

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains, in addition to historical information, forward-looking statements by us with regard to our expectations as to financial results and other aspects of our business that involve risks and uncertainties and may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “may,” “should,” “anticipate,” “believe,” “plan,” “estimate,” “expect” and “intend,” and other similar expressions are intended to identify forward-looking statements. The forward-looking statements contained in this report include statements regarding, among other things, the competition we expect to encounter as our business develops and competes in a broader range of Internet services, our expectation regarding the acquisition of eNom, the Company's foreign currency requirements, specifically for the Canadian dollar; Ting mobile and fixed Internet access subscriber growth and retention rates; our belief regarding the underlying platform for our domain services, our expectation regarding the trend of sales of domain names and advertising; our belief that, by increasing the number of services we offer, we will be able to generate higher revenues; the revenue that our parked page vendor relationships may generate in the future; our expectation regarding litigation; the potential impact of current and pending claims on our business; our valuations of certain deferred tax assets; our expectation to collect our outstanding receivables, net of our allowance for doubtful accounts; our expectation regarding fluctuations in certain expense and cost categories; our expectations regarding our unrecognized tax; our expectations regarding cash from operations to fund our business; the impact of cancellations of or amendments to market development fund programs under which we receive funds, our expectation regarding our ability to manage realized gains/losses from foreign currency contracts; and general business conditions and economic uncertainty. These statements are based on management’s current expectations and are subject to a number of uncertainties and risks that could cause actual results to differ materially from those described in the forward-looking statements. Many factors affect our ability to achieve our objectives and to successfully develop and commercialize our services including:

- Changes in the nature of key strategic relationships with our Mobile Virtual Network Operator (“MVNO”) partners;
- The effects of vigorous competition on a highly penetrated mobile telephony market, including the impact of competition on the price we are able to charge subscribers for services and devices and on the geographic areas served by our MVNO partner wireless networks;
- Our ability to manage any potential increase in subscriber churn or bad debt expense;
- Our ability to continue to generate sufficient working capital to meet our operating requirements;
- Our ability to maintain a good working relationship with our vendors and customers;
- The ability of vendors to continue to supply our needs;
- Actions by our competitors;
- Our ability to attract and retain qualified personnel in our business;
- Our ability to effectively manage our business;
- The effects of any material impairment of our goodwill or other indefinite-lived intangible assets;
- Our ability to obtain and maintain approvals from regulatory authorities on regulatory issues;
- Our ability to invest in the build-out of fiber networks into selected towns and cities to provide Internet access services to residential and commercial customers while maintaining the development and sales of our established services;
- Our ability to effectively integrate acquisitions, including the acquisition of eNom in January 2017;
- Our ability to service our debt, including interest payments and scheduled principal repayments;
- Pending or new litigation; and
- Factors set forth herein under the caption “Item 1A Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

This list of factors that may affect our future performance and financial and competitive position and also the accuracy of forward-looking statements is illustrative, but it is by no means exhaustive. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty. All forward-looking statements included in this document are based on information available to us as of the date of this document, and we assume no obligation to update these cautionary statements or any forward-looking statements except to the extent of any obligations under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or the Securities Act of 1933, as amended. These statements are not guarantees of future performance.

We qualify all the forward-looking statements contained in this Quarterly Report on Form 10-Q by the foregoing cautionary statements.

OVERVIEW

Our mission is to provide simple useful services that help people unlock the power of the Internet. We accomplish this by reducing the complexity our customers’ experience as they access the Internet (at home or on the go) or Internet services such as domain name registration, email, mobile telephony services and other Internet services. We are organized and managed based on two segments, Network Access Services and Domain Services, which are differentiated primarily by their services, the markets they serve and the regulatory environments in which they operate.

Our principal place of business is located in Canada. Our Network Access Services segment primarily derives revenue from the sale of retail mobile phones, telephony services and high-speed Internet access to individuals and small businesses, and our Domain Services segment derives revenue from three distinct service offerings – Wholesale, Retail and Portfolio. To assist us in forecasting growth and to help us monitor the effectiveness of our operational strategies, our management regularly reviews revenue and cost of revenues for each of our segments in order to gain more depth and understanding of the key business metrics driving our business.

On January 20, 2017, we completed the acquisition of eNom, a domain registrar business. For more information on this acquisition, see note 4(b) to the unaudited interim financial statements included in this report.

For the three months ended September 30, 2017 and September 30, 2016, we reported revenue of \$85.0 million and \$49.1 million, respectively.

For the nine months ended September 30, 2017 and September 30, 2016, we reported revenue of \$238.8 million and \$141.0 million, respectively.

Network Access Services

Network Access Services includes mobile, fixed high-speed Internet access services, Internet hosting and network consulting services.

Our mobile services are primarily distributed through the Ting website and to a lesser extent certain third-party retail stores and on-line retailers. We generate revenues from the sale of retail telephony services, mobile phone hardware and related accessories (“Ting Mobile”) to individuals and small businesses through the Ting website. Ting Mobile’s primary focus is providing simple and easy to use services, including simple value pricing, in particular for multi-line accounts, and superior customer care. On September 19, 2017, the Company acquired the consumer related assets of Otono, Networks Inc. The consumer assets relate to the mobile roaming and instant activation eSIM business under the Roam Mobility, Zipsim and Always Online Wireless brands. The acquired portfolio operates as a MVNO on the same nationwide GSM network as Ting Mobile and distributes through third-party retail stores and product branded websites.

The Company also derives revenue from the sale of fixed high-speed Internet access (“Ting Internet”) in select towns including Holly Springs, North Carolina, Westminster, Maryland; and Charlottesville, Virginia. Our primary sales channel of Ting Internet is through the Ting website. The primary focus of Ting Internet is to provide reliable Gigabit Internet services to consumer and business customers. We also derive revenue from providing Internet hosting and network consulting services to business customers in Central Virginia through our acquisition of a 70% share in Ting Virginia, LLC on February 27, 2015, which was increased to a 90% interest in February, 2017.

Revenues from Ting Mobile and Ting Internet are generated in the United States and are provided on a monthly basis with no fixed contract term.

As of September 30, 2017, Ting managed mobile telephony services for approximately 171,000 subscribers and had approximately 281,000 devices under management. For a discussion of the subscribers and devices under management and how they impacted our financial results, see the Net Revenue discussion below.

Domain Services

Domain Services include wholesale and retail domain name registration services, value added services and portfolio services derived through our OpenSRS, eNom and YummyNames brands. We earn revenues primarily from the registration fees charged to resellers in connection with new, renewed and transferred domain name registrations. In addition, we earn revenues from the sale of retail domain name registration and email services to individuals and small businesses; and by making our portfolio of domain names available for sale or lease. Domain Services revenues are attributed to the country in which the contract originates, primarily Canada and the United States.

Our primary distribution channel is a global network of approximately 39,000 resellers that operate in over 150 countries and who typically provide their customers, the end-users of Internet-based services, with solutions for establishing and maintaining an online presence. The increase in our reseller network during the year from 13,000 resellers resulted from our acquisition of eNom in January 2017. Our primary focus is serving the needs of this network of resellers by providing the broadest portfolio of gTLD and ccTLD options and related services, a white-label platform that facilitates the provisioning and management of domain names, a powerful Application Program Interface (API), easy-to-use interfaces, comprehensive management and reporting tools, and proactive and attentive customer service. Our services are integral to the solutions that our resellers deliver to their customers. We provide “second tier” support to our resellers by email, chat and phone in the event resellers experience issues or problems with our services. In addition, our Network Operating Center proactively monitors all services and network infrastructure to address deficiencies before customer services are impacted.

We believe that the underlying platforms for our services are among the most mature, reliable and functional reseller-oriented provisioning and management platforms in our industry, and we continue to refine, evolve and improve these services for both resellers and end-users. Our business model is characterized primarily by non-refundable, up-front payments, which lead to recurring revenue and positive operating cash flow.

Wholesale, primarily branded as OpenSRS and eNom, derives revenue from its Domain Service and from providing Value-Added Services. The OpenSRS and eNom Domain Services manage 28 million domain names under the Tucows and eNom ICANN registrar accreditations and for other registrars under their own accreditations. Value-Added Services include hosted email which provides email delivery and webmail access to millions of mailboxes, Internet security services, publishing tools and other value-added services. All of these services are made available to end-users through a network of 39,000 web hosts, Internet service providers (“ISPs”), and other resellers around the world. In addition, we also derive revenue by monetizing domain names which are near the end of their lifecycle through advertising revenue or auction sale.

Retail, primarily the Hover and eNom portfolio of websites, including eNom, eNom Central and Bulkregister, derive revenues from the sale of domain name registration and email services to individuals and small businesses. Retail also includes our Personal Names Service – based on over 36,000 surname domains – that allows roughly two-thirds of Americans to purchase an email address based on their last name.

Portfolio generates revenue by offering names in our domain portfolio for resale through a number of distribution channels, and our reseller network. We also generate advertising revenue from our portfolio.

KEY BUSINESS METRICS

We regularly review a number of business metrics, including the following key metrics, to assist us in evaluating our business, measure the performance of our business model, identify trends impacting our business, determine resource allocations, manage our operational cash flow, formulate financial projections and make strategic business decisions. The following are key business metrics:

Adjusted EBITDA

Tucows reports all financial information in accordance with United States generally accepted accounting principles (GAAP). Along with this information, to assist financial statement users in an assessment of our historical performance, we typically disclose and discuss a non-GAAP financial measure, adjusted EBITDA, on investor conference calls and related events that exclude certain non-cash and other charges as we believe that the non-GAAP information enhances investors' overall understanding of our financial performance. For additional information regarding adjusted EBITDA, see “—Results of Operations for the Three and Nine Months Ended September 30, 2017 as Compared to the Three and Nine Months Ended September 30, 2016 — Adjusted EBITDA.”

Network Access Services

	September 30,	
	2017 ⁽¹⁾	2016 ⁽¹⁾
Ting mobile subscribers under management	171,000	147,000
Ting mobile devices under management	281,000	235,000

(1) For a discussion of these period to period changes in subscribers and devices under management and how they impacted our financial results, see the Net Revenue discussion below.

Domain Services

Total new, renewed and transferred-in domain name registrations:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017 ⁽¹⁾	2016 ⁽¹⁾	2017 ⁽¹⁾	2016 ⁽¹⁾
	(in 000's)		(in 000's)	
Total new, renewed and transferred-in domain name registrations	4,864	2,466	14,612	7,491

(1) For a discussion of these period to period changes in the domain names provisioned and how they impacted our financial results, see the Net Revenues discussion below.

Domain names under management:

	September 30,	
	2017 ⁽¹⁾	2016 ⁽¹⁾
	(in 000's)	
Domain names under management:		
Registered using Registrar Accreditation belonging to the Tucows Group	22,708	11,398
Registered using Registrar Accreditations belonging to Resellers	5,597	3,384
Total domain names under management	28,305	14,782

(1) For a discussion of these period to period changes in domain names under management and how they impacted our financial results, see the Net Revenue discussion below.

OPPORTUNITIES, CHALLENGES AND RISKS

As a MVNO our Ting service is reliant on our Mobile Network Operators ("MNOs") providing competitive networks. Our MNOs each continue to invest in network expansion and modernization to improve their competitive positions. Deployment of new and sophisticated technology on a very large-scale entails risks. Should they fail to implement, maintain and expand their network capacity and coverage, adapt to future changes in technologies and continued access to and deployment of adequate spectrum successfully, our ability to provide wireless services to our subscribers, to retain and attract subscribers and to maintain and grow our subscriber revenues could be adversely affected, which would negatively impact our operating margins.

Ting has also enjoyed rapid growth in its first five years of operation. During this growth phase, we have been able to continue to grow gross customer additions and maintain a consistent churn rate, which has allowed us to maintain net new customer additions despite the impact of churn on a fast-growing customer base. We expect price competition to grow more intense in the industry which could result in increased customer churn or reductions of customer acquisition rates either of which could result in slower growth rates or in certain cases, negatively affect our ability to maintain growth.

The communications industry continues to compete on the basis of network reach and performance, types of services and devices offered, and price.

The increased competition in the market for Internet services in recent years, which we expect will continue to intensify in the short and long term, poses a material risk for us. As new registrars are introduced, existing competitors expand service offerings and competitors offer price discounts to gain market share, we face pricing pressure, which can adversely impact our revenues and profitability. To address these risks, we have focused on leveraging the scalability of our infrastructure and our ability to provide proactive and attentive customer service to aggressively compete to attract new customers and to maintain existing customers.

Substantially all of our Domain Services revenue is derived from domain name registrations and related value-added services from wholesale and retail customers using our provisioning and management platforms. The market for wholesale registrar services is both price sensitive and competitive and is evolving with the introduction of new gTLDs (generic top-level domains), particularly for large volume customers, such as large web hosting companies and owners of large portfolios of domain names. We have a relatively limited ability to increase the pricing of domain name registrations without negatively impacting our ability to maintain or grow our customer base. We will continue to maintain separate accreditations, branding and support for OpenSRS and eNom and our growth will depend on our ability to continue to attract and retain customers for both brands by maintaining strong domain name registration and value-added service renewal rates and to grow our customer relationships through refining, evolving and improving our provisioning platforms and customer service for both resellers and end-users. In addition, we also generate revenue through pay-per-click advertising and the sale of names from our portfolio of domain names and through the domain expiry streams. The revenue associated with domain sales and advertising has recently experienced flat to declining trends due to the uncertainty around the implementation of ICANN's New gTLD Program, lower traffic and declining advertising yields in the marketplace, which we expect to continue.

From time-to-time certain of our vendors provide us with market development funds to expand or maintain the market position for their services. Any decision by these vendors to cancel or amend these programs for any reason may result in payments in future periods not being commensurate with what we have achieved during past periods.

Sales of domain names from our domain portfolio has a negative impact on our advertising revenue as these names are no longer available for advertising purposes. In addition, the timing of larger domain name portfolio sales is unpredictable and may lead to significant quarterly and annual fluctuations in our Portfolio revenue.

Our revenue is primarily realized in U.S. dollars and a major portion of our operating expenses are paid in Canadian dollars. Fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar may have a material effect on our business, financial condition and results from operations. In particular, we may be adversely affected by a significant weakening of the U.S. dollar against the Canadian dollar on a quarterly and an annual basis. Our policy with respect to foreign currency exposure is to manage our financial exposure to certain foreign exchange fluctuations with the objective of neutralizing some or all of the impact of foreign currency exchange movements by entering into foreign exchange forward contracts to mitigate the exchange risk on a portion of our Canadian dollar exposure. We may not always enter into such forward contracts and such contracts may not always be available and economical for us. Additionally, the forward rates established by the contracts may be less advantageous than the market rate upon settlement.

Net Revenues

Network Access Services

Mobile

We derive revenue from Ting's sale of retail mobile phones and services and provide customers with access to our provisioning and management tools to enable them, via the ting.com website, to purchase retail mobile phones and services nationally. Revenues are generated in the United States with a fixed access line charge per device and variable charges based on actual voice, data and text usage. Services are provided on a monthly basis with no fixed contract term.

Other Services

Other services derive revenues from providing fixed high-speed internet access to individuals and small businesses in select U.S. cities including Holly Springs, Westminster, Maryland and Charlottesville, Virginia along with Internet hosting and network consulting services to customers in Charlottesville, Virginia. Ting provides customers with access to our provisioning and management tools to enable them, via the ting.com website, to purchase our fixed Internet access services. Revenues are generated from fixed monthly access charges with a primary focus on the 1 GB unlimited data usage package. Services are provided on a monthly basis with no fixed contract term.

Domain Services

Wholesale - OpenSRS Domain Service

Historically, our wholesale OpenSRS Domain Service has constituted the largest portion of our business and encompasses all of our services as an accredited registrar related to the registration, renewal, transfer and management of domain names. In addition, this service fuels other revenue categories as it often is the initial service for which a reseller will engage us, enabling us to follow on with other services and allowing us to add to our portfolio by purchasing names registered through us upon their expiration. With the acquisition of eNom and its 25,000 reseller network, domain services will continue to be the largest portion of our business and will further fuel our ability sell add-on services.

We receive revenues for each domain registration or other Internet service processed through our system by Service Providers. Our domain service revenue is principally comprised of registration fees charged to resellers in connection with new, renewed and transferred domain name registrations. The registration fee provides our resellers with access to our provisioning and management tools to enable them to register and administer domain names and access to additional services like WHOIS privacy and DNS (Domain Name System) services, enhanced domain name suggestion tools and access to our premium domain names. We earn fees in connection with each new, renewed and transferred-in registration and from providing provisioning services to resellers and registrars on a monthly basis. Domain registrations are generally purchased for terms of one to ten years, with a majority having a one-year term. Payments for the full term of all services, or billed revenue, are received at the time of activation of service and where appropriate are recorded as deferred revenue and are recognized as earned ratably over the term of provision of service. This accounting treatment reasonably approximates a recognition pattern that corresponds with the provision of the services during the quarters and the years.

Wholesale – Value-Added Services

We derive revenue from our hosted email service through our global distribution network. Our hosted email service is offered on a per account, per month basis, and provides resellers with a reliable, scalable “white label” hosted email solution that can be customized to their branding and business model requirements. The hosted email service also includes spam and virus filtering on all accounts. End-users can access the hosted email service via a full-featured, multi-language web interface or through traditional desktop email clients, such as Microsoft Outlook or Apple Mail, using IMAP or POP/SMTP.

We also derive revenue from other Value-Added Services primarily from provisioning SSL certificates. In addition, we derive revenue from the bulk sale of domain names and advertising from the OpenSRS and eNom domain expiry stream.

In addition, we provide billing, provisioning and customer care software solutions to ISPs through our Platypus billing software.

Retail

We derive revenues from Hover and eNom's retail properties through the sale of retail domain name registration and email services to individuals and small businesses.

Portfolio

We derive revenue from our portfolio of domain names by displaying advertising on the domains and by making them available for sale or lease. When a user types one of these domain names into a web browser, they are presented with dynamically generated links that are pay-per-click advertising. Every time a user clicks on one of these links, it generates revenue for us through our partnership with third-parties who provide syndicated pay-per-click advertising ("parked page vendors").

Our parked page vendor relationships may not continue to generate levels of revenue commensurate with what we have achieved during past periods. Our ability to generate online advertising revenue from parked page vendors depends on their advertising networks' assessment of the quality and performance characteristics of Internet traffic resulting from online advertisements rendered on their websites. We have no control over any of these quality assessments. Parked page vendors may from time to time change their existing, or establish new, methodologies and metrics for valuing the quality of Internet traffic and delivering pay-per-click advertisements. Any changes in these methodologies, metrics and advertising technology platforms could decrease the amount of revenue that we generate from online advertisements. In addition, parked page vendors may at any time change the nature of the service or suspend the service that they provide to online advertisers. These types of changes or suspensions would adversely impact our ability to generate revenue from pay-per-click advertising.

Portfolio names are sold through our premium domain name service, auctions or in negotiated sales. The size of our domain name portfolio varies over time, as we acquire and sell domains on a regular basis to maximize the overall value and revenue generation potential of our portfolio. In evaluating names for sale, we consider the potential foregone revenue from pay-per-click advertising, as well as other factors. The name will be offered for sale if, based on our evaluation, the name is deemed non-essential to our business and management believes that deriving proceeds from the sale is strategically more beneficial to the Company.

Portfolio names that have been acquired from third-parties or through acquisition are included as intangible assets with indefinite lives on our consolidated balance sheet.

Critical Accounting Policies

Preparation of our consolidated financial statements in accordance with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues and expenses, as well as related disclosure of contingent assets and liabilities. There have been no material changes to the critical accounting policies and estimates as previously disclosed in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2016, except for the adoption of Accounting Standard Update No. 2016-05 *Derivatives and Hedging (Topic 815)*, ASU 2015-16 *Simplifying the Accounting for Measurement-Period Adjustments*, ASU No. 2017-04 *Intangibles – Goodwill and Other (Topic 350)*, and ASU No. 2016-09 *Stock Compensation (Topic 718)*. For further information on our critical accounting policies and estimates, see Note 3 to the consolidated financial statements appearing in Part I, Item 1 in this Quarterly Report on Form 10-Q.

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AS COMPARED TO THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016

NET REVENUES

The following table presents our net revenues, by revenue source:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
<u>Network Access Services:</u>				
Mobile Services	\$ 21,748,809	\$ 18,374,906	\$ 60,090,266	\$ 52,287,808
Other Services	1,244,225	878,157	3,469,526	2,732,628
Total Network Access Services	22,993,034	19,253,063	63,559,792	55,020,436
<u>Domain Services:</u>				
Wholesale				
Domain Services	47,769,779	22,955,731	135,411,688	65,879,375
Value Added Services	4,401,704	2,226,977	14,034,456	6,834,086
Total Wholesale	52,171,483	25,182,708	149,446,144	72,713,461
Retail				
Portfolio	8,872,984	3,721,032	22,937,606	10,747,456
Total Domain Services	970,983	907,524	2,856,305	2,532,976
	62,015,450	29,811,264	175,240,055	85,993,893
	\$ 85,008,484	\$ 49,064,327	\$ 238,799,847	\$ 141,014,329
Increase over prior period	\$ 35,944,157		\$ 97,785,518	
Increase - percentage		73%		69%

The following table presents our revenues, by revenue source, as a percentage of total revenues:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
<u>Network Access Services:</u>				
Mobile Services	26%	37%	25%	37%
Other Services	1%	2%	1%	2%
Total Network Access Services	27%	39%	26%	39%
<u>Domain Services:</u>				
Wholesale				
Domain Services	57%	46%	57%	46%
Value Added Services	5%	5%	6%	5%
Total Wholesale	62%	51%	63%	51%
Retail				
Portfolio	10%	8%	10%	8%
Total Domain Services	73%	61%	74%	61%
	100%	100%	100%	100%

Total net revenues for the three months ended September 30, 2017 increased by \$36.0 million or 73% to \$85.0 million when compared to the three months ended September 30, 2016. The increase was largely due to the acquisition of eNom, and to a lesser extent the growth in the Ting mobile subscriber base.

Total net revenues for the nine months ended September 30, 2017 increased by \$97.8 million or 69% to \$238.8 million when compared to the nine months ended September 30, 2016. The increase was largely due to the acquisition of eNom, and to a lesser extent the growth in the Ting mobile subscriber base.

Deferred revenue increased to \$163.2 million at September 30, 2017 from \$77.8 million at December 31, 2016. The increase was largely due to the acquisition of eNom.

No customer accounted for more than 10% of total revenue during the three and nine months ended September 30, 2017 and 2016. As at September 30, 2017 and December 31, 2016, no customer accounted for more than 10% of accounts receivable. Significant management judgment is required at the time revenue is recorded to assess whether the collection of the resulting receivables is reasonably assured. On an ongoing basis, we assess the ability of our customers to make required payments. Based on this assessment, we expect the carrying amount of our outstanding receivables, net of allowance for doubtful accounts, to be fully collected.

Network Access Services

Net revenues from Ting mobile phone equipment and services for the three months ended September 30, 2017 increased by \$3.4 million or 18% to \$21.7 million as compared to the three months ended September 30, 2016. This increase primarily reflects the impact the larger Ting subscriber base is having on Ting mobile service revenue which grew by \$2.5 million to \$18.7 million as compared to the three months ended September 30, 2016. Revenues from the sale of mobile hardware and related accessories increased by \$0.9 million to \$3.0 million for the three months ended September 30, 2017. This increase was due to increased mix of higher priced devices attributed to the increased sales of new Apple mobile devices under the direct supply agreement signed in the second quarter of 2017.

Net revenues from Ting mobile phone equipment and services for the nine months ended September 30, 2017 increased by \$7.8 million or 15% to \$60.1 million as compared to the nine months ended September 30, 2016. This increase primarily reflects the impact the larger Ting subscriber base is having on Ting mobile service revenue which grew by \$6.9 million to \$53.4 million as compared to the nine months ended September 30, 2016. Services revenues and related gross margins were impacted by the issuance of \$35 service credits to each RingPlus customer (see discussion below). Revenues from the sale of mobile hardware and related accessories grew by \$0.9 million to \$6.7 million for the nine months ended September 30, 2017.

High speed Internet access, Internet hosting and network consulting services generated \$1.2 million in revenue during the three months ended September 30, 2017, up \$0.4 million from the three months ended September 30, 2016. Growth in High speed Internet access revenues was as a result of the increased Ting Internet footprint in Charlottesville, VA, Westminster, MD and Holly Springs, NC. Increased access revenues were partially offset by ongoing declines in legacy revenues from hosting and network consulting services.

High speed Internet access, Internet hosting and network consulting services generated \$3.5 million in revenue during the nine months ended September 30, 2017, up \$0.7 million from the nine months ended September 30, 2016. Growth in High speed Internet access revenues was as a result of the increased Ting Internet footprint in Charlottesville, VA and Westminster, MD and launch of services in Holly Springs, NC. Increased access revenues were partially offset by ongoing declines in legacy revenues from hosting and network consulting services.

As of September 30, 2017, Ting mobile had 171,000 accounts and 281,000 mobile devices under its management compared to 147,000 subscribers and 235,000 devices under management as of September 30, 2016. When compared to December 31, 2016 accounts and mobile devices increased by 20,000 and 36,000 respectively. Included in this increase are a net 6,000 accounts and 8,000 mobile devices that still remain as of September 30, 2017 that initially migrated from RingPlus, a non-related MVNO, when it shut down operations in February. As part of our agreement with RingPlus, we undertook to offer a \$35 service credit to each RingPlus customer who activated their account on the Ting platform. RingPlus's business model included a substantial number of users on free plans. It is highly likely that many of these customers will use those credits and then immediately port out to another service. Accordingly, we saw higher than normal churn in the quarter ended September 30, 2017 and we expect that churn in the quarter ended December 31, 2017 will continue to be substantially higher than normal which may negatively impact our total accounts and mobile devices under management.

Wholesale

During the three months ended September 30, 2017, wholesale domain services revenue increased by \$24.8 million or 108% to \$47.8 million when compared to the three months ended September 30, 2016. During the nine months ended September 30, 2017, wholesale domain services revenue increased by \$69.5 million or 106% to \$135.4 million when compared to the nine months ended September 30, 2016. These increases were primarily due to the acquisition of eNom on January 20, 2017 and to a lesser extent the acquisition of the international reseller channel of Melbourne IT on April 1, 2016. Our gross margins were negatively impacted by amortizing into revenue, deferred revenue that was recorded at fair value at the acquisition date which was approximately 10% lower than the historical cost basis of eNom.

During the three months ended September 30, 2017, the number of transactions from all new, renewed and transferred-in domain name registrations that we processed increased by 2.4 million to 4.9 million when compared to the three months ended September 30, 2016. During the nine months ended September 30, 2017, the number of transactions from all new, renewed and transferred-in domain name registrations that we processed increased by 7.1 million to 14.6 million when compared to the nine months ended September 30, 2016. These increases were primarily due to the acquisition of eNom on January 20, 2017 and to a lesser extent the acquisition of the international reseller channel of Melbourne IT on April 1, 2016.

Domain services revenue and transaction volumes continue to be impacted by the ongoing migration of a few large customers, which have either been acquired by competitors or have become ICANN accredited registrars. These customers have been and will continue to move their domain management and domain transaction processing to their own accreditations and in-house systems. We expect that the number of new, renewed and transferred-in domain name registrations will continue to be impacted by future consolidation and decisions that large volume customers make with regard to acquiring their own accreditations. While we anticipate that the number of new, renewed and transferred-in domain name registrations will continue to incrementally increase as a result of new customers and the expansion in the number of new gTLDs in the long term, we expect the volatility of the above factors to affect the growth in the number of domain names that we manage.

As of September 30, 2017, total domains that we manage under our own accreditations increased by 11.3 million to 22.7 million when compared September 30, 2016. Including domains that we manage on behalf of other accredited registrars, total domains under management increased by 13.5 million to 28.3 million when compared to September 30, 2016. These increases were due to the acquisition eNom on January 20, 2017.

During the three months ended September 30, 2017, value added services revenue increased by \$2.2 million to \$4.4 million when compared to the three months ended September 30, 2016. This increase was due to the acquisition of eNom on January 20, 2017. During the nine months ended September 30, 2017, value added services revenue increased by \$7.2 million to \$14.0 million when compared to the nine months ended September 30, 2016. Our gross margins were negatively impacted by amortizing into revenue, deferred revenue that was recorded at fair value at the acquisition date which was approximately 10% lower than the historical basis of eNom.

Retail

Net revenues from Retail for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016, increased by \$5.2 million, or 138%, to \$8.9 million. Net revenues from Retail for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, increased by \$12.2 million, or 113%, to \$22.9 million. These increases were largely due to the acquisition of eNom and to a lesser extent due to the success that our retail marketing initiatives and improved websites are having on our ability to attract new customers and retain existing ones. Our revenues and gross margins were negatively impacted by amortizing into revenue, deferred revenue that was recorded at fair value at the acquisition date which was approximately 10% lower than the historical basis of eNom.

Portfolio

Net revenues from Portfolio for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016, increased by \$0.1 million to \$1.0 million.

Net revenues from Portfolio for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, increased by \$0.3 million to \$2.9 million.

COST OF REVENUES

Network Access Services

Mobile

Cost of revenues for mobile services includes the costs of provisioning mobile services (primarily our customers' voice, messaging, data usage provided by our MNOs), the costs of providing mobile phone hardware (the cost of mobile phone devices and SIM cards sold to our customers, order fulfillment related expenses, and inventory write-downs).

Other Services

Cost of revenues for Other services includes the costs for provisioning high speed Internet access (network access fees, software licenses), the costs of providing hardware (the cost of network routers sold to our customers, order fulfillment related expenses, and inventory write-downs) and any direct costs incurred in providing web hosting and IT consulting services.

Domains

Wholesale

Domain Services

Cost of revenues for domain registrations represents the amortization of registry fees on a basis consistent with the recognition of revenues from our customers, namely ratably over the term of provision of the service. Registry fees, the primary component of cost of revenues, are paid in full when the domain is registered, and are initially recorded as prepaid domain registry fees. This accounting treatment reasonably approximates a recognition pattern that corresponds with the provision of the services during the period. Market development funds that do not meet the criteria for revenue recognition under ASC 605-50 "Customer Payments and Incentives", are reflected as cost of goods sold and are recognized as earned.

Value-Added Services

Costs of revenues for Value-Added Services include licensing and royalty costs related to the provisioning of certain components related to hosted email, fees paid to third-party service providers, primarily for trust certificates and for printing services in connection with Platypus. Fees payable for trust certificates are amortized on a basis consistent with the provision of service, generally one year, while email hosting fees and monthly printing fees are included in cost of revenues in the month they are incurred.

Retail

Costs of revenues for our provision and management of Internet services through our retail site, Hover.com, include the amortization of registry fees on a basis consistent with the recognition of revenues from our customers, namely ratably over the term of provision of the service. Registry fees, the primary component of cost of revenues, are paid in full when the domain is registered, and are recorded as prepaid domain registry fees.

Portfolio

Costs of revenues for our Portfolio represent the amortization of registry fees for domains added to our portfolio over the renewal period, which is generally one year, the value attributed under intangible assets to any domain name sold and any impairment charges that may arise from our assessment of our domain name intangible assets. As the total names in our portfolio continue to grow, this cost will become a more significant component of our cost of revenues. Payments for domain registrations are payable for the full term of service at the time of activation of service and are recorded as prepaid domain registry fees and are expensed ratably over the renewal term.

Costs of revenues for our larger ad-supported content site include the fees paid to third-party service providers, primarily for digital certificates sold through our content sites and content license fees.

Network expenses

Network expenses include personnel and related expenses, depreciation and amortization, communication costs, equipment maintenance, stock-based compensation and employee and related costs directly associated with the management and maintenance of our network. Communication costs include bandwidth, co-location and provisioning costs we incur to support the supply of all our services.

The following table presents our cost of revenues, by revenue source:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Network Access Services:				
Mobile Services	\$ 12,365,383	\$ 9,087,274	\$ 32,634,348	\$ 27,026,242
Other Services	945,539	501,909	2,755,205	1,360,153
Total Network Access Services	13,310,922	9,589,183	35,389,553	28,386,395
Domain Services:				
Wholesale				
Domain Services	42,294,131	18,934,555	119,206,649	54,215,215
Value Added Services	671,291	463,369	1,823,711	1,401,821
Total Wholesale	42,965,422	19,397,924	121,030,360	55,617,036
Retail				
Portfolio	4,610,745	1,727,867	12,775,941	4,968,659
Total Domain Services	47,755,839	21,257,485	134,433,264	61,059,098
Network Expenses:				
Network, other costs	2,460,696	1,287,620	7,064,458	3,925,377
Network, depreciation and amortization costs	1,322,473	292,167	3,463,013	1,012,904
	3,783,169	1,579,787	10,527,471	4,938,281
	\$ 64,849,930	\$ 32,426,455	\$ 180,350,288	\$ 94,383,774
Increase over prior period	\$ 32,423,475		\$ 85,966,514	
Increase - percentage	100%		91%	

The following table presents our cost of revenues, as a percentage of total of cost of revenues:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Network Access Services:				
Mobile Services	19%	29%	18%	29%
Other Services	1%	2%	2%	1%
Total Network Access Services	20%	31%	20%	30%
Domain Services:				
Wholesale				
Domain Services	66%	59%	66%	59%
Value Added Services	1%	1%	1%	0%
Total Wholesale	67%	60%	67%	59%
Retail				
Portfolio	7%	5%	7%	5%
Total Domain Services	74%	65%	74%	65%
Network Expenses:				
Network, other costs	4%	3%	4%	4%
Network, depreciation and amortization costs	2%	1%	2%	1%
	6%	4%	6%	5%
	100%	100%	100%	100%

Total cost of revenues for the three months ended September 30, 2017, increased by \$32.4 million, or 100%, to \$64.8 million when compared to the three months ended September 30, 2016. Total cost of revenues for the nine months ended September 30, 2017 increased by \$86.0 million, or 91%, to \$180.4 million when compared to the nine months ended September 30, 2016. These increases primarily resulted from the acquisition of eNom on January 20, 2017, acquisition of the international reseller channel of Melbourne IT on April 1, 2016 and the impact Ting's larger subscriber base has on network access service costs.

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Prepaid domain registration and other Internet services fees as of September 30, 2017 increased to \$130.5 million from \$60.4 million as of December 31, 2016, primarily due to the acquisition of eNom.

Network Access Services

Cost of revenues from Ting mobile phone equipment and services for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016, increased by \$3.3 million or 36% to \$12.4 million. This increase primarily reflects the impact the larger subscriber base had on Ting mobile service cost of revenue which grew by \$2.2 million to \$9.2 million as compared to the three months ended September 30, 2016. Mobile hardware and related accessories costs increased by \$1.1 million compared to the three months ended September 30, 2016, to \$3.2 million. This increase was due to increased mix of higher cost devices attributed to the increased sales of new Apple mobile devices under the direct supply agreement signed in the second quarter of 2017.

In addition, during the three months ended September 30, 2017, we incurred costs of \$0.9 million in provisioning high speed Internet access, Internet hosting and network consulting services as compared to \$0.5 million during the three months ended September 30, 2016. The increase in costs was primarily due primarily to the expansion of the Ting Fiber foot print and increasing subscriber base.

Cost of revenues from Ting mobile phone equipment and services for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, increased by \$5.6 million or 21% to \$32.6 million. This increase primarily reflects the impact the larger subscriber base had on Ting mobile service cost of revenue which grew by \$4.0 million to \$25.4 million as compared to the nine months ended September 30, 2016. Mobile hardware and related accessories costs increased by \$1.6 million compared to the nine months ended September 30, 2016, to \$7.2 million. This increase was due to increased mix of higher cost devices attributed to the increased sales of new Apple mobile devices under the direct supply agreement signed in the second quarter of 2017.

In addition, during the nine months ended September 30, 2017, we incurred costs of \$2.8 million in provisioning high speed Internet access, Internet hosting and network consulting services as compared to \$1.4 million during the nine months ended September 30, 2016. The increase in costs was primarily due primarily to the expansion of the Ting Fiber foot print and increasing subscriber base.

Wholesale

Costs for Wholesale and Value-Added Services for the three months ended September 30, 2017 increased by \$23.6 million, or 121%, to \$43.0 million when compared to the three months ended September 30, 2016. For the nine months ended September 30, 2017, costs for Wholesale and Value-Added Services increased year over year by \$65.4 million to \$121.0 million. These increases were due to the acquisition of eNom on January 20, 2017 and to a lesser extent acquisition of the international reseller channel of Melbourne IT on April 1, 2016.

Retail

Costs for Retail for the three months ended September 30, 2017 increased by \$2.9 million, to \$4.6 million when compared to the three months ended September 30, 2016. Costs for Retail for the nine months ended September 30, 2017 increased by \$7.8 million, to \$12.8 million when compared to the nine months ended September 30, 2016. These increases resulted primarily from the acquisition of eNom on January 20, 2017 and to a lesser extent the increased cost of additional volume in Hover services.

Portfolio

Costs for Portfolio for the three months ended September 30, 2017 were relatively flat compared to the same period last year and increased by \$0.2 million to \$0.6 million, when compared to the nine months ended September 30, 2016.

Network Expenses

Network costs for the three months ended September 30, 2017 increased by \$2.2 million to \$3.8 million when compared to the three months ended September 30, 2016. Costs for Network Access Services for the nine months ended September 30, 2017 increased by \$5.6 million, to \$10.5 million when compared to the nine months ended September 30, 2016. The increase is primarily due to the acquisition of eNom on January 20, 2017, including acquired developed platform technology.

SALES AND MARKETING

Sales and marketing expenses consist primarily of personnel costs. These costs include commissions and related expenses of our sales, product management, public relations, call center, support and marketing personnel. Other sales and marketing non-personnel expenses include customer acquisition costs, advertising and other promotional costs.

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Sales and marketing	\$ 7,578,414	\$ 5,479,445	\$ 22,244,961	\$ 15,174,619
Increase over prior period	\$ 2,098,969		\$ 7,070,342	
Increase - percentage	38%		47%	
Percentage of net revenues	9%	11%	9%	11%

Sales and marketing expenses for the three months ended September 30, 2017 increased by \$2.1 million, or 38%, to \$7.6 million when compared to the three months ended September 30, 2016. This increase related primarily to an increase of \$1.9 million in marketing spend largely to support and acquire Ting mobile and fixed Internet related costs due partly to the increased eNom workforce as well as workforce increases to support network access related growth. Marketing and other costs increased \$0.2 million largely to support and acquire Ting mobile and fixed Internet access subscribers.

Sales and marketing expenses for the nine months ended September 30, 2017 increased by \$7.1 million, or 47%, to \$22.2 million when compared to the nine months ended September 30, 2016. This increase related primarily to an increase of \$2.2 million in marketing spend largely to support and acquire Ting mobile and fixed Internet access subscribers, as well as increased workforce, stock-based compensation and travel related expenses of \$4.7 million due partly to the increased eNom workforce as well as workforce increases to support network access related growth. In addition, expenses also increased due to a \$0.2 million reversal of a 2015 bonus accrual during the nine months ended September 30, 2016.

TECHNICAL OPERATIONS AND DEVELOPMENT

Technical operations and development expenses consist primarily of personnel costs and related expenses required to support the development of new or enhanced service offerings and the maintenance and upgrading of existing infrastructure. This includes expenses incurred in the research, design and development of technology that we use to register domain names, network access services, email, retail, domain portfolio and other Internet services, as well as to distribute our digital content services. All technical operations and development costs are expensed as incurred.

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Technical operations and development	\$ 1,910,147	\$ 1,270,107	\$ 5,402,385	\$ 3,445,118
Increase over prior period	\$ 640,040		\$ 1,957,267	
Increase - percentage	50%		57%	
Percentage of net revenues	2%	3%	2%	2%

Technical operations and development expenses for the three months ended September 30, 2017 increased by \$0.6 million, or 50%, to \$1.9 million when compared to the three months ended September 30, 2016. The increase in costs relate primarily to increased salaries and benefits associated with the eNom technical operations and development workforce that were included as of January 20, 2017.

Technical operations and development expenses for the nine months ended September 30, 2017 increased by \$2.0 million, or 57%, to \$5.4 million when compared to the nine months ended September 30, 2016. The increase in costs relate primarily to increased salaries and benefits associated with the eNom technical operations and development workforce that were included as of January 20, 2017.

GENERAL AND ADMINISTRATIVE

General and administrative expenses consist primarily of compensation and related costs for managerial and administrative personnel, fees for professional services, public listing expenses, rent, foreign exchange and other general corporate expenses.

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
General and administrative	\$ 2,852,345	\$ 2,166,217	\$ 9,596,298	\$ 7,497,752
Increase over prior period	\$ 686,128		\$ 2,098,546	
Increase - percentage	32%		28%	
Percentage of net revenues	3%	4%	4%	5%

General and administrative expenses for the three months ended September 30, 2017 increased by \$0.7 million, or 47%, to \$2.9 million when compared to the three months ended September 30, 2016. This increase is primarily related to an increase in facility and transitional services largely related to the inclusion of eNom operations in Kirkland, Washington of \$0.3 million. In addition, credit card processing fees related to growth of network access services increased \$0.3 million and professional fees increased \$0.2 million. Workforce related expenses increased due to a \$0.3 million reversal of a 2015 bonus accrual during the three months ended September 30, 2016. Offsetting this, during the three months ended September 30, 2017, we experienced gains of \$0.4 million on foreign exchange revaluation of our foreign denominated monetary assets and liabilities compared to a neutral impact for the three months ended September 30, 2016.

General and administrative expenses for the nine months ended September 30, 2017 increased by \$2.1 million, or 28%, to \$9.6 million when compared to the nine months ended September 30, 2016. This increase is primarily related to an increase in facility and transitional services primarily related to the inclusion of eNom operations in Kirkland, Washington of \$0.9 million. Workforce costs were also up \$0.4 million primarily due to a \$0.5 million reversal of a 2015 bonus accrual during the nine months ended September 30, 2016. In addition, professional fees, travel, third-party consulting, credit card processing fees, and stock-based compensation increasing by \$1.4 million, primarily related to the eNom acquisition and to support the growth of network access services when compared to the nine months ended September 30, 2016. These increases were offset by an improvement of \$0.6 million in gains on foreign exchange revaluation of our foreign denominated monetary assets and liabilities for the nine months ended September 30, 2017 as compared the same period last year.

DEPRECIATION OF PROPERTY AND EQUIPMENT

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Depreciation of property and equipment	\$ 154,638	\$ 178,687	\$ 485,648	\$ 328,877
Decrease over prior period	\$ (24,049)		\$ 156,771	
Decrease - percentage	(13%)		48%	
Percentage of net revenues	0%	0%	0%	0%

Depreciation costs are relatively flat at \$0.2 million for the three months ended September 30, 2017, and increased \$0.2 million for the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016 due to higher investments in property and equipment in 2017.

AMORTIZATION OF INTANGIBLE ASSETS

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Amortization of intangible assets	\$ 1,745,923	\$ 279,126	\$ 4,735,221	\$ 613,041
Increase over prior period	\$ 1,466,797		\$ 4,122,180	
Increase - percentage	525%		672%	
Percentage of net revenues	2%	1%	2%	0%

Amortization of intangible assets for the three and nine months ended September 30, 2017 increased \$1.5 and \$4.1 million, respectively, due to the impact of the acquisition of eNom. In the acquisition, the Company acquired intangible assets related to brand and customer relationships totaling \$40.4 million.

IMPAIRMENT OF INDEFINITE LIFE INTANGIBLE ASSETS

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Impairment of indefinite life intangible assets	\$ 1,500	\$ 2,866	\$ 1,500	\$ 27,745
Decrease over prior period	\$ (1,366)		\$ (26,245)	
Decrease - percentage	(48%)		(95%)	
Percentage of net revenues	0%	0%	0%	0%

As part of our normal renewal process during the three and nine months ended September 30, 2017 we assessed whether certain domain names acquired in the September 2006 acquisition of Mailbank.com Inc. should be renewed or be allowed to expire. Accordingly, domain names with a book value of \$1,500 were written off and recorded as an impairment of indefinite life intangible assets during the three and nine months ended September 30, 2017. During the three and nine months ended September 30, 2016, domain names with a book value of \$2,886 and \$27,745 respectively, were written off and recorded as an impairment of indefinite life intangible assets.

LOSS (GAIN) ON CURRENCY FORWARD CONTRACTS

Although our functional currency is the U.S. dollar, a major portion of our fixed expenses are incurred in Canadian dollars. Our goal with regard to foreign currency exposure is, to the extent possible, to achieve operational cost certainty, manage financial exposure to certain foreign exchange fluctuations and to neutralize some of the impact of foreign currency exchange movements. Accordingly, we enter into foreign exchange contracts to mitigate the exchange rate risk on portions of our Canadian dollar exposure.

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Loss (gain) on currency forward contracts	\$ (54,075)	\$ 22,475	\$ (115,276)	\$ (96,993)
Decrease over prior period	\$ (76,550)		\$ (18,283)	
Decrease - percentage	(341%)		19%	
Percentage of net revenues	0%	0%	0%	0%

As of September 30, 2017, we have entered into certain forward exchange contracts that do not comply with the requirements of hedge accounting to meet a portion of our future Canadian dollar requirements through December 2017. The impact of the fair value adjustment on outstanding contracts resulted in an unrealized net loss of \$1,053 for the three months ended September 30, 2017 compared to an unrealized net gain of less than \$0.1 million for the three months ended September 30, 2016. In addition, the impact of the fair value adjustment on matured contracts resulted in a realized gain upon settlement of currency forward contracts of \$0.1 million for the three months ended September 30, 2017 and a realized loss of less than \$42,589 million for the three months ended September 30, 2016.

The impact of the fair value adjustment on outstanding contracts for the nine months ended September 30, 2017 was a net gain of less than \$37,103, compared to a net gain of \$0.3 million for the nine months ended September 30, 2016. In addition, the impact of the fair value adjustment on outstanding contracts was increased by a realized gain upon settlement of currency forward contracts of less than \$0.1 million for the nine months ended September 30, 2017, compared to a net loss of \$0.2 million during the nine months ended September 30, 2016.

At September 30, 2017, our balance sheet reflects a net derivative instrument asset of \$0.6 million as a result of our existing foreign exchange contracts.

OTHER INCOME AND EXPENSES

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Other income (expense), net	\$ (707,029)	\$ (5,021)	\$ (2,190,673)	\$ 85,919
Increase over prior period	\$ (702,008)		\$ (2,276,592)	
Increase - percentage	13,981%		(2,650%)	
Percentage of net revenues	(1%)	(0%)	(1%)	0%

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Other expense during the three months ended September 30, 2017 was \$0.7 million and \$2.2 million for the nine months ended September 30, 2017, as compared to Other expense of \$5,021 and Other income of \$0.1 million for the three and nine months ended September 30, 2016. Other expense consists primarily of the interest we incur in connection with our 2017 Amended Credit Facility (as discussed below), which was partially offset by income from the amortization of a \$1.5 million Joint Marketing Agreement commencing in November 2015. The increase in Other expense for the three and nine months ended September 30, 2017 is due to interest expense increase of \$0.7 million and \$2.4 million, respectively, related to the net increase in our loan balances related to the acquisition of eNom and funding for expenditures associated with the Company's Fiber to the Home program.

INCOME TAXES

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Provision for income taxes	\$ 1,823,367	\$ 2,492,649	\$ 2,780,908	\$ 6,476,012
Decrease in provision over prior period	\$ (669,282)		\$ (3,695,104)	
Decrease - percentage	(27)%		(57)%	
Effective tax rate	34.6%	34.5%	20.0%	32.8%

For the three months ended September 30, 2017, we recorded an income tax expense of \$1.8 million on income before income taxes of \$5.3 million, using an estimated effective tax rate for Fiscal 2017 adjusted for certain minimum state taxes as well as the inclusion of a \$0.4 million tax recovery related to the adoption of ASU 2016-09, which requires all excess tax benefits and tax deficiencies related to employee share-based payments to be recognized through income tax expense on a prospective basis. Comparatively, for the three months ended September 30, 2016, we recorded a provision for income taxes of \$2.5 million on income before taxes of \$7.2 million, using an estimated effective tax rate for the 2016 fiscal year.

For the nine months ended September 30, 2017, we recorded an income tax expense of \$2.8 million on income before income taxes of \$13.9 million, using an estimated effective tax rate for Fiscal 2017 adjusted for certain minimum state taxes as well as the inclusion of a \$2.6 million tax recovery related to the adoption of ASU 2016-09, which requires all excess tax benefits and tax deficiencies related to employee share-based payments to be recognized through income tax expense on a prospective basis. Comparatively, for the nine months ended September 30, 2016, we recorded a provision for income taxes of \$6.5 million on income before taxes of \$19.7 million, using an estimated effective tax rate for the 2016 fiscal year.

In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the years in which those temporary differences become deductible. We consider projected future taxable income, uncertainties related to the industry in which we operate, and tax planning strategies in making this assessment.

We follow the provisions of FASB ASC Topic 740, Income Taxes to account for income tax exposures. The application of this interpretation requires a two-step process that separates recognition of uncertain tax benefits from measurement thereof.

We recognize accrued interest and penalties related to income taxes in income tax expense. We did not have significant interest and penalties accrued at September 30, 2017 and December 31, 2016, respectively.

ADJUSTED EBITDA

We believe that the provision of this supplemental non-GAAP measure allows investors to evaluate the operational and financial performance of our core business using similar evaluation measures to those used by management. We use adjusted EBITDA to measure our performance and prepare our budgets. Since adjusted EBITDA is a non-GAAP financial performance measure, our calculation of adjusted EBITDA may not be comparable to other similarly titled measures of other companies; and should not be considered in isolation, as a substitute for, or superior to measures of financial performance prepared in accordance with GAAP. Because adjusted EBITDA is calculated before recurring cash charges, including interest expense and taxes, and is not adjusted for capital expenditures or other recurring cash requirements of the business, it should not be considered as a liquidity measure. See the Consolidated Statements of Cash Flows included in the attached financial statements. Non-GAAP financial measures do not reflect a comprehensive system of accounting and may differ from non-GAAP financial measures with the same or similar captions that are used by other companies and/or analysts and may differ from period to period. We endeavor to compensate for these limitations by providing the relevant disclosure of the items excluded in the calculation of adjusted EBITDA to net income based on U.S. GAAP, which should be considered when evaluating the Company's results. Tucows strongly encourages investors to review its financial information in its entirety and not to rely on a single financial measure.

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Our adjusted EBITDA definition excludes depreciation, amortization of intangible assets, income tax provision, interest expense, interest income, stock-based compensation, asset impairment, gains and losses from unrealized foreign currency transactions and infrequently occurring items. Gains and losses from unrealized foreign currency transactions removes the unrealized effect of the change in the mark-to-market values on outstanding unhedged foreign currency contracts, as well as the unrealized effect from the translation of monetary accounts denominated in non-U.S. dollars to U.S. dollars.

The following table reconciles net income to adjusted EBITDA (dollars in thousands):

Reconciliation of Net income to Adjusted EBITDA
(In Thousands of US Dollars)
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
Net income for the period	\$ 3,439	\$ 4,741	\$ 11,127	\$ 13,250
Depreciation of property and equipment	978	457	2,614	1,305
Amortization of intangible assets	2,245	293	6,070	650
Impairment of intangible assets	2	3	2	28
Interest expense, net	864	135	2,703	302
Provision for income taxes	1,823	2,493	2,781	6,476
Stock-based compensation	203	195	834	586
Unrealized loss (gain) on change in fair value of forward contracts	1	(20)	(37)	(292)
Unrealized loss (gain) on foreign exchange revaluation of foreign denominated monetary assets and liabilities	(426)	278	(760)	493
Acquisition and other costs ¹	239	-	748	-
Adjusted EBITDA	\$ 9,368	\$ 8,575	\$ 26,082	\$ 22,798

¹Acquisition and other costs represents transaction-related expenses, transitional expenses, such as duplicative post-acquisition expenses, related to our acquisition of eNom in January 2017. Expenses include severance or transitional costs associated with department, operational or overall company restructuring efforts, including geographic alignments.

Adjusted EBITDA increased to \$9.4 million in the three months ended September 30, 2017 from \$8.6 million in the three months ended September 30, 2016. The increase in adjusted EBITDA from period to period was primarily driven by the acquisition of eNom on January 20, 2017 and growth in domain services.

Adjusted EBITDA increased to \$26.0 million in the nine months ended September 30, 2017 from \$22.8 million in the nine months ended September 30, 2016. The increase in adjusted EBITDA from period to period was primarily driven by the acquisition of eNom on January 20, 2017, growth in domain services and Ting Mobile offset by the continued investment in the Company's Fiber to the Home program.

OTHER COMPREHENSIVE INCOME (LOSS)

To mitigate the impact of the change in fair value of our foreign exchange contracts on our financial results, in October 2012 we began applying hedge accounting for the majority of the contracts we need to meet our Canadian dollar requirements on a prospective basis.

The impact of the fair value adjustment on outstanding hedged contracts for the three months ended September 30, 2017 was a net gain in other comprehensive income of \$0.3 million. The impact of the fair value adjustment on outstanding hedged contracts for the three months ended September 30, 2016 was a net loss in other comprehensive income of \$0.1 million. The impact of the fair value adjustment on outstanding hedged contracts for the nine months ended September 30, 2017 was a gain of \$0.6 million compared to a net gain of \$0.5 million for the nine months ended September 30, 2016.

The net amount reclassified to earnings during the three months ended September 30, 2017 was a gain of \$0.3 million compared to a loss of \$0.1 million during the three months ended September 30, 2016. The net amount reclassified to earnings during the nine months ended September 30, 2017 was a gain of \$0.4 million compared to a loss of \$0.5 million during the nine months ended September 30, 2016.

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Other comprehensive income (loss)	\$ (8,071)	\$ 73,091	\$ 222,881	\$ 1,063,242
Decrease over prior period	\$ (81,162)		\$ (840,361)	
Decrease - percentage	(111%)		(79%)	
Percentage of net revenues	(0%)	0 %	0%	1%

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2017, our cash and cash equivalents balance declined to \$12.5 million when compared to December 31, 2016. Our principal uses of cash were the acquisition of eNom for \$76.2 million, net of cash acquired, \$15.4 million in loan repayments, acquisition of the mobile consumer assets of Otono, Networks Inc for \$2.3 million, \$2.0 million for the additional 20% interest in Ting Virginia, LLC, \$1.4 million of tax payment associated with stock option exercises and continued investment in property and equipment of \$9.5 million. These uses of liquidity were offset by proceeds from advances of \$86.4 million, net of financing costs, from our 2017 Amended Credit Facility (defined below) to fund the acquisition of eNom and to fund Fiber to the Home program ("FTTH") and cash provided by operating activities for the nine months ended September 30, 2017 of \$17.8 million.

2017 Amended Credit Facility

On January 20, 2017, the Company entered into an amended and restated secured Credit Agreement (the "2017 Amended Credit Agreement") with Bank of Montreal ("BMO" or the "Administrative Agent"), Royal Bank of Canada and Bank of Nova Scotia (collectively with "Lenders") under which the Company increased its access to funds to an aggregate of \$140 million. This amendment and restatement to the Company's 2016 Credit Facility (defined below), among other things, reduced the existing Tucows non-revolving facility (such existing non-revolving facility, together with other existing facilities, the "Existing Facilities") from \$40.0 million to \$35.5 million, and established a new non-revolving credit facility of \$84.5 million (the "Facility D"). The Company immediately drew down \$84.5 million under Facility D to fund the acquisition of eNom in accordance with the terms and conditions of the Purchase Agreement (as defined below) and associated costs. As used herein, the "2016 Credit Facility" refers to the credit facility established under the Company's secured credit agreement (the "2016 Credit Agreement") among the Company, BMO and the Lenders, dated as of August 18, 2016.

Borrowings under the 2017 Amended Credit Facility accrue interest and standby fees at variable rates based on borrowing elections by the Company and the Company's Total Funded Debt to EBITDA as described below. The purpose of Facility A is for general working capital and general corporate requirements, while Facility B and Facility C support share repurchases, acquisitions and capital expenditures associated with the Company's FTTH program. Facility D is solely for the acquisition of eNom.

The repayment terms for Facility A require monthly interest payments with any final principal payment becoming due upon maturity of the 2017 Amended Credit Facility. Under the repayment terms for Facility B, at December 31st of each year, balances drawn during the year that remain outstanding will become payable on a quarterly basis commencing the first quarter of the following year, for the period of amortization based on the purpose of the draw. For Facilities C and D, each draw will become payable beginning the first full quarter post initial draw for the period of amortization based on the purpose of the draw. The amortization periods for Facilities B, C and D are based on the purposes of the draws as follows: draws for share repurchases are repaid over four years, draws for acquisitions over five years and draws for FTTH capital expenditures over seven years. The 2017 Amended Credit Facility includes a mechanism that is triggered based on the Company's Total Funded Debt to EBITDA calculation at the end of each fiscal year. If Total Funded Debt to EBITDA exceeds 2.25:1 at December 31 of each year during the term, the Company is obligated to make a repayment of 50% of Excess Cash Flow as defined under the agreement.

The 2017 Amended Credit Facility contains customary events of default and affirmative and negative covenants and restrictions, including certain financial maintenance covenants such as a maximum total funded debt to EBITDA ratio and a minimum fixed charge ratio. As of September 30, 2017, we were in compliance with all our covenants.

On June 6, 2017, the Company entered into the First Amendment to First Amended and Restated Credit Agreement (the "First Amendment") with BMO and the Lenders. Among other things, the First Amendment (i) increases the amount available for borrowing under "Facility C," a committed, non-revolving credit facility by \$502,500, which was the portion of Facility D which was not used by the Company to fund its acquisition of eNom, Incorporated and was cancelled in accordance with the Credit Agreement, (ii) allows the Company to maintain bank accounts with Commonwealth Bank of Australia, subject to certain restrictions, (iii) provides for an extension of time for the Company to transfer its bank accounts from Silicon Valley Bank, and (iv) amends the definition of "EBITDA" to provide for an add-back in respect of certain liabilities.

Other Credit Facilities

Prior to the Company entering into the 2016 Credit Facility, the Company had credit agreements (collectively the “Amended Credit Facility”) with BMO that were amended on November 19, 2012, and which provided it with access to two revolving demand loan facilities (the “2012 Demand Loan Facilities”), a treasury risk management facility, an operating demand loan and a credit card facility. In connection with the 2016 Credit Facility, the Company repaid its outstanding indebtedness of the 2012 Demand Loan Facilities. With the settlement of the outstanding indebtedness, the 2012 Demand Loan Facilities and the operating demand loan were simultaneously terminated and the outstanding balances were fully repaid through advances on the 2016 Credit Facility. The Company continues to have access to the treasury risk management facility and credit card facility.

The treasury risk management facility under the Amended Credit Facility provides for a \$3.5 million settlement risk line to assist the Company with hedging Canadian dollar exposure through foreign exchange forward contracts and/or currency options. Under the terms of the Amended Credit Facility, the Company may enter into such agreements at market rates with terms not to exceed 18 months. As of September 30, 2017, the Company held contracts in the amount of \$6.9 million to trade U.S. dollars in exchange for Canadian dollars.

During the third quarter of 2017, the Company entered into a corporate credit card program with the Bank of Nova with credit limits of \$1.0 million for US Dollar credit cards and CDN\$0.5 million for Canadian Dollar credit cards.

Cash Flow from Operating Activities

Net cash provided by operating activities during the nine months ended September 30, 2017 was \$17.8 million, as compared to \$13.4 million during the nine months ended September 30, 2016

Net income, after adjusting for non-cash charges, during the nine months ended September 30, 2017 was \$14.8 million. Net income included non-cash charges and recoveries of \$3.7 million such as depreciation, amortization, stock-based compensation, excess tax benefits on stock-based compensation, unrealized gains on currency forward contracts, other income, and an expense for deferred tax. In addition, changes in our working capital provided \$3.0 million. Positive contributions of \$12.1 million from movements in deferred revenue, domain registry fees, customer deposits, accrued liabilities, and income taxes recoverable were offset by \$9.1 million utilized in changes from accounts receivable, inventory, accounts payable, prepaid expenses, and accreditation fees payable.

Cash Flow from Financing Activities

Net cash inflows from financing activities during the nine months ended September 30, 2017 totaled \$69.7 million as compared to cash outflows of \$0.4 million during the nine months ended September 30, 2016. Net cash inflows of \$87.0 million resulting from draws on the 2017 Amended Credit Facility to fund the acquisition of eNom and to fund FTTH capital expenditures. These cash inflows were partially offset by outflows of \$15.4 million of principal repayments relating to our 2017 Credit Amended Credit Facility, \$1.3 million outflow from the net impact of exercise of stock options and \$0.6 million of debt issuance costs.

Cash Flow from Investing Activities

Investing activities during the nine months ended September 30, 2017 used net cash of \$90.1 million as compared to using \$10.2 million during the nine months ended September 30, 2016.

On January 20, 2017, the Company entered into a Stock Purchase Agreement (the “Purchase Agreement”) with its indirect wholly owned subsidiary, Tucows (Emerald), LLC, Rightside Group, Ltd., and Rightside Operating Co., pursuant to which Tucows (Emerald), LLC purchased from Rightside Operating Co. all of the issued and outstanding capital stock of eNom Incorporated, a domain name registrar business. The purchase price was \$76.2 million, net of cash of \$1.6 million and purchase price adjustments of \$5.7 million relating primarily to a working capital deficit. In connection with this acquisition, the Company incurred acquisition related expenditures of \$0.8 million. The purchase price and the majority of the related acquisition costs were financed through borrowings under Facility D of the 2017 Amended Credit Facility agreement. On June 13, 2017, the parties entered into an amendment to the Purchase Agreement. For additional details, see note 4(b) to the interim unaudited financial statements included in this report.

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On February 1, 2017, the Company acquired an additional 20% interest in Ting Virginia, LLC. for a consideration of \$2.0 million. The consideration was funded through cash flow from operations. For additional details, see note 4(a) to the interim unaudited financial statements included in this report.

On July 26, 2017, the Company purchased customer relationships related to shared hosting and domain services for \$0.1 million.

On September 19, 2017, the Company acquired the consumer related assets of Otono, Networks Inc. for consideration of \$2.3 million and assumed working capital liabilities of \$1.4 million. The intangible assets acquired relate to customer relationships and are being amortized on a straight-line basis over a period of 7 years.

In addition, the Company invested \$9.5 million in property and equipment, primarily to support the continued expansion of our fiber footprint.

Based on our operations, we believe that our cash flow from operations will be adequate to meet our anticipated requirements for working capital, capital expenditures and our loan repayments for at least the next 12 months.

We may choose to raise additional funds or seek other financing arrangements to facilitate more rapid expansion, develop new or enhance existing products or services, respond to competitive pressures or acquire or invest in complementary businesses, technologies, services or products.

There are currently no material understandings, commitments or agreements regarding the acquisition of other businesses.

Off-Balance Sheet Arrangements

As of September 30, 2017, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Contractual Obligations

In our Annual Report on Form 10-K for the year ended December 31, 2016, we disclosed our contractual obligations.

As of September 30, 2017, there have been no other material changes to those contractual obligations outside the ordinary course of business, except for the Company entering into a credit agreement to establish the 2017 Amended Credit Facility which replaced the 2016 Credit Facility. For more information, see note 7 to the interim unaudited financial statements included in this report.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We develop products in Canada and sell these services in North America and Europe. Our sales are primarily made in U.S. dollars, while a major portion of expenses are incurred in Canadian dollars. Our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. Our interest income is sensitive to changes in the general level of Canadian and U.S. interest rates, particularly since the majority of our investments are in short-term instruments. Based on the nature of our short-term investments, we have concluded that there is no material interest rate risk exposure as of September 30, 2017. We are also subject to market risk exposure related to changes in interest rates under our 2017 Amended Credit Facility and Amended Credit Facility. We do not expect that any changes in interest rates will be material; however, fluctuations in interest rates are beyond our control. We will continue to monitor and assess the risks associated with interest expense exposure and may take additional actions in the future to mitigate these risks.

Although our functional currency is the U.S. dollar, a substantial portion of our fixed expenses are incurred in Canadian dollars. Our policy with respect to foreign currency exposure is to manage financial exposure to certain foreign exchange fluctuations with the objective of neutralizing some of the impact of foreign currency exchange movements. Exchange rates are, however, subject to significant and rapid fluctuations, and therefore we cannot predict the prospective impact of exchange rate fluctuations on our business, results of operations and financial condition. Accordingly, we have entered into foreign exchange contracts to mitigate the exchange rate risk on portions of our Canadian dollar exposure.