

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from to

Commission file number 1-32600

TUCOWS INC.

(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania
(State or Other Jurisdiction of
Incorporation or Organization)

23-2707366
(I.R.S. Employer
Identification No.)

96 Mowat Avenue,
Toronto, Ontario M6K 3M1, Canada
(Address of Principal Executive Offices) (Zip Code)

(416) 535-0123
(Registrant's Telephone Number, Including Area Code)

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

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

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

| | |
|-------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| Large accelerated filer <input type="checkbox"/> | Accelerated filer <input checked="" type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company <input type="checkbox"/> |
| | Emerging Growth company <input type="checkbox"/> |

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

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

As of November 6, 2017 there were 10,577,549 outstanding shares of common stock, no par value, of the registrant.

TUCOWS INC.
Form 10-Q Quarterly Report
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FINANCIAL INFORMATION

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TRADEMARKS, TRADE NAMES AND SERVICE MARKS

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PART I.
FINANCIAL INFORMATION
Item 1. Consolidated Financial Statements
Tucows Inc.
Consolidated Balance Sheets
(Dollar amounts in U.S. dollars)
(unaudited)

| | September 30, 2017 | December 31, 2016 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 12,547,059 | \$ 15,105,075 |
| Accounts receivable, net of allowance for doubtful accounts of \$167,886 as of September 30, 2017 and \$164,145 as of December 31, 2016 | 13,726,565 | 10,925,622 |
| Inventory | 2,949,172 | 1,210,789 |
| Prepaid expenses and deposits | 14,712,889 | 6,250,555 |
| Derivative instrument asset, current portion (note 5) | 559,663 | 172,888 |
| Prepaid domain name registry and ancillary services fees, current portion | 106,672,400 | 49,396,737 |
| Income taxes recoverable | 780,185 | 220,451 |
| Total current assets | <u>151,947,933</u> | <u>83,282,117</u> |
| Prepaid domain name registry and ancillary services fees, long-term portion | 23,791,150 | 10,993,156 |
| Property and equipment | 22,232,870 | 13,450,438 |
| Deferred tax asset | - | 5,708,725 |
| Intangible assets (note 6) | 60,562,113 | 19,973,793 |
| Goodwill (note 6) | 87,486,243 | 21,005,143 |
| Total assets | <u>\$ 346,020,309</u> | <u>\$ 154,413,372</u> |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 5,946,691 | \$ 4,786,645 |
| Accrued liabilities | 8,681,752 | 7,098,905 |
| Customer deposits | 15,303,523 | 5,418,622 |
| Deferred rent, current portion | 20,947 | 20,854 |
| Loan payable, current portion (note 7) | 18,289,853 | 2,233,110 |
| Deferred revenue, current portion | 131,971,919 | 62,795,079 |
| Accreditation fees payable, current portion | 1,201,477 | 528,027 |
| Income taxes payable | 1,239,754 | 1,548,121 |
| Total current liabilities | <u>182,655,916</u> | <u>84,429,363</u> |
| Deferred revenue, long-term portion | 31,219,144 | 15,053,977 |
| Accreditation fees payable, long-term portion | 299,909 | 115,084 |
| Deferred rent, long-term portion | 129,656 | 124,202 |
| Loan payable, long-term portion (note 7) | 63,137,229 | 8,015,698 |
| Deferred gain | 558,220 | 944,680 |
| Deferred tax liability | 18,198,544 | 4,827,192 |
| Redeemable non-controlling interest (note 4 (a)) | 1,123,738 | 3,086,090 |
| Stockholders' equity (note 12) | | |
| Preferred stock - no par value, 1,250,000 shares authorized; none issued and outstanding | - | - |
| Common stock - no par value, 250,000,000 shares authorized; 10,577,549 shares issued and outstanding as of September 30, 2017 and 10,461,574 shares issued and outstanding as of December 31, 2016 | 15,284,633 | 14,460,500 |
| Additional paid-in capital | 1,602,181 | 2,857,921 |
| Retained earnings | 31,489,104 | 20,399,511 |
| Accumulated other comprehensive income | 322,035 | 99,154 |
| Total stockholders' equity | <u>48,697,953</u> | <u>37,817,086</u> |
| Total liabilities and stockholders' equity | <u>\$ 346,020,309</u> | <u>\$ 154,413,372</u> |
| Commitments and contingencies (note 11) | | |

See accompanying notes to unaudited consolidated financial statements

Tucows Inc.
Consolidated Statements of Operations and Comprehensive Income
(Dollar amounts in U.S. dollars)
(unaudited)

| | <u>Three months ended September 30,</u> | | <u>Nine months ended September 30,</u> | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|---------------------|----------------------------------------|----------------------|
| | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> |
| Net revenues (note 10) | \$ 85,008,484 | \$ 49,064,327 | \$ 238,799,847 | \$ 141,014,329 |
| Cost of revenues (note 10) | | | | |
| Cost of revenues | 61,066,761 | 30,846,668 | 169,822,817 | 89,445,493 |
| Network expenses | 2,460,696 | 1,287,620 | 7,064,458 | 3,925,377 |
| Depreciation of property and equipment | 823,441 | 278,746 | 2,128,417 | 976,419 |
| Amortization of intangible assets (note 6) | 499,032 | 13,421 | 1,334,596 | 36,485 |
| Total cost of revenues | <u>64,849,930</u> | <u>32,426,455</u> | <u>180,350,288</u> | <u>94,383,774</u> |
| Gross profit | 20,158,554 | 16,637,872 | 58,449,559 | 46,630,555 |
| Expenses: | | | | |
| Sales and marketing | 7,578,414 | 5,479,445 | 22,244,961 | 15,174,619 |
| Technical operations and development | 1,910,147 | 1,270,107 | 5,402,385 | 3,445,118 |
| General and administrative | 2,852,345 | 2,166,217 | 9,596,298 | 7,497,752 |
| Depreciation of property and equipment | 154,638 | 178,687 | 485,648 | 328,877 |
| Amortization of intangible assets (note 6) | 1,745,923 | 279,126 | 4,735,221 | 613,041 |
| Impairment of indefinite life intangible assets (note 6) | 1,500 | 2,866 | 1,500 | 27,745 |
| Loss (gain) on currency forward contracts (note 5) | (54,075) | 22,475 | (115,276) | (96,993) |
| Total expenses | <u>14,188,892</u> | <u>9,398,923</u> | <u>42,350,737</u> | <u>26,990,159</u> |
| Income from operations | 5,969,662 | 7,238,949 | 16,098,822 | 19,640,396 |
| Other income (expense): | | | | |
| Interest expense, net | (864,482) | (135,168) | (2,702,504) | (301,868) |
| Other income, net | 157,453 | 130,147 | 511,831 | 387,787 |
| Total other income (expense) | <u>(707,029)</u> | <u>(5,021)</u> | <u>(2,190,673)</u> | <u>85,919</u> |
| Income before provision for income taxes | 5,262,633 | 7,233,928 | 13,908,149 | 19,726,315 |
| Provision for income taxes (note 8) | 1,823,367 | 2,492,649 | 2,780,908 | 6,476,012 |
| Net income before redeemable non-controlling interest | 3,439,266 | 4,741,279 | 11,127,241 | 13,250,303 |
| Redeemable non-controlling interest (note 4 (a)) | (68,635) | (254,101) | (311,693) | (698,583) |
| Net income attributable to redeemable non-controlling interest | <u>68,635</u> | <u>254,101</u> | <u>311,693</u> | <u>698,583</u> |
| Net income for the period | 3,439,266 | 4,741,279 | 11,127,241 | 13,250,303 |
| Other comprehensive income (loss), net of tax | | | | |
| Unrealized income (loss) on hedging activities (note 5) | 309,445 | (58,821) | 638,442 | 516,406 |
| Net amount reclassified to earnings (note 5) | (317,516) | 131,912 | (415,561) | 546,836 |
| Other comprehensive income (loss) net of tax of \$(4,591) and \$41,580 for the three months ended September 30, 2017 and September 30, 2016, and \$126,791 and \$585,943 for the nine months ended September 30, 2017 and September 30, 2016 (note 5) | <u>(8,071)</u> | <u>73,091</u> | <u>222,881</u> | <u>1,063,242</u> |
| Comprehensive income for the period | <u>\$ 3,431,195</u> | <u>\$ 4,814,370</u> | <u>\$ 11,350,122</u> | <u>\$ 14,313,545</u> |
| Basic earnings per common share (note 9) | <u>\$ 0.33</u> | <u>\$ 0.45</u> | <u>\$ 1.06</u> | <u>\$ 1.26</u> |
| Shares used in computing basic earnings per common share (note 9) | <u>10,564,311</u> | <u>10,432,763</u> | <u>10,522,841</u> | <u>10,549,056</u> |
| Diluted earnings per common share (note 9) | <u>\$ 0.32</u> | <u>\$ 0.45</u> | <u>\$ 1.03</u> | <u>\$ 1.23</u> |
| Shares used in computing diluted earnings per common share (note 9) | <u>10,785,342</u> | <u>10,619,005</u> | <u>10,785,050</u> | <u>10,736,775</u> |

See accompanying notes to unaudited consolidated financial statements

Tucows Inc.
Consolidated Statements of Cash Flows
(Dollar amounts in U.S. dollars)
(unaudited)

| | <u>Three months ended September 30,</u> | | <u>Nine months ended September 30,</u> | |
|-------------------------------------------------------------------------------------|-----------------------------------------|------------------------|----------------------------------------|------------------------|
| | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> |
| Cash provided by: | | | | |
| Operating activities: | | (restated - note 3) | | (restated - note 3) |
| Net income for the period | \$ 3,439,266 | \$ 4,741,279 | \$ 11,127,241 | \$ 13,250,303 |
| Items not involving cash: | | | | |
| Depreciation of property and equipment | 978,079 | 457,433 | 2,614,065 | 1,305,296 |
| Loss on write off of property and equipment | 8,157 | - | 16,951 | - |
| Amortization of debt discount and issuance costs | 56,559 | 8,298 | 203,871 | 8,298 |
| Amortization of intangible assets | 2,244,955 | 292,547 | 6,069,817 | 649,526 |
| Impairment of indefinite life intangible asset | 1,500 | 2,866 | 1,500 | 27,745 |
| Deferred income taxes | (1,445,241) | 926,733 | (3,010,795) | 1,630,076 |
| Excess tax benefits on share-based compensation expense | (443,718) | 268,565 | (2,614,804) | 714,764 |
| Amortization of deferred rent | 63 | 13,783 | 5,547 | 30,447 |
| Loss on disposal of domain names | 7,896 | 4,760 | 24,661 | 25,581 |
| Other income | (128,820) | (128,820) | (386,460) | (386,460) |
| Loss (gain) on change in the fair value of forward contracts | 1,053 | (20,114) | (37,103) | (292,133) |
| Stock-based compensation | 202,902 | 195,439 | 833,987 | 585,854 |
| Change in non-cash operating working capital: | | | | |
| Accounts receivable | 533,900 | (1,623,719) | (330,070) | (4,435,250) |
| Inventory | (642,738) | (217,741) | (1,738,383) | (598,658) |
| Prepaid expenses and deposits | 201,757 | 419,939 | (2,169,319) | (939,935) |
| Prepaid domain name registry and ancillary services fees | 3,083,506 | (1,271,948) | 570,338 | (5,170,911) |
| Income taxes recoverable | 2,225,254 | 363,244 | 1,815,420 | 1,553,524 |
| Accounts payable | (643,327) | 681,303 | (4,681,314) | (1,993) |
| Accrued liabilities | 981,046 | (581,495) | 994,402 | (1,429,069) |
| Customer deposits | (1,904,666) | (943,579) | 1,163,305 | 90,970 |
| Deferred revenue | (1,424,673) | 1,666,291 | 7,543,013 | 6,772,663 |
| Accreditation fees payable | (50,302) | 14,059 | (199,832) | 51,215 |
| Net cash provided by operating activities | <u>7,282,408</u> | <u>5,269,123</u> | <u>17,816,038</u> | <u>13,441,853</u> |
| Financing activities: | | | | |
| Proceeds received on exercise of stock options | 68,065 | 48,376 | 172,903 | 107,672 |
| Payment of tax obligations resulting from net exercise of stock options | (116,956) | (76,537) | (1,438,497) | (318,770) |
| Repurchase of common stock | - | - | - | (7,180,257) |
| Proceeds received on loan payable | - | 10,989,583 | 86,998,000 | 16,989,583 |
| Repayment of loan payable | (4,572,640) | (9,062,500) | (15,403,380) | (9,500,000) |
| Payment of loan payable costs | (16,463) | (383,463) | (620,217) | (516,963) |
| Net cash provided by (used in) financing activities | <u>(4,637,994)</u> | <u>1,515,459</u> | <u>69,708,809</u> | <u>(418,735)</u> |
| Investing activities: | | | | |
| Additions to property and equipment | (2,859,036) | (2,091,368) | (9,461,105) | (3,923,105) |
| Acquisition of a portion of the minority interest in Ting Virginia, LLC (note 4(a)) | - | - | (2,000,000) | - |
| Acquisition of Enom Incorporated, net of cash (note 4(b)) | - | - | (76,237,460) | - |
| Acquisition of intangible assets | (2,384,298) | (74,400) | (2,384,298) | (6,324,970) |
| Net cash used in investing activities | <u>(5,243,334)</u> | <u>(2,165,768)</u> | <u>(90,082,863)</u> | <u>(10,248,075)</u> |
| Increase (decrease) in cash and cash equivalents | (2,598,920) | 4,618,814 | (2,558,016) | 2,775,043 |
| Cash and cash equivalents, beginning of period | 15,145,979 | 5,879,482 | 15,105,075 | 7,723,253 |
| Cash and cash equivalents, end of period | <u>\$ 12,547,059</u> | <u>\$ 10,498,296</u> | <u>\$ 12,547,059</u> | <u>\$ 10,498,296</u> |
| Supplemental cash flow information: | | | | |
| Interest paid | \$ 869,749 | \$ 93,560 | \$ 2,717,378 | \$ 260,506 |
| Income taxes paid, net | \$ 1,307,727 | \$ 927,826 | \$ 6,313,308 | \$ 2,507,699 |
| Supplementary disclosure of non-cash investing and financing activities: | | | | |
| Property and equipment acquired during the period not yet paid for | \$ 186,418 | \$ 89,860 | \$ 186,418 | \$ 89,860 |

See accompanying notes to unaudited consolidated financial statements

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization of the Company:

Tucows Inc., a Pennsylvania corporation (referred to throughout this report as the “Company”, “Tucows”, “we”, “us” or through similar expressions), together with our consolidated subsidiaries, is a provider of Network Access Services and Domain Services. Our Network Access Services includes mobile, fixed high-speed Internet access services, Internet hosting and network consulting services, with mobile and high-speed Internet operating primarily under our Ting and Roam brands. Our Domain services include wholesale and retail domain name registration services, value added services and portfolio services derived through our OpenSRS, eNom, Hover and YummyNames brands.

Our principal executive office is located in Toronto, Ontario and we have other offices in Germany and the United States. Our common stock is listed on NASDAQ under the symbol “TCX” and on the Toronto Stock Exchange under the symbol “TC”.

On January 20, 2017, the Company completed the purchase of all of the issued and outstanding capital stock of eNom, Incorporated (“eNom”) from Rightside Group. Ltd, a domain name registrar business. See note 4(b) for further information.

2. Basis of presentation:

The accompanying unaudited interim consolidated balance sheets, and the related consolidated statements of operations and comprehensive income and cash flows reflect all adjustments, consisting of normal recurring adjustments, that are, in the opinion of management, necessary for a fair presentation of the financial position of Tucows and its subsidiaries as at September 30, 2017 and the results of operations and cash flows for the interim periods ended September 30, 2017 and 2016. The results of operations presented in this Quarterly Report on Form 10-Q are not necessarily indicative of the results of operations that may be expected for future periods.

The accompanying unaudited interim consolidated financial statements have been prepared by Tucows in accordance with the rules and regulations of the United States Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in the Company's annual audited consolidated financial statements and accompanying notes have been condensed or omitted. These interim consolidated financial statements and accompanying notes follow the same accounting policies and methods of application used in the annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2016 included in Tucows' 2016 Annual Report on Form 10-K filed with the SEC on March 8, 2017. There have been no material changes to our significant accounting policies and estimates during the nine months ended September 30, 2017 as compared to the significant accounting policies and estimates described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, except for the adoption of Accounting Standard Update No. 2016-09, *Stock Compensation (Topic 718)*. See note 3 for more information.

3. Recent accounting pronouncements:

Recent Accounting Pronouncements Adopted

On January 1, 2017, the Company adopted Accounting Standards Updates (“ASU”) No. 2016-05, *Derivatives and Hedging (Topic 815)* and ASU 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*. The adoption of these updates did not have a significant impact on the consolidated financial statements.

In January 2017, the Company adopted Accounting Standards Update (“ASU”) No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (“ASU 2017-01”), which simplifies the current two-step test to determine the amount, if any, of goodwill impairment. This update removes the second step of the quantitative test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit’s carrying over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The update will be applied to the Company’s goodwill impairment evaluation for the year ended December 31, 2017.

On January 1, 2017, the Company also adopted ASU No. 2016-09, *Stock Compensation (Topic 718)*, which simplifies the presentation of several aspects of the accounting for employee share-based payment transactions. The areas for simplification include the income tax consequences, accounting for forfeitures, and classification on the statement of cash flows. The impacts of the adoption of ASU 2016-09 on our consolidated financial statements are as follows:

- *Accounting for Income Taxes* – the standard requires that all excess tax benefits and tax deficiencies related to employee share-based payments are recognized through income tax expense on a prospective basis, which resulted in the recognition of \$0.4 million and \$2.6 million in excess tax benefits as a reduction of tax expense related to employee share-based payments during the three and nine months ended September 30, 2017, respectively;
- *Cash Flow Classification* – as a result of the new standard, all excess tax benefits related to employee share based payments which have been historically shown as a financing activity, should now be presented as an operating activity along with other income tax cash flows. Additionally, the standard requires that cash paid by an employer when directly withholding shares for tax-withholding purposes should be classified as a financing activity. The Company elected to apply both changes on a retrospective basis such that the comparative period is presented on a consistent basis as the current presentation; and
- *Forfeitures* – the standard allows for an entity-wide accounting policy election to either estimate the number of awards that are not expected to vest because the requisite service period will not be rendered, or to account for forfeitures as they occur. Prior to the adoption of 2016-09 the Company estimated forfeitures for the purpose of accounting for stock-based compensation. Beginning in the quarter ending March 31, 2017, the Company utilized the election to account for forfeitures as incurred. In accordance with the provisions of the new standard, the change has been adopted on a modified retrospective basis; however, the cumulative adjustment to opening retained earnings was immaterial.

Recent Accounting Pronouncements Not Yet Adopted

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (“ASU 2017-01”), which clarified the definition of a business with objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of businesses. The amendment update provides a screen to determine when a series of integrated activities is not a business. If the screen is not met, it first requires that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and second removes the evaluation of whether a market participant could replace the missing elements. This ASU is effective for annual and interim reporting periods beginning after December 15, 2017. The Company is currently in the process of evaluating the impact that the adoption of ASU 2017-01 will have on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”), which is a comprehensive revenue recognition standard that will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The new standard provides a single principles-based, five-step model to be applied to all contracts with customers, which steps are to (1) identify the contract(s) with the customer, (2) identify the performance obligations in the contracts, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contracts and (5) recognize revenue when each performance obligation is satisfied. More specifically, revenue will be recognized when promised goods or services are transferred to the customer in an amount that reflects the consideration expected in exchange for those goods or services. The new standard will be effective for the Company for the interim and annual reporting periods beginning after December 15, 2017 (January 1, 2018 for the Company). Companies can transition to the standards either retrospectively or as a cumulative-effect adjustment as of the date of adoption. The Company is currently in the process of evaluating the impact of transition methods. Based on continuing analysis, we do not believe adoption of the updated standard will have a material impact as the Company’s mobile and fixed internet services are on month to month contracts with minimal device subsidization and our wholesale and retail domain registration services recognize revenue over the term of the services provided.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* (“ASU 2017-12”), which better aligns an entity’s risk management activities and financial reporting for hedging relationship through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results. The new standard expands and refines hedge accounting for both nonfinancial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and hedged item in the financial statements. This ASU is effective for annual and interim reporting periods beginning after December 15, 2018. The Company is currently in the process of evaluating the impact that the adoption of ASU 2017-12 will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. ASU 2016-02 requires the recognition on the balance sheet of a lease liability to make lease payments by lessees and a right-of-use asset representing its right to use the underlying asset for the lease term. The new guidance will also require significant additional disclosure about the amount, timing and uncertainty of cash flows from leases. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2018 (January 1, 2019 for the Company). The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period. The Company will adopt this guidance in the first quarter of fiscal 2019 and is in the process of evaluating the impact of the adoption of ASU 2016-02 will have on its consolidated financial statements.

4. Acquisitions:

(a) Blue Ridge Websoft

On February 27, 2015, Ting Fiber, Inc., one of the Company's wholly owned subsidiaries, acquired a 70% ownership interest in the newly formed Ting Virginia, LLC and its subsidiaries, Blue Ridge Websoft, LLC (doing business as Blue Ridge Internet Works), Fiber Roads, LLC and Navigator Network Services, LLC (the "BRI Group") for consideration of approximately \$3.5 million. Ting Virginia, LLC was an independent Internet service provider in Charlottesville, Virginia, doing business primarily as Blue Ridge Internet Works.

On February 1, 2017, under the terms of a call option in the agreement, Ting Fiber, Inc. acquired an additional 20% interest in Ting Virginia, LLC from the selling shareholders (the "Minority Shareholders") for consideration of \$2.0 million. The Company recorded the \$2.0 million payment as a reduction in the carrying value of Redeemable non-controlling interest. Following the exercise of the call option, the Minority Shareholders chose not to exercise their right to put their remaining 10% interest in Ting Virginia, LLC to Ting Fiber, Inc. The Minority Shareholders still retain the right, on the fourth anniversary of the closing date (February 27, 2019), to exercise their put option under which Ting Fiber, Inc. would be obligated to purchase their remaining interest for \$120,000 per percentage point of the additional equity interest acquired. The Company has determined that the put option is embedded within the non-controlling interest shares that are subject to the put options. The redemption feature requires classification of the Minority Shareholders' Interest in the Consolidated Balance Sheets outside of equity under the caption "Redeemable non-controlling interest". As at September 30, 2017, the value of the Redeemable non-controlling interest is \$1.1 million and is being accreted to the redemption value of \$1.2 million through February 27, 2019.

(b) eNom, Incorporated

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 acquisition provides Tucows additional scale and efficiency opportunities across its domain registrar operations. The purchase price was \$77.8 million, which represented the agreed upon purchase of \$83.5 million less an amount of \$5.7 million related to the working capital deficiency assessment on acquisition. 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 (note 7).

On June 13, 2017, the Company entered into a First Amendment to Stock Purchase Agreement (the "Amendment") by and among the Company, Tucows (Emerald), LLC, Rightside Group, Ltd. And Rightside Operating Co., to amend certain provisions in the Purchase Agreement. Pursuant to the Amendment, the definition of "Escrow Triggering Event" was revised to remove a change in control of the Company and the definition of "Minimum Cash Amount" was revised to mean \$5.35 million from June 13, 2017 until the end of April 20, 2018, and zero thereafter.

The Company has prepared a preliminary purchase price allocation of the assets acquired and the liabilities assumed of eNom based on management's best estimates of fair value. The final purchase price allocation may vary based on final appraisals, valuations and analyses of the fair value of the acquired assets and assumed liabilities. The preliminary purchase price allocation is pending the finalization of the fair value of taxation-related balances and for potential adjustments to assets and liabilities. We expect to finalize this determination on or before December 31, 2017.

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The following table shows the preliminary allocation of the purchase price for eNom to the acquired identifiable assets and liabilities assumed:

| | | |
|--------------------------------|----|----------------------|
| Goodwill | \$ | 66,481,100 |
| Cash | | 1,594,217 |
| Brand | | 12,400,000 |
| Developed technology | | 3,900,000 |
| Customer relationships | | 28,000,000 |
| Prepaid domain registry fees | | 70,643,994 |
| Other assets | | 10,170,789 |
| Total assets | | <u>193,190,100</u> |
| Deferred Revenue | | (77,798,994) |
| Deferred Tax Liabilities | | (21,893,346) |
| Other liabilities | | (15,666,083) |
| Total liabilities | | <u>(115,358,423)</u> |
| Preliminary consideration paid | \$ | <u>77,831,677</u> |

As required by ASC 805, Business Combinations, the Company has recorded deferred revenue at fair value at the acquisition date, which was determined by estimating the costs associated with customer support services and prepaid domain name registration fees to fulfill the contractual obligations over the remaining life of the contract at the acquisition date plus a normal profit margin.

The goodwill related to this acquisition is primarily attributable to synergies expected to arise from the acquisition and is not tax deductible for tax purposes.

In connection with this acquisition, the Company incurred total acquisition related costs of \$0.8 million of which \$0.3 million is included in General & Administrative expenses in the Consolidated Statements of Operations for the nine months ended September 30, 2017.

The following table presents selected unaudited pro forma information for the Company assuming the acquisition of eNom had occurred as of January 1, 2016. This pro forma information does not purport to represent what the Company's actual results would have been if the acquisition had occurred as of the date indicated or what results would be for any future periods.

| | Unaudited | | Unaudited | |
|-----------------------------------|----------------------------|------------|---------------------------|----------------|
| | Three months ended Sep 30, | | Nine months ended Sep 30, | |
| | 2016 | | 2017 | 2016 |
| Net revenues | \$ | 86,303,327 | \$ 243,262,069 | \$ 252,531,557 |
| Net income | | 1,760,528 | 10,755,068 | 2,776,074 |
| Basic earnings per common share | | 0.17 | 1.03 | 0.27 |
| Diluted earnings per common share | \$ | 0.17 | \$ 1.00 | \$ 0.27 |

5. Derivative instruments and hedging activities:

Foreign currency forward contracts

In October 2012, the Company entered into a hedging program with a Canadian chartered bank to limit the potential foreign exchange fluctuations incurred on its future cash flows related to a portion of payroll, rent, Canadian taxes and payments to Canadian domain name registry suppliers that are denominated in Canadian dollars and are expected to be paid by its Canadian operating subsidiary. As part of its risk management strategy, the Company uses derivative instruments to hedge a portion of the foreign exchange risk associated with these costs. The Company does not use forward contracts for trading or speculative purposes. These forward contracts typically mature between one and eighteen months.

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The Company has designated certain of these transactions as cash flow hedges of forecasted transactions. For certain contracts, as the critical terms of the hedging instrument and the entire hedged forecasted transaction are the same in accordance with ASC Topic 815, the Company has been able to conclude that changes in fair value and cash flows attributable to the risk of being hedged are expected to completely offset at inception and on an ongoing basis. Accordingly, unrealized gains or losses on the effective portion of these contracts have been included within other comprehensive income. The fair value of the contracts, as of September 30, 2017, is recorded as derivative instrument assets and derivative instrument liabilities.

As of September 30, 2017, the notional amount of forward contracts that the Company held to sell U.S. dollars in exchange for Canadian dollars was \$6.9 million, of which \$6.2 million were designated as hedges (December 31, 2016 - \$26.6 million of which \$24.0 million were designated as hedges).

As of September 30, 2017, we had the following outstanding forward exchange contracts to trade U.S. dollars in exchange for Canadian dollars:

| <u>Maturity date</u> | <u>Notional amount of U.S. dollars</u> | <u>Weighted average exchange rate of U.S. dollars</u> | <u>Fair value</u> |
|-------------------------|----------------------------------------|-------------------------------------------------------|-------------------|
| October - December 2017 | 6,859,570 | 1.3478 | 559,663 |
| | <u>\$ 6,859,570</u> | 1.3478 | <u>\$ 559,663</u> |

Fair value of derivative instruments and effect of derivative instruments on financial performance

The effect of these derivative instruments on our consolidated financial statements were as follows (amounts presented do not include any income tax effects).

Fair value of derivative instruments in the consolidated balance sheets

| <u>Derivatives</u> | <u>Balance Sheet Location</u> | <u>As of September 30, 2017 Fair Value Asset (Liability)</u> | <u>As of December 31, 2016 Fair Value Asset (Liability)</u> |
|-----------------------------------------------------------------------|-------------------------------|--------------------------------------------------------------|-------------------------------------------------------------|
| Foreign currency forward contracts designated as cash flow hedges | Derivative instruments | \$ 505,232 | \$ 155,560 |
| Foreign currency forward contracts not designated as cash flow hedges | Derivative instruments | \$ 54,431 | \$ 17,823 |
| Total foreign currency forward contracts | Derivative instruments | <u>\$ 559,663</u> | <u>\$ 172,888</u> |

Movement in Accumulated Other Comprehensive Income ("AOCI") balance for the three months ended September 30, 2017:

| | Gains and losses on cash flow hedges | Tax impact | Total AOCI |
|---------------------------------------------------------------------------------|--------------------------------------------|---------------------|-------------------|
| Opening AOCI balance – June 30, 2017 | \$ 517,894 | \$ (187,788) | \$ 330,106 |
| Other comprehensive income (loss) before reclassifications | 485,480 | (176,035) | 309,445 |
| Amount reclassified from accumulated other comprehensive income | (498,142) | 180,626 | (317,516) |
| Other comprehensive income (loss) for the three months ended September 30, 2017 | (12,662) | 4,591 | (8,071) |
| Ending AOCI balance – September 30, 2017 | <u>\$ 505,232</u> | <u>\$ (183,197)</u> | <u>\$ 322,035</u> |

Movement in Accumulated Other Comprehensive Income ("AOCI") balance for the nine months ended September 30, 2017:

| | Gains and losses on cash flow hedges | Tax impact | Total AOCI |
|--------------------------------------------------------------------------------|--------------------------------------------|---------------------|-------------------|
| Opening AOCI balance – December 31, 2016 | \$ 155,560 | \$ (56,406) | \$ 99,154 |
| Other comprehensive income (loss) before reclassifications | 1,001,634 | (363,192) | 638,442 |
| Amount reclassified from accumulated other comprehensive income | (651,962) | 236,401 | (415,561) |
| Other comprehensive income (loss) for the nine months ended September 30, 2017 | 349,672 | (126,791) | 222,881 |
| Ending AOCI balance – September 30, 2017 | <u>\$ 505,232</u> | <u>\$ (183,197)</u> | <u>\$ 322,035</u> |

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Effects of derivative instruments on income and other comprehensive income (OCI) for the three months ended September 30, 2017 and September 30, 2016 are as follows:

| Derivatives in Cash Flow Hedging Relationship | Amount of Gain or (Loss) Recognized in OCI, net of tax, on Derivative (Effective Portion) | Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income, (Effective Portion) | Location of Gain or (Loss) Recognized in Income on Derivative (ineffective Portion and Amount Excluded from Effectiveness Testing) | Amount of Gain or (Loss) Recognized in Income on Derivative (ineffective Portion and Amount Excluded from Effectiveness Testing) |
|----------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| Foreign currency forward contracts for the three months ended September 30, 2017 | \$ (8,071) | Operating expenses Cost of revenues | \$ 432,021 \$ 66,121 | Operating expenses Cost of revenues | \$ — — |
| Foreign currency forward contracts for the three months ended September 30, 2016 | \$ 73,091 | Operating expenses Cost of revenues | \$ (156,743) \$ (50,210) | Operating expenses Cost of revenues | \$ — — |

Effects of derivative instruments on income and other comprehensive income (OCI) for the nine months ended September 30, 2017 and September 30, 2016 are as follows:

| Derivatives in Cash Flow Hedging Relationship | Amount of Gain or (Loss) Recognized in OCI, net of tax, on Derivative (Effective Portion) | Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income, (Effective Portion) | Location of Gain or (Loss) Recognized in Income on Derivative (ineffective Portion and Amount Excluded from Effectiveness Testing) | Amount of Gain or (Loss) Recognized in Income on Derivative (ineffective Portion and Amount Excluded from Effectiveness Testing) |
|---------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| Foreign currency forward contracts for the nine months ended September 30, 2017 | \$ 222,881 | Operating expenses Cost of revenues | \$ 560,971 \$ 90,991 | Operating expenses Cost of revenues | \$ — — |
| Foreign currency forward contracts for the nine months ended September 30, 2016 | \$ 1,063,242 | Operating expenses Cost of revenues | \$ (617,572) \$ (193,102) | Operating expenses Cost of revenues | \$ (47,242) — |

In addition to the above, for those foreign currency forward contracts not designated as hedges, the Company has recorded a gain of \$55,128 upon settlement and a loss of \$1,053 for the change in fair value of outstanding contracts for the three months ended September 30, 2017, in the consolidated statement of operations and comprehensive income. The Company has recorded a loss of \$39,401 upon settlement and a gain of \$20,113 for the change in fair value of the foreign currency forward contracts not designated as hedges for the three months ended September 30, 2016, in the consolidated statement of operations and comprehensive income.

The Company has recorded a gain of \$78,173 upon settlement and a gain of \$37,103 for the change in fair value of outstanding contracts for the nine months ended September 30, 2017, in the consolidated statement of operations and comprehensive income. The Company has recorded a loss of \$0.1 million upon settlement and a gain of \$0.3 million for the change in fair value of the foreign currency forward contracts not designated as hedges for the nine months ended September 30, 2016, in the consolidated statement of operations and comprehensive income.

6. Goodwill and Other Intangible Assets:

Goodwill

Goodwill represents the excess of the purchase price over the fair value of tangible and identifiable intangible assets acquired and liabilities assumed in our acquisitions.

The Company's Goodwill balance is \$87.5 million as of September 30, 2017, up \$66.5 million from December 31, 2016, as a result of the acquisition of eNom (note 4(b)). The Company's goodwill relates 98% (\$85.4 million) to its Domain Services operating segment and 2% (\$2.1 million) to its Network Access Services operating segment.

Goodwill is not amortized, but is subject to an impairment evaluation annually, or more frequently if impairment indicators are present.

Other Intangible Assets:

Intangible assets consist of network rights, brand, customer relationships, surname domain names and our portfolio of domain names. As reflected in the table below, these balances are being amortized on a straight-line basis over the estimated useful life of the intangible assets, except for the surname domain names and direct navigation domain names, which have been determined to have an indefinite life and which are evaluated at least annually for impairment.

With regard to indefinite life intangible assets, as part of our normal renewal process we assessed that certain domain names that were acquired in the June 2006 acquisition of Mailbank.com Inc. and that were up for renewal should not be renewed. For the three and nine months ended September 30, 2017, domain names with a book value of \$1,500 were not renewed, respectively, as compared to domain names with a book value of \$2,866 and \$27,745 were not renewed for the three and nine months ended September 30, 2016, respectively.

On January 20, 2017, the Company acquired eNom, a wholesale and retail domain registrar. The Company acquired the assets and liabilities of eNom including wholesale and retail brands, proprietary technology and the existing customer relationships. The Company has accounted for these on a fair value basis and each intangible asset is being amortized over the estimated useful life. The amortization for the brands, technology and customer relationships are 7, 2 and 7 years, respectively. See note 4(b) for further details.

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.

A summary of acquired intangible assets for the three months ended September 30, 2017 is as follows:

| | Surname domain names | Direct navigation domain names | Brand | Customer relationships | Technology | Network rights | Total |
|----------------------------------------------------------------|---------------------------------|-----------------------------------------------|----------------|-----------------------------------|-------------------|---------------------------|---------------|
| Amortization period | indefinite life | indefinite life | 7 years | 4 - 7 years | 2 years | 15 years | |
| Balances June 30, 2017 | \$ 11,291,003 | \$ 1,856,542 | \$ 11,693,810 | \$ 31,919,024 | \$ 3,087,500 | \$ 584,288 | \$ 60,432,167 |
| Acquisition of consumer related assets of Otono Networks, Inc. | - | - | - | 2,294,111 | - | - | 2,294,111 |
| Acquisition of customer relationships | - | - | - | 90,187 | - | - | 90,187 |
| Additions to/(disposals from) domain portfolio, net | (1,623) | (7,774) | - | - | - | - | (9,397) |
| Amortization expense | - | - | (450,510) | (1,295,413) | (487,500) | (11,532) | (2,244,955) |
| Balances September 30, 2017 | \$ 11,289,380 | \$ 1,848,768 | \$ 11,243,300 | \$ 33,007,909 | \$ 2,600,000 | \$ 572,756 | \$ 60,562,113 |

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A summary of acquired intangible assets for the nine months ended September 30, 2017 is as follows:

| | Surname domain names | Direct navigation domain names | Brand | Customer relationships | Technology | Network rights | Total |
|-------------------------------------------------------------------------|-------------------------|--------------------------------------|---------------|---------------------------|--------------|-------------------|---------------|
| Amortization period | indefinite life | indefinite life | 7 years | 4 - 7 years | 2 years | 15 years | |
| Balances December 31, 2016 | \$ 11,295,221 | \$ 1,869,088 | \$ 5,210 | \$ 6,198,811 | \$ - | \$ 605,463 | \$ 19,973,793 |
| Reclassifications | - | - | 43,620 | (45,509) | - | 1,889 | - |
| Acquisition of Enom (note 4(b)) | - | - | 12,400,000 | 28,000,000 | 3,900,000 | - | 44,300,000 |
| Acquisition of consumer related assets of Otono Networks, Inc. | - | - | - | 2,294,111 | - | - | 2,294,111 |
| Acquisition of customer relationships | - | - | - | 90,187 | - | - | 90,187 |
| Additions to/(disposals from) domain portfolio, net | (5,841) | (20,320) | - | - | - | - | (26,161) |
| Amortization expense | - | - | (1,205,530) | (3,529,691) | (1,300,000) | (34,596) | (6,069,817) |
| Balances September 30, 2017 | \$ 11,289,380 | \$ 1,848,768 | \$ 11,243,300 | \$ 33,007,909 | \$ 2,600,000 | \$ 572,756 | \$ 60,562,113 |

The following table shows the estimated amortization expense in future periods, assuming no further additions to acquired intangible assets are made:

| | Year ending December 31, |
|-------------------|-----------------------------|
| Remainder of 2017 | \$ 2,168,927 |
| 2018 | 9,166,244 |
| 2019 | 7,255,196 |
| 2020 | 7,092,696 |
| 2021 | 7,092,696 |
| Thereafter | 14,648,206 |
| Total | \$ 47,423,965 |

As of September 30, 2017, the accumulated amortization for the definite life intangible assets was \$13.0 million.

7. Loan payable:

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 (note 4(b)). 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.

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In connection with the 2017 Amended Credit Agreement, the Company incurred \$0.6 million of fees paid to lenders and debt issuance costs, which have been reflected as a reduction to the carrying amount of the loan payable and will be amortized over the term of the credit facility agreement.

The obligations of the Company under the 2017 Amended Credit Facility are secured by a first priority lien on substantially all of the personal property and assets of the Company.

The 2017 Amended Credit Facility has a four-year term. Under the 2017 Amended Credit Facility, the Company has access to an aggregate of up to \$140 million in funds that are available as follows:

- a \$5 million revolving credit facility (“Facility A”);
- a \$15 million revolving reducing term facility (“Facility B”);
- a \$35.5 million non-revolving facility (“Facility C”); and
- a \$84.5 million non-revolving facility (“Facility D”).

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 Fiber to the Home program (“FTTH”). Facility D was provided and used 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 also 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 representations and warranties, affirmative and negative covenants, and events of default. The 2017 Amended Credit Facility requires that the Company to comply with the following financial covenants at all times, which are to be calculated on a rolling four quarter basis: (i) maximum Total Funded Debt to EBITDA Ratio of 3.00:1 until September 30, 2017, 2.50:1 until September 30, 2018 and 2.25:1 thereafter; and (ii) minimum Fixed Charge Coverage Ratio of 1.20:1. Further, the Company’s maximum annual Capital Expenditures cannot exceed \$32.8 million per year, which limit will be reviewed on an annual basis. In addition, funded share repurchases are not to exceed \$20 million, or up to \$40 million so long as the total loans related to share repurchases do not exceed 1.5 times of trailing twelve months EBITDA. As at and for the period ending September 30, 2017, the Company was in compliance with these 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.

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Borrowings under the 2017 Amended Credit Facility will accrue interest and standby fees based on the Company's Total Funded Debt to EBITDA ratio and the availability type as follows:

| Availability type or fee | If Total Funded Debt to EBITDA is: | | | |
|--------------------------------------------------------------------------------------------------------------|------------------------------------|--------------------------------------------------|--------------------------------------------------|-------------------------------|
| | Less than 1.00 | Greater than or equal to 1.00 and less than 2.00 | Greater than or equal to 2.00 and less than 2.25 | Greater than or equal to 2.25 |
| Canadian dollar borrowings based on Bankers' Acceptance or U.S. dollar borrowings based on LIBOR (Margin) | 2.00% | 2.25% | 2.75% | 3.25% |
| Canadian or U.S. dollar borrowings based on Prime Rate or U.S. dollar borrowings based on Base Rate (Margin) | 0.75% | 1.00% | 1.50% | 2.00% |
| Standby fees | 0.40% | 0.45% | 0.55% | 0.65% |

The following table summarizes the Company's borrowings under the 2017 Amended Credit Facility as at September 30, 2017:

| | September 30, 2017 | December 31, 2016 |
|----------------------------------------------------|-----------------------|----------------------|
| Facility B | \$ - | \$ 6,000,000 |
| Facility C | 6,277,902 | 4,731,306 |
| Facility D | 76,048,200 | - |
| Less: unamortized debt discount and issuance costs | (899,020) | (482,498) |
| Total loan payable | 81,427,082 | 10,248,808 |
| Less: loan payable, current portion | 18,289,853 | 2,233,110 |
| Loan payable, long-term portion | \$ 63,137,229 | \$ 8,015,698 |

The following table summarizes our scheduled principal repayments as of September 30, 2017:

| Principal repayments | |
|----------------------|---------------|
| Remainder of 2017 | \$ 4,572,463 |
| 2018 | 18,289,853 |
| 2019 | 18,289,853 |
| 2020 | 18,103,004 |
| 2021 | 17,542,457 |
| Thereafter | 5,528,472 |
| | \$ 82,326,102 |

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 (note 5).

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.

8. Income taxes

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 the fiscal year ending December 31, 2017 ("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, the Company 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, the Company 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, the Company considers 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. The Company considers projected future taxable income, uncertainties related to the industry in which we operate, and tax planning strategies in making this assessment.

On January 20, 2017, the Company acquired eNom and as part of the acquisition, the Company assumed \$21.9 million of deferred tax liabilities (note 4 (b)).

The Company follows 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.

The Company had nil gross unrecognized tax benefit as of September 30, 2017 and approximately \$0.1 million as of December 31, 2016. During the nine months ended September 30, 2017, the Company settled the outstanding tax matter relating to prior Pennsylvania state franchise taxes under the state's tax amnesty program.

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

9. Basic and diluted earnings per common share:

Basic earnings per common share has been calculated by dividing net income for the period by the weighted average number of common shares outstanding during each period. Diluted earnings per share has been calculated by dividing net income for the period by the weighted average number of common shares and potentially dilutive common shares outstanding during the period. In computing diluted earnings per share, the treasury stock method is used to determine the number of shares assumed to be purchased from the conversion of common share equivalents or the proceeds of option exercises.

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The following table is a summary of the basic and diluted earnings per common share:

| | Three months ended September 30, | | Nine months ended September 30, | |
|--------------------------------------------------------------|----------------------------------|--------------|---------------------------------|---------------|
| | 2017 | 2016 | 2017 | 2016 |
| Numerator for basic and diluted earnings per common share: | | | | |
| Net income for the period | \$ 3,439,266 | \$ 4,741,279 | \$ 11,127,241 | \$ 13,250,303 |
| Denominator for basic and diluted earnings per common share: | | | | |
| Basic weighted average number of common shares outstanding | 10,564,311 | 10,432,763 | 10,522,841 | 10,549,056 |
| Effect of outstanding stock options | 221,031 | 186,242 | 262,209 | 187,719 |
| Diluted weighted average number of shares outstanding | 10,785,342 | 10,619,005 | 10,785,050 | 10,736,775 |
| Basic earnings per common share | \$ 0.33 | \$ 0.45 | \$ 1.06 | \$ 1.26 |
| Diluted earnings per common share | \$ 0.32 | \$ 0.45 | \$ 1.03 | \$ 1.23 |

For the three months ended September 30, 2017, outstanding options to purchase 345,200 common shares were not included in the computation of diluted income per common share because all such options had exercise prices greater than the average market price of the common shares (three months ended September 30, 2016 – 76,750).

For the nine months ended September 30, 2017, outstanding options to purchase 349,700 common shares were not included in the computation of diluted income per common share because all such options had exercise prices greater than the average market price of the common shares (nine months ended September 30, 2016 – 95,950).

During the three and nine months ended September 30, 2017, no common shares were repurchased and cancelled under the terms of our stock repurchase program announced in March 2017.

During the three months ended September 30, 2016, no common shares were repurchased and for the nine months ended September 30, 2016, 308,416 common shares were repurchased and cancelled under the terms of our stock repurchase program announced in February 2016.

The computation of earnings per share and diluted earnings per share for the three and nine months ended September 30, 2017 and 2016 include reductions in the number of shares outstanding due to these repurchases.

10. Segment reporting:

(a) We are organized and managed based on two operating segments which are differentiated primarily by their services, the markets they serve and the regulatory environments in which they operate and are described as follows:

1. Network Access Services - This segment derives revenue from the sale of mobile phones, telephony services, high speed Internet access, Internet hosting and consulting services to individuals and small businesses primarily through the Ting website. Revenues are generated in the United States.

2. Domain Services – This segment includes wholesale and retail domain name registration services, value added services and portfolio services. The Company primarily earns revenues from the registration fees charged to resellers in connection with new, renewed and transferred domain name registrations; the sale of retail Internet domain name registration and email services to individuals and small businesses; and by making its 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.

The Chief Executive Officer is the chief operating decision maker and regularly reviews the operations and performance by segment. The chief operating decision maker reviews gross profit as a key measure of performance for each segment and to make decisions about the allocation of resources. Sales and marketing expenses, technical operations and development expenses, general and administrative expenses, depreciation of property and equipment, amortization of intangibles assets, impairment of indefinite life intangible assets, loss on currency forward contracts, other income (expense), and provision for income taxes, are organized along functional lines and are not included in the measurement of segment profitability. Total assets and total liabilities are centrally managed and are not reviewed at the segment level by the chief operating decision maker. The Company follows the same significant accounting policies and estimates for the segments as described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Information by operating segments, which is regularly reported to the chief operating decision maker is as follows:

| | <u>Network Access</u> | <u>Domain Name Services</u> | <u>Consolidated Totals</u> |
|-------------------------------------------------|-----------------------|---------------------------------|----------------------------|
| Three months ended September 30, 2017 | | | |
| Net Revenues | \$ 22,993,034 | \$ 62,015,450 | \$ 85,008,484 |
| Cost of revenues | | | |
| Cost of revenues | 13,310,922 | 47,755,839 | 61,066,761 |
| Network expenses | 446,126 | 2,014,570 | 2,460,696 |
| Depreciation of property and equipment | 578,257 | 245,184 | 823,441 |
| Amortization of intangible assets | 11,532 | 487,500 | 499,032 |
| Total cost of revenues | <u>14,346,837</u> | <u>50,503,093</u> | <u>64,849,930</u> |
| Gross Profit | 8,646,197 | 11,512,357 | 20,158,554 |
| Expenses: | | | |
| Sales and marketing | | | 7,578,414 |
| Technical operations and development | | | 1,910,147 |
| General and administrative | | | 2,852,345 |
| Depreciation of property and equipment | | | 154,638 |
| Amortization of intangible assets | | | 1,745,923 |
| Impairment of indefinite life intangible assets | | | 1,500 |
| Loss (gain) on currency forward contracts | | | (54,075) |
| Income from operations | | | 5,969,662 |
| Other income (expenses), net | | | (707,029) |
| Income before provision for income taxes | | | <u>\$ 5,262,633</u> |
| Three months ended September 30, 2016 | | | |
| Net Revenues | \$ 19,253,063 | \$ 29,811,264 | \$ 49,064,327 |
| Cost of revenues | | | |
| Cost of revenues | 9,589,183 | 21,257,485 | 30,846,668 |
| Network expenses | 507,128 | 780,492 | 1,287,620 |
| Depreciation of property and equipment | 258,042 | 20,704 | 278,746 |
| Amortization of intangible assets | 13,421 | - | 13,421 |
| Total cost of revenues | <u>10,367,774</u> | <u>22,058,681</u> | <u>32,426,455</u> |
| Gross Profit | 8,885,289 | 7,752,583 | 16,637,872 |
| Expenses: | | | |
| Sales and marketing | | | 5,479,445 |
| Technical operations and development | | | 1,270,107 |
| General and administrative | | | 2,166,217 |
| Depreciation of property and equipment | | | 178,687 |
| Amortization of intangible assets | | | 279,126 |
| Impairment of indefinite life intangible assets | | | 2,866 |
| Loss (gain) on currency forward contracts | | | 22,475 |
| Income from operations | | | 7,238,949 |
| Other income (expenses), net | | | (5,021) |
| Income before provision for income taxes | | | <u>\$ 7,233,928</u> |

| | <u>Network Access</u> | <u>Domain Name Services</u> | <u>Consolidated Totals</u> |
|-------------------------------------------------|-----------------------|---------------------------------|--------------------------------|
| Nine months ended September 30, 2017 | | | |
| Net Revenues | \$ 63,559,792 | \$ 175,240,055 | \$ 238,799,847 |
| Cost of revenues | | | |
| Cost of revenues | 35,389,553 | 134,433,264 | 169,822,817 |
| Network expenses | 1,397,832 | 5,666,626 | 7,064,458 |
| Depreciation of property and equipment | 1,494,299 | 634,118 | 2,128,417 |
| Amortization of intangible assets | 34,596 | 1,300,000 | 1,334,596 |
| Total cost of revenues | <u>38,316,280</u> | <u>142,034,008</u> | <u>180,350,288</u> |
| Gross Profit | 25,243,512 | 33,206,047 | 58,449,559 |
| Expenses: | | | |
| Sales and marketing | | | 22,244,961 |
| Technical operations and development | | | 5,402,385 |
| General and administrative | | | 9,596,298 |
| Depreciation of property and equipment | | | 485,648 |
| Amortization of intangible assets | | | 4,735,221 |
| Impairment of indefinite life intangible assets | | | 1,500 |
| Loss (gain) on currency forward contracts | | | (115,276) |
| Income from operations | | | <u>16,098,822</u> |
| Other income (expenses), net | | | (2,190,673) |
| Income before provision for income taxes | | | <u>\$ 13,908,149</u> |
| Nine months ended September 30, 2016 | | | |
| | <u>Network Access</u> | <u>Domain Name Services</u> | <u>Consolidated Totals</u> |
| Net Revenues | \$ 55,020,436 | \$ 85,993,893 | \$ 141,014,329 |
| Cost of revenues | | | |
| Cost of revenues | 28,386,395 | 61,059,098 | 89,445,493 |
| Network expenses | 941,451 | 2,983,926 | 3,925,377 |
| Depreciation of property and equipment | 655,104 | 321,315 | 976,419 |
| Amortization of intangible assets | 36,485 | - | 36,485 |
| Total cost of revenues | <u>30,019,435</u> | <u>64,364,339</u> | <u>94,383,774</u> |
| Gross Profit | 25,001,001 | 21,629,554 | 46,630,555 |
| Expenses: | | | |
| Sales and marketing | | | 15,174,619 |
| Technical operations and development | | | 3,445,118 |
| General and administrative | | | 7,497,752 |
| Depreciation of property and equipment | | | 328,877 |
| Amortization of intangible assets | | | 613,041 |
| Impairment of indefinite life intangible assets | | | 27,745 |
| Loss (gain) on currency forward contracts | | | (96,993) |
| Income from operations | | | <u>19,640,396</u> |
| Other income (expenses), net | | | 85,919 |
| Income before provision for income taxes | | | <u>\$ 19,726,315</u> |

(b) The following is a summary of the Company's revenue earned from each significant revenue stream:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---------------------------------|-----------------------------------------|----------------------|----------------------------------------|-----------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Network Access Services: | | | | |
| 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 | <u>22,993,034</u> | <u>19,253,063</u> | <u>63,559,792</u> | <u>55,020,436</u> |
| Domain Services: | | | | |
| 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 | <u>52,171,483</u> | <u>25,182,708</u> | <u>149,446,144</u> | <u>72,713,461</u> |
| Retail | | | | |
| Portfolio | 8,872,984 | 3,721,032 | 22,937,606 | 10,747,456 |
| Total Domain Services | <u>970,983</u> | <u>907,524</u> | <u>2,856,305</u> | <u>2,532,976</u> |
| | <u>62,015,450</u> | <u>29,811,264</u> | <u>175,240,055</u> | <u>85,993,893</u> |
| | <u>\$ 85,008,484</u> | <u>\$ 49,064,327</u> | <u>\$ 238,799,847</u> | <u>\$ 141,014,329</u> |

During the three and nine months ended September 30, 2017 and 2016, no customer accounted for more than 10% of total revenue. As at September 30, 2017 and December 31, 2016, no customer accounted for more than 10% of accounts receivable.

(c) The following is a summary of the Company's cost of revenues from each significant revenue stream:

| | 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 | <u>13,310,922</u> | <u>9,589,183</u> | <u>35,389,553</u> | <u>28,386,395</u> |
| 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 | <u>42,965,422</u> | <u>19,397,924</u> | <u>121,030,360</u> | <u>55,617,036</u> |
| Retail | | | | |
| Portfolio | 4,610,745 | 1,727,867 | 12,775,941 | 4,968,659 |
| Total Domain Services | <u>179,672</u> | <u>131,694</u> | <u>626,963</u> | <u>473,403</u> |
| | <u>47,755,839</u> | <u>21,257,485</u> | <u>134,433,264</u> | <u>61,059,098</u> |
| 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 |
| | <u>3,783,169</u> | <u>1,579,787</u> | <u>10,527,471</u> | <u>4,938,281</u> |
| | <u>\$ 64,849,930</u> | <u>\$ 32,426,455</u> | <u>\$ 180,350,288</u> | <u>\$ 94,383,774</u> |

(d) The following is a summary of the Company's property and equipment by geographic region:

| | September 30, 2017 | December 31, 2016 |
|---------------|---------------------------|--------------------------|
| Canada | \$ 1,169,409 | \$ 1,010,427 |
| United States | 21,036,074 | 12,398,961 |
| Germany | 27,387 | 41,050 |
| | <u>\$ 22,232,870</u> | <u>\$ 13,450,438</u> |

(e) The following is a summary of the Company's amortizable intangible assets by geographic region:

| | <u>September 30, 2017</u> | <u>December 31, 2016</u> |
|---------------|---------------------------|--------------------------|
| Canada | \$ 7,522,264 | \$ 5,850,596 |
| United States | 39,730,601 | 633,798 |
| Germany | 171,100 | 325,090 |
| | <u>\$ 47,423,965</u> | <u>\$ 6,809,484</u> |

(f) The following is a summary of the Company's deferred tax asset by geographic region:

| | <u>September 30, 2017</u> | <u>December 31, 2016</u> |
|--------|---------------------------|--------------------------|
| Canada | \$ - | \$ 5,708,725 |
| | <u>\$ -</u> | <u>\$ 5,708,725</u> |

(g) Valuation and qualifying accounts:

| <u>Allowance for doubtful accounts excluding provision for credit notes</u> | <u>Balance at beginning of period</u> | <u>Charged to (recovered) costs and expenses</u> | <u>Write-offs during period</u> | <u>Balance at end of period</u> |
|-----------------------------------------------------------------------------|---------------------------------------|--------------------------------------------------|---------------------------------|---------------------------------|
| Nine months ended September 30, 2017 | \$ 164,145 | \$ 3,741 | \$ - | \$ 167,886 |
| Year ended December 31, 2016 | \$ 122,095 | \$ 42,050 | \$ - | \$ 164,145 |

11. Commitments and contingencies:

The Company is involved in various legal claims and lawsuits in connection with its ordinary business operations. The Company intends to vigorously defend these claims. While the final outcome with respect to any actions or claims outstanding or pending as of September 30, 2017 cannot be predicted with certainty, management does not believe that the resolution of these claims, individually or in the aggregate, will have a material adverse effect on the Company's financial position.

12. Stockholders' Equity:

The following unaudited table summarizes stockholders' equity transactions for the three-month period ended September 30, 2017:

| | Number | Common stock Amount | Additional paid in capital | Retained earnings (deficit) | Accumulated other comprehensive income (loss) | Total stockholders' equity |
|------------------------------------------------------------------------------------------------------------|-------------------|------------------------|----------------------------------|-----------------------------------|--------------------------------------------------------|----------------------------------|
| Balances, June 30, 2017 | 10,552,401 | \$ 15,125,326 | \$ 1,607,476 | \$ 28,062,438 | \$ 330,106 | \$ 45,125,346 |
| Exercise of stock options | 30,051 | 159,307 | (91,241) | - | - | 68,066 |
| Shares deducted from exercise of stock options for payment of withholding taxes and exercise consideration | (4,903) | - | (116,956) | - | - | (116,956) |
| Stock-based compensation (note 13) | - | - | 202,902 | - | - | 202,902 |
| Net income | - | - | - | 3,439,266 | - | 3,439,266 |
| Accretion of redeemable non-controlling interest in Ting Virginia, LLC. | - | - | - | (12,600) | - | (12,600) |
| Other comprehensive income (loss) | - | - | - | - | (8,071) | (8,071) |
| Balances, September 30, 2017 | <u>10,577,549</u> | <u>\$ 15,284,633</u> | <u>\$ 1,602,181</u> | <u>\$ 31,489,104</u> | <u>\$ 322,035</u> | <u>\$ 48,697,953</u> |

The following unaudited table summarizes stockholders' equity transactions for the nine-month period ended September 30, 2017:

| | Number | Common stock Amount | Additional paid in capital | Retained earnings (deficit) | Accumulated other comprehensive income (loss) | Total stockholders' equity |
|------------------------------------------------------------------------------------------------------------|-------------------|------------------------|----------------------------------|-----------------------------------|--------------------------------------------------------|----------------------------------|
| Balances, December 31, 2016 | 10,461,574 | \$ 14,460,500 | \$ 2,857,921 | \$ 20,399,511 | \$ 99,154 | \$ 37,817,086 |
| Exercise of stock options | 165,673 | 824,133 | (651,230) | - | - | 172,903 |
| Shares deducted from exercise of stock options for payment of withholding taxes and exercise consideration | (49,698) | - | (1,438,497) | - | - | (1,438,497) |
| Stock-based compensation (note 13) | - | - | 833,987 | - | - | 833,987 |
| Net income | - | - | - | 11,127,241 | - | 11,127,241 |
| Accretion of redeemable non-controlling interest in Ting Virginia, LLC. | - | - | - | (37,648) | - | (37,648) |
| Other comprehensive income (loss) | - | - | - | - | 222,881 | 222,881 |
| Balances, September 30, 2017 | <u>10,577,549</u> | <u>\$ 15,284,633</u> | <u>\$ 1,602,181</u> | <u>\$ 31,489,104</u> | <u>\$ 322,035</u> | <u>\$ 48,697,953</u> |

On March 1, 2017, the Company announced that its Board of Directors had approved a stock buyback program to repurchase up to \$40 million of its common stock in the open market. Purchases will be made exclusively through the facilities of the NASDAQ Capital Market. The stock buyback program commenced on March 1, 2017 and will terminate on or before February 28, 2018. During the three and nine months ended September 30, 2017, the Company did not repurchase any shares under this program.

On February 9, 2016, the Company announced that its Board of Directors had approved a stock buyback program to repurchase up to \$40 million of its common stock in the open market. Purchases will be made exclusively through the facilities of the NASDAQ Capital Market. The stock buyback program commenced on February 10, 2016 and terminated on February 9, 2017. The Company repurchased 308,416 shares under this program for the nine months ended September 30, 2016 for a total of \$7.2 million.

On February 11, 2015, the Company announced that its Board of Directors had approved a stock buyback program to repurchase up to \$20 million of its common stock in the open market. Purchases were made exclusively through the facilities of the NASDAQ Capital Market. The stock buyback program commenced on February 16, 2015 and terminated on February 9, 2016. The Company did not repurchase any shares under this program during the nine months ended September 30, 2016.

13. Share-based payments

(a) Stock options

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model, consistent with the guidance on stock compensation. Because option-pricing models require the use of subjective assumptions, changes in these assumptions can materially affect the fair value of the options. The assumptions presented in the table below represent the weighted average of the applicable assumption used to value stock options at their grant date. The Company calculates expected volatility based on historical volatility of the Company's common shares. The expected term, which represents the period of time that options granted are expected to be outstanding, is estimated based on historical exercise experience. The Company evaluated historical exercise behavior when determining the expected term assumptions. The risk-free rate assumed in valuing the options is based on the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option. The Company determines the expected dividend yield percentage by dividing the expected annual dividend by the market price of our common shares at the date of grant.

Details of stock option transactions for the three months ended September 30, 2017 and September 30, 2016 are as follows:

| | Three months ended September 30, 2017 | | Three months ended September 30, 2016 | |
|------------------------------------|---------------------------------------|-------------------------------------------|---------------------------------------|-------------------------------------------|
| | Number of shares | Weighted average exercise price per share | Number of shares | Weighted average exercise price per share |
| Outstanding, beginning of period | 363,608 | \$ 16.79 | 502,590 | \$ 11.30 |
| Granted | 327,150 | 55.49 | 18,750 | 27.53 |
| Exercised | (30,051) | 6.67 | (31,065) | 38.00 |
| Forfeited | (1,050) | 51.87 | - | - |
| Expired | - | - | - | - |
| Outstanding, end of period | 659,657 | 36.39 | 490,275 | 12.39 |
| Options exercisable, end of period | 223,043 | \$ 14.30 | 306,553 | \$ 9.16 |

Details of stock option transactions for the nine months ended September 30, 2017 and September 30, 2016 are as follows:

| | Nine months ended September 30, 2017 | | Nine months ended September 30, 2016 | |
|------------------------------------|--------------------------------------|-------------------------------------------|--------------------------------------|-------------------------------------------|
| | Number of shares | Weighted average exercise price per share | Number of shares | Weighted average exercise price per share |
| Outstanding, beginning of period | 474,501 | \$ 12.67 | 513,366 | \$ 9.24 |
| Granted | 360,025 | 54.13 | 81,750 | 22.66 |
| Exercised | (165,673) | 7.79 | (94,602) | 3.75 |
| Forfeited | (9,196) | 22.08 | (9,489) | 17.23 |
| Expired | - | - | (750) | 3.76 |
| Outstanding, end of period | 659,657 | 36.39 | 490,275 | 12.39 |
| Options exercisable, end of period | 223,043 | \$ 14.30 | 306,553 | \$ 9.16 |

As of September 30, 2017, the exercise prices, weighted average remaining contractual life and intrinsic values of outstanding options were as follows:

| Exercise price | Options outstanding | | | | Options exercisable | | | |
|-------------------|---------------------|-------------------------------------------|-----------------------------------------------------|---------------------------|---------------------|-------------------------------------------|-----------------------------------------------------|---------------------------|
| | Number outstanding | Weighted average exercise price per share | Weighted average remaining contractual life (years) | Aggregate intrinsic value | Number exercisable | Weighted average exercise price per share | Weighted average remaining contractual life (years) | Aggregate intrinsic value |
| \$ 2.92 - \$ 8.92 | 96,644 | \$ 6.72 | 1.9 | \$ 5,008,805 | 96,644 | \$ 6.72 | 1.9 | \$ 5,008,805 |
| \$10.16 - \$19.95 | 122,938 | 16.29 | 3.7 | 5,195,152 | 76,399 | 15.99 | 3.5 | 3,251,248 |
| \$21.10 - \$27.53 | 81,000 | 23.65 | 4.4 | 2,826,893 | 45,000 | 25.39 | 3.7 | 1,492,313 |
| \$35.25 - \$37.35 | 14,375 | 35.89 | 5.7 | 325,750 | 5,000 | 35.25 | 6.2 | 116,500 |
| \$43.15 - \$47.00 | 18,500 | 44.19 | 6.3 | 265,650 | - | - | - | - |
| \$53.55 - \$55.65 | 326,200 | 55.49 | 6.7 | 998,480 | - | - | - | - |
| | 659,657 | \$ 36.39 | 5.1 | \$ 14,620,730 | 223,043 | \$ 14.30 | 2.9 | \$ 9,868,866 |

Total unrecognized compensation cost relating to unvested stock options at September 30, 2017 was approximately \$7.0 million and is expected to be recognized over a weighted average period of 3.1 years.

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The Company recorded stock-based compensation of \$0.2 million and \$0.8 million for the three and nine months ended September 30, 2017 and \$0.2 million and \$0.6 million for the three and nine months ended September 30, 2016, respectively.

The Company has not capitalized any stock-based compensation expense as part of the cost of an asset.

14. Fair value measurement

ASC Topic 820, “*Fair Value Measurements and Disclosures*” establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company’s own assumptions used to measure assets and liabilities at fair value. A financial asset or liability’s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following table provides a summary of the fair values of the Company’s derivative instrument assets and liabilities measured at fair value on a recurring basis at September 30, 2017:

| | September 30, 2017 | | | Assets (Liabilities) at Fair value |
|-----------------------------|------------------------------|------------|---------|------------------------------------------|
| | Fair Value Measurement Using | | | |
| | Level 1 | Level 2 | Level 3 | |
| Derivative instrument asset | \$ - | \$ 559,663 | \$ - | \$ 559,663 |

The following table provides a summary of the fair values of the Company’s derivative instrument assets measured at fair value on a recurring basis as at December 31, 2016:

| | December 31, 2016 | | | Assets (Liabilities) at Fair value |
|-----------------------------|------------------------------|------------|---------|------------------------------------------|
| | Fair Value Measurement Using | | | |
| | Level 1 | Level 2 | Level 3 | |
| Derivative instrument asset | \$ - | \$ 172,888 | \$ - | \$ 172,888 |

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, accreditation fees payable, customer deposits, loan payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of the instruments.

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 | <u>22,993,034</u> | <u>19,253,063</u> | <u>63,559,792</u> | <u>55,020,436</u> |
| <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 | <u>52,171,483</u> | <u>25,182,708</u> | <u>149,446,144</u> | <u>72,713,461</u> |
| Retail | | | | |
| Portfolio | 8,872,984 | 3,721,032 | 22,937,606 | 10,747,456 |
| Total Domain Services | <u>970,983</u> | <u>907,524</u> | <u>2,856,305</u> | <u>2,532,976</u> |
| | <u>62,015,450</u> | <u>29,811,264</u> | <u>175,240,055</u> | <u>85,993,893</u> |
| | <u>\$ 85,008,484</u> | <u>\$ 49,064,327</u> | <u>\$ 238,799,847</u> | <u>\$ 141,014,329</u> |
| 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 | <u>27%</u> | <u>39%</u> | <u>26%</u> | <u>39%</u> |
| <u>Domain Services:</u> | | | | |
| Wholesale | | | | |
| Domain Services | 57% | 46% | 57% | 46% |
| Value Added Services | 5% | 5% | 6% | 5% |
| Total Wholesale | <u>62%</u> | <u>51%</u> | <u>63%</u> | <u>51%</u> |
| Retail | | | | |
| Portfolio | 10% | 8% | 10% | 8% |
| Total Domain Services | <u>1%</u> | <u>2%</u> | <u>1%</u> | <u>2%</u> |
| | <u>73%</u> | <u>61%</u> | <u>74%</u> | <u>61%</u> |
| | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> |

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 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.

At September 30, 2017, we had the following outstanding forward exchange contracts to trade U.S. dollars in exchange for Canadian dollars:

| <u>Maturity date</u> | <u>Notional amount of U.S. dollars</u> | <u>Weighted average exchange rate of U.S. dollars</u> | <u>Fair value</u> |
|-------------------------|------------------------------------------------|-------------------------------------------------------------------|-------------------|
| October - December 2017 | 6,859,570 | 1.3478 | 559,663 |
| | <u>\$ 6,859,570</u> | 1.3478 | <u>\$ 559,663</u> |

As of September 30, 2017, we had \$6.9 million of outstanding foreign exchange forward contracts which will convert to CDN \$9.2 million. Of these contracts, \$6.2 million met the requirements for hedge accounting (December 31, 2016 - \$26.6 million of which \$24.0 million were designated as hedges).

We have performed a sensitivity analysis model for foreign exchange exposure over the nine months ended September 30, 2017. The analysis used a modeling technique that compares the U.S. dollar equivalent of all expenses incurred in Canadian dollars, at the actual exchange rate, to a hypothetical 10% adverse movement in the foreign currency exchange rates against the U.S. dollar, with all other variables held constant. Foreign currency exchange rates used were based on the market rates in effect during the nine months ended September 30, 2017. The sensitivity analysis indicated that a hypothetical 10% adverse movement in foreign currency exchange rates would result in a decrease in net income for the nine months ended September 30, 2017 of approximately \$0.7 million. There can be no assurances that the above projected exchange rate decrease will materialize. Fluctuations of exchange rates are beyond our control. We will continue to monitor and assess the risk associated with these exposures and may take additional actions in the future to hedge or mitigate these risks.

Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash equivalents, marketable securities, foreign exchange contracts and accounts receivable. Our cash, cash equivalents and short-term investments are in high-quality securities placed with major banks and financial institutions whom we have evaluated as highly creditworthy, and commercial paper. With respect to accounts receivable, we perform ongoing evaluations of our customers, generally granting uncollateralized credit terms to our customers, and maintaining an allowance for doubtful accounts based on historical experience and our expectation of future losses.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, performed an evaluation of our disclosure controls and procedures as required by Rule 13a-15(e) and 15d-15(e) under the Exchange Act. The evaluation was performed to determine whether our disclosure controls and procedures as of the end of the period covered by this report have been designed and are functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation as of September 30, 2017, management has concluded that our disclosure controls and procedures were effective. Management's assessment of disclosure controls and procedures excluded consideration of eNom's internal control over financial reporting. eNom was acquired during the first quarter of 2017, and the exclusion is consistent with guidance provided by the SEC staff that an assessment of a recently acquired business may be omitted from management's report on internal control over financial reporting for up to one year from the date of acquisition, subject to specified conditions. eNom's total assets were approximately \$205 million as September 30, 2017; its revenues during the nine months ended September 30, 2017 were approximately \$81.3 million.

(b) Changes in Internal Control over Financial Reporting

During the nine months ended September 30, 2017, there have not been any changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. As a result of our acquisition of eNom, we are in the process of evaluating eNom's internal controls to determine the extent to which modifications to eNom's internal controls would be appropriate.

**PART II
OTHER INFORMATION**

Item 1. Legal Proceedings

We are involved in various investigations, claims and lawsuits arising in the normal conduct of our business, none of which, individually or in the aggregate, in our opinion, will materially harm our business. We cannot assure that we will prevail in any litigation. Regardless of the outcome, any litigation may require us to incur significant litigation expense and may result in significant diversion of our attention.

Item 1A. Risk Factors

In addition to the risk factor and other information set forth in this Quarterly Report, you should also carefully consider the risk factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016, all of which could materially affect our business, financial condition or operating results and should be considered before making an investment decision regarding our securities. The risks described in this Quarterly Report and in our Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may adversely affect our business, financial condition or operating results.

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

On March 1, 2017, the Company announced that its Board of Directors had approved a stock buyback program to repurchase up to \$40 million of its common stock in the open market. Purchases will be made exclusively through the facilities of the NASDAQ Capital Market. The stock buyback program commenced on March 1, 2017 and will terminate on or before February 28, 2018. The Company has not repurchased any shares under this program during the nine months ended September 30, 2017.

Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

(a) Exhibits.

| Exhibit No. | Description |
|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1.1 | Fourth Amended and Restated Articles of Incorporation of Tucows Inc. (Incorporated by reference to Exhibit 3.1 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on November 29, 2007). |
| 3.1.2 | Articles of Amendment to Fourth Amended and Restated Articles of Incorporation of Tucows Inc. (Incorporated by reference to Exhibit 3.1 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on January 3, 2014). |
| 3.2 | Second Amended and Restated Bylaws of Tucows Inc. (Incorporated by reference to Exhibit 3.2 filed with Tucows' Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the SEC on March 29, 2007). |
| 3.3 | Amendment No. 1 to Second Amended and Restated Bylaws of Tucows Inc. (Incorporated by reference to Exhibit 3.3 filed with Tucows' Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, as filed with the SEC on August 14, 2012). |
| 31.1 | Chief Executive Officer's Rule 13a-14(a)/15d-14(a) Certification * |
| 31.2 | Chief Financial Officer's Rule 13a-14(a)/15d-14(a) Certification * |
| 32.1 | Chief Executive Officer's Section 1350 Certification † |
| 32.2 | Chief Financial Officer's Section 1350 Certification † |
| 101.INS | XBRL Instance * |
| 101.SCH | XBRL Taxonomy Extension Schema * |
| 101.CAL | XBRL Taxonomy Extension Calculation * |
| 101.DEF | XBRL Taxonomy Extension Definition * |
| 101.LAB | XBRL Taxonomy Extension Labels * |
| 101.PRE | XBRL Taxonomy Extension Presentation * |

* Filed herewith.

† Furnished herewith.

SIGNATURES

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

Date: November 9, 2017

TUCOWS INC.

By: /s/ Elliot Noss
Elliot Noss
President and Chief Executive Officer

By: /s/ Davinder Singh
Davinder Singh
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

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| 101.PRE | XBRL Taxonomy Extension Presentation * |

* Filed herewith.

† Furnished herewith.

Rule 13a-14(a)/15d-14(a) Certification

I, Elliot Noss, certify that:

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

Date November 9, 2017 /s/ Elliot Noss

Elliot Noss
President and Chief Executive Officer

Rule 13a-14(a)/15d-14(a) Certification

I, Davinder Singh, certify that:

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

Date November 9, 2017 /s/ Davinder Singh
Davinder Singh
Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Quarterly Report of Tucows Inc. (the "Company") on Form 10-Q for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Elliot Noss, President and Chief Executive Officer of the Company, hereby certify, to my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2017

/s/ Elliot Noss

Elliot Noss
President and Chief Executive Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Quarterly Report of Tucows Inc. (the "Company") on Form 10-Q for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Davinder Singh, Chief Financial Officer of the Company, hereby certify, to my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (3) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (4) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2017

/s/ Davinder Singh

Davinder Singh
Chief Financial Officer