that circumstance.

Our certificate of incorporation acknowledges that our directors and officers may also be serving as directors, officers, employees or agents of Demand Media and its subsidiaries and that we may engage in business transactions with such entities. We will renounce our rights to business opportunities offered to overlapping officers and/or directors in which we or any of our subsidiaries could have an interest or expectancy (other than business opportunities that (1) are expressly presented or offered to an overlapping officer or director in his or her capacity as a director or officer of our company, and (2) the overlapping officer or director believes we have, or could reasonably be expected to have, the resources necessary to exploit). In addition, our certificate of incorporation provides that none of our directors or officers who is also serving as a director, officer, employee or agent of Demand Media and its subsidiaries will be liable to us or our stockholders for breach of any fiduciary duty that would otherwise exist by reason of the fact that any such individual directs a corporate opportunity to Demand Media or any of its subsidiaries instead of us, or does not refer or communicate information regarding such corporate opportunities to us. These provisions in our certificate of incorporation also expressly validate certain contracts, agreements, assignments and transactions (and amendments, modifications or terminations thereof) between us and Demand Media or any of its subsidiaries and, to the fullest extent permitted by law, provide that the actions of the overlapping directors or officers in connection therewith are not breaches of fiduciary duties owed to us, any of our subsidiaries or our or their respective stockholders.

The Separation may expose us to potential liabilities arising out of state and federal fraudulent conveyance laws and legal dividend requirements.

The Separation is subject to review under various state and federal fraudulent conveyance laws. Fraudulent conveyance laws generally provide that an entity engages in a constructive fraudulent conveyance when (1) the entity transfers assets and does not receive fair consideration or reasonably equivalent value in return; and (2) the entity: (a) is insolvent at the time of the transfer or is rendered insolvent by the transfer; (b) has unreasonably small capital with which to carry on its business; or (c) intends to incur or believes it will incur debts beyond its ability to repay its debts as they mature. An unpaid creditor or entity acting on behalf of a creditor (including without limitation a trustee or debtor-in-possession in a bankruptcy by us or Demand Media or any of our respective subsidiaries) may bring an action alleging that the Separation or any of the related transactions constituted a constructive fraudulent conveyance. If a court accepts these allegations, it could impose a number of remedies, including without limitation, voiding our claims against Demand Media, requiring our stockholders to return to Demand Media some or all of the shares of our common stock issued in the Separation, or providing Demand Media with a claim for money damages against us in an amount equal to the difference between the consideration received by Demand Media and our fair market value at the time of the Separation.

The measure of insolvency for purposes of the fraudulent conveyance laws will vary depending on which jurisdiction's law is applied. Generally, an entity would be considered insolvent if (1) the present fair saleable value of its assets is less than the amount of its liabilities (including contingent liabilities); (2) the present fair saleable value of its assets is less than its probable liabilities on its debts as such debts become absolute and matured; (3) it cannot pay its debts and other liabilities (including contingent liabilities and other commitments) as they mature; or (4) it has unreasonably small capital for the business in which it is engaged. We cannot assure you what standard a court would apply to determine insolvency or that a court would determine that we, Demand Media or any of our respective subsidiaries were solvent at the time of or after giving effect to the Separation.

The distribution of our common stock is also subject to review under state corporate distribution statutes. Under the General Corporation Law of the State of Delaware (the “DGCL”), a corporation may only pa y dividends to its stockholders either (1) out of its surplus (net assets minus capital) or (2) if there is no such surplus, out of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Although Demand Medi a distributed our common stock entirely from surplus, we cannot assure you that a court will not later determine that some or all of the distribution to Demand Media stockholders was unlawful.

Risks Relating to Owning Our Common Stock

The market price of our common stock may fluctuate significantly.

We cannot predict the prices at which our common stock may trade in the future. The market price of our common stock may fluctuate significantly, depending on many factors, some of which are beyond our control, including but not limited to:

- actual or anticipated fluctuations in our quarterly or annual financial condition and operating performance;
- the operating and stock price performance of similar companies;
- conditions and trends in the domain name industry, or e-commerce markets;
- a shift in our investor base;
- introduction of new services by us or our competitors;
- success or failure of our business strategy;
- our ability to obtain financing as needed;
- changes in accounting standards, policies, guidance, interpretations, or principles;
- the overall performance of the equity markets;
- repurchases of our common stock pursuant to our share repurchase program;
- the number of shares of our common stock publicly owned and available for trading;
- threatened or actual litigation or governmental investigations;
- changes in laws or regulations affecting our business, including tax legislation;
- announcements of significant acquisitions or dispositions, impairment charges, changes in or loss of material contracts and relationships, or other business developments by us, our partners, or our competitors;
- any major change in our board of directors or management;
- changes in earnings estimates by securities analysts or our ability to meet earnings guidance;
- publication of research reports about us or our industry or changes in recommendations or withdrawal of research coverage by securities analysts;
- large volumes of sales of our shares of common stock by existing stockholders;

- announcements or actions by stockholder activists;
- investor perception of us and our industry; and
- general political and economic conditions, and other external factors.

In addition, the stock market in general, and the market for internet-related companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. This may limit or prevent investors from readily selling their shares of common stock and may otherwise negatively affect the liquidity of our common stock. Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company's securities. This litigation, if instituted against us, could result in very substantial costs, divert our management's attention and resources, and harm our business, financial condition and results of operation.

Any impairment in the value of our goodwill will result in an accounting charge against our earnings, which could negatively impact our stock price.

As of March 31, 2017, we had $70.9 million of goodwill, representing approximately 31% of our total assets as of such date. In accordance with GAAP, we conduct an impairment analysis of our goodwill annually and at such other times when events or changes in circumstances occur, which would indicate potential impairment. Significant and sustained declines in our stock price and market capitalization relative to our book value or our inability to generate sufficient revenue or cash flows may result in us having to take impairment charges against goodwill. If we determine significant impairment of our goodwill, we would be required to record a corresponding non-cash impairment charge against our earnings that could negatively affect our stock price.

We cannot guarantee that purchases of our common stock pursuant to our share repurchase program will enhance stockholder value and share repurchases may affect the value of our common stock and diminish our cash reserves.

In February 2017, our board of directors authorized a share repurchase program. Under the program, we are authorized to repurchase up to $50 million of our outstanding common stock through February 2019.

The share repurchase program does not obligate us to repurchase any specific dollar amount or to acquire any specific number of shares. The timing and amount of repurchases will depend upon several factors, including market and business conditions, the trading price of our common stock, the nature of other investment opportunities and other factors. The repurchase program may be limited, suspended or discontinued at any time without prior notice. Repurchases pursuant to the share repurchase program could affect the market price of our common stock at that time and could potentially reduce the market liquidity of our common stock. Additionally, our share repurchase program could diminish our cash reserves, which may impact our ability to finance future growth and to pursue possible future strategic opportunities. Although our share repurchase program is intended to enhance long-term stockholder value, there is no assurance that it will do so and short-term stock price fluctuations could reduce the program's effectiveness.

We may issue preferred stock with terms that could dilute the voting power or reduce the value of our common stock.

While we have no specific plan to issue preferred stock, our certificate of incorporation authorizes us to issue, without the approval of our stockholders, one or more series of preferred stock having such designation, powers, privileges, preferences, including preferences over our common stock respecting dividends and distributions, terms of redemption and relative participation, optional, or other rights, if any, of the shares of each such series of preferred stock and any qualifications, limitations or restrictions thereof, as our board of directors may determine. The terms of one or more series of preferred stock could dilute the voting power or reduce the value of our common stock. For example, the repurchase or redemption rights or liquidation preferences we could assign to holders of preferred stock could affect the residual value of the common stock.

The large number of shares eligible for public sale or subject to rights re quiring us to register them for public sale could depress the market price of our common stock.

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market, and the perception that these sales could occur may also depress the market price of our common stock. A decline in the price of shares of our common stock might impede our ability to raise capital through the issuance of additional shares of our common stock or other equity securities.

We also may issue our shares of common stock from time to time as consideration for future acquisitions and investments. If any such acquisition or investment is significant, the number of shares that we may issue may in turn be significant. In addition, we may also grant registration rights covering those shares in connection with any such acquisitions and investments.

If securities or industry analysts do not continue to publish research about our business or if they publish inaccurate or unfavorable research about our business and our stock, our stock price and trading volume could decline.

We expect that the trading market for our common stock will be affected by research or reports that securities or industry analysts publish about us or our business. One analyst recently ceased coverage of us, leaving one analyst that currently covers us. If this analyst ceases coverage of us or fails to publish reports on us regularly, demand for our stock could decrease, which may cause our stock price and trading volume to decline. If the analyst who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline.

We are an "Emerging Growth Company" and cannot be certain if reduced reporting requirements applicable to "Emerging Growth Companies" will make our common stock less attractive to investors.

The JOBS Act contains provisions that, among other things, relax certain reporting requirements for "Emerging Growth Companies," including certain requirements relating to accounting standards and compensation disclosure. We are classified as an "Emerging Growth Company," which is defined as a company with annual gross revenue of less than $1.0 billion, that has been a public reporting company for a period of less than five years, and that does not have a public float of $700.0 million or more in securities held by non-affiliated holders. We will remain an "Emerging Growth Company" until the earliest to occur of:

- the last day of the fiscal year during which our total annual revenue equals or exceeds $1.0 billion (subject to adjustment for inflation),
- the last day of the fiscal year in which we become a "large accelerated filer" under the Exchange Act, or
- the date on which we have, during the previous three-year period, issued more than $1.0 billion in non-convertible debt.

For as long as we are an "Emerging Growth Company," which may be up to five full fiscal years ending December 31, 2019, if we elect to take advantage of applicable JOBS Act provi sions, unlike other public companies, we will not be required to (1) provide an auditor's attestation report on management's assessment of the effectiveness of our system of internal control over financial reporting pursuant to Section 404 of the Sarbanes - Oxley Act, (2) comply with any new or revised financial accounting standards applicable to public companies until such standards are also applicable to private companies under Section 102(b)(1) of the JOBS Act, (3) comply with any new requirements adopted by the Public Company Accounting Oversight Board (the "PCAOB"), such as requiring mandatory audit firm rotation or a supplement to the auditor's report in which the auditor would be required to provide additional information about the audit and the financi al statements of the issuer, (4) comply with any new audit rules adopted by the PCAOB after April 5, 2012 unless the SEC determines otherwise, (5) provide certain disclosure regarding executive compensation or (6) hold nonbinding advisory votes on executiv e compensation and stockholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our common stock less attractive if we choose to rely on these exemptions. If some investors find our common stock le ss attractive as a result of any choices to reduce future disclosure, there may be a less active trading market for our common stock and our stock price may be materially and adversely affected and more volatile.

As noted above, under the JOBS Act, "Emerging Growth Companies" can delay adopting new or revised accounting standards that have different effective dates for public and private companies until such time as those standards apply to private companies. We will not take advantage of such extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for public companies. Our election not to take advantage of the extended transition period is irrevocable.

We are obligated to develop and maintain proper and effective internal control over financial reporting. We may not timely complete our analysis of our internal control over financial reporting, or these internal controls may be determined to be ineffective, which could adversely affect investor confidence in us and, as a result, the value of our common stock.

We are required to file with the SEC annual, quarterly and current reports that are specified in Section 13 of the Exchange Act. We are also required to ensure that we have the ability to prepare financial statements that are fully compliant with all SEC reporting requirements on a timely basis. In addition, we are subject to other reporting and corporate governance requirements, including the requirements of NASDAQ, and certain provisions of the Sarbanes-Oxley Act and the regulations promulgated thereunder, which impose significant compliance obligations upon us. As a public company, we are required to:

- prepare and distribute periodic public reports and other stockholder communications in compliance with our obligations under the federal securities laws and the NASDAQ Listing Rules;
- create or expand the roles and duties of our board of directors and committees of the board of directors;
- institute more comprehensive financial reporting and disclosure compliance functions;
- supplement our internal accounting and auditing function, including retaining and hiring additional staff with expertise in accounting and financial reporting for a public company;
- formalize closing procedures at the end of our accounting periods;
- maintain an enhanced internal audit function;
- maintain an enhanced investor relations function;
- maintain and establish new internal policies, including those relating to disclosure controls and procedures; and
- involve and retain to a greater degree outside counsel and accountants in the activities listed above.

These obligations require a significant commitment of resources, and may require additional resources after we are no longer an "Emerging Growth Company." We may not be successful in implementing these requirements and implementing them could adversely affect our business or results of operations. In addition, if we fail to implement the requirements with respect to our internal a ccounting and audit functions, our ability to report our results of operations on a timely and accurate basis could be impaired.

If we fail to implement and maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud, which could harm our brand and operating results.

Effective internal controls are necessary for us to provide reliable and accurate financial reports and effectively prevent fraud. We expect to devote significant resources and time to comply with the internal control over financial reporting requirements of the Sarbanes-Oxley Act, including costs associated with auditing and legal fees and accounting and administrative staff. In addition, Section 404(a) under the Sarbanes-Oxley Act requires that we assess the effectiveness of our controls over financial reporting. Our compliance with the annual internal control report requirement will depend on the effectiveness of our financial reporting and data systems and controls across our operating subsidiaries. We expect these systems and controls to become increasingly complex to the extent that our business grows. To effectively manage this growth, we will need to continue to improve our operational, financial and management controls and our reporting systems and procedures. Implementing any changes to our internal controls may require compliance training of our directors, officers and employees, entail substantial costs to modify our accounting systems and take a significant period of time to complete. Such changes may not, however, be effective in maintaining the adequacy of our internal control over financial reporting, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and could materially impair our ability to operate our business. In addition, investors' perceptions that our internal control over financial reporting is inadequate or that we are unable to produce accurate financial statements may materially adversely affect our stock price.

Because we are an "Emerging Growth Company" under the JOBS Act, our independent auditors are not required to attest to the effectiveness of our internal control over financial reporting pursuant to Section 404(b) of the Sarbanes Oxley Act. If, once we are no longer an "Emerging Growth Company," our independent registered public accounting firm cannot provide an unqualified attestation report on the effectiveness of our internal control over financial reporting, investor confidence and, in turn, the market price of our common stock, could decline.

Certain provisions in our charter documents and Delaware law could discourage takeover attempts and lead to management entrenchment and, therefore, may depress the trading price of our common stock.

Our certificate of incorporation and bylaws contain provisions that could have the effect of delaying or preventing changes in control or changes in our management without the consent of our board of directors, including, among other things:

- a classified board of directors with three-year staggered terms, which may delay the ability of stockholders to change the membership of a majority of our board of directors;
- no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- the ability of our board of directors to determine to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;
- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of our board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- limitations on the removal of directors;

- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of stockholders may be called only by the chairman of our board of directors, the Chief Executive Officer, the president (in absence of a Chief Executive Officer) or our board of directors, which may delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors;
- the requirement for the affirmative vote of holders of at least 66 $^{2}/_{3}$ % of the voting power of all of the then outstanding shares of the voting stock, voting together as a single class, to amend the provisions of our certificate of incorporation relating to the issuance of preferred stock and management of our business or our bylaws, which may inhibit the ability of an acquiror from amending our certificate of incorporation or bylaws to facilitate a hostile acquisition;
- the ability of our board of directors, by majority vote, to amend the bylaws, which may allow our board of directors to take additional actions to prevent a hostile acquisition and inhibit the ability of an acquiror from amending the bylaws to facilitate a hostile acquisition; and
- advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of us.

We believe these provisions protect our stockholders from coercive or harmful takeover tactics by requiring potential acquirers to negotiate with our board of directors and by providing our board of directors with adequate time to assess any acquisition proposal, and are not intended to make our company immune from takeovers. These provisions in our certificate of incorporation and bylaws may discourage, delay or prevent a transaction involving a change in control of the company that is in the best interest of our stockholders. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if they are viewed as discouraging future takeover attempts.

We are also subject to certain anti-takeover provisions under Delaware law. Under Delaware law, a corporation may not, in general, engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other things, our board of directors has approved the transaction.

Our certificate of incorporation designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain litigation that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us.

Our certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for (1) any derivative action or proceeding brought on our behalf; (2) any action asserting a claim of breach of fiduciary duty owed by any of our directors, officers or other employees or our stockholders; (3) any action asserting a claim arising pursuant to any provision of the DGCL or our certificate of incorporation or bylaws; or (4) any action asserting a claim governed by the internal affairs doctrine. Our certificate of incorporation further provides that any person or entity purchasing or acquiring any interest in shares of our capital stock shall be deemed to have notice of and to have consented to the provisions described above. This forum selection provision in our certificate of incorporation may limit our stockholders' ability to obtain a favorable judicial forum for disputes with us.

Item 2. Unregistered Sales of Equ ity Securities and Use of Proceeds

Purchases of equity securities by the issuer and affiliated purchasers

Purchases of common stock made by or on behalf of the Company during the quarter ended March 31, 2017 was as follows (in thousands, except for per share amounts):

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares (or Approximate Dollar Value) that may yet be Purchased Under Publicly Announced Program
Period:				
January 1, 2017 — January 31, 2017	—	$ —	—	$ —
February 1, 2017 — February 28, 2017	—	—	—	—
March 1, 2017 — March 31, 2017	174	9.32	174	48,380
Total	174	$ 9.32	174	$ 48,380

In February 2017, we announced that our board of directors authorized a stock repurchase program of up to $50 million of our outstanding common stock, effective immediately. The stock repurchase program will be in place for up to 24 months. Under the stock repurchase program, repurchases may be made from time to time in the open market. The share repurchase program does not obligate us to repurchase any specific dollar amount or to acquire any specific number of shares. The repurchase program may be limited, suspended or discontinued at any time without prior notice.

During the three months ended March 31, 2017, we repurchased 173,840 shares for $1.6 million. The timing and amount of repurchases will depend upon several factors, including market and business conditions, the trading price of our common stock, the nature of other investment opportunities and other factors. Numerous factors could affect the timing and amount of any future repurchases under the stock repurchase program, including capital levels, our share price, potential opportunities for growth and acquisitions or other priorities for capital use.

Item 6. Exhibits

The exhibits listed on the Exhibit Index are filed herewith or are incorporated by reference to exhibits previously filed with the SEC, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

SIGNAT URES

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.

RIGHTSIDE GROUP, LTD.

Date: May 9, 2017

By /s/ Taryn J. Naidu
Taryn J. Naidu
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 9, 2017

By: /s/ Tracy Knox
Tracy Knox
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description
2.1	Purchase Agreement between Rightside Group, Ltd., eNom, Incorporated, Tucows Inc. and Tucows (Emerald), LLC dated January 20, 2017 (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on January 23, 2017 (File No. 001-36262)).
10.1	Limited Consent and Amendment No. 4 of Credit Agreement between Rightside Group, Ltd. And certain of its subsidiaries and Silicon Valley Bank, dated as of January 20, 2017 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 20, 2017 (File No. 001-36262)).
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Taryn Naidu, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Rightside Group, Ltd.;

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: May 9, 2017

/s/ Taryn J. Naidu
Taryn J. Naidu
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Tracy Knox, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Rightside Group, Ltd.;

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;

   (b) 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: May 9, 2017

/s/ Tracy Knox
Tracy Knox
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2017 of Rightside Group, Ltd. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Taryn J. Naidu, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Date: May 9, 2017

/s/ Taryn J. Naidu

Taryn J. Naidu
Chief Executive Officer
(Principal Executive 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 Rightside Group, Ltd. 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.

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2017 of Rightside Group, Ltd. (the “Company”) as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Tracy Knox, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Date: May 9, 2017

/s/ Tracy Knox

Tracy Knox
Chief Financial Officer
(Principal Financial 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 Rightside Group, Ltd. 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.