WEB.COM GROUP, INC.

FORM 10-K
(Annual Report)

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2016
or

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

For the transition period from to
Commission File Number: 000-51595

Web.com Group, Inc.
(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code: (904) 680-6600
Securities registered pursuant to Section 12(b) of the Act: None.
Securities registered pursuant to section 12(g) of the Act:
Common Stock, $0.001 par value
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☒ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

Indicate by check mark whether the registrant (1) 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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately $712,907,957 as of June 30, 2016 based on the closing sale price of the common stock as quoted by the NASDAQ Global Market reported for such date. Shares of common stock held by each executive officer and each director and by each person who is known by the registrant to own 10% or more of the outstanding common stock have been excluded from this calculation as such persons may deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purpose.

Common Stock, par value $0.001 per share, outstanding as of February 21, 2017: 50,355,675

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the Proxy Statement for the registrant's 2016 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Form 10-K are incorporated by reference in Part III of this Form 10-K.

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PART I

Forward-Looking Statements

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

Item 1. Business.

Web.com Group, Inc. (referred to as "we", “the Company”, “Web.com Group, Inc.” or “Web.com” herein) provides a full range of Internet services to small businesses to help them compete and succeed online. Web.com meets the needs of small businesses anywhere along their lifecycle with affordable, subscription-based solutions including domains, hosting, website design and management, search engine optimization, online marketing campaigns, local sales leads, social media, mobile products and eCommerce solutions. Headquartered in Jacksonville, Florida, Web.com is a publicly traded company (NASDAQ: WEB) serving approximately 3.5 million customers, primarily in North America, with approximately 3,600 employees in North America, South America and the United Kingdom.

Web.com was incorporated under the General Corporation Law of the State of Delaware on March 2, 1999 as Website Pros, Inc. We offered common stock to the public for the first time on November 1, 2005 as Website Pros (NASDAQ: WSPI) and began trading as Web.com (NASDAQ: WWWW) following our acquisition of the legacy Web.com business in September 2007. On November 9, 2015, the Company changed its trading symbol from WWWW to WEB, which continues to be traded on the NASDAQ.

In March 2016, we completed the acquisition of 100% of the outstanding shares of Yodle, Inc., a Delaware corporation, ("Yodle"). Yodle provides cloud-based local marketing solutions for small businesses with approximately 1,400 employees and 53,000 subscribers, which are reflected in the above headcount and customer totals. With the Yodle platform, we are able to provide our customers with an online, mobile and social presence and automate, manage and optimize our customers' marketing activities and other consumer interactions. Yodle's solutions are highly integrated and designed to be easy-to-use, helping businesses navigate the rapidly evolving, technologically challenging and highly fragmented digital marketing landscape without having to invest a significant amount of time and money.

On January 31, 2017, Web.com acquired DonWeb.com, located in Rosario, Argentina and is a web hosting and domain registration company catering to the Latin American market.

Market Opportunity

Web.com's focus is to help small businesses succeed online. Small business owners, including sole proprietors, have limited support staff and must devote most of their time to running the daily operations of their businesses. They often have limited knowledge of how to build a web presence and market their online businesses and limited time to acquire the skills to do so. At the same time, there is growing acceptance among these small business owners that an effective Internet presence is critical to their marketing efforts and there is evidence that these businesses are shifting their marketing budgets from traditional media to online channels.

What We Do

Using a consultative approach, Web.com offers small businesses one-stop shopping for an array of effective, affordable online products and services that will help drive their businesses. We have positioned ourselves as a partner to small businesses across all phases of their adoption of Internet marketing, from their initial entry onto the web to more advanced online marketing solutions. As a global domain registrar, we enable small businesses to establish an online presence by buying a domain name. This basic service is the entry point to greater value-added offerings, which span the range of customer budgets and expertise, from inexpensive Do-It-Yourself ("DIY") websites and hosting to Do-It-For-Me ("DIFM") custom website design services, online marketing, social media and eCommerce solutions for those needing full service. We further differentiate our DIY offerings with a modified approach to the market, which is called "Do-It-With-Me" ("DIWM"), which provides our DIY customers with an opportunity to speak and work with us via chat, email or telephone while they are building their websites. We are frequently the technology enabler between small businesses and Internet innovators such as Google and Facebook, allowing the small business customer to take advantage of today’s online and social media outreach.

Through the combination of proprietary software, automated work flow processes, and specialized and high quality workforce development and management techniques, Web.com achieves production efficiencies that enable us to offer sophisticated web services at affordable, monthly subscription rates.

Our Services and Products

Our goal is to provide a broad range of web services and products that enable small businesses to establish, maintain, promote, and optimize their online presence. Customers can subscribe to bundled products that meet a variety of needs, and which can be enhanced with additional services. Alternatively, they can choose to purchase ‘a la carte’ solutions for specific solutions.

As our customers demand more advanced products and consultative services, they move from low-priced domain registrations towards high-priced, value-added offerings. These DIFM offerings have relatively high barriers to entry, as they require sophisticated technological and business-process expertise. We are unique in having deployed our feature-rich DIFM website offerings at an unrivaled scale.

The acquisition of Yodle in March of 2016 brings vertically focused solutions that help small businesses attract new business and retain existing customers through cloud-based marketing platforms and that complement our service and product offerings.

Domain Name Registration and Services

We are one of the largest domain name registrars in the world and offer .com and .net domains as well as the latest top-level domains. We also offer a full suite of domain name services, including domain name registration, transfers, renewals, expiration protection and privacy services. Domain name customers have a highly proprietary need to maintain their distinct Internet address, and our goal is to continue to be their resource for maintaining and extending their registration. Furthermore, these customers represent prime opportunities for more domain name sales, particularly as additional top-level domain names become available. Since online activity typically starts with a domain name, we anticipate continuing to be a market leader in selling and servicing these accounts.

Do-It-For-Me Web Solutions

We created these services to allow Web.com to undertake virtually all of the work associated with building, maintaining, marketing and enhancing a business online to ultimately drive leads to the small business owner. Since access to these services is through an affordable monthly subscription, these proprietors can have an effective online presence with a minimum outlay of resources. We bundle the most needed products in an efficient manner so the small business owner can focus on his or her core business while the responsibility for making sure the website is optimized for business generation is outsourced to Web.com. Some of our DIFM solutions include:

- *Custom Website.* A custom website with built-in marketing, analytics and hosting.
- *Ignite.* Enables websites to be promoted in dozens of major directories.
- *Facebook.* Design or update our customers' Business Profile page on Facebook including advertising and postings.
- *eCommerce.* Design, setup and configure the online store and shopping cart.

Do-It-Yourself Web Solutions

We offer a variety of DIY website building and marketing solutions for small businesses that want to build their own websites or enhance their websites with online marketing. Our DIY services include:

- *Hosting services.* We offer core products that are standardized. Our scalable managed hosting services place numerous customers on a single shared server, a cost benefit that is passed along to the customer.
- *Website Builder.* Our Website Builder package is an easy-to-use website building tool which includes hundreds of starter templates that enable users to customize their design. In addition, we combine our easy-to-use DIY tools with our customer support and coaching to assist our customers in building their website.

Online Marketing Services

Business success on the Internet begins with a compelling website, but is only fully realized when the website is "found," prominently displayed by the various search engines, and ultimately when potential customers are motivated to contact the business. We sell a variety of products and services designed to increase the potential that a website receives prominence in the major search engines like Google TM , Yahoo! and Bing, and we have expertise in providing pay-per-click advertising as well. Our online marketing proficiency has been recognized by our selection as a Google Premier Partner and as a Yahoo! Local Ambassador. Some of our online marketing products include:

- *Search Engine Optimization (SEO).* Products and services designed to help improve organic search engine rankings and to increase qualified traffic and lead generation.

- *Search Engine Marketing.* Local and national search engine marketing services, sometimes known as pay-per-click advertising, where we manage an advertising budget for our customers.

- *Essentials.* A comprehensive suite of marketing tools designed to help businesses attract and engage their customers in a few minutes a week.

- *Lighthouse.* Automated communications designed to help dental practices keep patient-visit schedules full and maximize office productivity by attracting and engaging patients .

- *TORCHx* . Premium lead-generation and CRM solutions designed to help real estate professionals attract and convert more clients.

- *Centermark.* A marketing and business intelligence platform that enables franchise and multi-location businesses to coordinate their brand and marketing efforts across their network of locations to effectively attract and engage customers in local markets.

- *Leads by Web.* A service offered by Web.com to research relevant keywords in the customer's industry which in turn helps the Company to create ads designed to bring traffic to the customer's website. When prospects search for a service, they are driven to a lead generation site to request a quote, and then leads are delivered to the subscriber's computer or phone for follow up.

- *Renovation Experts.* Premium lead generation service specific to contractors, homebuilders and remodeling professionals. We provide a competitive marketplace that matches homeowners in need of remodeling services with qualified contractors in their local area.

Other Revenue

- *Monetization.* Domain names are digital assets with a lifecycle that can be managed to generate advertising cash flow and resale revenue for Web.com. We strive to maximize revenue from domains that are newly registered, purchased from third parties, canceled, expired or retained for our in-house portfolio of domain names.
- *Directory Listings.* An online search directory that gives businesses online exposure to ensure that each business maximizes its potential in order to attract new customers. A local business listing typically contains business name, address, phone number, as well as, other details.

Sales Channels

The sales organization for our web services and products comprises several distinct sales channels, including:

Online. We primarily promote our services through the Web.com, Network Solutions.com, Yodle.com and Register.com websites. To drive potential customers to these sites, we engage in online marketing and advertising campaigns, and participate in seminars targeting small businesses that wish to sell their services online. Our partners also promote our services by including our products on their websites and by including services in their ongoing marketing and promotional efforts with their customers.

Outbound and Inbound Telesales. We utilize our telesales organization to cross-sell and up-sell our full product offerings to our entire customer base. In addition, we target customer lists provided by companies with which we have strategic marketing relationships. We believe that the relationships our customers have with their strategic partners enhances the ability to reach a decision maker, make a presentation, have our offer considered, and close the sale during the initial call. In addition, we maintain a separate team of sales specialists specifically focused on responding to inbound inquiries generated by programs initiated by the company and its strategic marketing partners through a mix of e-mail, direct mail, website, direct response television (DRTV) and other marketing efforts to help promote services to prospective customers.

Direct Response Television and Radio. We often promote Do-It-For-Me products through television and radio advertising campaigns. In addition to legacy ads supporting our Custom Website and Facebook ™ by Web.com solutions, we sometimes use branded DRTV spots, which describe us and feature real customers who have derived significant business value from our solutions. We expect the level of spending in this sales channel to decrease in 2017 as we have decreased our focus in this sales channel.

Local Direct Sales. We have a local sales initiative in approximately 20 geographic markets throughout the United States, and expect to expand our penetration by expanding our inside sales organization to complement the markets where we do not have a physical presence. Our local sales teams are equipped to sell a full complement of solutions including Leads by Web, Custom Website Design, Social Media and Paid Search programs.

Branding. In 2012, we entered a 10-year agreement to become the umbrella sponsor of the renamed Web.com Tour (formerly the Nationwide Tour), and an official marketing partner of the PGA TOUR. As a sponsor, our brand name has gained heightened visibility, and we believe this relationship will help us reach our target market of small business owners. In addition, in many Web.com Tour, PGA TOUR, and Champions Tour markets we have hosted free, small educational seminars designed to help small businesses learn how to be successful on the Internet as part of an initiative to bring additional benefit to communities where events are held, which in turn helps reach more of our target market.

Reseller, Affiliate Network and Private Label Partners. We have developed affiliate partners and resellers who sell our services and provide additional opportunities to up-sell and cross-sell Do-It-For-Me services. We have worked closely with these resellers to develop sales support and fulfillment processes that integrate with the resellers' sales, service, support, and billing practices. We provide ongoing marketing and technical support for our partners to ensure a positive customer experience for their end customers. Additionally, we provide these resellers with training and sales materials to support the web services being offered.

Multi-location/Franchise Sales. We have a sales channel that targets franchise networks and corporations. These businesses are unique because they have a corporate organization that is affiliated with a network of small, local businesses or divisions. Our sales resources in this channel are dedicated to selling to both the corporate entity and into individual locations, like franchisees, in the network.

Marketing

Our marketing activities are principally focused on acquiring new subscribers and promoting additional products and services to our existing customers. Our marketing activities include:

- Websites: Web.com, NetworkSolutions.com, Register.com, Leads.com, Leads by Web.com, 1ShoppingCart.com, RenovationExperts.com, SolidCactus.com, Submitawebsite.com, Scoot.co.uk, and Snapnames.com;
- Search engine and other online advertising;
- Targeted e-mail and direct response campaigns to prospects and customers;
- Affiliate programs; and
- Sponsorships.

Customers

As of December 31, 2016 , we had approximately 3.5 million customers. We generally target small businesses with less than 20 employees. We seek to create long-term relationships with these businesses by helping them leverage the Internet as a channel to promote and grow their business.

Data Security

We maintain major operational facilities in Jacksonville, Florida; Atlanta, Georgia; Austin, Texas; Herndon, Virginia; New York, New York; Spokane, Washington; Hazleton, Pennsylvania; Barrie, Ontario; New Glasgow, Nova Scotia; and Yarmouth, Nova Scotia for most of our internal operations. These facilities are monitored through our redundant Network Operations Centers (NOC); which are staffed 24 hours a day, seven days a week. The servers that provide our customers' website data to the Internet are located within third-party co-location facilities in Jacksonville, Florida and Atlanta, Georgia. We are in the process of migrating the legacy Yodle co-location centers into our Atlanta and Jacksonville co-locations. These co-location facilities have a secured network infrastructure including intrusion detection at the router level, full network traffic monitoring, end point monitoring, data collection and event reporting. Our contract obligates our co-location provider to provide us a secured space within their overall data center. The facilities are secured through card-key numeric entry and biometric access. Infrared detectors are used throughout the facility. In addition, the co-location facilities are staffed 24 hours a day, seven days a week, with experts to manage and monitor the carrier networks and network access. The co-location facilities also provide multiple Internet carriers to help ensure bandwidth is available to our customers. The availability of electric power at the co-location facilities is provided through multiple uninterruptible power supply and generator systems should power supply fail at any of our major facilities.

Customer data is redundant through the use of multiple application and web servers. Customer data is backed up to other disk arrays with fail-over to help ensure high availability. Customer data is also maintained at our national design center and can be republished from archival data at any time. Currently, this process could take approximately 24 hours. Our financial system reporting also uses redundant systems and can be reconstituted in approximately 12 hours. Our customer data is stored on systems that are compliant and certified to meet CISP and PCI security standards. Furthermore, we have a highly available redundant infrastructure, which provides disaster recovery backup to prevent a disruption to our customers.

We continue to work on plans to provide active load balancing and built in disaster-recovery operations between our Atlanta and Jacksonville co-location sites. Under this scenario, a full copy of data would be backed up at each site. Each co-location site would provide fail-over capability for the other to prevent a disruption of our customers' websites should either co-location site become unavailable.

Competition

The market for web services is highly competitive and evolving. We expect competition to increase from existing competitors as well as new market entrants. Most existing competitors typically offer a limited number of specialized solutions and services, but may provide a more comprehensive set of services in the future. These competitors include, among others, website designers, domain name registrars, Internet service providers, Internet search engine providers, local business directory providers, eCommerce service providers, lead generation companies and hosting companies. Some of the companies we compete with are: GoDaddy, Wix.com, Ltd., 1&1 Internet and Endurance International Group. Some of our competitors have greater resources, more brand recognition, larger installed bases of customers than we do, and we cannot ensure that we will be able to compete favorably against them or our other competitors.

We believe the principal competitive factors in the small business segment of the web services, online marketing and lead generation industry include:

- Value, breadth and flexibility of service offerings;
- Proprietary workflow processes and customer relationship management software;
- Brand name and reputation;
- Price;
- Quality of customer support;
- Speed of customer service;
- Ease of implementation, use and maintenance;
- Industry expertise and focus; and
- Trade shows.

Intellectual Property

Our success and ability to compete is dependent in significant part on our ability to develop and maintain the proprietary aspects of our technology and operate without infringing upon the proprietary rights of others. We currently rely primarily on a combination of copyright, trade secret and trademark laws, confidentiality procedures, contractual provisions, and other similar measures to protect our proprietary information. As of December 31, 2016 , we owned 49 issued U.S. patents. We also have several additional patent applications pending but not yet issued.

Due to the rapidly changing nature of applicable technologies, we believe that the improvement of existing offerings, reliance upon trade secrets and unpatented proprietary know-how, and development of new offerings generally will continue to be our principal source of proprietary protection. While we have hired third-party contractors to help develop our software and design websites, we own the intellectual property created by these contractors. Our software is not substantially dependent on any third-party software, although our software does utilize open source code. Notwithstanding the use of this open source code, we do not believe our usage requires public disclosure of our own source code nor do we believe the use of open source code is material to our business.

We also have an ongoing service mark and trademark registration program pursuant to which we register some of our product names, slogans and logos in the United States and in some foreign countries. License agreements for our software include restrictions intended to protect our intellectual property. These licenses are generally non-transferable and are perpetual. In addition, we require all of our employees, contractors and many of those with whom we have business relationships to sign non-disclosure and confidentiality agreements and to assign to us in writing all inventions created while working for us. Some of our products also include third-party software that we obtain the rights to use through license agreements. In such cases, we have the right to distribute or sublicense the third-party software with our products.

We have entered into confidentiality and other agreements with our employees and contractors. We have also entered into nondisclosure agreements with suppliers, distributors and some customers to limit access to and disclosure of our proprietary information. Nonetheless, neither the intellectual property laws nor contractual arrangements, nor any of the other steps we have taken to protect our intellectual property can ensure that others will not use our technology or that others will not develop similar technologies.

We license or lease from others, many technologies used in our services. We expect that we and our customers could be subject to third-party infringement claims as the number of websites and third-party service providers for web-based businesses grows. Although we do not believe that our technologies or services infringe on the proprietary rights of any third parties, we cannot ensure that third parties will not assert claims against us in the future or that these claims will not be successful.

Employees

As of December 31, 2016 , we had approximately 3,600 employees. None of our employees are represented by unions. We consider the relationship with our employees to be good and have not experienced interruptions of operations due to labor disagreements.

Available Information

We make available free of charge on or through our investor relations website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities Exchange Commission ("SEC").

You may read and copy this Form 10-K at the SEC’s public reference room at 100 F Street, NE, Washington D.C. 20549. Information on the operation of the public reference room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding our filings at *www.sec.gov.*

Item 1A. Risk Factors.

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

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

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

- our ability to retain and increase sales to existing customers, attract new customers and satisfy our customers' requirements;
- the cost of attracting new customers;
- the renewal rates and renewal terms for our services;
- changes in our pricing policies;
- the introduction of new services and products by us or our competitors;
- our ability to hire, train and retain members of our sales force;
- the rate of expansion and effectiveness of our sales force;
- technical difficulties or interruptions in our services;
- general economic conditions;
- additional investment in our services or operations;
- our ability to successfully identify acquisition targets and integrate acquired businesses and technologies; and
- our success in maintaining and adding strategic marketing relationships.

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

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

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

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

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

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

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

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

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

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

- lost sales and customers as a result of customers of either of the two companies deciding not to do business with the combined company;
- complexities associated with managing the larger, more complex, combined business;
- integrating personnel from the two companies while maintaining focus on providing consistent, high quality services and products;
- risks associated with our expansion into new international markets and doing business internationally;
- potential unknown liabilities and unforeseen expenses, delays or regulatory conditions associated with the acquisition;
- performance shortfalls at one or both of the companies as a result of the diversion of management's attention caused by completing the acquisition and integrating the companies' operations;
- in the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political and regulatory risks associated with specific countries;
- in certain instances, the ability to exert control over acquired businesses that include earn out provisions in the agreements relating to such acquisitions or the potential obligation to fund an earn out for, or other obligations related to, a business that has not met expectations;
- liability for activities of the acquired company before the acquisition, including intellectual property and other litigation claims or disputes, information security vulnerabilities, violations of laws, rules and regulations, commercial disputes, tax liabilities and other known and unknown liabilities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We were profitable for the years ended December 31, 2016 and 2015, but we were not profitable for the year ended December 31, 2014 and we may not be profitable in the future.

We were profitable for the years ended December 31, 2016 and 2015, but we were not profitable for the year ended December 31, 2014 , and may not be profitable in future years. As of December 31, 2016, we had an accumulated deficit of approximately $276.6 million . We expect that our expenses relating to the sale and marketing of our web services, technology improvements and general and administrative functions, as well as the costs of operating and maintaining our technology infrastructure, will remain consistent as a percentage of revenue. Accordingly, we may need to maintain or increase our revenue levels to be able to continue to maintain profitability. We may not be able to reduce in a timely manner or maintain our expenses in response to any decrease in our revenue, and our failure to do so would adversely affect our operating results and our level of profitability.

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

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

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

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

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

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

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

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

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

As of December 31, 2016, we had $382.7 million of aggregate principal amount of our Term Loan and $49.3 million of Revolving Credit Facility (defined in Note 4, *Long-Term Debt*) and $258.8 million aggregate principal amount of 1.00% Senior Convertible Notes due August 15, 2018 ("2018 Notes") outstanding. We entered into an Amendment to Credit Agreement, dated as of February 11, 2016, which became effective on March 9, 2016, of our Term Loan and Revolving Credit Facility pursuant to which certain of our lenders have provided an additional $200.0 million of senior secured term loans, the proceeds of which, together with $115.0 million of revolving loans and cash on hand, was used to fund the acquisition of Yodle, Inc. Our ability to generate cash flow from operations to make principal and interest payments on our debt will depend on our future performance, including the operations of Yodle upon the consummation of that transaction, which will be affected by a range of economic, competitive and business factors, including our ability to successfully integrate the operations of Yodle into our operations. If our operations do not generate sufficient cash flow from operations to satisfy our debt service obligations, we may need to seek additional capital to make these payments or undertake alternative financing plans, such as refinancing or restructuring our debt, selling assets or reducing or delaying capital investments and acquisitions. We cannot assure you that such additional capital or alternative financing will be available on favorable terms, if at all. Our inability to generate sufficient cash flow from operations or obtain additional capital or alternative financing on acceptable terms could harm our business, financial condition and results of operations. We may also choose to use cash flow from operations to repurchase shares of our common stock which would otherwise be available to pay down long-term debt.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As of December 31, 2016, the Company has U.S. Federal NOLs of approximately $213.5 million, which includes $72 million from Yodle pre-acquisition periods, available to offset future taxable income and expire between 2020 and 2035. These amounts currently exclude $77.0 million related to excess tax benefits for stock-based compensation tax deductions in excess of book compensation which will be credited to additional paid-in capital when such deductions reduce taxes payable, as determined on a “with-and-without” basis. See Note 2 for additional information related to ASU 2016-09, which the Company will adopt in the first quarter of 2017.

These NOLs are subject to various limitations under Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”). Accordingly, the Company estimates that at least $159.8 million of these NOLs will be available during the carry forward period based on our existing Section 382 limitations.

If the Company experiences any future “ownership change” as defined in Section 382 of the Code, the Company's ability to utilize its U.S. Federal NOLs could be further limited. Similar results could apply to our U.S. state NOLs because the states in which we operate generally follow Section 382.

As of December 31, 2016, the Company also had $51.5 million of NOLs in the United Kingdom ("UK") related to Scoot, of which the substantial portion was incurred in pre-acquisition periods. Although not subject to expiration, pre-acquisition NOLs could be eliminated under certain circumstances, as determined under applicable tax laws in the United Kingdom, in the 3 year periods both before and after the acquisition date. Although the Company does not believe the pre-acquisition NOLs are subject to any such limitations to date, future activities could subject these NOLs to limitation. As of December 31, 2016, the Company's valuation allowance includes $50.4 million of these NOLs as it is not more likely than not that this portion of the NOLs will be realized based on the expected reversals of existing deferred tax liabilities. The net tax values related to UK NOLs and related valuation allowance decreased as a result of changes in foreign exchange and tax rates during the year.

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

The accounting method for convertible debt securities that may be settled in cash, such as the 2018 Notes, could have a material effect on our reported financial results.

Under ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as the 2018 Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for the 2018 Notes is that the equity component is required to be included in the additional paid-in-capital section of stockholders' equity on our consolidated balance sheet, and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component of the 2018 Notes. As a result, we will be required to record a greater amount of non-cash interest expense from the amortization of the discounted carrying value of the 2018 Notes to their face amount over the term of the 2018 Notes. We will also report lower net income or increased net loss in our financial results, the trading price of our common, and the trading price of the 2018 Notes.

In addition, under certain circumstances, convertible debt instruments (such as the 2018 Notes) that may be settled entirely or partly in cash may be accounted for utilizing the treasury stock method, the effect of which is that the shares that would be issuable upon conversion of the 2018 Notes are not included in the calculation of diluted earnings per share except to the extent the conversion value of the 2018 Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit our use the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the 2018 Notes, then our diluted earnings per share may be adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- establish a classified board of directors so that not all members of our board are elected at one time;
- provide that directors may only be removed for cause and only with the approval of 66 2/3% of our stockholders;
- require super-majority voting to amend some provisions in our amended and restated certificate of incorporation and bylaws;
- authorize the issuance of blank check preferred stock that our board of directors could issue to increase the number of outstanding shares to discourage a takeover attempt;

- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter, or repeal our bylaws; and
- establish advance notice requirements for nominations for elections to our board or for proposing matters that can be acted upon by stockholders at stockholder meetings.

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

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

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

Substantial changes to tax policies and other regulations may affect our business.

Substantial change to tax policies and other regulations, which could include comprehensive tax reform, may have an impact on our business. We cannot predict the impact, if any, of these changes to our business. However, until we know what changes are enacted, we will not know whether in total we will benefit from, or will be negatively affected by, the changes.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The Company owns a 32,780 square foot building in Spokane, Washington, in which a web services sales center is located. In addition, we lease the following principal facilities:

	Location	Square Feet	Lease Expiration
Headquarters and principal administrative, finance, and marketing operations	Jacksonville, FL	112,306	July 2019
Sales and customer support operations center	Austin, TX	97,153	August 2021
Technology administrative center	Herndon, VA	43,874	December 2017
Sales and customer support operations center	Hazleton, PA	39,429	January 2018
Sales and customer support operations center	Scottsdale, AZ	48,271	May 2017
Sales and customer support operations center	Charlotte, NC	34,462	January 2024
Sales and customer support operations center	Jacksonville, FL	31,720	July 2019
Sales and customer support operations center	Yarmouth, Nova Scotia, Canada	30,400	August 2017
Technology, sales and customer support operations center	New York, NY	83,639(*)	April 2024
Sales and customer support operations center	New Glasgow, Nova Scotia, Canada	25,770	September 2026
Sales and customer support operations center	Halifax, Nova Scotia, Canada	13,500	April 2017
Technology administrative center	Buenos Aires, Argentina	10,000	December 2019
Sales and customer support operations center	Stockton, England, United Kingdom	10,000	March 2022
Technology administrative center	Atlanta, GA	9,959	November 2021
Sales and customer support operations center	Sugar Hill, GA	6,412	June 2017
eCommerce operations center	Barrie, Ontario, Canada	5,774	May 2017
Technology administrative center	Portland, OR	5,650	March 2017
Technology data center	Atlanta, GA	4,000	May 2022
Sales and customer support operations center	Daytona Beach, FL	1,500	November 2017
Administrative and finance operations	London, England, United Kingdom	484	Month to month

(*) Effective January, 2017, the Company has subleased 55,758 square feet of this lease through the lease expiration date of April 2024.

The Company also has short-term leases for 19 geographic markets throughout the United States and United Kingdom mainly for the Local Direct Sales initiative.

Item 3. Legal Proceedings.

From time to time, the Company and its subsidiaries receive inquiries from foreign, federal, state and local regulatory authorities or are named as defendants in various legal actions that are incidental to our business and arise out of or are related to claims made in connection with our marketing practices, customer and vendor contracts and employment related disputes. Although the results of these legal actions in which we are involved cannot be predicted with any certainty, we believe that the resolution of these legal actions will not have a material adverse effect on our financial position, marketing practices or results of operations. Defending these legal actions in which we are involved is costly and can impose significant burden on management and there can be no assurance that favorable final outcomes will be obtained. At December 31, 2016 , there were no material legal matters for which a loss is reasonably possible or estimable.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Effective November 10, 2015, our common stock began trading under the ticker symbol "WEB" on the NASDAQ Global Select Market. Prior to that, our common stock traded under the symbol "WWWW" from January 3, 2011 to November 9, 2015, also on the NASDAQ Global Select Market. From October 27, 2008 to January 2, 2011, our common stock was listed on the NASDAQ Global Market under the symbol "WWWW". Prior to October 27, 2008, our common stock was listed on the NASDAQ Global Market under the symbol "WSPI". Prior to November 1, 2005, there was no public market for our common stock. The following table sets forth the high and low stock prices of our common stock for the last two fiscal years as reported on the NASDAQ Global Select Market, as appropriate.

	2016		2015	
	High	Low	High	Low
First Quarter	$ 20.17	$ 15.71	$ 19.31	$ 14.52
Second Quarter	$ 20.49	$ 16.21	$ 24.34	$ 18.15
Third Quarter	$ 19.37	$ 16.43	$ 26.04	$ 20.25
Fourth Quarter	$ 21.20	$ 12.90	$ 25.00	$ 19.93

The closing price for our common stock as reported by the NASDAQ Global Select Market on February 21, 2017 was $20.40 per common share. As of February 21, 2017, there were 594 stockholders of record of our common stock, not including those shares held in street or nominee name.

Dividend Policy

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain any future earnings to fund the development and expansion of our business, and therefore we do not anticipate paying cash dividends on our common stock in the foreseeable future. None of our outstanding capital stock is entitled to any dividends and any future determination to pay dividends will be subject to the limitations set forth in our credit agreements and will be at the discretion of our board of directors.

Issuer Purchases of Equity Securities

Share repurchase activity during the three months ended December 31, 2016 was as follows:

Period	Total Number of Shares Purchased(*)	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program (*)	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program (*)
October 1 - October 31, 2016	8,510	$ 15.99	8,510	$ 120,998,741
November 1 - November 30, 2016	346,004	$ 15.09	346,004	$ 115,776,908
December 1 - December 31, 2016	332,662	$ 17.26	332,662	$ 110,033,663
Total	687,176	$ 16.15	687,176	$ 110,033,663

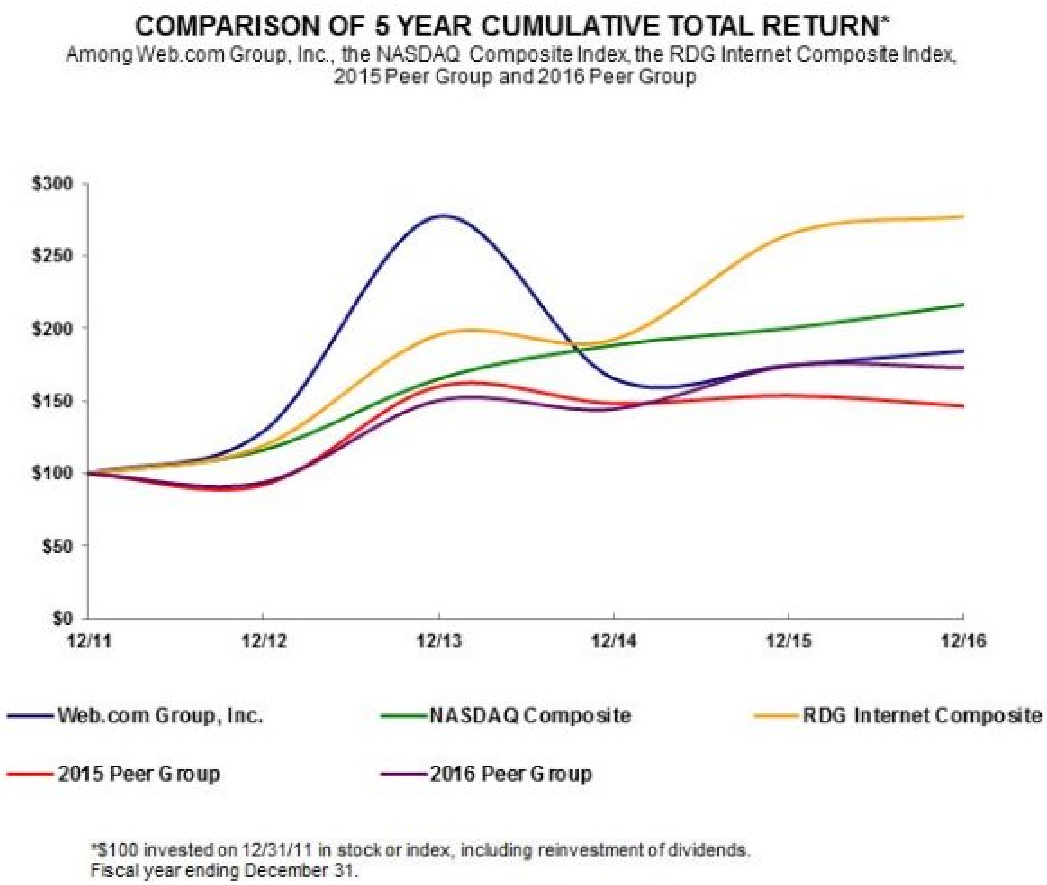
(*) Cumulative repurchases of 4.8 million common shares totaling $90.0 million have been made since we announced our stock repurchase program on November 5, 2014, which authorized the repurchase of up to an aggregate of $100 million of our outstanding shares of common stock from time to time. This program, according to its terms, expired on December 31, 2016. In October 2016, the Company's Board of Directors authorized that the share repurchase program of the Company's outstanding securities be extended through December 31, 2018 and be increased by an additional $100.0 million. During the three months ended December 31, 2016, 687,176 shares totaling $11.1 million were repurchased. Repurchases under the programs may take place in the open market or in privately negotiated transactions, including derivative transactions, and may be made under a Rule 10b5-1 plan.

Stock Performance Graph

The graph below compares the cumulative 5-Year total return provided shareholders on Web.com Group, Inc.'s common stock relative to the cumulative total returns of the NASDAQ Composite index, the RDG Internet Composite index and two customized peer groups of thirteen companies and eleven companies respectively, whose individual companies are listed in footnotes 1 and 2 below. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our common stock, in each index and in each of the peer groups on December 31, 2011 and its relative performance is tracked through December 31, 2016.

(1) There are thirteen companies included in the company's first customized peer group which are: Angie's List Inc., Cimpress NV, Comscore Inc., Concurrent Technologies Plc, Earthlink Holdings Corp, Endurance International Group Holdings Inc., Godaddy Inc., Internap Corp, Leaf Group Ltd, Pandora Media Inc., Verisign Inc., Webmd Health Corp and Yelp Inc.

(2.) The eleven companies included in the company's second customized peer group are: Angie's List Inc., Comscore Inc., Concurrent Technologies Plc, Cornerstone Ondemand Inc., Earthlink Holdings Corp, Endurance International Group Holdings Inc., Godaddy Inc., Internap Corp, Verisign Inc., Webmd Health Corp and Zillow Group Inc.



This performance graph shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or incorporated by reference to any filing of Web.com under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Item 6. Selected Financial Data.

	Year Ended December 31,				
	2016 [(2)(3)(6)]	2015 [(3)]	2014 [(1,3)]	2013 [(1,3)]	2012 [(1,3)]
	(in thousands, except per share data)				
Consolidated Statement of Comprehensive Income (Loss):					
Revenue	$ 710,505	$ 543,461	$ 543,937	$ 492,315	$ 407,646
Income (loss) from operations	$ 44,704	$ 61,714	$ 37,663	$ 10,241	$ (36,010)
Net income (loss)	$ 3,990	$ 89,961	$ (12,458)	$ (65,664)	$ (122,217)
Basic income (loss) per common share	$ 0.08	$ 1.79	$ (0.24)	$ (1.34)	$ (2.61)
Diluted income (loss) per common share	$ 0.08	$ 1.72	$ (0.24)	$ (1.34)	$ (2.61)
Basic weighted average common shares outstanding	49,262	50,243	50,920	48,947	46,892
Diluted weighted average common shares outstanding	50,880	52,442	50,920	48,947	46,892

	As of December 31,				
	2016 [(6)]	2015	2014 [(5)]	2013 [(5)]	2012 [(5)]
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 20,447	$ 18,706	$ 22,485	$ 13,806	$ 15,181
Working capital deficiency (4)	$ (209,318)	$ (167,671)	$ (117,987)	$ (118,872)	$ (113,544)
Total assets	$ 1,513,833	$ 1,157,339	$ 1,237,579	$ 1,275,723	$ 1,322,512
Long-term debt	$ 647,294	$ 411,409	$ 500,262	$ 554,718	$ 683,846
Accumulated deficit	$ (276,634)	$ (280,624)	$ (370,585)	$ (358,127)	$ (292,463)
Total stockholders' equity	$ 235,452	$ 238,177	$ 174,090	$ 170,045	$ 161,613

1. The Consolidated Statement of Comprehensive Income (Loss) includes a $1.8 million, $20.7 million and $42.0 million loss from extinguishing long-term debt during the years ended December 31, 2014, 2013 and 2012, respectively. In addition, a $0.4 million and $5.2 million gain from the sale of an equity method investment was also recorded during the years ended December 31, 2013 and 2012, respectively. See Note 4, *Long-Term Debt,* for more information on the debt transactions.
2. The Consolidated Statement of Comprehensive Income (Loss) for the year ended December 31, 2016 includes an asset impairment charge of $7.1 million for leasehold improvements that were abandoned as part of exiting the operating lease acquired in the March 2016 Yodle acquisition and $2.0 million from writing down domain name inventory.
3. Included in the Consolidated Statement of Comprehensive Income (Loss) for the years ended December 31, 2016, 2014, and 2013 is income tax expense of $10.3 million, $21.5 million and $21.3 million, respectively. Included in the Consolidated Statement of Comprehensive Income (Loss) for the year ended December 31, 2015 is $48.3 million of income tax benefit. The Company released $68.8 million of valuation allowance on its deferred tax assets in the fourth quarter of 2015. Included in the net loss for the years ended December 31, 2012 is a tax benefit of $16.7 million. See Note 13, *Income Taxes* , for information on these transactions.
4. The working capital deficiency at December 31, 2016, 2015, 2014, 2013 and 2012 is due primarily to the current portion of deferred revenue, partially offset by deferred expenses and deferred tax assets, which get amortized to revenue or expense/benefit rather than settled with cash. As of December 31, 2016 and 2015, our working deficiency does not include an offset for deferred tax assets due to the effects of the adoption of ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes* , requiring all deferred tax assets and liabilities and any related valuation allowance to be classified as non-current on our Consolidated Balance Sheets. Prior periods were not retrospectively adjusted.
5. The Company retrospectively adopted Accounting Standards Update ("ASU") 2015-03 during the fourth quarter of 2015. The impact on the Consolidated Balance Sheet resulted in a decrease of total assets of $0.8 million, $2.0 million and $5.5 million as of December 31, 2014, 2013 and 2012, respectively. Long-term debt decreased by $0.8 million, $1.8 million and $4.3 million as of December 31, 2014, 2013and 2012, respectively. The current portion of debt decreased $4 thousand, $0.2 million and $1.2 million as of December 31, 2014, 2013 and 2012, respectively.
6. The condensed information of the Consolidated Statement of Comprehensive Income (Loss) includes the operations of Yodle, Inc. from March 9, 2016 through December 31, 2016. The Condensed Balance Sheet contains the assets and liabilities of Yodle as of December 31, 2016.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Safe Harbor

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

We believe presenting non-GAAP operating income and Adjusted EBITDA measures are useful to investors, because they describe the operating performance of the Company, excluding some recurring charges that are included in the most directly comparable measures calculated and presented in accordance with GAAP. We use these non-GAAP measures as important indicators of our past performance and in planning and forecasting performance in future periods. The non-GAAP financial information we present may not be comparable to similarly-titled financial measures used by other companies, and investors should not consider non-GAAP financial measures in isolation from, or in substitution for, financial information presented in compliance with GAAP.

Overview

Web.com Group, Inc. ("Web.com", the "Company" or "We") provides a full range of internet services to small businesses to help them compete and succeed online. Web.com meets the needs of small businesses anywhere along their lifecycle with affordable, subscription-based solutions including domains, hosting, website design and management, search engine optimization, online marketing campaigns, local sales leads, social media, mobile products and eCommerce solutions. For more information about the Company, please visit http://www.web.com. We do not incorporate information obtained on or accessible through, our website into this Annual Report on Form 10-K and you should not consider it a part of this Annual Report on Form 10-K.

In March 2016, we completed the acquisition of 100% of the outstanding shares of Yodle, Inc., a Delaware corporation, ("Yodle"). Yodle provides cloud-based local marketing solutions for small businesses with approximately 1,400 employees and 53,000 subscribers. With the Yodle platform, we are able to provide our customers with an online, mobile and social presence, and automate, manage and optimize our customers marketing activities and other consumer interactions. Yodle's solutions are highly integrated and designed to be easy-to-use, helping businesses navigate the rapidly evolving, technologically challenging and highly fragmented digital marketing landscape without having to invest a significant amount of time and money.

In January 2017, we completed the acquisition of DonWeb.com, located in Rosario, Argentina, and is a web hosting and domain registration company catering to the Spanish-speaking market.

Key Business Metrics

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

Net Subscriber Additions

We define total subscribers as the approximate number of subscribers that, as of the end of a period, are identified as subscribing to our products on a paid basis. A unique subscriber with subscriptions of more than one brand or with more than one distinct billing relationship or product subscription with us, are counted as one subscriber. Total subscribers for a period reflects adjustments to add or subtract subscribers as we integrate acquisitions and/or are otherwise able to identify subscribers that meet, or do not meet, this definition of total subscribers.

We define net subscriber additions in a particular period as the gross number of new subscribers added during the period, less subscriber cancellations during the period. For this purpose, we only count as new subscribers those customers whose subscriptions have extended beyond the free trial period, if applicable.

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

Customer Retention Rate (Retention Rate)

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

Average Revenue per User (Subscriber)

Monthly average revenue per user, or ARPU, is a metric we measure on a quarterly basis. We define ARPU as quarterly subscription revenue divided by the average of the number of subscribers at the beginning of the quarter and the number of users at the end of the quarter, divided by three months. We exclude from subscription revenue the impact of the fair value adjustments to deferred revenue resulting from acquisition-related write downs. The fair market value adjustment was $ 18.4 million , $15.9 million , and $26.2 million for the years ended December 31, 2016 , 2015 and 2014 , respectively. ARPU is the key metric that allows management to evaluate the impact on monthly revenue from product pricing, product sales mix trends, and up-sell/cross-sell effectiveness.

Sources of Revenue

Subscription Revenue

We currently derive a substantial majority of our revenue from fees associated with our subscription services, which generally include web services, online marketing, eCommerce, and domain name registration offerings. We bill a majority of our customers in advance and recognize revenue on a daily basis over the life of the contract.

Professional Services and Other Revenue

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

Cost of Revenue and Operating Expenses

Cost of Revenue (Excluding Depreciation and Amortization)

Cost of revenue consists of expenses related to compensation of our web page development staff, domain name registration costs, directory listing fees, eCommerce store design, online marketing costs for services provided, billing costs, hosting expenses and allocated occupancy overhead costs. We allocate occupancy overhead costs such as rent and utilities to all departments based on headcount. Accordingly, general overhead expenses are reflected in each cost of revenue and operating expense category. Costs of revenue are expected to increase in total dollars as we reflect an entire year of Yodle, Inc., but remain relatively flat as a percentage of total revenue during 2017.

Sales and Marketing Expense

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

We plan to continue to invest in sales and marketing to add new customers and to increase sales of additional and new services and products to our existing customer base. We continue to invest a portion of our marketing budget in branding activities such as the umbrella sponsorship of the Web.com Tour and other sports marketing activities. Sales and marketing expenses are expected to increase in total dollars as we reflect an entire year of Yodle, Inc., but remain relatively flat as a percentage of total revenue during 2017.

Technology and development

Technology and development represents costs associated with creation, development and distribution of our products and websites. Technology and development expenses primarily consist of headcount-related costs associated with the design, development, deployment, testing, operation and enhancement of our products and costs associated with the data centers and all systems infrastructure costs and allocated occupancy overhead costs. Technology and development expenses are expected to remain flat as a percentage of total revenue during 2017, but increase slightly as an entire year of Yodle is reflected.

General and Administrative Expense

General and administrative expenses consist of compensation and related expenses for executive, finance, administration, as well as professional fees, corporate development costs, other corporate expenses, and allocated occupancy overhead costs. General and administrative expenses are expected to remain relatively flat as a percentage of revenue during 2017.

Depreciation and Amortization Expense

Depreciation and amortization expenses relate primarily to our intangible assets recorded due to the acquisitions we have completed, as well as depreciation expense from computer and other equipment, internally developed software, furniture and fixtures, and building and improvement expenditures. Depreciation is expected to increase slightly as we continue to increase our efforts for internally developed software projects. This will be offset by a decrease in depreciation resulting from the leasehold improvements that were abandoned in connection with the exiting of the Yodle New York lease. Amortization expense is expected to continue to increase in 2017 as we realize a full year of Yodle intangible amortization expense.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, and expenses and related disclosure of contingent assets and liabilities. We review our estimates on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. While our significant accounting policies and estimates are described in more detail in Note 1, *The Company and Summary of Significant Accounting Policies* , to our consolidated financial statements included in this report, we believe the following accounting policies to be critical to the judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

We recognize revenue in accordance with Accounting Standards Codification, or (“ASC”), 605, *Revenue Recognition* . We recognize revenue when all of the following conditions are satisfied: (1) there is persuasive evidence of an arrangement; (2) the service has been provided to the customer; (3) the amount of fees to be paid by the customer is fixed or determinable; and (4) the collection of our fees is reasonably assured.

Thus, we recognize subscription revenue on a daily basis, as services are provided. Customers are billed for the subscription on a monthly, quarterly, semi-annual, annual or on a multi-year basis, at the customer’s option. For all of our customers, regardless of the method we use to bill them, subscription revenue is recorded as deferred revenue in the accompanying consolidated balance sheets. As services are performed, we recognize subscription revenue on a daily basis over the applicable service period. When we provide a free trial period, we do not begin to recognize subscription revenue until the trial period has ended and the customer has been billed for the services.

We account for our multi-element arrangements in accordance with ASC 605-25, *Revenue Recognition: Multiple-Element Arrangements.* We may sell multiple products or services to customers at the same time. For example, we may design a customer website and separately offer other services such as hosting and marketing or a customer may combine a domain registration with other services such as private registration or e-mail. In accordance with ASC 605-25, each element is accounted for as a separate unit of accounting provided the following criteria is met: the delivered products or services has value to the customer on a standalone basis; and for an arrangement that includes a general right of return relative to the delivered products or services, delivery or performance of the undelivered product or service is considered probable and is substantially controlled by the Company. We consider a deliverable to have standalone value if the product or service is sold separately by us or another vendor or could be resold by the customer. Our products and services do not include a general right of return relative to the delivered products. In cases where the delivered products or services do not meet the separate unit of accounting criteria, the deliverables are combined and treated as one single unit of accounting for revenue recognition. We assign value to the separate units of accounting in multiple element arrangements using the relative selling price method which is calculated by taking the standalone selling price of each unit to the total selling price of the arrangement, multiplied by the total sales price. Typically, the deliverables within multiple-element arrangements are provided over the same service period, and therefore revenue is recognized over the same period.

To determine the selling price in multiple-element arrangements, the Company establishes vendor-specific objective evidence of the selling price using the price of the deliverable when sold separately. If we are unable to determine the selling price because vendor-specific objective evidence does not exist, the Company will first look to third-party evidence, and if that is not sufficient, it will determine an estimated sales price through consultation with and approval by the Company’s management, taking into consideration the Company’s relative costs, target profit margins, and any other information gathered during this process.

Goodwill and Intangible Assets

ASC 350, *Intangibles-Goodwill and Other* , permits an entity to first assess qualitative factors to determine whether it is more likely than not (likelihood of greater than 50%) that the fair value of indefinite-lived intangible assets and goodwill balances are less than their carrying amount as a basis for determining whether it is necessary to perform the quantitative test which is also described in ASC 350. However, we continue to perform the quantitative tests to determine whether the carrying value of our indefinite-lived intangible assets and our goodwill is impaired during the year ended December 31, 2016 . We test goodwill using one reporting unit. We use a market approach to test our goodwill for impairment, while our intangible asset test uses the income approach. The following is not a complete discussion of our calculation, but outlines the general assumptions and steps for testing goodwill and intangible assets for impairment:

Goodwill

The first step involves comparing the fair value of our reporting unit to their carrying value, including goodwill. We use a market capitalization approach after considering an estimated control premium.

If the carrying value of the reporting unit exceeds its fair value, the second step of the test is performed by comparing the carrying value of goodwill to its implied fair value. An impairment charge is recognized for the excess of the carrying value over its implied fair value.

Intangible Assets

We estimate the fair value of indefinite-lived intangibles using the relief-from-royalty method, a form of the income approach. It is based on the principle that ownership of the intangible asset relieves the owner of the need to pay a royalty to another party in exchange for rights to use the asset. Key assumptions in estimating the fair value include, among other items, forecasted revenue, royalty rates, tax rate, and the benefit of tax amortization. We employ a weighted average cost of capital approach to determine the discount rates used in our projections. The determination of the discount rate includes certain factors such as, but not limited to, the risk-free rate of return, market risk, size premium, and the overall level of inherent risk.

If the carrying value of the intangibles exceeds its fair value, an impairment charge is recognized.

The results of these analyses indicated that our indefinite-lived intangible assets and our goodwill were not impaired at December 31, 2016 . See Note 6, *Goodwill and Intangible Assets,* in the consolidated financial statements for additional information.

Accounting for Purchase Business Combinations

All of our acquisitions have been accounted for as purchase transactions, and the purchase price is allocated based on the fair value of the assets acquired and liabilities assumed. The excess of the purchase price over the fair value of net assets acquired or net liabilities assumed is allocated to goodwill. Management weighs several factors in determining the fair value. The analysis typically considers, but is not limited to, the nature of the acquired company's business, its competitive position, strengths, and challenges; its operating and non-operating assets, if any; its historical financial position and performance; and future plans for the combined entity. Amortizable intangibles, which primarily consists of developed technology, customer relationships, non-compete agreements and trade names, are typically valued using third-party valuation experts, valuation studies and other tools in determining the fair value of amortizable intangibles. While we use our best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, our estimates are inherently uncertain and subject to refinement.

Provision for Income Taxes

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

Further, deferred tax assets are recognized for the expected realization of available deductible temporary differences and net operating loss and tax credit carry forwards. ASC 740 requires companies to assess whether a valuation allowance should be established against deferred tax assets based on consideration of all available evidence using a "more likely than not" threshold. In making such assessments, the Company considers the expected reversals of our existing deferred tax liabilities within the applicable jurisdictions and carry forward periods, based on our existing Section 382 limitations. The Company does not consider deferred tax liabilities related to indefinite lived intangibles or tax deductible goodwill as a source of future taxable income. Additionally, the determination of the amount of deferred tax assets which are more likely than not to be realized is also dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors.

A valuation allowance is recorded to reflect the amount of our deferred tax assets that are more likely than not to be realized based on the above methodology. We review the adequacy of the valuation allowance on an ongoing basis and adjust our valuation allowance in the appropriate period, if applicable.

In December 2016, after weighing all available evidence, we recorded a partial release of $2.4 million associated with our beginning-of-the-year valuation allowance previously recorded against certain net state deferred tax assets to reflect the amount more likely than not to be realized. In December 2015, after weighing all available evidence, we released $68.8 million of our beginning-of-the-year valuation allowance previously recorded against certain of our net deferred tax assets to reflect the amount more likely than not to be realized. See Note 13, *Income Taxes* , for more information

We record liabilities for uncertain tax positions related to federal, state and foreign income taxes in accordance with ASC 740. These liabilities reflect the Company's best estimate of its ultimate income tax liability based on the tax code, regulations, and pronouncements of the jurisdictions in which we do business. Estimating our ultimate tax liability involves significant judgments regarding the application of complex tax regulations across many jurisdictions. If the Company's actual results differ from estimated results, our effective tax rate and tax balances could be affected. As such, these estimates may require adjustment in the future as additional facts become known or as circumstances change. If applicable, we will adjust the tax provision in the appropriate period.

Results of Operations

Management's Discussion and Analysis includes the results of operations and cash flows of Yodle from March 9, 2016 through December 31, 2016. See Note 5, *Business Combinations* , for additional information surrounding the acquisition.

The operations of Yodle began integrating with the existing legacy Web.com operations immediately following the closing of the acquisition on March 9, 2016. As such, our results of operations including revenue and ARPU is not specifically segregated subsequent to the acquisition, nor would it be indicative of each of the standalone entities.

Included in the results of operations for the years ended December 31, 2015 and 2014 are adjustments for the correction of an immaterial error in the classification of infrastructure costs, which were previously classified within the cost of revenue financial statement line item but have been reclassified to technology and development. In addition, in an effort to report operating expenses in a manner more in line with functional areas and to simplify the related accounting, we have changed the classification of certain information technology related operating expenses from general and administrative expenses to technology and development. This reclassification was applied retrospectively to all periods presented. We also reclassified customer support costs previously included in cost of revenue to sales and marketing on a prospective basis. See Note 1, *The Company and Summary of Significant Accounting Policies* , for a summary of the changes reflected herein.

Comparison of the results for the year ended December 31, 2016 to the results for the year ended December 31, 2015

The following table sets forth our key business metrics for the year ended December 31:

	For the year ended December 31,	
	2016	**2015**
Ending subscribers as of December 31,	3,457,572	3,352,554
Net subscriber additions *	105,018	76,337
Customer retention rate	85.4%	87.5%
Average revenue per user (monthly)	$ 17.67	$ 13.87

*The metrics for the year ended December 31, 2016 include the operating results and approximately 53,000 customers of Yodle, Inc. from the March 9, 2016 acquisition.

Net subscribers increased by 105,018 customers during the year ended December 31, 2016 , as compared to an increase of 76,337 customers during the year ended December 31, 2015 . The subscriber additions include the customers acquired in the

March 2016 acquisition of Yodle, Inc. Excluding the acquired customers, the subscribers increased during the year ended December 31, 2016, when compared to the same prior year period due to continued improvements in our customer service and from marketing efforts. Our rolling twelve month customer retention rate as of December 31, 2016 , was 85.4% compared to 87.5% during the same prior year period. While retention rates remain stable, the overall retention rate declined from the prior period due principally to the inclusion of Yodle's lower retention.

The average revenue per user was $17.67 during the year ended December 31, 2016 , as compared to $13.87 during the same period ended December 31, 2015 . The increase in average revenue per subscriber is primarily due to the significantly higher revenue per subscriber from the Yodle acquisition customer base.

Revenue

	For the year ended December 31,	
	2016	2015
	(in thousands)	
Revenue:		
Subscription	$ 703,562	$ 535,706
Professional services and other	6,943	7,755
Total revenue	$ 710,505	$ 543,461

Total revenue increased to $710.5 million in the year ended December 31, 2016 , from $543.5 million in the year ended December 31, 2015 . Total revenue during the year ended December 31, 2016 and 2015 , includes the unfavorable impact of $18.4 million and $15.9 million , respectively, from amortizing into revenue, deferred revenue that was recorded at fair value at the acquisition date. The unfavorable impact increased $2.5 million during the year ended December 31, 2016 compared to the same prior period principally due to the Yodle deferred revenue acquired in March 2016 and subsequently amortized. The remaining $169.5 million increase in revenue during the year ended December 31, 2016 is also principally due to the March 2016 Yodle acquisition. In addition, we realized increased Do-It-For-Me website and premium website revenues, as well as increases from online marketing and email revenues. The increases were offset, in part, by decreases in domain-related revenues, hosting, advertising and Do-It-Yourself website revenues.

Subscription Revenue . Subscription revenue increased during the year ended December 31, 2016 , to $703.6 million from $535.7 million during the year ended December 31, 2015 . The increase was primarily due to the drivers discussed above.

Professional Services and Other Revenue. Professional services revenue decreased 10% to $6.9 million in the year ended December 31, 2016 from $7.8 million in the year ended December 31, 2015 due to a lower volume of custom website and ecommerce design revenue.

Cost of Revenue and Operating Expenses

	For the year ended December 31,	
	2016	2015
	(in thousands)	
Cost of Revenue and Operating Expenses:		
Cost of revenue	224,032	184,751
Sales and marketing	210,294	139,971
Technology and development	65,800	35,529
General and administrative	74,919	64,592
Restructuring charges	3,617	559
Asset impairments	9,091	—
Depreciation and amortization	78,048	56,345
Total cost of revenue and operating expenses	665,801	481,747

Cost of Revenue. Cost of revenue increased 21% or $39.3 million during the year ended December 31, 2016 compared to the year ended December 31, 2015 to $224.0 million . The increase was primarily driven from March 2016 acquisition of Yodle. Excluding the acquisition, domain registration costs decreased $2.1 million, partner-related commissions decreased $2.0 million and hosting costs were also down $1.0 million during the year ended December 31, 2016 compared to the same prior year period. Partially offsetting these costs were $1.8 million of higher online marketing expenses and $1.6 million of additional software-related costs during the year ended December 31, 2016 when compared to the same prior year period.

Sales and Marketing Expenses. Sales and marketing expenses increased 50% to $210.3 million and were 30% of total revenue during the year ended December 31, 2016 , up from $140.0 million or 26% of revenue during the year ended December 31, 2015 . The $70.3 million increase is primarily from the acquisition of Yodle. Excluding the acquisition-related costs, salaries and benefits increased $9.9 million, while marketing expenses declined $8.8 million and call center costs were down $2.2 million during the year ended December 31, 2016 compared to the same prior year period.

Technology and Development Expenses. Technology and development expenses increased 85% to $65.8 million , or 9% of total revenue, during the year ended December 31, 2016 , up from $35.5 million , or 7% of total revenue during the year ended December 31, 2015 . The increase for the year ended December 31, 2016 was driven by the Yodle acquisition. In addition, salaries and benefits are up $8.4 million and data storage, security and network costs have also risen $1.7 million during the year ended December 31, 2016 compared to the same prior year period.

General and Administrative Expenses. General and administrative expenses increased 16% to $74.9 million , or 11% of total revenue, during the year ended December 31, 2016 , up from $64.6 million or 12% of total revenue during the year ended December 31, 2015 . Excluding the additional expenses from the Yodle acquisition, salaries and benefits declined $5.1 million during the current year ended December 31, 2016 when compared to the same prior year period. In addition, bad debt expense is lower by $1.7 million due primarily to lower DIY revenue during the year ended December 31, 2016. Corporate and development expenses increased by $4.0 million due primarily to transaction-related costs from the Yodle acquisition.

Restructuring Charges. Restructuring charges of $3.6 million and $0.6 million during the years ended December 31, 2016 and 2015, respectively, were incurred. Included in the restructuring expense for the year ended December 31, 2016 was $1.4 million of lease restructuring costs for a portion of the New York office of Yodle that was exited on December 31, 2016. The remaining $2.2 million was principally severance expense from terminating certain Yodle positions.

Asset Impairment. The Company recorded $9.1 million of impairment charges during the year ended December 31, 2016. Included was a $7.1 million charge for leasehold improvements that were written off when we exited a portion of the leased space in Yodle's New York headquarters. In addition, $2.0 million of our domain name inventory was impaired during the third quarter ended September 30, 2016.

Depreciation and Amortization Expense. Depreciation and amortization expense increased from $56.3 million during the year ended December 31, 2015 to $78.0 million during the year ended December 31, 2016 . Amortization expense increased by $17.5 million during the year ended December 31, 2016 , as we amortized intangible assets acquired with the March 2016 Yodle acquisition. Depreciation expense increased $4.2 million, also from the additional assets acquired from the Yodle acquisition. In addition, depreciation increased from internally developed software projects placed into service in prior periods as well as during 2016. Depreciation and amortization expense is expected to remain relatively consistent during 2017.

Interest Expense, net. Net interest expense totaled $30.5 million and $20.0 million for the year ended December 31, 2016 and 2015 , respectively. Included in the interest expense for the year ended December 31, 2016 and 2015 , is approximately $12.8 million and $11.4 million, respectively, from amortizing deferred financing fees and loan origination discounts. Excluding this amortization expense, interest expense increased $7.8 million during the year ended December 31, 2016, which is driven from the additional debt financed to acquire Yodle in March of 2016, as well as from a slightly higher interest rate. See Note 4, *Long-term Debt* , for additional information.

Income Tax Benefit/Expense. We recorded a net income tax expense of $10.3 million and an income tax benefit of $48.3 million during the year ended December 31, 2016 and December 31, 2015, respectively. The Company’s income tax expense for the year ended December 31, 2016, includes the impact of higher stock-based compensation, acquisition-related transaction costs, and other non-deductible compensation costs, as well as a decrease in foreign deferred tax rates and foreign currency translation adjustments when compared to the year ended December 31, 2015. Also included in our income tax expense for the year ended December 31, 2016, is a $2.4 million partial release of our beginning-of-the-year valuation allowance previously recorded against certain net state deferred tax assets that was recorded in the fourth quarter of 2016, after weighing all available evidence to reflect the amount more likely than not to be realized. The year ended December 31, 2015 includes the reversal of $68.8 million of valuation allowance related to certain of our deferred tax assets, resulting in a net benefit for the year. See Note 13, *Income Taxes* , for additional information.

Outlook. For 2017, we expect an increase in revenue over the prior year as we realize a full year of the Yodle acquisition. Due to our integration activities around Yodle, we anticipate revenue will decline in the first quarter. Thereafter we project modest sequential growth in future quarters with some acceleration in the back half of the year driven by our value added services revenue offset by declines in DIY and domains. Year over year growth will be helped by the inclusion of DonWeb.com and a full year of owning Yodle. We expect to generate strong Non-GAAP free cash flow which will be used to pay down debt and repurchase common shares.

Comparison of the results for the year ended December 31, 2015 to the results for the year ended December 31, 2014

Included in the year ended December 31, 2015 and 2014 are adjustments for the correction of an immaterial error in the classification of infrastructure costs, which were previously classified within the cost of revenue financial statement line item but have been reclassified to technology and development. In addition, in an effort to report operating expenses in a manner more in line with functional areas and to simplify the related accounting, we have changed the classification of certain information technology related operating expenses from general and administrative expenses to technology and development. This reclassification was applied retrospectively to all periods presented.

The following table sets forth our key business metrics for the year ended December 31:

	For the year ended December 31,	
	2015	2014
Ending subscribers as of December 31,	3,352,554	3,276,217
Net subscriber additions	76,337	144,243
Customer retention rate	87.5%	87.9%
Average revenue per user (monthly)	$ 13.87	$ 14.62

Net subscribers increased by 76,337 customers during the year ended December 31, 2015 , as compared to an increase of 144,243 customers during the year ended December 31, 2014 . The overall increase in subscribers is primarily due to marketing and customer service efforts in current and prior periods. The subscriber additions are, however, lower during the year ended December 31, 2015, when compared to the same prior year period, as we have shifted our emphasis towards subscribers using our products that have higher price points during the last half of the year. Our rolling twelve month customer retention rate as of December 31, 2015 , was 87.5% compared to 87.9% during the same prior year period. The retention rate continued to remain strong, also due to customer service and marketing efforts.

The average revenue per user was $13.87 during the year ended December 31, 2015 , as compared to $14.62 during the same period ended December 31, 2014 . The decline in average revenue per subscriber is primarily due to lower advertising and hosting revenues, primarily offset by an increase in DIFM services and domain-related product sales.

Revenue

	For the year ended December 31,	
	2015	2014
	(in thousands)	
Revenue:		
Subscription	$ 535,706	$ 534,955
Professional services and other	7,755	8,982
Total revenue	$ 543,461	$ 543,937

Total revenue declined slightly to $543.5 million in the year ended December 31, 2015 , from $543.9 million in the year ended December 31, 2014 . Total revenue during the year ended December 31, 2015 and 2014 , includes the unfavorable impact of $15.9 million and $26.2 million , respectively, from amortizing into revenue, deferred revenue that was recorded at fair value at the acquisition date. The fair value of the acquired deferred revenue was approximately 51% less than the pre-acquisition historical basis of Network Solutions and Register.com. The unfavorable impact declined $10.3 million during the year ended December 31, 2015 compared to the same prior period. The remaining $10.7 million decrease in revenue during the year ended

December 31, 2015 is principally due to lower advertising and hosting revenue, partly offset by an increase in email and domain-related product sales.

Subscription Revenue . Subscription revenue increased slightly during the year ended December 31, 2015 , to $535.7 million from $535.0 million during the year ended December 31, 2014 . The increase was due a lower volume of acquisition-related revenue that was amortized into deferred revenue and higher email and domain-related sales, partly offset by lower advertising and hosting revenues.

Professional Services and Other Revenue. Professional services revenue decreased 14% to $7.8 million in the year ended December 31, 2015 from $9.0 million in the year ended December 31, 2014 due to a lower volume of custom website and ecommerce design revenue.

Cost of Revenue and Operating Expenses

	For the year ended December 31,	
	2015	**2014**
	(in thousands)	
Cost of revenue and operating expenses:		
Cost of revenue	$ 184,751	$ 189,099
Sales and marketing	139,971	148,836
Technology and development	35,529	38,657
General and administrative	64,592	52,697
Restructuring charges	559	166
Asset impairment	—	2,040
Depreciation and amortization	56,345	74,779
Total cost of revenue and operating expenses	$ 481,747	$ 506,274

Cost of Revenue. Cost of revenue decreased 2% or $4.3 million during the year ended December 31, 2015 compared to the year ended December 31, 2014 . During the year ended December 31, 2015, domain registration costs decreased $6.5 million and online marketing expense was $1.1 million lower when compared to the same prior year period. The decrease in domain registration was primarily driven from a lower overall volume of domain names under management as certain prior year promotional domains did not renew. The overall decreases were partially offset by higher partner commission and salaries and benefits, up by $1.3 million and $1.8 million, respectively.

Sales and Marketing Expenses. Sales and marketing expenses decreased 6% to $140.0 million and were 26% of total revenue during the year ended December 31, 2015 , down from $148.8 million or 27% of revenue during the year ended December 31, 2014 . The $8.9 million decrease is primarily from lower investments in sales and marketing activities, primarily online media and affiliate marketing. In addition, direct response television and radio advertising campaigns were scaled back slightly during the year ended December 31, 2015. Partially offsetting the overall decline in sales and marketing expenses were higher salaries, commissions and benefits, primarily due to the inclusion of the Scoot operations, acquired in July 2014, for the entire year ended December 31, 2015.

Technology and Development Expenses. Technology and development expenses decreased 8% to $35.5 million , or 7% of total revenue, during the year ended December 31, 2015 , down from $38.7 million , or 7% of total revenue during the year ended December 31, 2014 . The decrease for the year ended December 31, 2015, was driven by approximately $3.2 million of lower salary and benefits expense resulting from increased labor dollars being capitalized in connection with internally developed software projects as certain billing systems were customized for centralization and improvements continued to be made to our DIY website builder.

General and Administrative Expenses. General and administrative expenses increased 23% to $64.6 million , or 12% of total revenue, during the year ended December 31, 2015 , up from $52.7 million or 10% of total revenue during the year ended December 31, 2014 . Overall, during the year ended December 31, 2015 , salaries and incentive-based compensation expense increased approximately $11.1 million when compared to the same prior year period. Regulatory fees were $0.7 million higher from the application of new registrars during the year ended December 31, 2015 compared to the same prior year period.

Restructuring Charges. Restructuring charges for termination benefits of $0.6 million and $0.2 million during the years ended December 31, 2015 and 2014, respectively, were incurred.

Depreciation and Amortization Expense. Depreciation and amortization expense decreased from $74.8 million during the year ended December 31, 2014 to $56.3 million during the year ended December 31, 2015 . Amortization expense decreased by $21.4 million during the year ended December 31, 2015 , as certain intangible assets, primarily relating to the 2011 acquisition of Network Solutions, became fully amortized in 2014. Depreciation expense increased $3.0 million from an increase in internally developed software projects placed into service throughout 2014 and 2015.

Interest Expense, net. Net interest expense totaled $20.0 million and $26.7 million for the year ended December 31, 2015 and 2014 , respectively. Included in the interest expense for the year ended December 31, 2015 and 2014 , is approximately $11.4 million and $10.9 million, respectively, from amortizing deferred financing fees and loan origination discounts. Excluding this amortization expense, interest expense decreased $7.2 million during the year ended December 31, 2015, which is driven from realizing a full year of the lower interest rate from the debt repricing completed in September of 2014, as well as from lower overall debt levels resulting from principal payments made during 2015.

Loss on Debt Extinguishment . In September 2014, we refinanced our Predecessor Credit Agreement to realize a further reduction in interest rates. The majority of the refinancing of the Predecessor First Lien Term Loan was accounted for as debt extinguishment in accordance with ASC 470, *Debt* , with the remaining portion considered a debt modification. Approximately 77% of the Predecessor Revolving Credit Facility was accounted for as a debt modification, with the remaining portion treated as debt extinguishment. As a result, a loss on debt extinguishment of $1.8 million was recorded during the year ended December 31, 2014.

Income Tax Benefit/Expense. We recorded a net tax benefit of $48.3 million and income tax expense of $21.5 million during the year ended December 31, 2015 and December 31, 2014, respectively. The year ended December 31, 2015 includes the reversal of $68.8 million of valuation allowance related to certain of our deferred tax assets, resulting in a net benefit for the year. See Note 13, *Income Taxes* , for additional information.

Liquidity and Capital Resources

The following table summarizes total cash flows for operating, investing and financing activities for the years ended December 31, (in thousands):

	2016	2015	2014
Net cash provided by operating activities	$ 127,840	$ 152,731	$ 117,206
Net cash used in investing activities	(326,953)	(16,077)	(34,412)
Net cash provided by (used in) financing activities	200,917	(140,431)	(74,091)
Effect of exchange rate changes on cash	(63)	(2)	(24)
Increase (decrease) in cash and cash equivalents	$ 1,741	$ (3,779)	$ 8,679

Cash Flows Years Ended December 31, 2016 and 2015

As of December 31, 2016 , we had $ 20.4 million of cash and cash equivalents and $ 209.3 million in negative working capital, as compared to $ 18.7 million of cash and cash equivalents and $ 167.7 million in negative working capital as of December 31, 2015 . The majority of the negative working capital, as of the years ended December 31, 2016 and 2015, is due to significant balances of deferred revenue, partially offset by deferred expenses, which get amortized to revenue and expense, respectively, rather than settled with cash. The Company expects cash generated from operating activities to be more than sufficient to meet future working capital and debt servicing requirements.

Net cash provided by operations for the year ended December 31, 2016 decreased $ 24.9 million from the year ended December 31, 2015 . Included in the cash provided by operating activities during the year ended December 31, 2016 is $3.9 million of acquisition-related transaction costs that were paid during the year, as well as $1.6 million of restructuring-related severance payments that were made. In addition, cash paid for interest is $7.0 million higher than in the year ended December 31, 2015, due to the increase in debt for financing the March 2016 Yodle acquisition. The working capital changes reflect the requirement to fund $5.3 million of letters of credit that are restricted by operating leases of Yodle. During the year ended December 31, 2016, higher cash incentive compensation was paid out when compared to the same prior year period of 2015. In addition, working capital changes were unfavorable during the year ended December 31, 2016, when compared to the same prior year period, primarily resulting from accounts receivable and accrued compensation and benefits timing.

Net cash used in investing activities in the year ended December 31, 2016 was $ 327.0 million , as compared to $ 16.1 million in the year ended December 31, 2015 . The quarter ended March 31, 2016 included a $300.3 million payment for the acquisition of 100% of the outstanding shares of Yodle, Inc., a leader in value added digital marketing solutions that further solidifies our position as a leading national provider in this space. In addition, on May 31, 2016, we purchased the assets of TORCHx, Inc. a Florida corporation for $4.4 million, of which $3.0 million was paid at closing with the remaining $1.5 million payable on November 30, 2017. See Note 5, *Business Combinations* , for additional information surrounding these acquisitions. Holdback payments of $1.3 million were made during the twelve months ended December 31, 2015 in connection with the 2014 acquisitions of Scoot and SnapNames. Capital expenditures during the year ended December 31, 2016 increased by $7.4 million to $22.1 million when compared to the same prior year period due to an increase in internally developed software labor as certain billing systems were customized for centralization and improvements in our DIY website builder were made. The year ended December 31, 2015 included costs incurred from building out two centralized data centers, as well as substantial efforts to improve internally developed software and websites. Also included in cash used in investing activities is $1.5 million in payments for domain registrar credentials that were acquired during the year ended December 31, 2016.

Net cash used in financing activities of $ 200.9 million during the year ended December 31, 2016 included an increase in borrowings of $315.0 million to finance the Yodle acquisition, of which a total of $80.5 million was subsequently repaid, resulting in a net increase of $234.5 million. Proceeds received from the exercise of stock options decreased from $8.0 million to $ 5.0 million in the year ended December 31, 2016 when compared to the same prior year period. Approximately $ 4.3 million and $2.4 million of cash was used to pay employee minimum tax withholding requirements in lieu of receiving common shares during each of the years ended December 31, 2016 and 2015 , respectively. Debt issuance costs of $5.7 million were paid during the year ended December 31, 2016 in connection with the March 2016 debt increase and repricing.

Included in financing activities during the year ended December 31, 2016 and 2015, are common stock repurchases of $28.6 million and $50.6 million , respectively. The repurchases were made in connection with our stock repurchase program that was originally announced on November 5, 2014, which initially authorized the repurchase of up to $100 million of our outstanding shares of common stock. In October 2016, our Board of Directors approved an increase in our current stock repurchase plan by an additional $100 million and extended the expiration date of the outstanding available shares to December 31, 2018. Repurchases under the programs may take place in the open market or in privately negotiated transactions, including derivative transactions, and may be made under a Rule 10b5-1 plan. As of December 31, 2016, $110.0 million remains available for repurchase.

Cash Flows Years Ended December 31, 2015 and 2014

As of December 31, 2015 , we had $ 18.7 million of cash and cash equivalents and $ 167.7 million in negative working capital, as compared to $ 22.5 million of cash and cash equivalents and $ 118.0 million in negative working capital as of December 31, 2014 . The majority of the negative working capital, as of the years ended December 31, 2015 and 2014, is due to significant balances of deferred revenue, partially offset by deferred expenses, which get amortized to revenue or expense/benefit rather than settled with cash. In addition, we early adopted Accounting Standards Update ("ASU") No. 2015-17, *Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes,* on a prospective basis during the fourth quarter of 2015. The Company's current deferred tax asset balance is classified as noncurrent and netted with noncurrent deferred tax liabilities as of December 31, 2015. Prior periods in our consolidated financial statements were not retrospectively adjusted. The Company expects cash generated from operating activities to be more than sufficient to meet future working capital and debt servicing requirements.

Net cash provided by operations for the year ended December 31, 2015 increased $ 35.5 million from the year ended December 31, 2014 primarily due to improvements in operating income during the year ended December 31, 2015 , and from lower cash incentive compensation paid out in 2015 when compared to 2014. In addition, working capital changes were favorable during the year ended December 31, 2015 when compared to the same prior year period.

Net cash used in investing activities in the year ended December 31, 2015 was $ 16.1 million , as compared to $ 34.4 million in the year ended December 31, 2014 due primarily to the absence of cash paid for businesses acquisitions in the current year ended December 31, 2015. In July 2014, we paid $12.1 million in cash and issued 213,200 shares of our common stock to acquire 100% of the equity interests in Touch Local Limited ("Scoot"), the operator of an online business directory network in the United Kingdom. In addition, in February 2014, we acquired substantially all of the assets and certain liabilities of SnapNames.com, Inc. (the "SnapNames Business"), an Oregon corporation from KeyDrive S.A. for which we paid $7.4 million in cash. See Note 5, *Business Combinations* , for additional information surrounding these purchases. Capital expenditures during the year ended December 31, 2015 decreased slightly by $0.4 million to $14.7 million when compared to the same prior year period. Capital expenditures in the year ended December 31, 2015 included an increase in internally developed software labor as certain billing systems were customized for centralization and improvements in our DIY website builder were made. The year ended December 31, 2014 included costs incurred from building out two centralized data centers that were completed, as well as substantial efforts to improve internally developed software and websites.

Net cash used in financing activities of $ 140.4 million during the year ended December 31, 2015 included $95.3 million of principal payments compared to principal payments of $63.1 million during 2014. Proceeds received from the exercise of stock options decreased from $9.9 million to $ 8.0 million in the year ended December 31, 2015 when compared to the same prior year period. Approximately $ 2.4 million and $6.3 million of cash was used to pay employee minimum tax withholding requirements in lieu of receiving common shares during each of the years ended December 31, 2015 and 2014 , respectively. Debt issuance costs of $3.7 million were paid during the year ended December 31, 2014 in connection with the September 2014 debt repricing.

Included in financing activities during the year ended December 31, 2015 and 2014, are common stock repurchases of $50.6 million and $10.8 million , respectively. The repurchases were made in connection with our stock repurchase program discussed above.

Long-term Debt

Convertible Debt

During the third quarter of 2013, we issued $258.8 million aggregate principal amount of 1.00% Senior Convertible Notes due August 15, 2018 ("2018 Notes"). The 2018 Notes bear interest at a rate of 1.00% per year, payable semiannually in arrears, on February 15 and August 15 of each year, beginning on February 15, 2014. The conversion price for the 2018 Notes is equivalent to an initial effective conversion price of approximately $35.00 per share of common stock. At issuance, net proceeds of $252.3 million were received, which are net of $6.5 million of the original issuance discount. In addition, third-party debt issuances costs of $0.5 million were incurred in connection with this transaction.

Debt Covenants

The amendment to the credit agreement entered into on February 11, 2016 with an effective date of March 9, 2016, continues to require that we not exceed a maximum first lien net leverage ratio and that we maintain a minimum consolidated cash interest expense to consolidated EBITDA coverage ratio as set forth in the table below. The first lien net leverage ratio is defined as the total of the outstanding consolidated first lien debt minus up to $50.0 million of unrestricted cash and cash equivalents, divided by consolidated EBITDA. The consolidated interest coverage ratio is defined as consolidated EBITDA divided by consolidated cash interest expense. Consolidated EBITDA is defined as consolidated net income before (among other things) interest expense, income tax expense, depreciation and amortization, impairment charges, restructuring costs, changes in deferred revenue and deferred expenses, stock-based compensation expense, non-cash losses, acquisition-related costs and includes the benefit of annualized synergies due to the Yodle acquisition.

Outstanding debt as of December 31, 2016 for purposes of the First Lien Net Leverage Ratio is approximately $411.6 million . The covenant ratios as of December 31, 2016 on a trailing 12-month basis are as follows:

Covenant Description	Covenant Requirement as of December 31, 2016	Ratio at December 31, 2016	Favorable/ (Unfavorable)
First Lien Net Debt to Consolidated EBITDA	Not greater than 3.25	2.21	1.04
Consolidated Interest Coverage Ratio	Greater than 2.00	8.69	6.69

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

Contractual Obligations and Commitments

Our principal commitments consist of long-term debt and interest payments, obligations under operating leases for office space and other unconditional marketing and operational purchase obligations. The following summarizes our contractual obligations as of December 31, 2016 (in thousands):

	Payment Due by Period						
Contractual Obligations	**Total**	**2017**	**2018**	**2019**	**2020**	**2021**	**Thereafter**
Long-term debt (1)	$ 673,687	$ —	$ 285,563	$ 36,563	$ 38,999	$ 312,562	$ —
Current maturities of long-term debt	17,063	17,063	—	—	—	—	—
Interest payments on long-term debt (1)	50,110	15,732	14,123	10,300	8,081	1,874	—
Operating lease obligations (2)	72,236	14,914	11,790	10,854	9,490	9,116	16,072
Uncertain tax positions (3)	—	—	—	—	—	—	—
Purchase obligations (4)	70,419	14,870	14,299	14,250	13,000	14,000	—
Total	$ 883,515	$ 62,579	$ 325,775	$ 71,967	$ 69,570	$ 337,552	$ 16,072

(1) *The scheduled principal payment requirements for the Term Loan are presented. Projected interest payments for the revolving credit facility were calculated based on outstanding principal amounts using interest rates in effect as of December 31, 2016. The 2018 long term debt obligations reflect the maturity of the Senior Convertible Notes that are due August 15,2018 and the 2021 debt obligations reflect the maturity of the Term Loan and revolving credit facility.*

(2) *Operating lease obligations are shown gross of sublease rentals for the amounts related to each period presented. The amounts presented above are presented gross of rental income of $1.9 million in 2017, $3.7 million in each of 2018 and 2019, $3.8 million in 2020, $4.0 million in 2021, and $9.4 million thereafter from subleasing a portion of the New York, New York office.*

(3) *The settlement date is unknown for approximately $3.9 million of uncertain tax positions which have been excluded from the table above. See Note 13 - Income Taxes for additional information on uncertain tax positions.*

(4) *Purchase obligations include corporate sponsorships and long-term service contracts for data storage and other operating items.*

As of December 31, 2016, we have $98.8 million of available borrowings under the Revolving Credit Facility.

Off-Balance Sheet Obligations

As of December 31, 2016 and 2015, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Summary

Our future capital uses and requirements depend on numerous forward-looking factors. These factors include but are not limited to the following:

- the costs involved in the expansion of our customer base (including through acquisitions of other businesses or assets);
- the costs associated with the principal and interest payments of future debt service;
- the costs involved with investment in our servers, storage and network capacity;
- the costs associated with the expansion of our domestic and international activities;
- the costs involved with our technology and development activities to upgrade and expand our service offerings;
- the extent to which we acquire or invest in other technologies and businesses
- the extent to which we repurchase our common shares under stock repurchase programs; and
- the costs involved with the Yodle and DonWeb acquisitions.

We believe that our existing cash and cash equivalents at December 31, 2016 in addition to 2017 operating cash flows will be sufficient to meet our projected operating requirements for at least the next 12 months.

New Accounting Standards

See Note 2, *New Accounting Standards* , for a discussion of recently issued accounting pronouncements that may affect our financial results and disclosures in future periods.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Foreign Currency Exchange Risk

The majority of our subscription agreements and operating expenses are denominated in U.S. dollars. However, we have sales and customer support operations in Canada and a technology administrative center in Argentina. In addition, in July 2014 we acquired an online business directory network in the United Kingdom. All of these operations are exposed to fluctuations in foreign currencies including, but not limited to, the British pound, the Canadian dollar and the Argentina peso. Exchange rate fluctuations have had little impact on our operating results and cash flows, but we analyze our exposure to currency fluctuations and may engage in financial hedging techniques in the future. As of December 31, 2016 and 2015, there were no expenses that were hedged.

Interest Rate Sensitivity

We had unrestricted cash and cash equivalents totaling $20.4 million and $18.7 million at December 31, 2016 and December 31, 2015 , respectively. The unrestricted cash, cash equivalents and short-term marketable securities are held for working capital purposes. We do not enter into investments for trading or speculative purposes. Due to the short-term nature of these investments, we do not anticipate that the interest rates will materially fluctuate; therefore, we believe we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Declines in interest rates, however, will reduce future investment income.

As of December 31, 2016 , we had $690.8 million of total debt outstanding, excluding unamortized debt discounts. We have exposure to market risk for changes in interest rates related to $432.0 million of these borrowings. Our variable rate debt is based on 1-month LIBOR plus 2.50% on the Term Loan and Revolving Credit Facility. A hypothetical 10% increase in the current variable interest rates in effect would have resulted in additional interest expense of $0.3 million during the year ended December 31, 2016 , assuming the principal balances remain unchanged.

Non-GAAP Financial Measures

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

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

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

• *Non-GAAP Revenue* . Web.com excludes from non-GAAP revenue the impact of the fair value adjustment to amortized deferred revenue because management believes that excluding such measures helps management and investors better understand the company's revenue trends.

• *Non-GAAP Operating Income and Non-GAAP Operating Margin* . Web.com excludes from non-GAAP operating income and non-GAAP operating margin, amortization of intangibles, asset impairment, fair value adjustment to deferred revenue and deferred expense, restructuring expenses, corporate development expenses, and stock-based compensation charges, because management believes that adjusting for such measures helps management and investors better understand the company's operating activities.

• *Adjusted EBITDA and Adjusted EBITDA Margin* . Web.com excludes from adjusted EBITDA and adjusted EBITDA margin depreciation and amortization expense, asset impairment, income tax provision, interest expense, interest income, stock-based compensation, fair value adjustments to deferred revenue and deferred expense, corporate development expenses and restructuring expenses, because management believes that excluding such items helps investors better understand the company's operating activities.

• *Non-GAAP Cost of Revenue (excluding depreciation and amortization)* . Web.com excludes from non-GAAP cost of revenue (excluding depreciation and amortization) the fair value adjustment to deferred expense and stock based compensation charges because management believes that adjusting for such measures helps management and investors better understand the company's operating activities.

• *Free Cash Flow* . Free cash flow is a non-GAAP financial measure that Web.com uses and defines as net cash provided by operating activities less capital expenditures. The company considers free cash flow to be a liquidity measure which provides useful information to management and investors about the amount of cash generated by the business after the acquisition of property and equipment, which can then be used for investment opportunities.

In respect of the foregoing, Web.com provides the following supplemental information to provide additional context for the use and consideration of the non-GAAP financial measures used elsewhere in this press release:

• *Stock-based compensation* . These expenses consist of expenses for employee stock options and employee awards under Accounting Standards Codification ("ASC") 718-10. While stock-based compensation expense calculated in accordance with ASC 718-10 constitutes an ongoing and recurring expense, such expense is excluded from non-GAAP results because such expense is not used by management to assess the core profitability of the company's business operations. Web.com further believes these measures are useful to investors in that they allow for greater transparency to certain line items in the company's financial statements. In addition, when management performs internal comparisons to Web.com's historical operating results and compares the company's operating results to the company's competitors, management excludes this item from various non-GAAP measures.

• *Asset impairment* . Web.com has recorded expenses related to asset impairment and excludes the impact of these expenses from its non-GAAP measures, because such expense is not used by management to assess the core profitability of the company's business operations.

• *Amortization of intangibles* . Web.com incurs amortization of acquired intangibles under ASC 805-10-65. Acquired intangibles primarily consist of customer relationships, customer lists, non-compete agreements, trade names, and developed technology. Web.com expects to amortize for accounting purposes the fair value of the acquired intangibles based on the pattern in which the economic benefits of the intangible assets will be consumed as revenue is generated. Although the intangible assets generate revenue, the company believes the non-GAAP financial measures excluding this item provide meaningful supplemental information regarding the company's operational performance. In addition, when management performs internal comparisons to Web.com's historical operating results and compares the company's operating results to the company's competitors, management excludes this item from various non-GAAP measures.

• *Depreciation expense* . Web.com records depreciation expense associated with its fixed assets. Although its fixed assets generate revenue for Web.com, the item is excluded because management believes certain non-GAAP financial measures excluding this item provide meaningful supplemental information regarding the company's operational performance. In addition, when management performs internal comparisons to Web.com's historical operating results and compares the company's operating results to the company's competitors, management excludes this item from various non-GAAP measures.

• *Restructuring expense* . Web.com has recorded restructuring expenses and excludes the impact of these expenses from its non-GAAP measures, because such expense is not used by management to assess the core profitability of the company's business operations.

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

• *Corporate development expenses* . Web.com incurred expenses relating to acquisitions and the successful integration of acquisitions. Web.com excludes the impact of these expenses from its non-GAAP measures, because such expense is not used by management to assess the core profitability of the company's business operations.

• *Gains or losses from asset sales or impairment and certain other transactions.* Web.com excludes the impact of asset sales or impairment and certain other transactions including debt extinguishments and the sale of equity method investment from its non-GAAP measures because the impact of these items is not considered part of the company's ongoing operations.

• *Monthly average revenue per user, or ARPU* . ARPU is a metric the company measures on a quarterly basis. The company defines ARPU as quarterly non-GAAP subscription revenue divided by the average of the number of subscribers at the beginning of the quarter and the number of subscribers at the end of the quarter, divided by three months. The company excludes from subscription revenue the impact of the fair value adjustments to deferred revenue resulting from acquisition-related write downs.

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

	Twelve months ended December 31,		
	2016	**2015**	**2014**
Reconciliation of GAAP revenue to non-GAAP revenue			
GAAP revenue	$ 710,505	$ 543,461	$ 543,937
Fair value adjustment to deferred revenue	18,363	15,909	26,163
Non-GAAP revenue	$ 728,868	$ 559,370	$ 570,100
Reconciliation of GAAP operating income to non-GAAP operating income			
GAAP operating income	$ 44,704	$ 61,714	$ 37,663
Amortization of intangibles	56,805	39,283	60,719
Loss on sale of assets	7	—	—
Asset impairment	9,091	—	2,040
Stock based compensation	20,714	20,064	19,567
Restructuring charges	3,617	559	166
Corporate development	4,631	599	499
Fair value adjustment to deferred revenue	18,363	15,909	26,163
Fair value adjustment to deferred expense	301	633	1,027
Non-GAAP operating income	$ 158,233	$ 138,761	$ 147,844
Reconciliation of GAAP operating margin to non-GAAP operating margin			
GAAP operating margin	6%	11 %	7 %
Amortization of intangibles	8	7	11
Loss on sale of assets	—	—	—
Asset impairment	1	—	—
Stock based compensation	3	4	3
Restructuring charges	—	—	—
Corporate development	1	—	—
Fair value adjustment to deferred revenue	3	3	5
Fair value adjustment to deferred expense	—	—	—
Non-GAAP operating margin	22%	25 %	26 %
Diluted weighted average shares			
Dilutive shares:			
Basic weighted average common shares	49,262	50,243	50,920
Dilutive stock options	1,265	1,757	2,727
Dilutive restricted stock	352	426	554
Dilutive performance shares	1	16	—
Total dilutive weighted average common shares	50,880	52,442	54,201

	Twelve months ended December 31,		
	2016	2015	2014
Reconciliation of GAAP net income to adjusted EBITDA			
GAAP net income (loss)	$ 3,990	$ 89,961	$ (12,458)
Depreciation and amortization	78,048	56,345	74,779
Loss on sale of assets	7	—	—
Asset impairment	9,091	—	2,040
Stock based compensation	20,714	20,064	19,567
Restructuring charges	3,617	559	166
Corporate development	4,631	599	499
Fair value adjustment to deferred revenue	18,363	15,909	26,163
Fair value adjustment to deferred expense	301	633	1,027
Loss from debt extinguishment	—	—	1,838
Interest expense, net	30,462	20,013	26,739
Income tax expense (benefit)	10,252	(48,260)	21,544
Adjusted EBITDA	$ 179,476	$ 155,823	$ 161,904
Reconciliation of GAAP net income margin to adjusted EBITDA margin			
GAAP net income margin	1%	17 %	(2)%
Depreciation and amortization	11	10	13
Loss on sale of assets	—	—	—
Asset impairment	1	—	—
Stock based compensation	3	4	3
Restructuring charges	—	—	—
Corporate development	1	—	—
Fair value adjustment to deferred revenue	3	3	5
Fair value adjustment to deferred expense	—	—	—
Loss from debt extinguishment	—	—	—
Interest expense, net	4	4	5
Income tax expense (benefit)	1	(10)	4
Adjusted EBITDA margin	25%	28 %	28 %
Reconciliation of net cash provided by operating activities to free cash flow			
Net cash provided by operating activities	$ 127,840	$ 152,731	$ 117,206
Capital expenditures	(22,140)	(14,747)	(15,166)
Free cash flow	$ 105,700	$ 137,984	$ 102,040
Net cash used in investing activities	$ (326,953)	$ (16,077)	$ (34,412)
Net cash provided by (used in) financing activities	$ 200,917	$ (140,431)	$ (74,091)
Revenue			
Subscription	$ 703,562	$ 535,706	$ 534,955
Professional services and other	6,943	7,755	8,982
Total	$ 710,505	$ 543,461	$ 543,937

	Twelve months ended December 31,		
	2016	2015	2014
Stock based compensation			
Cost of revenue	$ 1,097	$ 1,933	$ 2,045
Sales and marketing	5,266	4,632	4,816
Technology and development	3,799	2,947	3,125
General and administrative	10,552	10,552	9,581
Total	$ 20,714	$ 20,064	$ 19,567
Reconciliation of GAAP cost of revenue (excluding depreciation and amortization) to non-GAAP cost of revenue (excluding depreciation and amortization)			
Cost of revenue (excluding depreciation and amortization)	$ 224,032	$ 184,751	$ 189,099
Fair value adjustment to deferred expense	(301)	(633)	(1,027)
Stock based compensation	(1,097)	(1,933)	(2,045)
Non-GAAP cost of revenue (excluding depreciation and amortization)	$ 222,634	$ 182,185	$ 186,027
Reconciliation of GAAP revenue to non-GAAP subscription revenue used in ARPU			
GAAP revenue	$ 710,505	$ 543,461	$ 543,937
Fair value adjustment to deferred revenue	18,363	15,909	26,163
Non-GAAP revenue	$ 728,868	$ 559,370	$ 570,100
Professional services and other revenue	(6,943)	(7,755)	(8,982)
Non-GAAP subscription revenue used in ARPU	$ 721,925	$ 551,615	$ 561,118
Average subscribers (in thousands)	3,405	3,314	3,199
ARPU (Non-GAAP subscription revenue per subscriber over 3 month period)	$ 17.67	$ 13.87	$ 14.62

Item 8. Financial Statements and Supplementary Data.

Quarterly Results of Operations

The following tables set forth selected unaudited quarterly consolidated statement of operations data for the eight most recent quarters. The information for each of these quarters has been prepared on the same basis as the audited consolidated financial statements, and in the opinion of management, includes all adjustments necessary for the fair presentation of the results of operations for such periods. This data should be read in conjunction with the audited consolidated financial statements and the related notes included in this annual report. These quarterly operating results are not necessarily indicative of our operating results for any future period.

	Three Months Ended							
	Mar 31, 2016 (2)	**Jun 30, 2016**	**Sept 30, 2016**	**Dec 31, 2016 (1)(3)**	**Mar 31, 2015**	**Jun 30, 2015**	**Sept 30, 2015**	**Dec 31, 2015 (1)**
Total revenue	$ 144,798	$ 187,818	$ 190,686	$ 187,203	$ 132,600	$ 135,719	$ 136,821	$ 138,321
Total cost of revenue (excluding depreciation and amortization)	50,051	58,757	58,380	56,843	47,790	46,117	45,412	45,433
Total operating expenses	87,835	121,482	114,213	118,238	73,661	74,667	74,677	73,990
Income from operations	6,912	7,578	18,093	12,121	11,149	14,935	16,733	18,896
Net income (loss)	$ 337	$ (1,606)	$ 3,346	$ 1,914	$ 2,339	$ 4,550	$ 6,094	$ 76,977
Net income (loss) per common share:								
Basic	$ 0.01	$ (0.03)	$ 0.07	$ 0.04	$ 0.05	$ 0.09	$ 0.12	$ 1.55
Diluted	$ 0.01	$ (0.03)	$ 0.07	$ 0.04	$ 0.04	$ 0.09	$ 0.12	$ 1.48

(1) Included in the fourth quarter ended December 31, 2016 and 2015 is the reversal of $2.4 million and $68.8 million, respectively, of valuation allowance for certain U.S. federal and state deferred tax assets, which contributed to the Company recording income tax expense of $2.3 million and an income tax benefit $62.7 million, respectively.

(2) On March 9, 2016, the Company acquired 100% of the outstanding shares of Yodle, Inc. and paid approximately $300.3 million adjusted for, among other things, Yodle's cash and outstanding debt and transaction related expenses. The Company will pay an additional $18.9 million and $22.0 million on the first and second anniversary dates of the closing, respectively, subject to adjustments as described in the Merger Agreement. Finally, the Company converted out of the money stock options held by employees of Yodle to Web.com options, which resulted in additional consideration of $2.3 million, for total consideration of $341.3 million. In addition to the consideration, the Company incurred approximately $3.9 million of acquisition-related transaction expenses which are reflected in the General and Administrative line item of the Consolidated Statement of Comprehensive Income.

(3) Included in the operating expenses for the fourth quarter ended December 31, 2016 is a $7.1 million asset impairment charge from writing off leasehold improvements in the New York, New York office that was exited on December 31, 2016. In addition, there is $1.6 million of restructuring charges that were recorded during the fourth quarter ended December 31, 2016, which primarily consists of the estimated expense for lease obligations offset by sublease income expected.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures.

Based on their evaluation as of December 31, 2016 , our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective at the reasonable assurance level to ensure that the information required to be disclosed by us in this annual report on Form 10-K was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules, and that such information is accumulated and communicated to us to allow timely decisions regarding required disclosures.

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

Management's Report on Internal Control over Financial Reporting

The management of Web.com Group, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. The Company’s internal control over financial reporting is designed to provide reasonable assurance, based on an appropriate cost-benefit analysis, regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. The Company’s internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2016 . In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) in *Internal Control-Integrated Framework.* Based on management’s assessment and those criteria, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2016 .

Management excluded for its assessment of the effectiveness of the Company’s internal control over financial reporting certain internal controls of Yodle, Inc., acquired on March 9, 2016, related to the revenue function, including revenue, accounts receivable, deferred revenue and to the capitalized labor for internally developed software process, which are included in the 2016 consolidated financial statements of Web.com Group, Inc. and constituted $165.2 million of revenues, $9.2 million of related assets and $11.4 million of related liabilities for the year then ended.

The Company’s independent certified registered public accounting firm, Ernst & Young LLP, has issued an audit report on the effectiveness of the Company’s internal control over financial reporting.

Changes in Internal Controls Over Financial Reporting.

There have been no changes in our internal controls over financial reporting during the three months ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Report of Independent Registered Certified Public Accounting Firm

The Board of Directors and Shareholders of Web.com Group, Inc.

We have audited Web.com Group, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Web.com Group, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include certain internal controls of Yodle, Inc. acquired on March 9, 2016, related to the revenue function, including revenue, accounts receivable, deferred revenue and to the capitalized labor for internally developed software process, which are included in the 2016 consolidated financial statements of Web.com Group, Inc. and constituted $165.2 million of revenues, $9.2 million of related assets and $11.4 million of related liabilities for the year then ended. Our audit of internal control over financial reporting of Web.com Group, Inc. also did not include an evaluation of the internal control over financial reporting of Yodle, Inc.

In our opinion, Web.com Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Web.com Group, Inc. as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2016 of Web.com Group, Inc. and our report dated February 28, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Certified Public Accountants

Tampa, Florida

February 28, 2017

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item, including such information regarding our directors and executive officers and compliance with Section 16(a) of the Securities Exchange act of 1934, is incorporated herein by reference from the Proxy Statement. We have adopted a written code of conduct that applies to our principal executive officer, principal financial officer and principal accounting officer, or persons performing similar functions. The code of conduct is posted on our website at http://ir.web.com/documents.cfm. Amendments to, and waivers from, the code of conduct that applies to any of these officers, or persons performing similar functions, and that relates to any element of the code of ethics definition enumerated in Item 406(b) of Regulation S-K, will be disclosed at the website address provided above and, to the extent required by applicable regulations, on a current report on Form 8-K.

Item 11. Executive Compensation.

The information required by this item is incorporated herein by reference from the section entitled “Executive Compensation Discussion and Analysis” in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item is incorporated herein by reference from the sections entitled “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” in the Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item is incorporated herein by reference from the section entitled “Certain Relationships and Related Transactions” in the Proxy Statement.

Item 14. Principal Accounting Fees and Services.

The information required by this item is incorporated herein by reference from the section entitled “Ratification of Selection of Independent Registered Public Accounting Firm” in the Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

The following documents are filed as part of this Form 10-K:

1. Financial Statements.

Report of Independent Registered Certified Public Accounting Firm

The Board of Directors and Shareholders of Web.com Group, Inc.

We have audited the accompanying consolidated balance sheets of Web.com Group, Inc. as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Web.com Group, Inc. at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Web.com Group, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 28, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Certified Public Accountants

Tampa, Florida

February 28, 2017

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

	December 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 20,447	$ 18,706
Accounts receivable, net of allowance of $1,695 and $1,815, respectively	20,567	12,892
Prepaid expenses	12,311	8,151
Deferred expenses	60,217	59,400
Other current assets	1,872	4,380
Total current assets	115,414	103,529
Property and equipment, net	53,132	41,963
Deferred expenses	49,127	50,113
Goodwill	871,751	639,145
Intangible assets, net	413,127	318,107
Other assets	11,282	4,482
Total assets	$ 1,513,833	$ 1,157,339
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 19,619	$ 9,974
Accrued expenses	14,475	13,303
Accrued compensation and benefits	18,307	13,765
Deferred revenue	230,206	219,187
Current portion of debt	16,847	11,169
Deferred consideration from acquisitions	20,244	—
Other liabilities	5,034	3,802
Total current liabilities	324,732	271,200
Deferred revenue	195,859	191,426
Long-term debt	647,294	411,409
Deferred tax liabilities	80,135	37,840
Other long-term liabilities	30,361	7,287
Total liabilities	1,278,381	919,162
Stockholders' equity:		
Common stock, $0.001 par value per share: 150,000,000 shares authorized, 50,278,137 and 50,683,717 shares issued and outstanding at December 31, 2016 and December 31, 2015, respectively	50	51
Additional paid-in capital	578,486	565,648
Treasury stock at cost, 3,146,012 shares as of December 31, 2016, and 2,120,944 shares as of December 31, 2015	(62,430)	(44,750)
Accumulated other comprehensive loss	(4,020)	(2,148)
Accumulated deficit	(276,634)	(280,624)
Total stockholders' equity	235,452	238,177
Total liabilities and stockholders' equity	$ 1,513,833	$ 1,157,339

See accompanying notes to consolidated financial statements

Web.com Group, Inc.

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

	Year Ended December 31,		
	2016	**2015**	**2014**
Revenue	$ 710,505	$ 543,461	$ 543,937
Costs and operating expenses			
Cost of revenue (excluding depreciation and amortization)	224,032	184,751	189,099
Sales and marketing	210,294	139,971	148,836
Technology and development	65,800	35,529	38,657
General and administrative	74,919	64,592	52,697
Restructuring charges	3,617	559	166
Asset impairments	9,091	—	2,040
Depreciation and amortization	78,048	56,345	74,779
Total cost of revenue and operating expenses	665,801	481,747	506,274
Income from operations	44,704	61,714	37,663
Interest expense, net	(30,462)	(20,013)	(26,739)
Loss from debt extinguishment	—	—	(1,838)
Net income before income taxes	14,242	41,701	9,086
Income tax (expense) benefit	(10,252)	48,260	(21,544)
Net income (loss)	3,990	89,961	(12,458)
Other comprehensive income (loss):			
Foreign currency translation adjustments	(1,900)	(724)	(1,395)
Unrealized gain (loss) on investments, net of tax	28	(31)	(18)
Total comprehensive income (loss)	$ 2,118	$ 89,206	$ (13,871)

See accompanying notes to consolidated financial statements

Web.com Group, Inc.

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

	Year ended December 31,		
	2016	**2015**	**2014**
Basic earnings (loss) per share:			
Net income (loss) per common share	$ 0.08	$ 1.79	$ (0.24)
Diluted earnings per share:			
Net income (loss) per common share	$ 0.08	$ 1.72	$ (0.24)
Basic weighted average common shares	49,262	50,243	50,920
Diluted weighted average common shares	50,880	52,442	50,920

See accompanying notes to consolidated financial statements

Web.com Group, Inc.

Consolidated Statements of Stockholders’ Equity
(In thousands, except share amounts)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance December 31, 2013	51,193,230	$ 51	—	$ —	$ 528,101	$ 20	$ (358,127)	$ 170,045
Net loss	—	—	—	—	—	—	(12,458)	(12,458)
Other comprehensive loss, net of tax	—	—	—	—	—	(18)	—	(18)
Foreign currency translation adjustment	—	—	—	—	—	(1,395)	—	(1,395)
Exercise of stock options	1,207,164	1	(229,986)	3,810	9,924	—	—	13,735
Common stock repurchased	(249,027)	—	—	—	(10,163)	—	—	(10,163)
Stock compensation expense	—	—	—	—	19,567	—	—	19,567
Issuance of restricted stock net of cancelations	369,533	—	—	—	—	—	—	—
Stock issuance costs	—	—	—	—	(98)	—	—	(98)
Issuance of common stock for acquisition	213,200	—	—	—	5,660	—	—	5,660
Purchases under stock repurchase plan	(625,381)	—	625,381	(10,785)	—	—	—	(10,785)
Balance December 31, 2014	52,108,719	$ 52	395,395	$ (6,975)	$ 552,991	$ (1,393)	$ (370,585)	$ 174,090
Net income	—	—	—	—	—	—	89,961	89,961
Other comprehensive loss, net of tax	—	—	—	—	—	(31)	—	(31)
Foreign currency translation adjustment	—	—	—	—	—	(724)	—	(724)
Exercise of stock options	743,757	(1)	(743,757)	12,842	(4,206)	—	—	8,635
Common stock repurchased	(150,303)	—	—	—	(3,097)	—	—	(3,097)
Stock compensation expense	—	—	—	—	20,064	—	—	20,064
Issuance of restricted stock net of cancelations	450,850	—	—	—	—	—	—	—
Stock issuance costs	—	—	—	—	(104)	—	—	(104)
Purchases under stock repurchase plan	(2,469,306)	—	2,469,306	(50,617)	—	—	—	(50,617)
Balance December 31, 2015	50,683,717	$ 51	2,120,944	$ (44,750)	$ 565,648	$ (2,148)	$ (280,624)	$ 238,177
Net income	—	—	—	—	—	—	3,990	3,990
Other comprehensive income, net of tax	—	—	—	—	—	28	—	28
Foreign currency translation adjustment	—	—	—	—	—	(1,900)	—	(1,900)
Exercise of stock options	607,153	(1)	(589,015)	10,885	(3,447)	—	—	7,437
Common stock repurchased	(219,279)	—	—	—	(6,728)	—	—	(6,728)
Stock compensation expense	—	—	—	—	20,714	—	—	20,714
Issuance of restricted stock net of cancelations	878,181	—	(57,552)	—	—	—	—	—
Stock issuance costs	—	—	—	—	(41)	—	—	(41)
Issuance of common stock options for acquisition	—	—	—	—	2,340	—	—	2,340
Purchases under stock repurchase plan	(1,671,635)	—	1,671,635	(28,565)	—	—	—	(28,565)
Balance December 31, 2016	50,278,137	$ 50	3,146,012	$ (62,430)	$ 578,486	$ (4,020)	$ (276,634)	$ 235,452

See accompanying notes to consolidated financial statements

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

	Year Ended December 31,		
	2016	**2015**	**2014**
Cash flows from operating activities			
Net income (loss)	$ 3,990	$ 89,961	$ (12,458)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Loss from debt extinguishment	—	—	1,249
Depreciation and amortization	78,048	56,345	74,779
Stock compensation expense	20,714	20,064	19,567
Deferred income taxes	7,714	(50,242)	20,244
Amortization of debt issuance costs and other	14,015	11,392	10,932
Asset impairment	9,091	—	2,040
Changes in operating assets and liabilities:			
Accounts receivable, net	(3,056)	4,000	821
Prepaid expenses and other assets	(7,540)	2,235	(2,255)
Deferred expenses	170	4,206	5,610
Accounts payable	(1,388)	(489)	(2,739)
Accrued expenses and other liabilities	(1,473)	(792)	1,394
Accrued compensation and benefits	(406)	8,065	(7,788)
Accrued restructuring costs	—	—	(1,139)
Deferred revenue	7,961	7,986	6,949
Net cash provided by operating activities	127,840	152,731	117,206
Cash flows from investing activities			
Business acquisitions, net of cash acquired	(303,262)	(1,330)	(19,246)
Capital expenditures	(22,140)	(14,747)	(15,166)
Other	(1,551)	—	—
Net cash used in investing activities	(326,953)	(16,077)	(34,412)
Cash flows from financing activities			
Stock issuance costs	(27)	(104)	(98)
Common stock repurchased	(4,261)	(2,412)	(6,327)
Payments of long-term debt and revolving credit facility	(80,500)	(95,250)	(367,328)
Proceeds from exercise of stock options	4,970	7,952	9,899
Proceeds from long-term debt issued	200,000	—	192,020
Proceeds from borrowings on revolving credit facility	115,000	—	112,208
Debt issuance costs	(5,700)	—	(3,680)
Common stock purchases under repurchase plan	(28,565)	(50,617)	(10,785)
Net cash provided by (used in) financing activities	200,917	(140,431)	(74,091)
Effect of exchange rate changes on cash	(63)	(2)	(24)
Net increase (decrease) in cash and cash equivalents	1,741	(3,779)	8,679
Cash and cash equivalents, beginning of period	18,706	22,485	13,806
Cash and cash equivalents, end of year	$ 20,447	$ 18,706	$ 22,485
Supplemental cash flow information			
Interest paid	$ 15,764	$ 8,761	$ 17,303
Income tax paid	$ 3,590	$ 2,076	$ 1,134
Supplemental disclosure of non-cash transactions			
Common stock options issued for Yodle acquisition	$ 2,340	$ —	$ —
Common stock issued for acquisition	$ —	$ —	$ 5,660
Deferred consideration Yodle and TorchX acquisitions	$ 40,017	$ —	$ —

See accompanying notes to consolidated financial statements

1. The Company and Summary of Significant Accounting Policies

Description of Company

Web.com Group, Inc. ("Web.com" or "the Company") provides a full range of Internet services to small businesses to help them compete and succeed online. Web.com meets the needs of small businesses anywhere along their lifecycle with affordable, subscription-based solutions including domains, hosting, website design and management, search engine optimization, online marketing campaigns, local sales leads, social media, mobile products and eCommerce solutions.

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

Reclassification of Expenses and Correction of Immaterial Accounting Error

Reclassification of Expenses

In an effort to report operating expenses in a manner more in line with functional areas and to simplify the related accounting, the Company has changed its classification of certain information technology related operating expenses from general and administrative expenses to technology and development expenses. This reclassification was applied retrospectively to all periods presented. The Company also reclassified customer support costs previously included in cost of revenue to sales and marketing on a prospective basis .

Correction of Immaterial Accounting Error

The Company's policy is to report costs associated with the data centers and systems infrastructure that support the products developed by its technology personnel ("infrastructure costs") in technology and development expense. The Company identified certain infrastructure costs that had been recorded to cost of revenue and elected to correct the historical presentation of these expenses. To correct this immaterial error, the costs have been recorded in technology and development expenses for all periods presented.

Adjustments to Presentation

The above-mentioned changes had no cumulative effect on the presentation of the consolidated statements of comprehensive income (loss), consolidated balance sheet, or consolidated statements of cash flows. The effects of the aforementioned error correction and accounting classification change to the December 31, 2015 and 2014 consolidated statements of comprehensive income are as follows (in thousands):

	Year ended December 31, 2015			
	As Previously Reported	Change in Accounting Classification	Effect of Error Correction	As Adjusted
Cost of revenue (excluding depreciation and amortization)	$ 188,445	$ —	$ (3,694)	$ 184,751
Technology and development	$ 24,313	$ 7,522	$ 3,694	$ 35,529
General and administrative	$ 72,114	$ (7,522)	$ —	$ 64,592

	Year ended December 31, 2014			
	As Previously Reported	Change in Accounting Classification	Effect of Error Correction	As Adjusted
Cost of revenue (excluding depreciation and amortization)	$ 191,778	$ —	$ (2,679)	$ 189,099
Technology and development	$ 29,683	$ 6,295	$ 2,679	$ 38,657
General and administrative	$ 58,992	$ (6,295)	$ —	$ 52,697

Use of Estimates

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

Foreign Currency Translation

The functional currency of the Company's United Kingdom-based operations acquired in July 2014 is the British Pound. The Company translates the financial statements of this subsidiary to U.S. dollars using month-end rates of exchange for assets and liabilities, historical rates of exchange for equity and average rates of exchange for revenues, costs, and expenses. Translation gains and losses are recorded in accumulated other comprehensive income (loss) as a component of stockholders' equity.

In addition, the Company's foreign operations include a customer service center and an outbound sales center in Canada and a technology center in Argentina. The Company records foreign currency transaction gains and losses, and remeasurement of local currencies of these foreign subsidiaries where the functional currency is different from the local foreign currency in the consolidated statements of income (loss). During the years ended December 31, 2016, 2015 and 2014, the Company recorded expense of approximately $0.3 million , $0.4 million and $0.3 million , respectively.

Principles of Consolidation

The Company's consolidated financial statements include the assets, liabilities and the operating results of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Revenue Recognition and Deferred Revenue

The Company recognizes revenue in accordance with ASC 605, *Revenue Recognition* . The Company recognizes revenue when all of the following conditions are satisfied: (1) there is persuasive evidence of an arrangement; (2) the service has been provided to the customer; (3) the amount of fees to be paid by the customer is fixed or determinable; and (4) the collection of our fees is reasonably assured.

Thus, the Company recognizes subscription revenue on a daily basis, as services are provided. Customers are billed for the subscription on a monthly, quarterly, semi-annual, annual or on a multi-year basis, at the customer's option. For all of the Company's customers, regardless of the method the Company uses to bill them, subscription revenue is recorded as deferred revenue in the accompanying consolidated balance sheets. As services are performed, the Company recognizes subscription revenue on a daily basis over the applicable service period. When the Company provides a free trial period, the Company does not begin to recognize subscription revenue until the trial period has ended and the customer has been billed for the services.

The Company offers certain integrated online marketing services where the fee charged to the customer includes a media budget ("Pay-Per-Click" or "PPC"). Revenue for PPC services are recognized ratably over the period of service.

The Company accounts for our multi-element arrangements in accordance with ASC 605-25, *Revenue Recognition: Multiple-Element Arrangement.* The Company may sell multiple products or services to customers at the same time. For example, we may design a customer website and separately offer other services such as hosting and marketing or a customer may combine a domain registration with other services such as private registration or e-mail. In accordance with ASC 605-25, each element is accounted for as a separate unit of accounting provided the following criteria is met: the delivered products or services has value to the customer on a standalone basis; and for an arrangement that includes a general right of return relative to the delivered products or services, delivery or performance of the undelivered product or service is considered probable and is substantially controlled by the Company. The Company considers a deliverable to have standalone value if the product or service is sold separately by us or another vendor or could be resold by the customer. Our products and services do not include a general right of return relative to the delivered products. In cases where the delivered products or services do not meet the separate unit of accounting criteria, the deliverables are combined and treated as one single unit of accounting for revenue recognition. The Company assigns value to the separate units of accounting in multiple-element arrangements using the relative selling price method which is calculated by taking the standalone selling price of each unit to the total selling price of the arrangement, multiplied by the total sales price. Typically, the deliverables within multiple-element arrangements are provided over the same service period, and therefore revenue is recognized over the same period.
To determine the selling price in multiple-element arrangements, the Company establishes vendor-specific objective evidence of the selling price using the price of the deliverable when sold separately. If we are unable to determine the selling price because vendor-specific objective evidence does not exist, the Company will first look to third party evidence, and if that is not sufficient, it will determine an estimated sales price through consultation with and approval by the Company's management,

taking into consideration the Company’s relative costs, target profit margins, and any other information gathered during this process.

The Company incurs direct costs, primarily related to outbound and inbound sales call centers, to acquire new customers. Frequently, these new customers purchase products that result in the deferral of revenue by the Company. All direct costs related to acquiring new customers are expensed in the period incurred and not deferred over the related deferred revenue contract term.

Cost of Revenue and Operating Expenses

Cost of Revenue

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

Sales and Marketing Expense

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

Technology and development

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

General and Administrative Expense

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

Depreciation and Amortization Expense

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

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and bank demand deposit accounts. For purposes of presentation in the Consolidated Balance Sheets, the Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash and cash equivalents and trade receivables. The Company invests its cash in cash and credit instruments of highly rated financial institutions; four institutions hold 96% of the Company's total cash and cash equivalents.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of customers comprising the Company’s customer base and their geographic dispersion. The Company has not incurred any significant credit related losses.

Accounts Receivable

Accounts receivable are recorded on the balance sheet at net realizable value. The Company uses historical collection percentages and customer-specific information, when available, to estimate the amount of trade receivables that are uncollectible and establishes reserves for uncollectible balances based on this information. Generally, receivables are classified as past due after 60 days . Trade receivables are written off once collection efforts are exhausted. The Company does not generally require deposits or other collateral from customers. Bad debt expense reported in operating expenses excludes provisions made to the allowance for doubtful accounts for anticipated refunds and automated clearinghouse returns that are recorded as an adjustment to revenue.

Included in the accounts receivable line item in the Consolidated Balance Sheets as of the year ended December 31, 2016 and 2015 is approximately $1.9 million and $1.1 million , respectively, of miscellaneous receivables primarily due from the Canadian government for job creation incentive rebates and for sales and use tax.

Deferred Expenses

Deferred expenses primarily consist of prepaid domain name registry fees that are paid in full at the time a domain name is registered. The registry fees are recognized on a straight-line basis over the term of the domain registration period.

Goodwill and Other Intangible Assets

The Company continued to perform the quantitative tests to determine if it is more likely than not that the carrying value of our goodwill and indefinite-lived intangible assets are impaired for our annual test at December 31, 2016 . The Company tests goodwill and intangible assets for impairment using one reporting unit. A market approach is used to test goodwill for impairment, while our intangible asset test uses the income approach. The following is not a complete discussion of the Company’s calculations, but outlines the general assumptions and steps for testing goodwill and intangible assets for impairment:

Goodwill

The first step involves comparing the fair value of our reporting unit to its carrying value, including goodwill. The Company uses a market capitalization approach after considering an estimated control premium.

If the carrying value exceeds its fair value, the second step of the test is performed by comparing the carrying value of goodwill to its implied fair value. An impairment charge is recognized for the excess of the carrying value over its implied fair value.

Intangible Assets

The Company estimates the fair value of indefinite-lived intangibles using the relief-from-royalty method, a form of the income approach. It is based on the principle that ownership of the intangible asset relieves the owner of the need to pay a royalty to another party in exchange for rights to use the asset. Key assumptions in estimating the fair value include, among other items, forecasted revenue, royalty rates, tax rate, and the benefit of tax amortization. The Company employs a weighted-average cost of capital approach to determine the discount rates used in our projections. The determination of the discount rate includes certain factors such as, but not limited to, the risk-free rate of return, market risk, size premium, and the overall level of inherent risk.

If the carrying value of the intangibles exceeds its fair value, an impairment charge is recognized.

The results of these analyses indicated that the Company’s goodwill and indefinite-lived intangible assets were not impaired at December 31, 2016 .

Technology and Development Costs

The Company expenses technology and development costs as incurred.

Property and Equipment

Property and equipment, including software, are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided over the estimated useful lives of the assets using the straight-line method.

The asset lives used are presented in the table below:

	Average Life in Years
Computer equipment	3 - 5
Software	2 - 3
Furniture and fixtures	5
Other equipment	5 - 6
Buildings	30
Building improvements	15
Leasehold improvements	Shorter of asset's life or life of the lease

Advertising

Advertising costs are expensed as incurred. Included in advertising are general marketing, corporate sponsorships as well as online marketing and banner advertisements. Total advertising expense was $46.4 million , $50.1 million and $55.9 million for the years ending December 31, 2016 , 2015 and 2014 , respectively.

Income Taxes

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

Further, deferred tax assets are recognized for the expected realization of available deductible temporary differences and net operating loss and tax credit carry forwards. ASC 740 requires companies to assess whether a valuation allowance should be established against deferred tax assets based on consideration of all available evidence using a "more likely than not" threshold. In making such assessments, the Company considers the expected reversals of our existing deferred tax liabilities within the applicable jurisdictions and carry forward periods, based on our existing Section 382 limitations. The Company does not consider deferred tax liabilities related to indefinite lived intangibles or tax deductible goodwill as a source of future taxable income. Additionally, the determination of the amount of deferred tax assets which are more likely than not to be realized is also dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors.

A valuation allowance is recorded to reduce our deferred tax assets to the amount that is "more likely than not" to be realized based on the above methodology. The Company reviews the adequacy of the valuation allowance on an ongoing basis and adjusts our valuation allowance in the appropriate period, if applicable.

The Company records liabilities for uncertain tax positions related to federal, state and foreign income taxes in accordance with ASC 740. These liabilities reflect the Company's best estimate of its ultimate income tax liability based on the tax code, regulations, and pronouncements of the jurisdictions in which we do business. Estimating our ultimate tax liability may involve significant judgments regarding the application of complex tax regulations across many jurisdictions. If the Company's actual results differ from estimated results, our effective tax rate and tax balances could be affected. As such, these estimates may require adjustment in the future as additional facts become known or as circumstances change. If applicable, the Company will adjust the income tax provision in the appropriate period.

Stock-Based Employee Compensation

The Company grants to our employees and directors options to purchase common stock at exercise prices equal to the quoted market values of the underlying stock at the time of each grant. The fair value of each option award as of the grant date is determined using the Black-Scholes option pricing valuation model in accordance with ASC 718, *Compensation-Stock Compensation* .

In addition, the Company grants performance-based share equity awards that contain service, performance and market conditions. The performance conditions are assessed at each reporting period and compensation expense is recorded to reflect the probable attainment of each condition. The market conditions are valued using a Monte Carlo simulation model. The valuation is prepared with the assistance of a third-party specialist to estimate the grant date fair value of the award.

The fair value of all stock awards is recognized in compensation expense on a straight-line basis over the requisite service period for awards expected to vest.

2. New Accounting Standards

Recently Adopted Accounting Standards
In September 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-16, Business Combinations (Topic 805), Simplifying the Accounting for Measurement-Period Adjustments. The new standard requires an entity to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The standard also requires that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provision amounts, calculated as if the accounting had been completed at the acquisition date. For public companies, ASU 2015-16 is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. ASU 2015-16 was adopted during the first quarter ended March 31, 2016. See Note 5, Business Combinations for adjustments to the provisional amounts recorded subsequent to the March 9, 2016 acquisition of Yodle, Inc.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern, which is new guidance related to the disclosures around going concern. The new standard provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures when required. The new standard is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early adoption is permitted. The adoption of this standard did not have an impact on our consolidated financial statements or disclosures.

Accounting Standards Issued Not Yet Adopted
In May 2014, the FASB and International Accounting Standards Board ("IASB") issued ASU 2014-09 Revenue from Contracts with Customers (Topic 606), a converged standard on revenue recognition which supersedes previous revenue recognition guidance. Some of the main areas of transition to the new standard include, among others, transfer of control (revenue is recognized when a customer obtains control of a good or service), allocation of transaction price is based on relative standalone selling price (entities that sell multiple goods or services in a single arrangement must allocate the consideration to each of those goods or services), contract costs (entities sometimes incur costs, such as sales commissions or mobilization activities, to obtain or fulfill a contract), and disclosures (extensive disclosures are required to provide greater insight into both revenue that has been recognized, and revenue that is expected to be recognized in the future from existing contracts). In August 2015, the FASB issued ASU 2015-14 Revenue from Contracts with Customers (Topic 606), Deferral of the Effective Date, which defers the effective date of the new standard by one year, resulting in the new standard being effective for fiscal years, and interim periods within those years, beginning after December 15, 2017 with early adoption as of the original effective date permitted. The Company will use one of two methods of adoption: (i) retrospective to each prior reporting period presented, with the option to elect certain practical expedients as defined within the standard; or (ii) retrospective with the cumulative effect of initially applying the standard recognized at the date of initial application inclusive of certain additional disclosures. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net) . In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing. Also, in May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients . These standards clarify the guidance in ASU 2014-09 and have the same effective date as the original standard. During 2016, the Company continued evaluating the impact that the adoption of these standards will have on our consolidated financial statements due to the large number of products and services the company sells, including combinations thereof. As this process progresses in 2017, the Company will report the expected impact of the new standard.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities, which addresses certain aspects of the recognition, measurement, presentation and disclosure of financial instruments. The amendment will be effective for the Company beginning January 1, 2018 and the adoption of this standard is not expected to have a material impact on our consolidated financial statements or disclosures.

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

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting and is effective for fiscal years beginning after December 15, 2016. The standard is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. The Company will adopt ASU 2016-09 in the first quarter of 2017.

Upon adoption, the Company will record all excess tax benefits (ETBs) and shortfalls as income tax expense or benefit in the income statement prospectively as of the beginning of the year of adoption. For interim reporting purposes, companies will account for ETBs and shortfalls as discrete items in the period in which they occur.

In addition, the guidance eliminates the requirement that ETBs be realized before companies can recognize them. The Company will apply this part of the guidance using a modified retrospective transition method and record a cumulative-effect adjustment for previously unrecognized ETBs in opening retained earnings in the annual period of adoption. The estimated cumulative-effect adjustment for federal and state tax purposes is $27.0 million and $2.7 million , respectively. If a valuation allowance is required on these deferred tax assets recorded upon adoption as a result of recognizing the ETBs, the adjustment will be recorded to opening retained earnings. At this time, we expect a valuation allowance of approximately $1.7 million will be required against a portion of the state adjustment to reflect the amount realized on a "more likely than not" basis.

Further, upon adoption, the Company will present ETBs as an operating activity on the statement of cash flows rather than as a financing activity. The Company intends to prospectively adopt this change.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, addressing eight specific cash flow issues in an effort to reduce diversity in practice. The amended guidance is effective for fiscal years beginning after December 31, 2017, and for interim periods within those years. Early adoption is permitted. The Company is currently evaluating the impact that ASU 2016-15 will have on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flow (Topic 230): Restricted Cash, which states that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amended guidance is effective for the fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. Upon adoption, the Company will present restricted cash, which is currently included in other assets, with the cash and cash equivalents balances in the cash flow statement.

3. Net Earnings (Loss) Per Common Share

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

During the first quarters of 2016 and 2015, the Company issued equity awards with performance, service and market conditions. These awards are included in basic shares outstanding once all criteria have been met and the shares have vested. Prior to the end of the vesting period, the number of contingently issuable shares included in diluted EPS is based on the number of shares, if any, that would be issuable under the terms of the arrangement if the end of the reporting period were the end of the contingency period, using the treasury stock method and assuming the result would be dilutive. As of December 31, 2016 and 2015, the performance criteria for the first and second tranches of the 2015 grant and the first tranche of the 2016 grant were satisfied and the equity awards were included in the diluted share calculation. See Note 11, *Stock-Based Compensation and Stockholders' Equity* , for additional information on these awards.

During the years ended December 31, 2016 , 2015 and 2014, 3.4 million , 1.6 million and 6.9 million share-based awards, respectively, have been excluded from the calculation of diluted common shares because including those securities would have been anti-dilutive.

The Company's potentially dilutive shares also include incremental shares issuable upon the conversion of the Senior Convertible Notes due August 15, 2018 ("2018 Notes"). Upon conversion or maturity of the 2018 Notes, the Company may settle the notes with either cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. The Company has adopted a current policy to settle the principal amount in cash and any excess conversion value in shares of our common stock. Because the principal amount of the 2018 Notes will be settled in cash upon conversion, only the conversion spread relating to the 2018 Notes is included in our calculation of diluted earnings per common share. When the market price of our stock exceeds the conversion price, as applicable, we will include, in the diluted net income per common share calculation, the effect of the additional shares that may be issued upon conversion using the treasury stock method. There were no incremental common shares from the 2018 Notes that were included in the calculation of diluted shares because the Company's average common stock price did not exceed the conversion price of approximately $35.00 per common share during the years ended December 31, 2016, 2015 and 2014. See Note 4, *Long-term Debt* , for information on these notes.

The following table sets forth the computation of basic and diluted net earnings (loss) per common share (in thousands, except per share amounts):

	2016	2015	2014
Net income (loss)	$ 3,990	$ 89,961	$ (12,458)
Basic weighted average common shares	49,262	50,243	50,920
Dilutive effect of stock options	1,265	1,757	—
Dilutive effect of restricted shares	352	426	—
Dilutive effect of performance shares	1	16	—
Dilutive effect of the assumed conversion of the 2018 Notes	—	—	—
Diluted weighted average common shares	50,880	52,442	50,920
Basic earnings (loss) per share:			
Net income (loss) per common share	$ 0.08	$ 1.79	$ (0.24)
Diluted earnings (loss) per share:			
Net income (loss) per common share	$ 0.08	$ 1.72	(0.24)

4. Long-term Debt

1% Senior Convertible Notes due August 15, 2018

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

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

In addition, holders may also convert their 2018 Notes any time prior to May 15, 2018, (i) if during the five business days after any five consecutive trading day period in which the trading price of the 2018 Notes was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate, (ii) if the Company calls the 2018 Notes for redemption; or (iii) upon the occurrence of specified corporate events.

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

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

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

As of December 31, 2016 and 2015, the carrying value of the debt and equity component was $239.2 million and $47.8 million and $228.0 million and $47.8 million , respectively. The unamortized debt discount of $19.6 million as of December 31, 2016 will be amortized over the remaining life of 1.6 years using the effective interest method.

Amended Credit Agreement

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

The Amended Credit Agreement provides for (i) $390.0 million of five -year secured term loans, replacing and refinancing $190.0 million of secured term loans outstanding under the Existing Credit Agreement and providing for an additional $200.0 million of secured term loans (the "Term Loan") and (ii) a five -year secured revolving credit facility that provides up to $150 million of revolving loans (the "Revolving Credit Facility"), which replaces the revolving credit facility under the Existing Credit Agreement. On the Closing Date, the Company used the proceeds of the Term Loan and borrowed $115.0 million of loans under the Revolving Credit Facility, together with cash on hand, to complete the Acquisition.

The Term Loan and loans under the Revolving Credit Facility initially bore interest at a rate equal to either, at the Company's option, the LIBOR rate plus an applicable margin equal to 3.00% per annum, or the prime lending rate plus an applicable margin equal to 2.00% per annum. The applicable margins for the Term Loan and loans under the Revolving Credit Facility are subject to reduction or increase based upon the Company's consolidated first lien net leverage ratio as of the end of each fiscal quarter. Effective August 2016, the Company's interest rate on these loans was reduced to the LIBOR rate plus the applicable margin of 2.50% per annum as a result of reaching certain financial covenant ratios. The Company must also pay (i) a commitment fee of 0.45% per annum on the actual daily amount by which the revolving credit commitment exceeds then-outstanding usage under the Revolving Credit Facility, also subject to reduction or increase based upon the Company's consolidated first lien net leverage ratio, (ii) a letter of credit fee equal to the applicable margin that applies to LIBOR loans under the Revolving Credit Facility and (iii) a fronting fee of 0.125% per annum, calculated on the daily amount available to be drawn under each letter of credit issued under the Revolving Credit Facility.

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

Existing and Predecessor Credit Agreements

On September 9, 2014, the Company entered into the Existing Credit Agreement. The Existing Credit Agreement replaced the First Lien Credit Agreement, dated as of October 27, 2011 amended and restated as of November 20, 2012, further amended and restated March 6, 2013, and further amended as of April 25, 2014 (the "Predecessor Credit Agreement").

The 2014 refinancing of the Predecessor Credit Agreement with the Existing Credit Agreement was partially accounted for as debt extinguishment in accordance with *ASC 470, Debt* , with the remaining amounts not considered extinguished and treated as a modification of the existing credit agreement. As a result of the extinguishment, the Company recorded a $1.8 million loss for the portion of the debt that was extinguished from accelerating unamortized deferred financing fees and loan origination discounts during the year ended December 31, 2014. Approximately $3.7 million of additional loan origination discounts and deferred financing fees were capitalized in 2014 in connection with the refinancing.

Outstanding long-term debt and the effective interest rates at December 31, 2016 and 2015 consist of the following (in thousands):

	December 31, 2016	December 31, 2015
Revolving Credit Facility maturing 2021, 3.04%, based on LIBOR plus 2.50%, less unamortized discount of $2,219 at December 31, 2016, effective rate of 4.11%*	$ 47,094	$ 3,437
Term Loan due 2021, 3.04%, based on LIBOR plus 2.50%, less unamortized discount of $4,836 at December 31, 2016, effective rate of 3.41%	377,851	191,109
Senior Convertible Notes, maturing 2018, 1.00%, less unamortized discount of $19,554 at December 31, 2016, effective rate of 5.88%	239,196	228,032
Total Outstanding Debt, less unamortized discount of $26,609 at December 31, 2016	664,141	422,578
Less: Current Portion of Long-Term Debt, less unamortized discount of $216 at December 31, 2016	(16,847)	(11,169)
Long-Term Portion, less unamortized discount of $26,393 at December 31, 2016	$ 647,294	$ 411,409

* The Compan y has $98.8 million of av ailable borrowings under the Revolving Credit Facility as of December 31, 2016.

Debt discount and issuance costs

The Company recorded $12.8 million , $11.4 million and $10.9 million of interest expense from amortizing debt issuance costs and discounts during the years ended December 31, 2016 , 2015 and 2014 , respectively.

Total estimated principal payments due for the next five years as of December 31, 2016 are as follows (in thousands):

2017	$ 17,063
2018	285,563
2019	36,563
2020	39,000
2021	312,561
Total principal payments	$ 690,750

On August 15, 2018, the aggregate principal balance of the Senior Convertible Notes (the 2018 Notes) becomes due. The remaining principal requirements reflect quarterly payments under the Term Loan with the remaining balance payable in March 2021. The Revolving Credit Facility matures in March 2021.

5. Business Combinations

Acquisition of Yodle

On March 9, 2016, the Company executed an Agreement and Plan of Merger (the "Merger Agreement) with Yodle, Inc., a Delaware corporation ("Yodle"), and Shareholder Representative Services, LLC, a Colorado limited liability company. The Company acquired 100% of the outstanding shares of Yodle, Inc. and paid approximately $300.3 million adjusted for, among other things, Yodle's cash and outstanding debt and transaction related expenses. The Company will pay an additional $18.9 million and $22.0 million on the first and second anniversary dates of the closing, respectively, subject to adjustments as described in the Merger Agreement. Finally, the Company converted out of the money stock options held by employees of Yodle to Web.com options, which resulted in additional consideration of $2.3 million , for total consideration of $341.3 million . In addition to the consideration, the Company incurred approximately $3.9 million of acquisition-related transaction expenses which are reflected in the General and Administrative line item of the Consolidated Statement of Comprehensive Income for the year ended December 31, 2016.

The Company has accounted for the acquisition of Yodle using the acquisition method as required in *Accounting Standards Codification 805, Business Combinations ("ASC 805")* . As such, fair values have been assigned to the assets acquired and liabilities assumed and the excess of the total purchase price over the fair value of the net assets acquired is recorded as goodwill. The Company, with the assistance of independent valuation professionals, has also performed valuation of the fair value of certain intangible assets. The goodwill recorded from this acquisition represents business benefits the Company anticipates realizing from acquiring a leader in value added digital marketing solutions that further solidifies our position as a leading national provider in this space. In addition, Yodle has vertically focused solutions that help small businesses attract new business and retain existing customers through cloud based marketing platforms. Finally, the Company also expects to benefit from synergies by eliminating duplicate operational and administrative expenditures, where feasible. The goodwill from the acquisition is not deductible for tax purposes.

The adjustments made to the purchase price allocation through December 31, 2016 were primarily due to refinement of inputs used to calculate the fair value of the customer relationship, developed technology and the domain/trade name intangible assets. As a result of these adjustments to the fair value of the definite-lived intangible assets, along with the related income tax impact, the amortization expense was reduced by $2.1 million from acquisition date to year end 2016. The following table summarizes the Company's purchase price allocation based on the fair values of the assets acquired and liabilities assumed (in thousands):

	As of March 9, 2016	Adjustments	As of December 31, 2016
Tangible current assets	8,759	(1,304)	7,455
Property plant and equipment	18,157	129	18,286
Developed technology	72,500	13,490	85,990
Trademarks / tradenames	32,500	(4,510)	27,990
Customer relationships	67,500	(33,421)	34,079
Other non current assets	277	—	277
Goodwill	218,530	13,082	231,612
Current liabilities	(23,358)	749	(22,609)
Deferred revenue	(8,709)	918	(7,791)
Deferred tax liability	(43,532)	9,925	(33,607)
Other long term liabilities	(245)	(166)	(411)
Purchase price consideration	342,379	(1,108)	341,271

The customer relationships and developed technology intangible assets will be amortized over 6.3 years and 6.0 years , respectively. The trademarks and trade names are indefinite life intangible assets and are not amortized.

The operations of Yodle have been incorporated with the existing Web.com Group Inc. operations subsequent to the transaction closing. As such, the determination of operating income and net income is not readily available nor would it be indicative of the standalone entity if presented.

The fair value and gross contractual amount of the acquired accounts receivable was $4.8 million .

Pro Forma Condensed Consolidated Results of Operations

The Company has prepared the unaudited condensed pro forma financial information to reflect the consolidated results of operations as though the Yodle acquisition had occurred on January 1, 2015, for the twelve months ended December 31, 2016 and 2015. The Company has made adjustments to the historical Web.com and Yodle financial statements that are directly attributable to the acquisition, factually supportable and expected to have a continuing impact on the combined results. The pro forma presentation does not include any impact of transaction costs or expected synergies. The pro forma results are not necessarily indicative of our results of operations had the Company owned Yodle for the entire periods presented.

The Company has adjusted the results of operations to reflect the impact of amortizing into revenue, deferred revenue that was recorded at fair value. In addition, interest expense and amortization of intangible assets were adjusted to reflect the cost of the March 9, 2016 debt issued to finance the acquisition and the fair value of the intangible assets on the acquisition date, respectively.

The following summarizes unaudited pro forma total revenue and net income (loss) (in thousands, except per share amounts):

		Twelve months ended December 31, 2016
Revenue	$	750,474
Net loss	$	(4,547)
Basic net loss per share	$	(0.09)
Diluted net loss per share	$	(0.09)
Basic weighted-average common shares outstanding		49,262
Diluted weighted-average common shares outstanding		49,262

		Twelve months ended December 31, 2015
Revenue	$	740,742
Net income	$	54,159
Basic net income per share	$	1.08
Diluted net income per share	$	1.03
Basic weighted-average common shares outstanding		50,243
Diluted weighted-average common shares outstanding		52,488

Acquisition of TORCHx

On May 31, 2016, the Company completed the acquisition of substantially all of the assets and certain liabilities of Brokerage Leader Inc. ("TORCHx"), a Florida corporation, which primarily consisted of customer relationships and developed technology intangible assets. TORCHx is a real estate platform built for agents and brokerages that features search engine optimization (SEO) and responsive design, customer relationship management (CRM) and other tools to help run successful online marketing campaigns. The Company paid $4.4 million for this business during the second quarter of 2016, of which $3.0 million was paid at closing and the remaining $1.5 million is payable on November 30, 2017.

The Company has accounted for the acquisition of TORCHx using the acquisition method as required in *Accounting Standards Codification 805, Business Combinations ("ASC 805")* . As such, fair values have been assigned to the assets acquired and liabilities assumed and the excess of the total purchase price over the fair value of the net assets acquired is recorded as goodwill. The Company has estimated the fair value of certain intangible assets. The goodwill recorded from this acquisition represents business benefits the Company anticipates realizing from optimizing resources and cross-sale opportunities. The goodwill from the acquisition is deductible for tax purposes.

Assets and liabilities acquired are as follows (in thousands):

Tangible current assets	$	17
Developed technology- 7 year useful life		1,790
Customer relationships- 4 year useful life		360
Goodwill		2,266
Deferred revenue		(42)
Purchase price consideration	$	4,391

Acquisition of SnapNames

On February 28, 2014, the Company completed the acquisition of substantially all of the assets and certain liabilities of SnapNames.com, Inc. ("SnapNames"), an Oregon corporation, from KeyDrive S.A., which primarily consisted of intangible assets, including trade names, customer relationships and developed technology. The activities of the acquired business include daily auctions, premium auctions, and brokerage transactions related to domain names (the "SnapNames Business"). The Company paid $7.4 million for this business during the first quarter of 2014. The Company also recorded a $0.5 million holdback liability which was paid to KeyDrive S. A. during the year ended December 31, 2015.

The Company has accounted for the acquisition of the SnapNames Business using the acquisition method as required in ASC 805, Business Combinations ("ASC 805"). As such, fair values have been assigned to the assets acquired and liabilities assumed and the excess of the total purchase price over the fair value of the net assets acquired is recorded as goodwill. The Company, with the assistance of independent valuation professionals, has estimated the fair value of certain intangible assets. The goodwill recorded from this acquisition represents business benefits the Company anticipates realizing from optimizing resources and cross-sale opportunities. The goodwill from the acquisition is deductible for tax purposes.

Acquisition of Scoot

On July 31, 2014, the Company completed the acquisition of 100% of the equity interests in Touch Local Limited (“Scoot”), the operator of an online business directory network in the United Kingdom. The Company believes that the acquisition further enhances its position as a leading provider of online marketing and web services to small businesses and positions its local expansion in the United Kingdom. Consideration for the acquisition included $11.9 million , which is net of cash acquired, $11.0 million of which was paid to the sellers in July 2014 and $0.9 million that was placed in an escrow account for one year and subsequently released and paid on July 31, 2015. The Company also recorded a $0.9 million holdback liability that was also paid in July 2015. In addition, the Company issued an aggregate of 213,200 shares of Web.com common stock, with an aggregate acquisition date value of $5.7 million , to the sellers. Finally, $0.3 million of accounts receivable due from Scoot was forgiven by the Company, for total consideration of $18.7 million .

The Company has also accounted for the acquisition of Scoot using the acquisition method as required in ASC 805. Based on the acquisition method of accounting, the consideration was allocated to the assets and liabilities acquired based on their fair values as of the acquisition date and the remaining amount of the purchase price allocation was recorded as goodwill. The goodwill represents business benefits the Company anticipates realizing from optimizing resources and cross-sale opportunities and is not deductible for tax purposes.

6. Goodwill and Intangible Assets

In accordance with ASC 350, the Company reviews goodwill and other indefinite-lived intangible asset balances for impairment on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of goodwill or indefinite-lived intangible assets below their carrying amount. As of December 31, 2016 and December 31, 2015 , the Company completed its annual impairment test of goodwill and other indefinite-lived intangible assets and determined these assets were not impaired.

During the year ended December 31, 2016, the Company paid $1.6 million for registrar credentials. These credentials were recorded as other intangible assets of $2.6 million and are being amortized over 24 months. The remaining $1.0 million was recorded as a deferred tax liability.

The following table summarizes changes in the Company’s goodwill balances as required by ASC 350-20 for the year ended December 31, 2016 and 2015 , respectively (in thousands):

	December 31, 2016	December 31, 2015
Goodwill balance at beginning of period	$ 741,439	$ 741,858
Accumulated impaired goodwill at beginning of period	(102,294)	(102,294)
Goodwill balance at beginning of period, net	639,145	639,564
Goodwill acquired during the period - Scoot	—	11
Goodwill acquired during the period- Yodle- *Note 5, Business Combinations*	231,612	—
Goodwill acquired during the period- TORCHx- *Note 5, Business Combinations*	2,266	—
Foreign currency translation adjustments (1)	(1,272)	(430)
Goodwill balance at end of period, net *	$ 871,751	$ 639,145

** Gross goodwill balances were $ 974.0 million and $741.4 million as of December 31, 2016 and December 31, 2015 , respectively. This includes accumulated impairment losses of $102.3 million .*

(1) The foreign currency translation is from translating the goodwill acquired from the July 2014 Scoot acquisition at the current balance sheet date.

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

	December 31, 2016			
	Gross Carrying Amount	Accumulated Amortization	Net	Weighted-average Amortization Period in Years
Indefinite-lived intangible assets:				
Domain/Trade names	$ 159,805	$ —	$ 159,805	
Definite-lived intangible assets:				
Customer relationships	324,327	(157,998)	166,329	6.5
Developed technology	280,455	(195,695)	84,760	4.8
Other	7,394	(5,161)	2,233	1.4
Total *	$ 771,981	$ (358,854)	$ 413,127	

** Cumulative foreign currency translation adjustments, reflecting the movement in currencies, decreased total intangible assets by approximately $1.0 million as of December 31, 2016.*

	December 31, 2015			
	Gross Carrying Amount	Accumulated Amortization	Net	Weighted-average Amortization Period in Years
Indefinite-lived intangible assets:				
Domain/Trade names	$ 132,228	$ —	$ 132,228	
Definite-lived intangible assets:				
Customer relationships	289,710	(128,212)	161,498	7.6
Developed technology	193,020	(169,819)	23,201	2.1
Other	6,027	(4,847)	1,180	2.4
Total *	$ 620,985	$ (302,878)	$ 318,107	

** Cumulative foreign currency translation adjustments, reflecting the movement in currencies, decreased total intangible assets by approximately $0.4 million as of December 31, 2015.*

The weighted-average amortization period for the amortizable intangible assets as of December 31, 2016 , is approximately 5.9 years. Total amortization expense was $ 56.8 million , $ 39.3 million and $60.7 million for the years ended December 31, 2016 , 2015 and 2014 , respectively.

As of December 31, 2016 , the amortization expense for the next five years and thereafter is as follows (in thousands):

2017	$ 48,662
2018	44,356
2019	40,649
2020	38,441
2020	37,672
Thereafter	43,542
Total	$ 253,322

7. Property and Equipment

The Company's property and equipment are summarized as follows (in thousands):

	December 31, 2016	December 31, 2015
Land	$ 416	$ 416
Depreciable assets:		
Software	58,381	44,290
Computer equipment	56,037	48,888
Other equipment	9,410	6,754
Furniture and fixtures	7,773	5,027
Building and improvements	2,351	2,300
Leasehold improvements	17,195	4,962
Total depreciable assets	151,147	112,221
Accumulated depreciation	(98,431)	(70,674)
Property and equipment, net	$ 53,132	$ 41,963

Depreciation expense relating to depreciable assets amounted to $21.2 million , $17.1 million , and $14.1 million for the years ended December 31, 2016 , 2015 and 2014 , respectively.

As of December 31, 2016 , 2015 and 2014 , the Company had unamortized computer software costs of $21.1 million , $16.9 million and $15.0 million , respectively. For the years ended December 31, 2016 , 2015 and 2014 , approximately $9.8 million , $8.5 million and $7.3 million respectively of depreciation expense related to computer software was recorded.

8. Commitments

Operating Leases

The Company has lease obligations for 19 locations that include its headquarters operations, technology administrative centers, sales and customer support centers and its eCommerce operations.

Rental expense for leased facilities and equipment amounted to approximately $16.0 million , $7.5 million and $7.0 million for the years ended December 31, 2016 , 2015 and 2014 , respectively. Accrued rent expense was $1.8 million as of December 31, 2016 and 2015 .

As of December 31, 2016 , future minimum rental payments required under operating leases that have initial or remaining non-cancelable terms in excess of one year are as follows (in thousands):

	Net Minimum Rental Payments
2017	$ 14,914
2018	11,790
2019	10,854
2020	9,490
2021	9,116
Thereafter	16,072
	$ 72,236

The amounts presented above are presented gross of rental income of $1.9 million in 2017, $3.7 million in each of 2018 and 2019, $3.8 million in 2020, $4.0 million in 2021, and $9.4 million thereafter, to be received from subleasing a portion of the New York, New York office in January 2017.

Purchase Obligations

Purchase obligations include corporate and marketing related sponsorships, general operating purchase obligations and long-term service contracts for data storage. As of December 31, 2016 , the Company's unconditional purchase obligations are as follows (in thousands):

		Payment Due
2017	$	14,869
2018		14,299
2019		14,250
2020		13,000
2021		14,000
Thereafter		—
	$	70,418

Standby Letters of Credit

The Company utilizes letters of credit to back certain payment obligations relating to its facility operating leases and to meet certain vendor requirements. The Company had approximately $7.3 million in standby letters of credit as of December 31, 2016 , $1.9 million of which was drawn against the Company's revolving credit facility. The letters of credit of $5.4 million , increased approximately $4.9 million during the year ended December 31, 2016, primarily to fulfill requirements under Yodle facility operating leases. These letters of credit are funded by domestic money market accounts and are restricted for withdrawal based upon expiration dates required by the terms of the underlying lease agreements. The money market accounts are recorded as Other Assets in the consolidated balance sheet.

9. Valuation Accounts

The Company's valuation accounts are summarized as follows (in thousands):

		Additions	Deductions	
Description	**Balance at beginning of year**	**Charged to income statement**	**Uncollectible accounts written off, net of recoveries**	**Balance at end of year**
Year Ended December 31, 2014:				
Allowance for doubtful accounts	$ 1,545	$ 3,705	$ 3,545	$ 1,705
Refund liability	1,397	11,224	11,265	1,356
Total	$ 2,942	$ 14,929	$ 14,810	$ 3,061
Year Ended December 31, 2015:				
Allowance for doubtful accounts	$ 1,705	$ 2,906	$ 2,796	$ 1,815
Refund liability	1,356	10,606	10,276	1,686
Total	$ 3,061	$ 13,512	$ 13,072	$ 3,501
Year Ended December 31, 2016:				
Allowance for doubtful accounts	1,815	1,640	1,760	1,695
Refund liability	1,686	11,337	11,118	1,905
Total	3,501	12,977	12,878	3,600

10. Fair Value

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

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

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

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

The Company has financial assets and liabilities that are not required to be remeasured to fair value on a recurring basis. The Company's cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses approximate fair market value as of December 31, 2016 and December 31, 2015 due to the short maturity of these items. As of December 31, 2016 , the fair value and carrying value of the Company's 2018 Notes totaled $248.6 million and $239.2 million , respectively. As of December 31, 2015, the fair value and carrying value of the Company's 2018 Notes was $243.2 million and $228.0 million , respectively. The fair value of the First Lien Term Loan and the 2018 Notes, including the equity component, was calculated by taking the quoted market price for the instruments multiplied by the principal amount. This is based on a Level 2 fair value hierarchy calculation obtained from quoted market prices for the Company's long-term debt instruments that may not be actively traded at each respective period end.

The Revolving Credit Facility and Term Loan are variable rate debt instruments indexed to 1-Month LIBOR that resets monthly, as such, the fair value of the Term Loan and Revolving Credit Facility approximates the carrying value as of December 31, 2016 and December 31, 2015.

11. Stock-Based Compensation and Stockholders' Equity

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

Equity Incentive Plans

At December 31, 2016 , the Company has the 2014 Equity Incentive Plan for the issuance of stock-based compensation, including but not limited to, common stock options and restricted shares to employees. In addition, the Company's plan provides for grants of non-statutory stock options and restricted shares awards ("RSA's") to non-employee directors. The Company issues shares out of treasury stock, if available, otherwise new shares of common stock are issued upon the exercise of stock options and the granting of restricted shares. At December 31, 2016 , approximately 5.5 million shares remain available for future issuance under this plan.

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

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

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

Yodle Equity Grants

In connection with the March 2016 Yodle acquisition, the Company granted 0.3 million restricted shares that vest annually over a four year period and 0.3 million stock options of which 25 percent vest one year from the date of grant and the remaining 75 percent vest monthly over a three year period for a total of four years. In addition, the Company converted unvested and out-of-the-money vested Yodle stock options to 1.3 million stock options of the Company. The total value of the converted stock options is approximately $8.3 million . Approximately $2.3 million has been recorded as additional consideration related to the vested options at the time of the closing of the acquisition. The remaining $6.0 million will be amortized to stock compensation expense over the remaining service period of approximately 3 years .

Performance Shares

During the first quarter of 2016 and 2015, the Compensation Committee of the Board of Directors approved a performance share equity award. The targeted number of shares under a 100 percent payout scenario for each of the 2016 and 2015 awards, in total, is 0.3 million common shares over the 3 years vesting periods, with one-third vesting each year. The actual number of shares that may be earned and issued, if any, may range from 0-200% of the target number of shares granted. The range is based upon (1) the number of shares earned based upon the over achievement or under achievement of the financial measures for the annual performance period and (2) the number of shares earned being adjusted higher or lower depending on the performance of the Company's total shareholder return, compared against the Company's peer group.

Compensation expense related to the performance share stock plan for the years ended December 31, 2016 and 2015, was approximately $1.2 million and $1.0 million . As of December 31, 2016 , there was approximately $0.1 million of unrecognized compensation expense related to the 2016 tranches of performance shares, which is expected to be recognized over a weighted average period of 0.1 years . The 2016 performance share awards resulted in a payout of 43% of the underlying target shares, or approximately 41 thousand shares for the 2016 and 2015 tranches combined.

Stock Options

Compensation expense related to the Company's stock option plans was $9.6 million , $10.4 million and $12.0 million for the years ended December 31, 2016 , 2015 and 2014 , respectively. As of December 31, 2016 , the Company had $11.8 million of unrecognized compensation expense related to stock options, which is expected to be recognized over a weighted average period of 2.5 years . During the years ended December 31, 2016 , 2015 and 2014 , 0.7 million , 0.7 million and 1.0 million common shares were issued from options exercised, respectively.

The total intrinsic value of options exercised during the years ended December 31, 2016 , 2015 , and 2014 was $5.4 million , $7.4 million , and $23.4 million , respectively. The fair value of options vested during the years ended December 31, 2016 , 2015 , and 2014 was $10.8 million , $11.3 million , and $12.4 million , respectively. The weighted-average grant-date fair value of an option granted during the years ended December 31, 2016 , 2015 , and 2014 was $8.01 , $9.36 , and $15.81 , respectively.

The fair value of each option award is estimated on the grant date using the Black-Scholes option valuation model and the assumptions noted in the following table. Expected volatility rates are based on the Company’s historical volatility on the grant date. The Company estimates the expected term based on the historical exercise experience of our employees, which we believe is representative of future behavior.

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

	Year Ended December 31,		
	2016	**2015**	**2014**
Risk-free interest rate	1.11 - 1.39 %	1.52 -1.60 %	1.51 -1.69 %
Dividend yield	— %	— %	— %
Expected life (in years)	4.97 - 5.19	4.96 - 4.99	4.95 - 4.98
Volatility	47 - 54 %	55 - 57 %	56 -62 %

The following table summarizes option activity for all of the Company’s stock options:

	Shares Covered by Options	Exercise Price per Share	Weighted-Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Balance, December 31, 2015	6,460,023	$ 3.43 to $36.45	$ 15.82		
Granted	1,326,973	$14.15 to $18.83	$ 17.52		
Exercised	(745,268)	$ 3.43 to $19.68	$ 10.64		
Forfeited	(841,321)	$9.70 to $36.45	$ 19.10		
Expired	(385,110)	$4.59 to $36.45	$ 20.81		
Balance, December 31, 2016	5,815,297	$ 3.43 to $36.45	$ 16.06	6.00	$ 37,111
Exercisable at December 31, 2016	4,286,069	$ 3.43 to $36.45	$ 14.87	5.10	$ 32,511

Price ranges of outstanding and exercisable options as of December 31, 2016 are summarized below:

	Outstanding Options			Exercisable Options	
Exercise Price	Number of Options	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
$3.43 - $9.97	1,379,833	2.79	$ 7.61	1,379,833	$ 7.61
$10.20 - $15.96	1,803,516	5.55	$ 14.17	1,704,076	$ 14.15
$16.39 - $18.08	1,194,914	8.63	$ 17.65	373,800	$ 17.75
$18.26 - $32.56	1,425,034	7.45	$ 25.14	819,861	$ 27.06
$36.45 - $36.45	12,000	7.16	$ 36.45	8,499	$ 36.45
	5,815,297			4,286,069	

Restricted Stock Awards

The fair value of each restricted stock award grant is based on the closing price of the Company’s stock on the date of grant and is amortized to compensation expense over its vesting period, which generally ranges between one and four years. Restricted stock is not transferable until vested.

Compensation expense related to restricted stock plans for the years ended December 31, 2016 , 2015 and 2014 was approximately $9.9 million , $8.7 million and $7.6 million , respectively. As of December 31, 2016 , there was approximately $15.5 million of unrecognized compensation cost related to restricted stock outstanding, which is expected to be recognized over a weighted average period of 2.4 years . During the year ended December 31, 2016 , approximately 0.2 million shares totaling approximately $4.3 million were withheld by the Company for minimum income tax withholding requirements. During the years ended December 31, 2016 , 2015 and 2014 , 1.2 million , 0.5 million and 0.4 million restricted common shares were granted, respectively.

The following restricted stock activity occurred under the Company’s equity incentive plans during the year ended December 31, 2016 :

Restricted Stock Awards Activity	Shares	Weighted- Average Grant-Date Fair Value
Restricted stock awards outstanding at December 31, 2015	1,206,306	$ 18.26
Granted	1,217,196	$ 17.95
Forfeited	(371,002)	$ 18.44
Lapse of restriction	(499,777)	$ 18.59
Restricted stock awards outstanding at December 31, 2016	1,552,723	$ 17.87

Stock Repurchases

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

The aggregate amount of available for repurchase under this program was $110.0 million at December 31, 2016. Repurchases under the repurchase programs may take place in the open market or in privately negotiated transactions, including structured and derivative transactions such as accelerated share repurchase transactions, and may be made under a Rule 10b5-1 plan. During the years ended December 31, 2016 and 2015, the Company repurchased common shares totaling $28.6 million and $50.6 million , respectively.

12. Common Shares Reserved

The Company had reserved the following number of shares of common stock for future issuance:

	December 31,		
	2016	2015	2014
Outstanding stock options, performance share units and restricted stock units	6,239,847	5,674,405	5,760,270
Options available for future grants and other awards	5,513,027	3,738,466	5,533,457
Total common shares reserved	11,752,874	9,412,871	11,293,727

13. Income Taxes

The domestic and foreign components of net income before income taxes for the years ended December 31, were as follows:

	2016	2015	2014
Income before income taxes			
U.S. income	$ 15,510	$ 43,544	$ 10,023
Foreign loss	(1,268)	(1,843)	(937)
Net income before income taxes	$ 14,242	$ 41,701	$ 9,086

The provision (benefit) for income taxes consisted of the following for the years ended December 31,:

	2016	2015	2014
Current expense (benefit):			
Federal	$ 944	$ 1,000	$ 401
State	1,044	835	223
Foreign	550	147	676
Total current tax expense	2,538	1,982	1,300
Deferred expense (benefit):			
Federal	9,096	(49,301)	17,395
State	(1,289)	(820)	2,954
Foreign	(93)	(121)	(105)
Total deferred tax (benefit) expense	7,714	(50,242)	20,244
Total income tax expense (benefit)	$ 10,252	$ (48,260)	$ 21,544

As of December 31, 2016 and 2015 , the Company had federal net operating loss carry forwards ("NOLs") of $290.5 million and $265.3 million , respectively, which expire in varying amounts beginning in 2020 through 2035. The NOLs as of December 31, 2016 include $72 million from Yodle pre-acquisition periods. Also, included in the amount of NOLs as of December 31, 2016 and 2015 is $77.0 million and $74.0 million of stock-based compensation tax deductions in excess of book compensation expense ("APIC NOLs"), respectively, which will be credited to additional paid-in-capital when such deductions reduce taxes payable as determined on a "with-and-without" basis. Accordingly, these APIC NOLs will reduce federal taxes payable if realized in future periods, but NOLs related to such benefits are not included in the table below. See Note 2 for additional information related to ASU 2016-09, which the Company will adopt in the first quarter of 2017. The NOLs are subject to various limitations under Section 382 of the Internal Revenue Code. Accordingly, the Company estimates that at least $159.8 million and $137.7 million of the NOLs at December 31, 2016 and 2015 , respectively, will be available during the carry forward period, which are included in the table below.

As of December 31, 2016 , the Company had state NOLs of $324.6 million (which includes $20.1 million related to Yodle), the substantial portion of which expires in varying amounts beginning in 2020 through 2035. As of December 31, 2015 , the Company had state NOLs of $303.2 million .

As of December 31, 2016 and December 31, 2015, the Company had foreign NOLs in the United Kingdom of $51.5 million and $63.8 million , respectively, which do not expire.

As of December 31, 2016 and 2015 , the Company had a Foreign Tax Credit (“FTC”) carry forward of $1.2 million . The FTCs are related to taxes paid in Canada and begin to expire in 2018. As of December 31, 2016 and 2015 , the Company had Research & Development (“R&D”) Tax Credit carry forwards of $0.5 million . The R&D credits begin to expire in 2028 . As of December 31, 2016 and 2015 , the Company had Alternative Minimum Tax (“AMT”) Credit carry forwards of approximately $4.1 million and $3.0 million , respectively, which do not expire.

In establishing its deferred tax assets and liabilities, the Company makes judgments and interpretations based on the enacted tax laws and published tax guidance that are applicable to its operations. Deferred tax assets and liabilities are measured and recorded using currently enacted tax rates, which the Company expects will apply to taxable income in the years in which those temporary differences are recovered or settled.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company’s deferred tax assets and liabilities are as follows at December 31 (in thousands):

	2016	2015
Noncurrent deferred tax assets:		
Deferred revenue	76,887	74,265
NOLs	79,338	74,121
Stock compensation	9,509	9,125
Other deferred tax assets	20,243	17,159
	185,977	174,670
Less: valuation allowance	(22,289)	(26,581)
Total noncurrent deferred tax assets	163,688	148,089
Noncurrent deferred tax liabilities:		
Intangible basis	218,582	158,788
Discount on 2018 Notes	7,005	10,966
Other liabilities	18,004	15,942
Total noncurrent deferred tax liabilities	243,591	185,696
Net noncurrent deferred tax asset	232	233
Net noncurrent deferred tax liability	(80,135)	(37,840)
Net deferred tax liability	$ (79,903)	$ (37,607)

In 2016, net noncurrent deferred tax liabilities increased by $34.7 million related to the Yodle and other acquisitions and decreased $0.1 million due to net foreign currency translation adjustments recorded in Other Accumulated Comprehensive Loss.

Net noncurrent deferred tax assets of $0.2 million above as of December 31, 2016 and 2015 are included in Other Assets in the Consolidated Balance Sheet.

During the year ended December 31, 2016, the valuation allowance decreased by $4.3 million . The net decrease attributable to the Company's state valuation allowance was $0.9 million , which included a $1.5 million increase related to current year book losses attributable to state jurisdictions in which a full valuation allowance was still required, offset by a $2.4 million decrease in our beginning-of-the-year valuation allowance to reflect the amount more likely than not to be realized. The $2.4 million decrease related to a state jurisdiction in which the applicable combined legal entities no longer operated on a 3-year cumulative pre-tax book loss position as of the fourth quarter of 2016. In addition to this positive evidence, the Company also determined that positive evidence associated with forecasted 2017 and future estimated taxable income for this state jurisdiction outweighed the negative evidence in the assessment of the portion of the valuation allowance release in the fourth quarter of 2016. The net decrease attributable to the Company's foreign valuation allowance was $3.4 million , which included a $0.6 million increase related to current year foreign losses for which a full valuation allowance was still required, offset by a $1.8 million decrease related to the decrease in foreign net deferred tax assets attributable to a UK tax rate change and a $2.2 million decrease related to foreign currency translation adjustments associated with the underlying foreign deferred tax assets for which a full valuation allowance was required. The net impact of this foreign currency translation adjustment included in Accumulated Other Comprehensive Loss is zero.

During the year ended December 31, 2015, the valuation allowance decreased by $66.9 million . In December 2015, after weighing all evidence available, the Company determined that it was more likely than not that the Company would be able to realize substantially all its net U.S. Federal deferred tax assets and a portion of its net U.S. state deferred tax assets. As a result, the Company reversed $68.8 million of its beginning of the year valuation allowance related to these deferred tax assets, which was partially offset by current year increases of $1.9 million related to certain foreign and state deferred tax assets for which it was determined that a valuation allowance was still required.

The positive evidence that outweighed the negative evidence used in the Company's assessment of the portion of the valuation allowance released in the fourth quarter of 2015 included, but was not limited to, the following:

- The Company was no longer in a 3-year cumulative pre-tax book loss position as of the fourth quarter of 2015;
- Strong positive trend in financial performance over the last two fiscal years, including each of the previous four quarters; and
- Forecasted 2016 and future period taxable income.

During the year ended December 31, 2014, the valuation allowance increased by $25.2 million . The change in valuation allowance for 2014 includes a net increase of $11.2 million related to the Scoot acquisition, consisting of $11.6 million recorded at the purchase date, an increase of $0.9 million related to foreign currency translation adjustments and a $0.5 million decrease related to activity subsequent to the purchase date.

The valuation allowance at December 31, 2016 of $22.3 million includes $12.4 million and $8.7 million related to foreign and certain state net deferred tax assets, respectively, and $1.2 million related to its U.S. Federal FTC carry forwards, that are not more likely than not to be realized based on the expected reversals of our DTLs and estimated future taxable income within the applicable carry forward periods.

The Company will continue to evaluate its ability to realize our deferred tax assets. If future evidence suggests that any changes are required to reflect the amount of our deferred tax asset that is more likely than not to be realized, the Company will adjust its valuation allowance, as needed in the appropriate period.

The provision (benefit) for income taxes differs from the amount computed by applying the statutory U.S. federal income tax rates as a result of the following for the years ended December 31:

	2016	2015	2014
U.S. statutory rate	35.0 %	35.0 %	34.0 %
State income taxes (net of federal tax benefit)	2.6	2.8	0.3
Stock-based compensation	24.1	4.7	17.5
Change in valuation allowance	(30.2)	(160.5)	159.2
Foreign rate differential	5.2	2.0	6.9
Non-deductible compensation costs	5.2	2.0	10.7
Change in tax rates	13.6	(0.6)	3.9
Foreign currency translation adjustment	15.3	—	—
Unremitted foreign earnings and profits	(0.8)	0.7	3.5
Transaction costs	4.9	—	1.7
Other	(2.9)	(1.9)	(0.6)
Income tax expense (benefit)	72.0 %	(115.8) %	237.1 %

As previously discussed, the change in valuation allowance above includes a $2.2 million (15.3%) decrease related to foreign currency translation adjustments associated with the underlying foreign deferred tax assets for which a full valuation allowance was required. The change in valuation allowance above also includes a $1.8 million (12.8%) decrease related to the decrease in foreign net deferred tax assets attributable to rate changes.

The Company applies ASC 740, Income Taxes, which clarifies the accounting for uncertainty in income tax positions recognized in financial statements. The Company has filed income tax return for years through 2015. These returns are subject to examination by the taxing authorities in the respective jurisdictions generally for three or four years after they are filed. NOLs and certain tax credits generated in these periods, as well as any carry forwards from prior periods, remain subject to adjustment by taxing authorities generally for three or four years after the years in which such NOLs and credit carry forwards are utilized.

The Company’s policy is that it recognizes interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense.

The Company’s unrecognized tax benefits are summarized as follows (in thousands):

Balance at December 31, 2013	$	3,100
Additions in unrecognized tax benefits – prior year tax positions		31
Additions in unrecognized tax benefits – current year tax positions		300
Foreign exchange gains and losses		—
Balance at December 31, 2014	$	3,431
Additions in unrecognized tax benefits – prior year tax positions		73
Additions in unrecognized tax benefits – current year tax positions		300
Settlements		(62)
Lapse of statute of limitations		(248)
Balance at December 31, 2015	$	3,494
Additions in unrecognized tax benefits – prior year tax positions		50
Additions in unrecognized tax benefits – current year tax positions		540
Lapse of statute of limitations		(225)
Balance at December 31, 2016	$	3,859

As of December 31, 2016 and 2015 , the Company had $3.2 million and $2.9 million , respectively, of total unrecognized tax benefits, which could favorably affect the effective rate. The Company recorded a net expense/(benefit) related to interest and penalties of $0.0 million , $(0.2) million , and $0.1 million , during 2016, 2015, and 2014, respectively. The total amount of accrued interest and penalties as of December 31, 2016 and December 31, 2015 , was $0.1 million and $0.1 million , respectively.

The Company’s undistributed foreign earnings of $3.2 million as of December 31, 2016 related to its Canadian subsidiary, Web.com Canada, Inc., and its Argentine subsidiary, NCIT S.R.L., are considered to be indefinitely reinvested into these foreign jurisdictions. Accordingly, the Company has not provided deferred taxes on these earnings. If these earnings were repatriated, the incremental US tax liability would not be material given the Company’s current US tax position.

14. Employee Savings Plans

The Company has a qualifying defined contribution 401(k) plan under the Internal Revenue Code. All employees at the date of hire are eligible to participate in the plan. Each participant may contribute to the plan up to the maximum allowable amount as determined by the Federal Government. Employee 401(k) deferrals are 100% vested. Company contributions are subject to a vesting schedule based on years of service. The Company recorded contribution expense of $1.8 million , $1.1 million and $1.0 million for 2016 , 2015 , and 2014 , respectively.

Effective July 1, 2012, the Company established an unfunded deferred compensation defined contribution plan for key management and highly compensated employees. The purpose of the plan is to provide a select group of employees who contribute significantly to the future business success of the Company with supplemental retirement income benefits through the deferral of base salary and other compensation and through additional discretionary company matching contributions. Deferral elections are made at the discretion of the employee and would be an amount or percentage of the employee's compensation. Each plan year, the Company may, but is not required to, make a matching contribution to the plan on behalf of the participant. In addition, matching contributions need not be uniform among participants. The Company recorded contribution expense of $50 thousand , $51 thousand , and $57 thousand for the years ended December 31, 2016 , 2015 , and 2014 respectively.

Also, effective July 1, 2012, the Company established an unfunded supplemental retirement defined contribution plan for key management. The purpose of the plan is to provide a select group of management or highly compensated employees who contribute significantly to the future business of the company with supplemental retirement income through discretionary company contributions. Each plan year, the Company may, but is not required to, make a discretionary contribution to the plan on behalf of a participant. The Company is under no obligation to make a contribution for the plan year and contributions need not be uniform among participants. The Company recorded contribution expense of $0.6 million and $0.8 million for the years ended December 31, 2016, and 2015, respectively. No contributions were made for the year ended December 31, 2014.

15. Contingencies

From time to time, the Company and its subsidiaries receive inquiries from foreign, federal, state and local regulatory authorities or are named as defendants in various legal actions that are incidental to our business and arise out of or are related to claims made in connection with our marketing practices, customer and vendor contracts and employment related disputes. We believe that the resolution of these investigations, inquiries o r legal actions will not have a material adverse effect on our financial position, marketing practices or results of operations. There were no material legal matters for which a loss was reasonably possible or probable and estimable at December 31, 2016 .

16. Quarterly Results for 2016 and 2015 (UNAUDITED)

	Quarter Ended (in thousands, except per share amounts)									
	March 31,		June 30,		September 30,		December 31,		Total Year	
2016										
Revenue	$	144,798	$	187,818	$	190,686	$	187,203	$	710,505
Income from operations	$	6,912	$	7,578	$	18,093	$	12,121	$	44,704
Net income (loss)	$	337 (2)	$	(1,606)	$	3,346 (3)	$	1,913 (4)	$	3,990
Basic EPS (loss)	$	0.01	$	(0.03)	$	0.07	$	0.04	$	0.08
Diluted EPS (loss)	$	0.01	$	(0.03)	$	0.07	$	0.04	$	0.08
2015										
Revenue	$	132,600	$	135,719	$	136,821	$	138,321	$	543,461
Income from operations	$	11,149	$	14,935	$	16,733	$	18,897	$	61,714
Net income	$	2,339	$	4,550	$	6,094	$	76,978 (1)	$	89,961
Basic EPS	$	0.05	$	0.09	$	0.12	$	1.55	$	1.79
Diluted EPS	$	0.04	$	0.09	$	0.12	$	1.48	$	1.72

(1) Included in the fourth quarter ended December 31, 2015 is the reversal of $68.8 million of valuation allowance for certain U.S. federal and state deferred tax assets, which resulted in the Company recording a tax benefit of $62.7 million in the quarter. Included in the fourth quarter ended December 31, 2016 is the reversal of $2.4 million of valuation allowance for certain state deferred tax assets, which resulted in the Company recording a tax expense of $2.3 million in the quarter.

(2) On March 9, 2016, the Company acquired 100% of the outstanding shares of Yodle, Inc. and paid approximately $300.3 million adjusted for, among other things, Yodle's cash and outstanding debt and transaction related expenses. In addition to the consideration, the Company incurred approximately $3.9 million of acquisition-related transaction expenses which are reflected in the General and Administrative line item of the Consolidated Statement of Comprehensive Income.

(3) The Consolidated Statement of Comprehensive Income includes an asset impairment charge of $2.0 million from writing down domain name inventory.

(4)The Consolidated Statement of Comprehensive Income includes an asset impairment charge of $7.1 million for leasehold improvements that were abandoned as part of exiting the operating lease acquired in the March 2016 Yodle acquisition.

17. Accumulated Other Comprehensive Loss

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

	December 31, 2016	December 31, 2015
Foreign currency translation adjustments	$ (4,019)	$ (2,119)
Unrealized gains on investments	(1)	(29)
Total accumulated other comprehensive (loss) income	$ (4,020)	$ (2,148)

18. Related Party Transactions

Effective February 6, 2015, the Company elected Mr. John A. Giuliani to serve on its Board of Directors. Mr. Giuliani serves as President, Chief Executive Officer and Director of Conversant, a personalized digital marketing platform, which was sold to AllianceData in December 2014. Mr. Giuliani joined Conversant after the acquisition of Dotomi, a dynamic display ad optimization company, where he had served as Chief Executive Officer. During the year ended December 31, 2014, the Company purchased online advertising solutions from Dotomi and Conversant. The Company incurred $0.7 million and $2.0 million of expense related to services provided by Dotomi and Conversant, respectively, during the year ended December 31, 2014. The Company did not incur any expenses related to services provided by Dotomi during the years ended December 31, 2016 and December 31, 2015. The Company incurred $0.7 million and $0.9 million of expense related to services provided by Conversant during the years ended December 31, 2016 and December 31, 2015.

The Company outsources data center services to Quality Technology Services LLC (“QTS”). Prior to May 2014, General Atlantic LLC was one of the Company’s greater than 5 percent shareholders, and had approximately a 50 percent ownership interest in QTS. This business relationship was an agreement between QTS and Network Solutions and was acquired by the Company as a result of the acquisition of Network Solutions and commenced on October 27, 2011 upon the consummation of the acquisition. Effective May 2014, General Atlantic no longer held common shares greater than 5 percent of the total outstanding common shares of the Company and the affiliated board member has departed the Company's Board of Directors. From January through May 2014, the Company incurred approximately $0.6 million in expense related to QTS.

19. Restructuring

Restructuring charges of $3.6 million and $0.6 million during the years ended December 31, 2016 and 2015, respectively, were incurred. Included in the restructuring expense for the year ended December 31, 2016 was $1.4 million of lease restructuring costs for the portion of the New York, New York office of Yodle that was exited in December 2016. The remaining $2.2 million was principally severance expense from terminating certain Yodle positions. As of December 31, 2016, the outstanding liability for severance related restructuring is $0.7 million and the lease restructuring liability was $1.4 million .

20. Asset Impairments

The Company recorded $9.1 million in asset impairment charges during the year ended December 31, 2016. This included a $7.1 million charge resulting from the impairment of leasehold improvements, furniture and fixtures, and office equipment from exiting a portion of the Yodle offices leased in New York and a $2.0 million charge related to domain name inventory. The Company also recorded $2.0 million of asset impairment charges related to domain name inventory during the year ended December 31, 2014.

21. Subsequent Events

On January 31, 2017, the Company acquired Donweb.com which is located in Rosario, Argentina. Donweb.com is a web hosting and domain registration company catering to the Spanish-speaking market. The Company paid approximately $8.4 million at closing on January 31, 2017. The agreement also includes a three year earnout provision.

2. Financial Statement Schedules

The information required by Schedule II, Valuation and Qualifying Accounts, is included in the Consolidated Financial Statements. All other financial statement schedules are not applicable.

3. Exhibits.

INDEX OF EXHIBITS

Exhibit No.	Description of Document
2.1	Agreement and Plan of Merger and Reorganization dated June 26, 2007 by and among the Company, Augusta Acquisition Sub, Inc., and Web.com, Inc. (1)
2.2	Purchase Agreement among the Company, Register.com GP (Cayman) Ltd, each seller named therein and Register.com (Cayman) Limited Partnership, dated June 17, 2010. (2)
2.3	Purchase Agreement among Web.com Group, Inc., Net Sol Holdings LLC and GA-Net Sol Parent, LLC, dated August 3, 2011. (3)
2.4	Agreement and Plan of Merger dated February 11, 2016 by and among the Company, Barton Creek Web.com, LLC and Yodle, Inc. (22)
2.5	Amendment No. 1, dated as of March 9, 2016, by and among Yodle, Inc., a Delaware corporation Web.com Group Inc., a Delaware corporation, Barton Creek Web.com, LLC, a Delaware corporation and wholly owned subsidiary of Parent, and Shareholder Representative Services LLC, a Colorado limited liability company. (24)
3.1	Amended and Restated Certificate of Incorporation of the Web.com Group, Inc. (4)
3.2	Amended and Restated Bylaws of Web.com, Group, Inc. (5)
3.3	Certificate of Ownership and Merger of Registration (6)
4.1	Reference is made to Exhibits 3.1 and 3.2
4.2	Specimen Stock Certificate. (6)
4.3	Indenture dated August 14, 2013 between the Company and Wells Fargo Bank, National Association, as Trustee. (7)
4.4	First Supplemental Indenture, dated August 14, 2013, between the Company and Wells Fargo Bank, National Association, as Trustee (including the form of 1.00% Senior Convertible Notes due 2018). (7)
10.1	1999 Equity Incentive Plan and forms of related agreements. (4)†
10.2	2005 Equity Incentive Plan and forms of related agreements. (4)†
10.3	2005 Non-Employee Directors' Stock Option Plan and forms of related agreements. (4)†
10.4	2005 Employee Stock Purchase Plan. (4)†
10.5	Form of Indemnity Agreement entered into between the Company and certain of its officers and directors. (4)
10.6	Form of Restricted Stock Unit Grant Notice and Restricted Stock Unit Agreement under Web.com Group, Inc. 2008 Equity Incentive Plan. (5)†
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10.16	Amended and Restated Employment Agreement between the Company and David L. Brown. (15)†
10.17	Amended and Restated Employment Agreement between the Company and Kevin M. Carney. (15)†
10.18	Amendment to Employment Arrangement with Jason Teichman. (16)†
10.19	Compensatory Arrangements of certain officers. (17)†
10.20	Lease agreement dated December 4, 2007 between the Company and FDG Flagler Center I, LLC (18)
10.21	Amended and Restated First Lien Credit Agreement, dated March 6, 2013. (19)

10.22	Web.com Group, Inc. 2014 Equity Incentive Plan. (20)
10.23	Credit Agreement, dated as of September 9, 2014, by and among Web.com Group, Inc., the several banks and other financial institutions or entities from time to time parties thereto, JPMorgan Chase Bank, N.A. and SunTrust Bank., as co-syndication agents, Regions Bank, Fifth Third Bank, Bank of America, N.A., Barclays Bank plc, Wells Fargo Bank, National Association, Royal Bank of Canada, Deutsche Bank Securities Inc. and Compass Bank, as co-documentation agents, and JPMorgan Chase Bank, N.A., as administrative agent. (21)
10.24	Amendment to Credit Agreement, dated as of February 11, 2016, by and among the Company, the guarantors party thereto, JPMorgan Chase Bank, N.A., as administrative agent and the lenders party thereto. (22)
21.1	Subsidiaries of the Company.
23.1	Consent of Ernst & Young, LLP, Independent Registered Certified Public Accounting Firm.
24.1	Power of Attorney (included in the signature page hereto).
31.1	Chief Executive Officer Certification required by Rule 13a-14(a) or Rule 15d-14(a).
31.2	Chief Financial Officer Certification required by Rule 13a-14(a) or Rule 15d-14(a).
32.1	Certifications of Chief Executive Officer and Chief Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350). (23)
EX-101.INS	XBRL Instance Document.*
EX-101.SCH	XBRL Taxonomy Extension Schema Document.*
EX-101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
EX-101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.*
EX-101.LAB	XBRL Taxonomy Extension Label Linkbase Document.*
EX-101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.*

(1) Filed as an Exhibit to the Company’s current report on Form 8-K (000-51595), filed with the SEC on June 27, 2007, and incorporated herein by reference.

(2) Filed as an Exhibit to the Company’s quarterly report on Form 10-Q (000-51595), filed with the SEC on August 4, 2010, and incorporated herein by reference.

(3) Filed as Annex A to the Company’s definitive proxy statement on Schedule 14A, filed with the SEC on September 22, 2011, and incorporated herein by reference.

(4) Filed as an Exhibit to the Company’s registration statement on Form S-1 (333-124349), filed with the SEC on April 27, 2005, as amended, and incorporated herein by reference.

(5) Filed as an Exhibit to the Company’s current report on Form 8-K (000-51595), filed with the SEC on February 10, 2009, and incorporated herein by reference.

(6) Filed as an Exhibit to the Company’s current report on Form 8-K (000-51595), filed with the SEC on October 30, 2008, and incorporated herein by reference.

(7) Filed as an Exhibit to the Registrant's current report on Form 8-K (000-51595), filed with the SEC on August 14, 2013, and incorporated herein by reference.

(8) Filed as an Exhibit to the Company’s registration statement report on Form S-1 (333-124349), filed with the SEC on June 8, 2005.

(9) Filed as Appendix B to the Company’s proxy statement on Schedule 14A, filed with the SEC on April 14, 2008, and incorporated herein by reference.

(10) Filed as an Exhibit to the Company’s annual report on Form 10-K (000-51595), filed with the SEC on March 6, 2013, and incorporated herein by reference.

(11) Filed as an Exhibit to the Company’s registration statement on Form S-8 (333-158819), filed with the SEC on April 27, 2009, and incorporated herein by reference.

(12)Filed as an Exhibit to the Company's registration statement on Form S-8 (333-168641), filed with the SEC on August 9, 2010, and incorporated herein by reference.

(13)Filed as an Exhibit to the Company's registration statement on Form S-8 (333-177610), filed with the SEC on October 31, 2011, and incorporated herein by reference.

(14)Filed as an Exhibit to the Company's quarterly report on Form 8-K (000-51595), filed with the SEC on June 19, 2012.

(15)Filed as an Exhibit to the Company's current report on Form 8-K (000-51595), filed with the SEC on March 11, 2011, and incorporated herein by reference.

(16)Incorporated by reference to Item 5.02 of the Current Report on Form 8-K, filed with the SEC on September 30, 2013, with respect to salary increase for Mr. Teichman (SEC File No. 000-51595).

(17)Filed as Item 5.02 to the Company's current report on Form 8-K (000-51595), filed with the SEC on February 1, 2013.

(18)Filed as an exhibit to the Company's quarterly report on Form 10-Q (000-51595), filed with the SEC on May 12, 2008, and incorporated herein by reference.

(19)Filed as an exhibit to the Company's current report on Form 8-K (000-51595), filed with the SEC on March 6, 2013.

(20)Filed as Appendix A to the Registrant's Proxy Statement on Schedule 14A, filed with the SEC on March 28, 2014, and incorporated by reference.

(21)Filed as an Exhibit to the Registrant's current report on Form 8-K (000-51595), filed with the SEC on September 10, 2014, and incorporated herein by reference.

(22)Filed as an Exhibit to the Registrant's current report on Form 8-K (000-51595), filed with the SEC on February 16, 2016, and incorporated herein by reference.

(23)The certification attached as Exhibit 32.1 accompanying this Annual Report on Form 10-K, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Web.com Group, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Annual Report on Form 10-K, irrespective of any general incorporation language contained in such filing.

(24)Filed as an Exhibit to the Registrant's current report on Form 8-K (000-51595), filed with the SEC on March 11, 2016, and incorporated herein by reference.

† Management contract or compensatory plan or arrangement.

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

SIGNATURES

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

Web.com Group, Inc.
(Registrant)

February 28, 2017	/s/ Kevin M. Carney
Date	**Kevin M. Carney** **Chief Financial Officer** **(Principal Financial and Accounting Officer)**

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints David L. Brown and Kevin M. Carney, and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution for him, and in his name in any and all capacities, to sign any and all amendments to this Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, and any of them or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1934, this report has been signed by the following persons on behalf of the Registrant in the capacities indicated on February 28, 2017 :

Name	Title
/s/ David L. Brown David L. Brown	Chairman, President, Chief Executive Officer (Principal Executive Officer)
/s/ Kevin M. Carney Kevin M. Carney	Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Timothy I. Maudlin Timothy I. Maudlin	Lead Director
/s/ Timothy P. Cost Timothy P. Cost	Director
/s/ Hugh M. Durden Hugh M. Durden	Director
/s/ Philip J. Facchina Philip J. Facchina	Director
/s/ John Giuliani John Giuliani	Director
/s/ Robert S. McCoy, Jr. Robert S. McCoy, Jr.	Director
/s/ Deborah H. Quazzo Deborah H. Quazzo	Director

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(3) Filed as Annex A to the Company's definitive proxy statement on Schedule 14A, filed with the SEC on September 22, 2011, and incorporated herein by reference.

(4) Filed as an Exhibit to the Company's registration statement on Form S-1 (333-124349), filed with the SEC on April 27, 2005, as amended, and incorporated herein by reference.

(5) Filed as an Exhibit to the Company's current report on Form 8-K (000-51595), filed with the SEC on February 10, 2009, and incorporated herein by reference.

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(12)Filed as an Exhibit to the Company's registration statement on Form S-8 (333-168641), filed with the SEC on August 9, 2010, and incorporated herein by reference.

(13)Filed as an Exhibit to the Company's registration statement on Form S-8 (333-177610), filed with the SEC on October 31, 2011, and incorporated herein by reference.

(14)Filed as an Exhibit to the Company's quarterly report on Form 8-K (000-51595), filed with the SEC on June 19, 2012.

(15)Filed as an Exhibit to the Company's current report on Form 8-K (000-51595), filed with the SEC on March 11, 2011, and incorporated herein by reference.

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(22)Filed as an Exhibit to the Registrant's current report on Form 8-K (000-51595), filed with the SEC on February 16, 2016, and incorporated herein by reference.

(23)Filed as an Exhibit to the Registrant's current report on Form 8-K (000-51595), filed with the SEC on March 11, 2016, and incorporated herein by reference.

(24)The certification attached as Exhibit 32.1 accompanying this Annual Report on Form 10-K, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Web.com Group, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Annual Report on Form 10-K, irrespective of any general incorporation language contained in such filing.

(25)Filed as an Exhibit to the Registrant's current report on Form 8-K (000-51595), filed with the SEC on March 11, 2016, and incorporated herein by reference.

† Management contract or compensatory plan or arrangement.

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

Subsidiaries of the Registrant	State (or jurisdiction) incorporated
Enable Media Limited	United Kingdom
Franchise Website Solutions, LP	Delaware
Monster Commerce, LLC	California
NameJet, LLC	Delaware
NameSecure, LLC	Delaware
NCIT S.R.L	Argentina
Network Solutions, LLC	Delaware
New Ventures Services, Corp.	British Virgin Islands
Register.com, Inc.	Delaware
RPI, Inc.	Delaware
SnapNames Web.com, LLC	Oregon
TLDS, LLC	Delaware
Touch Local Limited	United Kingdom
Web.com Canada, Inc.	Canada
Web.com Group, Inc.	Delaware
Web.com Holding Company, Inc.	Delaware
Yodle Web.com, Inc.	Delaware

Exhibit 23.1

Consent of Independent Registered Certified Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

1) Registration Statement (Form S-8 No. 333-135101) pertaining to the 2005 Equity Incentive Plan, 2005 Non-Employee Directors' Stock Option Plan, and 2005 Employee Stock Purchase Plan of Web.com Group, Inc.,

2) Registration Statement (Form S-8 No. 333-150872) pertaining to the 2008 Equity Incentive Plan of Web.com Group, Inc.,

3) Registration Statement (Form S-8 No. 333-186271) pertaining to the 2008 Equity Incentive Plan of Web.com Group, Inc.,

4) Registration Statement (Form S-3 No. 333-179553) of Web.com Group, Inc. and in the related Prospectus,

5) Registration Statement (Form S-8 No. 333-177610) pertaining to the 2011 Inducement Award Plan of Web.com Group, Inc.,

6) Registration Statement (Form S-8 No. 333-168641) pertaining to the 2010 Inducement Award Plan of Web.com Group, Inc.,

7) Registration Statement (Form S-8 No. 333-158819) pertaining to the 2009 Inducement Award Plan of Web.com Group, Inc.,

8) Registration Statement (Form S-8 No. 333-148848) pertaining to the Website Pros, Inc. 2005 Equity Incentive Plan, Website Pros, Inc. 2005 Non-Employee Directors' Stock Option Plan, Website Pros, Inc. 2005 Employee Stock Purchase Plan, Interland-Georgia 1999 Stock Plan, Interland 1995 Stock Option Plan, Interland 2001 Equity Incentive Plan, Interland 2002 Equity Incentive Plan, Interland 2005 Equity Incentive Plan, and Interland 2006 Equity Incentive Plan of Web.com Group, Inc.,

9) Registration Statement (Form S-8 No. 333-129406) pertaining to the 1999 Equity Incentive Plan, Miscellaneous Stock Option Agreements, 2005 Equity Incentive Plan, 2005 Non-Employee Directors' Stock Option Plan, and 2005 Employee Stock Purchase Plan of Web.com Group, Inc.,

10) Registration Statement (Form S-8 No. 333-188223) pertaining to the 2005 Equity Incentive Plan and 2005 Non-Employee Directors' Stock Option Plan of Web.com Group, Inc.,

11) Registration Statement (Form S-3 No. 333-190479) of Web.com Group, Inc. and in the related Prospectus,

12) Registration Statement (Form S-8 No. 333-196205) pertaining to the Web.com Group, Inc. 2014 Equity Incentive Plan,

13) Registration Statement (Form S-3 No. 333-198308) of Web.com Group, Inc. and in the related Prospectus,

14) Registration Statement (Form S-8 No. 333-210047) pertaining to the Web.com Group, Inc. 2016 Inducement Award Plan and the Yodle, Inc. 2007 Equity Incentive Plan, and

15) Registration Statement (Form S-8 No. 333-215843) pertaining to the Web.com Group, Inc. 2017 DonWeb Inducement Award Plan;

of our reports dated February 28, 2017, with respect to the consolidated financial statements of Web.com Group, Inc. and the effectiveness of internal control over financial reporting of Web.com Group, Inc. included in this Annual Report (Form 10-K) of Web.com Group, Inc. for the year ended December 31, 2016.

/s/ Ernst & Young LLP

Tampa, Florida
February 28, 2017

Exhibit 31.1

CERTIFICATION

I, David L. Brown, certify that:

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

Date: February 28, 2017

By: /s/ David L. Brown

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

Exhibit 31.2

CERTIFICATION

I, Kevin M. Carney, certify that:

1. I have reviewed this Form 10-K of Web.com Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2017

By: /s/ Kevin M. Carney

Kevin M. Carney **Chief Financial Officer** ***(Principal Financial and Accounting Officer)***

Exhibit 32.1

CERTIFICATION

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

1. The Company's annual report on Form 10-K for the period ended December 31, 2016 , to which this Certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act, and
2. The information contained in the Period Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF , the undersigned has set his hand hereto as of February 28, 2017 .

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

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