

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 10534 / August 21, 2018

SECURITIES EXCHANGE ACT OF 1934
Release No. 83894 / August 21, 2018

ADMINISTRATIVE PROCEEDING
File No. 3-18654

In the Matter of

Waruna Tivanka Ellawala,

Respondents.

ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933 AND SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 and Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), against Waruna Tivanka Ellawalla (“Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over him and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933 and Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds¹ that:

¹ The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Summary

1. During the period from October 2013 through February 2015 (the “Relevant Period”), Ellawala was the Chief Financial Officer of Endurance International Group Holdings, Inc. (“Endurance”). Endurance describes itself as a provider of cloud-based platform solutions such as web hosting and domain registration services to small- and medium-sized businesses. As such, it derived most of its revenue from offering subscription based software solutions. During the Relevant Period, the company disclosed and reported its subscriber count and its average revenue per subscriber to the investing public, including through its required quarterly and annual filings with the Commission. In the quarterly and annual reports, the company identified its subscriber count and average revenue per subscriber as two of the key metrics it used to evaluate the operating and financial performance of its business, identify trends affecting its business, develop projections and make strategic business decisions.

2. At times during the Relevant Period, Endurance made material misrepresentations and omissions about the company’s subscriber metrics. Due to an error first identified by Endurance in May 2014, Endurance overstated its subscriber count in its required periodic filings with the Commission from the time of its initial public offering of stock in October 2013 to the filing of its periodic report for the third quarter of fiscal year 2014 in November 2014. In addition, when Endurance corrected the overstatement in connection with the filing of its periodic report with the Commission for fiscal year 2014 in February 2015, the company made additional material misstatements and omissions which failed to disclose the fact of the correction and the impact of the correction on the company’s publicly reported operating metrics. The Commission has previously addressed Endurance’s violations of the federal securities laws arising out of this conduct. *See In the Matter of Endurance International Group Holdings, Inc. and Constant Contact, Inc.*, AP File No. 3-18531, June 5, 2018.

3. In May 2014, and thereafter during the Relevant Period, Ellawala received information concerning Endurance’s efforts to quantify and address its subscriber error. While in possession of information regarding the subscriber error, Ellawala reported Endurance’s overstated subscriber metrics to the investing public in quarterly earnings calls. In addition, he signed certifications as to the effectiveness of Endurance’s disclosure controls and the accuracy of Endurance’s periodic report for fiscal year 2014.

Respondent

4. **Waruna Tivanka Ellawala**, age 48, is a resident of Sri Lanka. He was Endurance’s Chief Financial Officer from December 2012 to September 2015.

Relevant Entity

5. **Endurance International Group Holdings, Inc.** is a Delaware company with a principal place of business in Burlington, Massachusetts. It describes itself as a company that provides cloud-based platform solutions such as web hosting and domain registration services to small- and medium-sized businesses. Endurance's common stock is registered with the Commission pursuant to Section 12(b) of the Exchange Act and is quoted under the symbol "EIGI" on the NASDAQ Global Select Market.

Facts

6. In October 2013, Endurance had its initial public offering ("IPO") and its stock began trading on the NASDAQ exchange. Prior to and after its IPO, Endurance grew through internal growth and a series of acquisitions. As a result of these acquisitions, Endurance acquired multiple billing systems across different platforms. Endurance acquired Hostgator, a web hosting company, in 2012. Hostgator had its own internal billing system that Endurance was working to integrate through 2013 and 2014. In 2014, Hostgator was one of Endurance's largest web presence brands.

7. In May 2014, Ellawala and other members of Endurance's senior management learned that Hostgator had identified a potential error in its subscriber counting calculation which overstated the brand's subscriber count by including in the count a certain population of customers that had previously cancelled their subscriptions. Ellawala supervised the remediation of the Hostgator error, and received periodic reports from Endurance's Senior Vice President of Corporate Strategy regarding efforts to size and correct the error. At the time that Ellawala was made aware of the subscriber error, Endurance's Chief Operating Officer's initial estimate as to the magnitude of the error suggested that it could reduce Hostgator's subscriber tally, and by extension Endurance's overall subscriber count, by up to 80,000 subscribers.

8. In July 2014, prior to Endurance's disclosure of financial results for the second quarter of 2014, Ellawala learned from the Senior Vice President of Corporate Strategy that the subscriber error issue had not been accurately quantified, the company had not completed its analysis of the subscriber error, but that estimates of its impact had changed significantly since May 2014.

9. When Endurance filed with the Commission a Form 10-Q that included its financial results for the second quarter of fiscal year 2014 (the quarter ended June 30, 2014), it reported that the company had a total of approximately 3.7 million subscribers and had added approximately 93,000 net paying subscribers in the quarter. The reported subscriber metrics failed to take into account the discovery of the over-counting error at Hostgator. During the company's earnings call in connection with the second quarter of fiscal year 2014 results, Ellawala reported Endurance's net subscriber additions and total subscribers without providing any information concerning the discovery of an error in the subscriber count calculation.

10. In August 2014, Ellawala informed Endurance's Chief Executive Officer that the Hostgator subscriber error had not been resolved and the analysis was ongoing. In September

2014, he received an internal company estimate regarding the size of the subscriber error which indicated that the subscriber count could be overstated by as much as 250,000 subscribers.

11. When Endurance filed with the Commission a Form 10-Q that included its financial results for the third quarter of fiscal year 2014 (the quarter ended September 30, 2014), it reported that the company had a total of approximately 3.8 million subscribers and had added approximately 94,000 net paying subscribers in the quarter. The reported subscriber metrics failed to take into account the discovery of the over-counting error at Hostgator. During the company's earnings call in connection with the third quarter of fiscal year 2014 results, Ellawala reported Endurance's net subscriber additions and total subscribers without providing any information concerning the discovery of an error in the subscriber count calculation.

12. Endurance completed its analysis of the over-counting error at Hostgator prior to publicly reporting its financial results for the fourth quarter and fiscal year 2014 (the quarter and fiscal year ended December 31, 2014). The final analysis, which accounted for counting errors at all brands in the Endurance portfolio, determined that, by that time, the company's subscriber count was materially overstated by approximately 424,000 subscribers (more than 10% of the company's total subscriber balance). In the same quarter, Ellawala was involved in Endurance's decision to change its definition of total subscribers to include customers of other products who had not previously been included in the company's publicly-disclosed subscriber count. The change to the subscriber definition was recommended by Endurance's Senior Vice President of Corporate Strategy to more accurately reflect Endurance's business. However, the manner in which the subscriber change was implemented was misleading. Ellawala was aware that one of the effects of the changed definition was to offset the 424,000 reduction that resulted from the correction of the over-counting error.

13. When Endurance filed with the Commission a Form 10-K that included its financial results for the fourth quarter and fiscal year 2014, it reported that the company had a total of approximately 4.1 million subscribers and had added approximately 600,000 subscribers during the year, 200,000 of which had been added through acquisitions of other companies. Endurance disclosed publicly, including in its Commission filings, that it had modified its definition of total subscribers to include paid subscribers to all of its subscription-based products, rather than paid subscribers to web presence solutions as previous reports had reflected. The company did not, however, provide a reconciliation between the subscriber count under its prior definition and the subscriber count under the new definition. As a result, investors were not informed that the adoption of the new definition masked a reduction of 424,000 in the prior subscriber count by including approximately 482,000 subscribers who would not have been included under the prior definition.

14. In connection with the filing of the Form 10-K for fiscal year 2014, Ellawala signed certifications as to the effectiveness of Endurance's disclosure controls and the accuracy of Endurance's periodic report for fiscal year 2014. During the earnings call for the fourth quarter of fiscal year 2014, Ellawala reported Endurance's net subscriber additions and total subscribers without providing any information concerning the discovery of an error in the subscriber count calculation. He failed to inform investors that much of the increase in subscribers over the course

of the quarter and year would have been offset by the correction of the subscriber balance but for the subscriber definition change.

15. Endurance’s inconsistent reporting of subscriber data impacted the company’s publicly reported subscriber count from third quarter of fiscal year 2013 through the third quarter of fiscal year 2014. The company did not provide investors with information about the impact of the counting errors on prior periods when it made a correction in the fourth quarter of fiscal year 2014. The corrected subscriber numbers, as detailed below, indicate that net subscriber additions reported by Endurance on a quarterly basis were materially overstated as follows:

As Reported (in thousands)	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14
Beginning Subscriber Balance	3,370	3,440	3,502	3,654	3,747
Net Adds	70	62	152	93	94
Ending Subscriber Balance	3,440	3,502	3,654	3,747	3,841
Revised (in thousands)	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14
Beginning Subscriber Balance	3,307	3,335	3,370	3,482	3,507
Net Adds	28	35	112	25	36
Ending Subscriber Balance	3,335	3,370	3,482	3,507	3,543

16. Based on the conduct described above, Endurance’s publicly reported subscriber count was materially overstated and its disclosures concerning the subscriber count were materially misleading. Among others, Endurance made misstatements and omissions regarding its subscriber count in certain Forms 10-K, 10-Q, and 8-K filed with the Commission on December 3, 2013, December 6, 2013, February 25, 2014, February 28, 2014, May 6, 2014, May 9, 2014, August 7, 2014, August 8, 2014, November 4, 2014, November 7, 2014, February 23, 2015, and February 27, 2015. During the relevant period, Endurance failed to implement a policy across its brands to ensure that subscribers were counted in a consistent and reliable manner.

17. As Chief Financial Officer of Endurance, Ellawala signed the periodic reports Endurance filed with the Securities and Exchange Commission and participated in their preparation. Ellawala also personally reported subscriber counts to the investing public on earnings calls. In performing these roles, Ellawala had a duty to ensure that Endurance’s subscriber count error did not impact the accuracy of reported subscriber counts to the investing public. Ellawala was aware of the subscriber count error as early as May 2014, but failed to ensure that it was resolved and/or promptly and accurately reflected in the company’s public disclosures. In connection with the company’s disclosures in February 2015, Ellawala and others failed to ensure that Endurance considered the adequacy of the company’s explanation of its changed methodology for counting subscribers and, in particular, to consider whether the changed methodology had the effect of masking a flatter trend in the company’s subscriber growth trajectory than had been previously disclosed. Ellawala was negligent in failing to carry out these duties, and as a result, Endurance reported subscriber metrics in Commission filings and analyst conference calls that were artificially inflated by the subscriber count error.

Endurance and Ellawala Offered Securities

18. During the Relevant Period, Endurance issued shares through employee share purchase plans offered to employees. Also during the relevant period, Endurance issued common stock in an initial public offering on October 24, 2013 and a secondary public offering on November 26, 2014.

19. Ellawala and other investors sold Endurance stock on November 26, 2014 and March 6, 2015.

Violations

20. Section 17(a)(2) of the Securities Act prohibits negligently obtaining money or property by means of a material false statement or omission. As a result of the conduct described above, Ellawala violated Section 17(a)(2) of the Securities Act.

21. Section 13(a) of the Exchange Act requires issuers of securities registered pursuant to Section 12 of the Exchange Act to file periodic and other reports with the Commission. With exceptions not applicable here, Rules 13a-1, 13a-11, and 13a-13 of the Exchange Act require each issuer to file annual, current, and quarterly reports respectively on the appropriate forms and within the period specific on the form. Rule 12b-20 further requires that the required reports contain such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made, not misleading. As a result of the conduct described above, Ellawala was a cause of Endurance's violations of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11, and 13a-13 thereunder.

22. Section 13(b)(2)(A) of the Exchange Act requires issuers of securities registered pursuant to Section 12 of the Exchange Act to make and keep books, records and accounts, which, in reasonable detail, accurately and fairly reflect their transactions and dispositions of their assets. As a result of the conduct described above, Ellawala was a cause of Endurance's violations of Section 13(b)(2)(A) of the Exchange Act.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent's Offer.

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 8A of the Securities Act and Section 21C of the Exchange Act, Respondent shall cease and desist from committing or causing any violations and any future violations of Sections 13(a) and 13(b)(2)(A) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11, and 13a-13 thereunder, and Section 17(a)(2) of the Securities Act.

B. Respondent Ellawala shall within 30 days of the entry of this Order pay disgorgement in the principal amount of \$15,566.77, prejudgment interest in the amount of

\$1,785.45, and a civil monetary penalty in the amount of \$17,000, for a total of \$34,352.22, to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717.

Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Ellawala as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Associate Director John T. Dugan, Division of Enforcement, Securities and Exchange Commission, Boston Regional Office, 33 Arch Street, 24th Floor, Boston, MA 02110.

C. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, he shall not argue that he is entitled to, nor shall he benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent Ellawala's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that he shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action"

means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts set forth in the Order instituted by the Commission in this proceeding.

By the Commission.

Brent J. Fields
Secretary