

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The following discussion and analysis should be read together with the audited consolidated financial statements of Tucows Inc. (the "Company", "we", "us", "Tucows" or "our") as at December 31, 2017 and December 31, 2016 and for the years ended December 31, 2017, 2016 and 2015 and accompanying notes set forth elsewhere in this report. All financial information is presented in U.S. dollars.

Some of the statements set forth in this section are forward-looking statements relating to our future results of operations. Accordingly, reference is made to "Part I. Item 1A. Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements," which describe important factors that could cause actual results to differ from expectations and non-historical information contained herein.

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. We manage our business as segments, Network Access Services, which primarily derives revenue from the sale of retail mobile phones, telephony services and high-speed Internet access to individuals and small businesses, and Domain Services, which 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.

For the years ended December 31, 2017, 2016 and 2015, we reported revenue of \$329 million, \$190 million and \$172 million, respectively.

Network Access Services

Network Access Services derives revenue from the sale of retail mobile phones and services to individuals and small businesses through the Ting website, as well as from providing high speed Internet access, Internet hosting and network consulting services to customers in select cities in the United States. Ting provides 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 and fixed Internet access in select cities. Revenues are generated in the United States and are provided on a monthly basis with no fixed contract term. As of December 31, 2017, Ting managed mobile telephony services for approximately 172,000 subscribers and had approximately 283,000 devices under management.

Our primary distribution channel for Network Access Services is through our website, ting.com. We strive to meet or exceed our Network Access Service customers' needs by providing them with superior services, easy-to-use interfaces and proactive and attentive customer service.

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.

Domain Services

Domain Services include wholesale and retail domain name registration services, value added services and portfolio services derived through our OpenSRS, eNom and Hover 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. 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, 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. In January 2018, the Company completed a bulk transfer of 2.65 million names for domain names under management related to Namecheap as more fully described in “Note 17 – Subsequent events” in the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report.

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 and Non-GAAP Measure

We regularly review a number of business metrics, including the following key metrics and non-GAAP measure, to assist us in evaluating our business, measure the performance of our business model, identify trends impacting our business, determine resource allocations, formulate financial projections and make strategic business decisions. The following tables set forth the key business metrics which we believe are the primary indicators of our performance for the periods presented:

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. Please see discussion of adjusted EBITDA in the Results of Operations section below.

Network Access Services

	Year ended December 31, (1)		
	2017	2016	2015
Ting Mobile subscribers under management	172,000	151,000	128,000
Ting Mobile devices under management	283,000	245,000	202,000

- (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 Revenues discussion below.

Domain Services

	Year ended December 31, (1)		
	2017	2016 (in '000's)	2015
Total new, renewed and transferred-in domain name registrations provisioned	19,361	9,950	9,133
Domain names under management			
Registered using Registrar Accreditation belonging to the Tucows Group	22,300	11,356	10,173
Registered using Registrar Accreditations belonging to Resellers	5,400	3,547	3,163
Total domain names under management ⁽²⁾	27,700	14,903	13,336

- (1) For a discussion of these period to period changes in the domains provisioned and domains under management and how they impacted our financial results see the Net Revenues discussion below.

- (2) In January 2018, the Company completed a bulk transfer of 2.65 million names for domain names under management related to Namecheap as more fully described in “Note 17 – Subsequent events” in the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report.

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 four 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, 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, 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. Growth in our Domain Services revenue is dependent upon our ability to continue to attract and retain customers by maintaining consistent 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 OpenSRS Domain Expiry Stream. The revenue associated with names 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 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 have a negative impact on our advertising revenue as these names are no longer available for advertising purposes. In addition, the timing of larger domain names 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 post-paid basis with no fixed contract term. For the mobile roaming and instant activation eSIM business under the Roam Mobility brands, we derive revenue from the sale of SIM cards with prepaid usage as well as pay-as-you-go usage sold through third-party retail stores and product branded websites.

Other Services

Other services derive revenues from providing fixed high-speed internet access to individuals and small businesses in select cities including Westminster, Maryland, Holly Springs, North Carolina 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

Historically, our 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 26,000 reseller network, domain services will continue to be the largest portion of our business and will further fuel our ability to sell add-on services.

We receive revenues for each domain registration or other Internet service processed through our system by ISPs. 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 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 year.

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.

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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 Streams.

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.

Critical Accounting Policies

The following is a discussion of our critical accounting policies and methods. Critical accounting policies are defined as those that are both important to the portrayal of our financial condition and results of operations and are reflective of significant judgments and uncertainties made by management that may result in materially different results under different assumptions and conditions. "Note 2 – Significant accounting policies" in the Notes to the Consolidated Financial Statements for the year ended December 31, 2017 ("Fiscal 2017") included in Part II, Item 8 of this Annual Report, includes further information on the significant accounting policies and methods used in the preparation of our consolidated financial statements.

The preparation of financial statements in conformity with GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate the application of these estimates, including those related to the recoverability of investments, useful lives and valuation of intangible assets, valuation of goodwill, fair value measurement of assets and liabilities, product development costs, revenue recognition and deferred revenue and accounting for income taxes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual amounts could differ significantly from these estimates.

Revenue recognition policy

We earn revenues from the following services:

- Network Access Services – Ting and Roam (sale of retail mobile phones and services, prepaid sim cards, fixed high speed internet access, Internet hosting and network consulting services);
- Domain Services - Wholesale (OpenSRS and eNom Domain Services and OpenSRS and eNom Value-Added Services); Retail (Hover and eNom) and Portfolio (Domain Portfolio monetization and sales).

Revenues derived from provisioning mobile phone service to individuals and small businesses through the Ting website, are recognized once services have been provided. This is based upon either usage (e.g., minutes of traffic/bytes of data processed), period of time (e.g., monthly service fees), various regulatory fees imposed on us by governmental authorities or other established fee schedules. Revenues for wireless services are billed based on the actual amount of monthly services utilized by each customer during their billing cycle on a postpaid basis. Our billing cycle for each customer is computed based on their activation date and not on our reporting period. As a result, we are required to estimate the amount of revenues earned but not billed from the end of each billing cycle to the end of each reporting period. These estimates are based on an assessment of the actual services rendered to each customer since the last billing period against our rate plans existing at that time. Adjustments affecting revenue may occur in periods subsequent to the billing period when the services were provided and are recognized as revenue during the current billing cycle. In addition, revenues associated with the sale of wireless devices and accessories to subscribers is recognized when title and risk of loss is transferred to the subscriber and shipment has occurred. Incentive marketing credits given to customers are recorded as a reduction of revenue. For the mobile roaming and instant activation eSIM business under Roam Mobility brands, we derive revenue from the sale of SIM cards with prepaid usage as well as pay-as-you-go usage sold through third-party retail stores and product branded websites. Revenue for sim cards is recognized when shipped to the consumer or third-party retailer while prepaid usage is recognized ratably over the period the sim card is active. Prepaid usage related to unused or not-yet activated sim cards is deferred.

Revenues from providing fixed high speed internet access in select cities including Westminster, Maryland, Holly Springs, North Carolina and Charlottesville, Virginia along with Internet hosting and network consulting services to customers in Charlottesville, Virginia are recognized when the related services are provided. Services are billed monthly and our billing cycle for each customer is computed based on their activation date and not our reporting period. As a result, we accrue the amount of revenues earned but not billed from the end of each billing cycle to the end of each reporting period.

With respect to the sale of domain registrations and other value-added services, we earn registration fees in connection with each new, renewed and transferred-in registration and from providing provisioning services to resellers and registrars on a monthly basis. We also enter into revenue arrangements in which a reseller may purchase a combination of services. When a standalone selling price exists for each deliverable, we allocate revenue to each deliverable based on the relative selling price of each of the deliverables. The standalone selling price is established for each deliverable by the price charged when that deliverable is sold separately by the Company which is vendor specific objective evidence (“VSOE”). For arrangements where the Company does not sell the deliverable separately, the selling price is determined based on third party evidence (“TPE”), which is the price at which a competitor or third party sells the same or similar and largely interchangeable deliverable on a standalone basis. In instances where VSOE and TPE do not exist, the Company uses an estimated selling price for the deliverable, which is the price at which a company would transact if the deliverable were sold by the vendor regularly on a standalone basis. Payments for the full term of all services 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 year.

Revenue from domain portfolio monetization and sales consists primarily of amounts earned for the transfer of rights to domain names and domain related rights that are currently under the Company's control. Collectability of revenues generated is subject to a high level of uncertainty; accordingly, revenues are recognized only when payment is received, except where a fixed contract has been negotiated, in which case revenues are recognized once all the terms of the contract have been satisfied.

We also generate advertising and other revenue from our OpenSRS and eNom expired domain names and our domain name portfolio. Advertising and other revenue is recognized ratably over the period in which it is presented. To the extent that the minimum number of post-presentation impressions we guarantee to customers is not met, we defer recognition of the corresponding revenues until the guaranteed impressions are achieved. Revenue is also generated from vendors who are seeking to expand or maintain their services market position and is recognized once all the conditions have been met.

Changes to contractual relationships in the future could impact the amounts and timing of revenue recognition.

In those cases where payment is not received at the time of sale, additional conditions for recognition of revenue apply. The conditions are (i) that the collection of sales proceeds is reasonably assured and (ii) that we have no further performance obligations. We record expected refunds, rebates and credit card charge-backs as a reduction of revenues at the time of the sale based on historical experiences and current expectations. Should these expectations not be met, adjustments will be required in future periods.

We record provisions for possible uncollectible accounts receivable and contingent liabilities which may arise in the normal course of business. The allowance for doubtful accounts is calculated by taking into account factors such as our historical collection and write-off experience, the number of days the customer is past due and the status of the customer's account with respect to whether or not the customer is continuing to receive service. The contingent liability estimates are based on management's historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the reported amounts of liabilities and expenses that are not readily apparent from other sources. Historically, credit losses have been within our expectations and the reserves we have established have been appropriate. However, we have, on occasion, experienced issues which have led to accounts receivable not being fully collected. Should these issues occur more frequently, additional provisions may be required.

Valuation of goodwill, intangible assets and long-lived assets

The excess of the purchase price over the fair values of the identifiable assets and liabilities from our acquisitions is recorded as goodwill. At December 31, 2017, we had \$90.1 million in goodwill related to our acquisitions and \$58.4 million in intangible assets comprised of indefinite life intangibles of \$12.8 million and finite life intangible assets of \$45.7 million. At December 31, 2016, we had \$21.0 million in goodwill related to our acquisitions and \$20.0 million in intangible assets comprised of indefinite life intangibles of \$13.2 million and finite life intangible assets of \$6.8 million. We report our financial results as two operating segments, Domain Services, being wholesale and retail domain name registration services, value added services and portfolio, and Network Access which derives revenue from the sale of retail mobile phones, telephony services, fixed high speed internet access, Internet hosting and network consulting services. Ninety-eight percent of goodwill relates to our Domain Services operating segment and 2% of goodwill relates to our Network Access segment. Of our goodwill balance, \$81.0 million is not deductible for tax purposes. Ninety-nine percent of intangible assets relate to our Domain Services operating segment and 1% of intangible assets relate to our Network Access operating segment.

We account for goodwill and indefinite life intangible assets in accordance with FASB's authoritative guidance, which requires that goodwill and indefinite life intangible assets are not amortized, but are subject to an annual impairment test. We complete our impairment test on an annual basis, during the fourth quarter of our fiscal year, or more frequently, if changes in facts and circumstances indicate that impairment indicators are present.

Our indefinite life intangible assets consist of surname domain names and direct navigation domain names. In order to maintain our rights to these domain names, we pay annual renewal fees to the applicable domain name registries. Over the course of time, we sometimes decide not to renew certain under-performing domain names and incur an impairment charge associated with such non-renewal. We recorded an impairment charge of \$0.1 million and \$42,673 in 2017 and 2016 respectively and \$0.2 million in 2015.

With regard to long-lived assets comprised of property and equipment and finite life intangible assets, we continually evaluate whether events or circumstances have occurred that indicate the remaining estimated useful lives of our definite-life intangible assets may warrant revision or whether the carrying amount of such assets may not be recoverable and exceed their fair value. We use an estimate of the related undiscounted cash flows over the remaining life of the asset in measuring whether the asset is recoverable. There was no impairment recorded on definite-life intangible assets and property and equipment during 2017 and 2016.

We performed a qualitative assessment to determine whether there were events or circumstances which would lead to a determination, whether it is more likely than not, that goodwill and indefinite life intangible assets have been impaired. In performing the qualitative testing, we made an evaluation of the impact of various factors to the expected future cash flows attributable to our operating segments and to the assumed discount rate which would be used to present value those cash flows. Consideration was given to factors such as macro-economic, industry and market conditions including the capital markets and the competitive environment amongst others. We concluded that there were no indications of impairment under the qualitative approach. The analysis was consistent with the approach we utilized in our analysis performed in prior years.

Any changes to our key assumptions about our businesses and our prospects, or changes in market conditions, could cause the fair value of our operating segments to fall below its carrying value, resulting in a potential impairment charge. In addition, changes in our organizational structure or how our management allocates resources and assesses performance, could result in a change in our operating segments, requiring a reallocation and updated impairment analysis of goodwill and indefinite life intangible assets. A goodwill or intangible asset impairment charge could have a material effect on our consolidated financial statements because of the significance of goodwill and intangible assets to our consolidated balance sheet. There was no further impairment of goodwill or intangible assets as a result of the annual impairment tests completed during the fourth quarters of 2017 and 2016.

Accounting for income taxes

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. We apply a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if on the weight of available evidence, it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit that is more than 50% likely to be realized upon settlement.

Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate based on new information that may become available. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made.

As we account for income taxes under the asset and liability method, we recognize deferred tax assets or liabilities for the anticipated future tax effects of temporary differences between the financial statement basis and the tax basis of our assets and liabilities. We record a valuation allowance to reduce the net deferred tax assets when it is more likely than not that the benefit from the deferred tax assets will not be realized. In assessing the need for a valuation allowance, historical and future levels of income, expectations and risks associated with estimates of future taxable income and ongoing tax planning strategies are considered. In the event that it is determined that the deferred tax assets to be realized in the future would be in excess of the net recorded amount, an adjustment to the deferred tax asset valuation allowance would be recorded. This adjustment would increase income in the period that such determination was made. Likewise, should it be determined that all or part of a recorded net deferred tax asset would not be realized in the future, an adjustment to increase the deferred tax asset valuation allowance would be charged to income in the period that such determination would be made. At December 31, 2017, the valuation allowance of \$1.3 million was related to foreign tax credits that we are not expected to realize.

In connection with the eNom acquisition, we acquired deferred tax liabilities primarily composed of prepaid registry fees. As a result, we aligned our tax methodology pertaining to the deductibility of prepaid registry fees for our legacy domain services. In addition, on a periodic basis, we evaluate the probability that our deferred tax asset balance will be recovered to assess its realizability. To the extent, we believe it is more likely than not that some portion of our deferred tax assets will not be realized, we will increase the valuation allowance against the deferred tax assets. Realization of our deferred tax assets is dependent primarily upon future taxable income. Our judgments regarding future profitability may change due to future market conditions, changes in U.S. or international tax laws and other factors. These changes, if any, may require possible material adjustments to these deferred tax assets, impacting net income or net loss in the period when such determinations are made.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the “Act”) was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017, the transition of U.S international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of foreign earnings. We have estimated our provision for income taxes in accordance with the Act and guidance available as of the date of this filing and as a result have recorded a net \$5.8 million reduction to income tax expense in the fourth quarter of 2017, the period in which the legislation was enacted. The net positive impact amount related to the remeasurement of certain deferred tax assets and liabilities, based on the rates at which they are expected to reverse in the future, was \$10.0 million. This positive impact was offset by us recording a valuation allowance of \$1.3 million related to prior year foreign tax credits as we have determined there is insufficient foreign source income projected to utilize these credits. In addition, we opted to utilize our 2017 foreign taxes paid as a deduction rather than a credit, the net negative impact of which was \$2.9 million, as we have insufficient foreign sourced income to utilize these credits. The provisional amount related to the one-time transition tax on the mandatory deemed repatriation of foreign earnings was less than \$0.1 million.

Recently Issued Accounting Standards

See “Note 2 – Summary of Significant Accounting Policies” of the Notes to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report for information regarding recently issued accounting standards.

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2017 AS COMPARED TO THE YEAR ENDED DECEMBER 31, 2016

The Company has reclassified certain prior year income statement amounts to conform the current year presentation. As a result of these reclassifications, there were no changes to previously reported net income, comprehensive income and income from operations.

NET REVENUES

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

	Year ended December 31,	
	2017	2016
<u>Network Access Services:</u>		
Mobile Services	\$ 83,885,054	\$ 70,127,294
Other Services	4,825,848	3,651,657
Total Network Access Services	<u>88,710,902</u>	<u>73,778,951</u>
<u>Domain Services:</u>		
Wholesale		
Domain Services	183,731,385	89,009,546
Value Added Services	18,572,774	9,169,721
Total Wholesale	<u>202,304,159</u>	<u>98,179,267</u>
Retail		
Portfolio	31,649,000	14,629,949
Total Domain Services	<u>6,756,680</u>	<u>3,230,765</u>
	<u>240,709,839</u>	<u>116,039,981</u>
	<u>\$ 329,420,741</u>	<u>\$ 189,818,932</u>
Increase over prior period	\$ 139,601,809	
Increase - percentage		74%

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

	<u>Year ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
<u>Network Access Services:</u>		
Mobile Services	25%	37%
Other Services	1%	2%
Total Network Access Services	26%	39%
<u>Domain Services:</u>		
Wholesale		
Domain Services	56%	46%
Value Added Services	6%	5%
Total Wholesale	62%	51%
Retail		
Portfolio	10%	8%
Total Domain Services	2%	2%
	74%	61%
	100%	100%

Total net revenues for Fiscal 2017 increased by \$139.6 million, or 74%, to \$329.4 million from \$189.8 million for the fiscal year ended December 31, 2016 (“Fiscal 2016”). Deferred revenue from domain name registrations and other Internet services at December 31, 2017 increased to \$160.6 million from \$77.8 million at December 31, 2016.

No customer accounted for more than 10% of revenue during Fiscal 2017 or Fiscal 2016, and no customers accounted for more than 10% of accounts receivable as of December 31, 2017 and 2016. Management judgment is required at the time of recording of revenue 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

Mobile and Other Services

Net revenues from Ting mobile phone equipment and services for Fiscal 2017, as compared to Fiscal 2016, increased by \$13.8 million or 20% to \$83.9 million. This increase primarily reflects the impact the larger Ting subscriber base is having on Ting mobile service revenue which grew by \$11.1 million to \$73.6 million as compared to Fiscal 2016 as well as the acquisition of the consumer related mobile roaming assets Otono Networks in September 2017. Revenues from the sale of mobile hardware and related accessories increased slightly by \$2.7 million to \$10.3 million in Fiscal 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.

High speed Internet access, Internet hosting and network consulting services generated \$4.8 million in revenue during Fiscal 2017, up \$1.2 million from Fiscal 2016. Growth in High speed Internet access revenues was as a result of the increased Ting Internet footprint in Holly Springs, NC and Westminster, MD in Fiscal 2017. We expect continued expansions in Westminster, MD, Holly Springs, NC and Charlottesville, VA as well as new builds in Sandpoint, ID and Centennial, CO to contribute to revenue growth in 2018.

As of December 31, 2017, Ting Mobile had 172,000 mobile subscribers and 283,000 mobile devices under its management compared to 151,000 subscribers and 245,000 devices under its management as of December 31, 2016.

Domain Services

Wholesale

During Fiscal 2017, domain services revenue increased by \$94.7 million to \$183.7 million and the number of transactions from all new, renewed and transferred-in domain name registrations that we processed increased to 19.4 million from 9.9 million when compared to Fiscal 2016. These increases were primarily due to the acquisition of eNom 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. The increase from the acquisition was somewhat impacted by the continued and ongoing migration of a few large, low margin customers. These customers have been moving their domain management and domain transaction processing to their own accreditations and in-house systems. We anticipate that the number of new, renewed and transferred-in domain name registrations will continue to be impacted by decisions that large volume customers make with regard to acquiring their own accreditations, as well as the impact on the market, of the significant expansion in the number of new gTLDs added pursuant to the implementation of ICANN’s new gTLD Program. While we anticipate that the number of new, renewed and transferred-in domain name registrations will continue to incrementally increase in the long term, the volatility of these factors could affect the growth of domain names that we manage. Primarily for the same factors impacting domain transactions mentioned above, total domains that we manage under our own accreditation increased to 22.3 million as of December 31, 2017, when compared to 11.4 million at December 31, 2016. In January 2018, the Company transferred on a bulk basis 2.65 million names under management for Namecheap. See “Note 17 – Subsequent events” in the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report. Also, as of December 31, 2017, total domains that we manage on behalf of other accredited registrars who use our technical systems to process domain registrations with their own accreditation, increased to 5.4 million when compared to 3.5 million at the end of December 31, 2016, primarily as a result of the acquisition of eNom.

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Value-Added Services increased by \$9.4 million to \$18.6 million when compared to Fiscal 2016. This increase was primarily due to the acquisition of eNom. 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 Fiscal 2017, as compared to Fiscal 2016, increased by \$17.0 million to \$31.6 million. This increase was primarily due to the acquisition of eNom and to a lesser extent growth in our incumbent retail operations, Hover. 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.

Portfolio

Net revenues from Portfolio for Fiscal 2017, as compared to Fiscal 2016, increased by \$3.5 million to \$6.8 million. The increase is primarily due to a large bulk sale of names in the fourth quarter of 2017.

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 Network Operators), and 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.

Wholesale

Domain Service

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 of 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 sites, Hover.com and the eNom branded sites, 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:

	Year ended December 31,	
	2017	2016
<u>Network Access Services:</u>		
Mobile Services	\$ 45,335,276	\$ 35,914,882
Other Services	3,371,255	2,024,801
Total Network Access Services	<u>48,706,531</u>	<u>37,939,683</u>
<u>Domain Services:</u>		
Wholesale		
Domain Services	161,012,532	72,947,730
Value Added Services	2,383,627	1,918,165
Total Wholesale	<u>163,396,159</u>	<u>74,865,895</u>
Retail		
Portfolio	17,346,138	6,765,237
Total Domain Services	<u>1,150,804</u>	<u>616,147</u>
<u>Network Expenses:</u>		
Network, other costs	9,324,454	5,210,500
Network, depreciation and amortization costs	4,976,026	1,367,836
	<u>14,300,480</u>	<u>6,578,336</u>
	<u>\$ 244,900,112</u>	<u>\$ 126,765,298</u>
Increase over prior period	\$ 118,134,814	
Increase - percentage		93%

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The following table presents our cost of revenues, as a percentage of total cost of revenues for the periods presented:

	Year ended December 31,	
	2017	2016
Network Access Services:		
Mobile Services	19%	28%
Other Services	1%	2%
Total Network Access Services	20%	30%
Domain Services:		
Wholesale		
Domain Services	66%	59%
Value Added Services	1%	1%
Total Wholesale	67%	60%
Retail	7%	5%
Portfolio	0%	0%
Total Domain Services	74%	65%
Network Expenses:		
Network, other costs	4%	4%
Network, depreciation and amortization costs	2%	1%
	6%	5%
	100%	100%

Total cost of revenues for Fiscal 2017 increased by \$118.1 million, or 93%, to \$244.9 million from \$126.8 million in Fiscal 2016. This increase 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. Prepaid domain registration and other Internet services fees as of December 31, 2017 increased by \$66.6 million, or 110%, to \$127 million from \$60.4 million at December 31, 2016.

Network Access Services***Mobile and Other Services***

Cost of revenues from Ting mobile phone equipment and services for Fiscal 2017, as compared to Fiscal 2016, increased by \$9.4 million or 26% to \$45.3 million. This increase primarily reflects the impact the larger subscriber base had on Ting mobile service cost of revenue as well as the acquisition of the mobile roaming assets Otono Networks in September 2017 which combined grew by \$5.7 million to \$34.1 million as compared to Fiscal 2016. Mobile hardware, shipping and related accessories costs increased \$3.7 million to \$11.2 million reflecting an 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, in Fiscal 2017, we incurred costs of \$3.4 million in provisioning high speed Internet access, Internet hosting and network consulting services as compared to \$2.0 million during Fiscal 2016. The increase in costs was primarily due to the expansion of the Ting Fiber foot print and increasing subscriber base.

Domain Services**Wholesale**

Costs for Wholesale domain and value-added services for Fiscal 2017 increased by \$88.5 million to \$163.4 million, when compared to Fiscal 2016. These increases were due to the acquisition of eNom and to a lesser extent acquisition of the international reseller channel of Melbourne IT in 2016.

Retail

Costs for Retail for Fiscal 2017 increased by \$10.6 million, to \$17.3 million, when compared to Fiscal 2016. These increases resulted primarily from the acquisition of eNom and to a lesser extent the increased cost of additional volume in Hover services.

Portfolio

Costs for Portfolio increased by \$0.5 million for Fiscal 2017, to \$1.2 million when compared to Fiscal 2016, primarily as a result of a bulk sale of names in the fourth quarter 2017 acquired in the June 2006 acquisition of Mailbank.com Inc.

Network Expenses

Network costs for Fiscal 2017 increased by \$7.7 million to \$14.3 million when compared to Fiscal 2016. The increase is primarily due to the acquisition of eNom, 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 expenses include customer acquisition costs, advertising and other promotional costs.

	Year ended December 31,	
	2017	2016
Sales and marketing	\$ 29,422,984	\$ 20,754,752
Increase over prior period	\$ 8,668,232	
Increase - percentage	42%	
Percentage of net revenues	9%	11%

Sales and marketing expenses for Fiscal 2017 increased by \$8.7 million, or 42%, to \$29.4 million as compared to Fiscal 2016. This increase primarily related to a \$6.6 million increase in workforce, travel and other workforce related costs driven by the growth in network access initiatives and the acquisition of eNom. In addition, marketing and other expenses increased \$2.1 million largely to support and acquire Ting mobile and fixed Internet access subscribers.

Excluding movements in exchange rates, we expect sales and marketing expenses for the fiscal year ending December 31, 2018 ("Fiscal 2018") to increase in absolute dollars, as we adjust our marketing programs and sales and customer support personnel costs to support our network access services marketing and customer service needs.

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. Editorial costs relating to the rating and review of the software content libraries are included in the costs of product development. All technical operations and development costs are expensed as incurred.

	Year ended December 31,	
	2017	2016
Technical operations and development	\$ 7,257,720	\$ 4,494,819
Increase over prior period	\$ 2,762,901	
Increase - percentage	61%	
Percentage of net revenues	2%	2%

Technical operations and development expenses for Fiscal 2017 increased by \$2.8 million, or 61%, to \$7.3 million due to mainly to the acquisition of eNom.

We expect technical operations and development expenses for Fiscal 2018, in absolute dollars, to increase when compared to Fiscal 2017 to support the ongoing growth in our operations.

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.

	Year ended December 31,	
	2017	2016
General and administrative	\$ 13,593,901	\$ 11,404,793
Increase over prior period	\$ 2,189,108	
Increase - percentage	19%	
Percentage of net revenues	4%	6%

General and administrative expenses for Fiscal 2017 increased by \$2.2 million, or 19%, to \$13.6 million as compared to Fiscal 2016. This was primarily the result of professional fees increase of \$0.8 million related to the acquisition of eNom and the Namecheap litigation. Workforce related costs increased \$1.0 million due mainly to the acquisition of eNom. Credit card processing fees, facilities costs and other expenses increased \$1.2 million primarily to support growth of network access and also due to the acquisition of eNom. These increases were offset by a reduction expenses due to foreign exchange gains as the Company experienced a foreign exchange gain of \$0.7 million in Fiscal 2017 as compared to a \$0.1 million loss in Fiscal 2016.

We expect general and administrative expenses for Fiscal 2018, in absolute dollars, to increase when compared to Fiscal 2017 largely to support the growth of our business.

DEPRECIATION OF PROPERTY AND EQUIPMENT

	Year ended December 31,	
	2017	2016
Depreciation of property and equipment	\$ 585,424	\$ 503,864
Increase over prior period	\$ 81,560	
Increase - percentage	16%	
Percentage of net revenues	0%	0%

Depreciation costs for Fiscal 2017 increased to \$0.6 million when compared to \$0.5 million for Fiscal 2016 driven primarily by the acquisition of eNom.

AMORTIZATION OF INTANGIBLE ASSETS

	Year ended December 31,	
	2017	2016
Amortization of intangible assets	\$ 6,566,308	\$ 905,157
Increase over prior period	\$ 5,661,151	
Increase - percentage	625%	
Percentage of net revenues	2%	0%

Amortization of intangible assets increased \$5.7 million for Fiscal 2017, to \$6.6 million. The increase in amortization reflects 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.

Network rights, brand and customer relationships acquired in connection with the acquisitions the BRI Group in February 2015, the international reseller channel of Melbourne IT in April 2016, and eNom in January 2017 are amortized on a straight-line basis over seven years.

IMPAIRMENT OF INDEFINITE LIFE INTANGIBLE ASSETS

	Year ended December 31,	
	2017	2016
Impairment of indefinite life intangible assets	\$ 111,251	\$ 42,673
Increase over prior period	\$ 68,578	
Increase - percentage	161%	
Percentage of net revenues	0%	0%

As part of our normal renewal process during Fiscal 2017 and Fiscal 2016, we assessed that certain domain names acquired in the June 2006 acquisition of Mailbank.com Inc. should not be renewed and were allowed to expire. Accordingly, these domain names, with a book value of \$0.1 million and \$42,673 have been written off and recorded as impairment of indefinite life intangible assets for Fiscal 2017 and Fiscal 2016, respectively.

(GAIN) LOSS 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.

	Year ended December 31,	
	2017	2016
Loss (gain) on currency forward contracts	\$ (98,227)	\$ (98,977)
Increase over prior period	\$ 750	
Increase - percentage	(1%)	
Percentage of net revenues	0%	0%

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 for Fiscal 2017 was a net loss of \$17,328 compared to net gain of \$0.3 million for Fiscal 2016. The impact of the fair value adjustment on outstanding contracts was decreased by a realized gain upon settlement of currency forward contracts of \$0.1 million for Fiscal 2017 compared to a realized loss of \$0.2 million for Fiscal 2016.

At December 31, 2017, we did not hold any forward contracts.

OTHER INCOME (EXPENSES)

	Year ended December 31,	
	2017	2016
Other income (expense), net	\$ (3,006,500)	\$ 66,371
Increase over prior period	\$ (3,072,871)	
Increase - percentage	(4,630%)	
Percentage of net revenues	(1%)	0%

Other income decreased by \$3.1 million when compared to Fiscal 2016 primarily due to interest incurred on our credit facility with the majority of the borrowings on the credit facility to support the acquisition of eNom. Within Other income we also recognized \$0.5 million of a positive financial contribution from a Joint Marketing agreement that we entered into in February 2015 where we waived our rights under a proposed joint venture to operate the .online registry. The recognition of this gain was consistent with the amount recognized in Fiscal 2016.

INCOME TAXES

The following table presents our provision for income taxes for the periods presented:

	Year ended December 31,	
	2017	2016
Provision for income taxes	\$ 1,748,174	\$ 9,045,770
Decrease in provision over prior period	\$ (7,297,596)	
Decrease - percentage	(81%)	
Effective tax rate	7.3%	36.0%

We operate in various tax jurisdictions, and accordingly, our income is subject to varying rates of tax. Losses incurred in one jurisdiction cannot be used to offset income taxes payable in another jurisdiction. Our ability to use income tax loss carry forwards and future income tax deductions is dependent upon our operations in the tax jurisdictions in which such losses or deductions arise. Income taxes are computed using the asset and liability method, under which deferred tax assets and liabilities are determined based on the difference between the financial statement carrying values and tax base of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Fiscal 2017 includes tax on profits of \$24.1 million compared to \$25.1 million for Fiscal 2016. Our Fiscal 2017 income tax expense benefited from a net \$5.8 million positive implementation impact from the Tax cuts and Jobs Act of 2017, more fully described below, as well as the inclusion of a \$2.8 million tax recovery related to the adoption of ASU 2016-09 in Fiscal 2017, 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.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017, the transition of U.S international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of foreign earnings. We have calculated our best estimate of the impact of the Act in our year end income tax provision in accordance with our understanding of the Act and guidance available as of the date of this filing and as a result have recorded \$5.8 million in reduced income tax expense in the fourth quarter of 2017, the period in which the legislation was enacted. The provisional amount related to the remeasurement of certain deferred tax assets and liabilities, based on the rates at which they are expected to reverse in the future, was \$10.0 million. This amount was partially offset by our recording a valuation allowance of \$1.3 million related to prior year Foreign Tax Credits that we have determined are no longer more likely than not to be used as the tax rate in the jurisdiction where these Foreign Tax Credits is generated is higher than the 21% corporate tax rate. In addition, in connection with the eNom acquisition, we acquired deferred tax liabilities primarily composed of prepaid registry fees. As a result, we aligned our tax methodology pertaining to the deductibility of prepaid registry fees for our legacy domain services. The impact of this together with the reduction in tax rate to 21% make it unlikely we will be able to claim the fiscal 2017 foreign taxes paid in future years and as such opted to utilize the foreign taxes paid as a deduction for 2017 income tax purposes, the net negative effect of which is a \$2.9 million addition to income tax expense. The provisional amount related to the one-time transition tax on the mandatory deemed repatriation of foreign earnings was less than \$0.1 million.

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We had approximately \$15,000 of total gross unrecognized tax benefit as of December 31, 2017 compared to \$0.1 million as of December 31, 2016 which if recognized would favorably affect our income tax rate in future periods. The unrecognized tax benefit relates primarily to insignificant U.S. state taxes.

A reconciliation of the federal statutory income tax rate to our effective tax rate is set forth in “Note 9 – Income Taxes” of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report.

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 begun 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 Fiscal 2017 was a net loss in other comprehensive income of \$0.1 million compared to a net gain of \$1.2 million for Fiscal 2016.

The following table presents other comprehensive income for the periods presented:

	Year ended December 31,	
	2017	2016
Other comprehensive income (loss)	\$ (99,154)	\$ 1,208,606
Decrease over prior period	\$ (1,307,760)	
Decrease - percentage	(108%)	
Percentage of net revenues	(0%)	1%

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.

Our adjusted EBITDA definition excludes depreciation, amortization of intangible assets, income tax provision, interest expense (net), 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)

	Year ended December 31,		
	2017	2016	2015
	(unaudited)	(unaudited)	(unaudited)
Net income for the period	\$ 22,327	\$ 16,067	11,374
Depreciation of property and equipment	3,728	1,824	1,404
Amortization of intangible assets	8,400	953	263
Impairment of intangible assets	111	43	206
Interest expense, net	3,567	450	159
Provision for income taxes	1,748	9,046	6,569
Stock-based compensation	1,457	799	526
Unrealized loss (gain) on change in fair value of forward contracts	17	(323)	136
Unrealized loss (gain) on foreign exchange revaluation of foreign denominated monetary assets and liabilities	(805)	829	311
Acquisition and other costs(1)	806	442	-
Adjusted EBITDA	<u>\$ 41,356</u>	<u>\$ 30,130</u>	<u>20,948</u>

(1) Acquisition 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 for the year ended December 31, 2017 increased by \$11.2 million, or 37% to \$41.3 million when compared to the year ended December 31, 2016 with the increase primarily driven by the acquisition of eNom and to a lesser extent growth in domain services and Ting Mobile. Adjusted EBITDA for the year ended December 31, 2016 increased by \$9.2 million, or 44% to \$30.1 million when compared to the year ended December 31, 2015 with the increase primarily driven by the growth in Ting mobile services.

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2016 AS COMPARED TO THE YEAR ENDED DECEMBER 31, 2015**NET REVENUES**

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

	Year ended December 31,	
	2016	2015
Network Access Services:		
Mobile Services	\$ 70,127,294	\$ 57,685,554
Other Services	3,651,657	3,288,711
Total Network Access Services	<u>73,778,951</u>	<u>60,974,265</u>
Domain Services:		
Wholesale		
Domain Services	89,009,546	84,934,519
Value Added Services	9,169,721	9,298,978
Total Wholesale	<u>98,179,267</u>	<u>94,233,497</u>
Retail		
Portfolio	14,629,949	12,637,498
	3,230,765	3,841,519
Total Domain Services	<u>116,039,981</u>	<u>110,712,514</u>
	<u>\$ 189,818,932</u>	<u>\$ 171,686,779</u>
Increase over prior period	\$ 18,132,153	
Increase - percentage		11%

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

	Year ended December 31,	
	2016	2015
<u>Network Access Services:</u>		
Mobile Services	37%	35%
Other Services	2%	2%
Total Network Access Services	39%	37%
<u>Domain Services:</u>		
Wholesale		
Domain Services	46%	49%
Value Added Services	5%	5%
Total Wholesale	51%	54%
Retail	8%	7%
Portfolio	2%	2%
Total Domain Services	61%	63%
	100%	100%

Total net revenues for Fiscal 2016 increased by \$18.1 million, or 11%, to \$189.8 million from \$171.7 million for the fiscal year ended December 31, 2015 (“Fiscal 2015”). Deferred revenue from domain name registrations and other Internet services at December 31, 2016 increased to \$77.8 million from \$71.6 million at December 31, 2015.

No customer accounted for more than 10% of revenue during Fiscal 2016 or Fiscal 2015, and no customers accounted for more than 10% of accounts receivable as of December 31, 2016 and 2015. Significant management judgment is required at the time of recording of revenue 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

Mobile and Other Services

Net revenues from Ting mobile phone equipment and services for Fiscal 2016, as compared to Fiscal 2015, increased by \$12.4 million or 22% to \$70.1 million. This increase primarily reflects the impact the larger Ting subscriber base is having on Ting mobile service revenue which grew by \$12.3 million to \$62.5 million as compared to Fiscal 2015. Revenues from the sale of mobile hardware and related accessories increased slightly by \$0.1 million to \$7.6 million in Fiscal 2016. Mobile hardware and related accessories increase over Fiscal 2015 reflected higher cost device mix in 2016 partially offset by lower volumes.

High speed Internet access, Internet hosting and network consulting services generated \$3.7 million in revenue during Fiscal 2016, up \$0.5 million from Fiscal 2015. Growth in high speed Internet access revenues was as a result of the increased Ting Internet footprint in Charlottesville, VA in Fiscal 2016. We expect expansions in Westminster, MD and Holly Springs, NC to contribute to revenue in 2017. Increased access revenues were partially offset by ongoing declines in legacy revenues from hosting and network consulting services.

As of December 31, 2016, Ting had 151,000 mobile subscribers and 245,000 mobile devices under its management compared to 128,000 subscribers and 202,000 devices under its management as of December 31, 2015.

Domain Services

Wholesale

During Fiscal 2016, domain services revenue increased by \$4.1 million to \$89.0 million and the number of transactions from all new, renewed and transferred-in domain name registrations that we processed increased to 9.9 million from 9.1 million when compared to Fiscal 2015. The increase was primarily driven by the acquisition of approximately 1.6 million domains under management from the international reseller channel of Melbourne IT in April 2016. The increase from the acquisition was somewhat impacted by the continued and ongoing migration of a few large, low margin customers. These customers have been moving their domain management and domain transaction processing to their own accreditations and in-house systems. We anticipate that the number of new, renewed and transferred-in domain name registrations will continue to be impacted by decisions that large volume customers make with regard to acquiring their own accreditations, as well as the impact on the market, of the significant expansion in the number of new gTLDs added pursuant to the implementation of ICANN's New gTLD Program. While we anticipate that the number of new, renewed and transferred-in domain name registrations will continue to incrementally increase in the long term, the volatility of these factors could affect the growth of domain names that we manage. Primarily for the same factors impacting domain transactions mentioned above, total domains that we manage under our own accreditation increased to 11.4 million as of December 31, 2016, when compared to 10.2 million at December 31, 2015. Also, as of December 31, 2016, total domains that we manage on behalf of other accredited registrars who use our technical systems to process domain registrations with their own accreditation, increased to 3.5 million when compared to 3.2 million at the end of December 31, 2015, primarily as a result of ongoing growth from these customers.

Value-Added Services decreased by \$0.1 million to \$9.2 million when compared to Fiscal 2015. This decrease was largely due to the decrease in revenue from pay-per-click advertising and the sale of names through the OpenSRS Domain Expiry Stream. The revenue associated with name sales and advertising has experienced flat to declining trends due to lower traffic and advertising yields in the marketplace, which may continue.

Retail

Net revenues from Retail for Fiscal 2016, as compared to Fiscal 2015, increased by \$2.0 million to \$14.6 million. This increase was largely 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 for Hover.

Portfolio

Net revenues from Portfolio for Fiscal 2016, as compared to Fiscal 2015, decreased by \$0.6 million to \$3.2 million. The decrease is primarily related to lower sales of big ticket domains.

COST OF REVENUES

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

	Year ended December 31,	
	2016	2015
<u>Network Access Services:</u>		
Mobile Services	\$ 35,914,882	\$ 32,615,416
Other Services	2,024,801	1,518,153
Total Network Access Services	<u>37,939,683</u>	<u>34,133,569</u>
<u>Domain Services:</u>		
Wholesale		
Domain Services	72,947,730	70,633,267
Value Added Services	1,918,165	2,023,341
Total Wholesale	<u>74,865,895</u>	<u>72,656,608</u>
Retail		
Portfolio	6,765,237	5,494,550
Total Domain Services	<u>616,147</u>	<u>695,958</u>
	<u>82,247,279</u>	<u>78,847,116</u>
<u>Network Expenses:</u>		
Network, other costs	5,210,500	5,464,777
Network, depreciation and amortization costs	1,367,836	1,183,508
	<u>6,578,336</u>	<u>6,648,285</u>
	<u>\$ 126,765,298</u>	<u>\$ 119,628,970</u>
Increase over prior period	\$ 7,136,328	
Increase - percentage		6%

The following table presents our cost of revenues, as a percentage of total cost of revenues for the periods presented:

	Year ended December 31,	
	2016	2015
<u>Network Access Services:</u>		
Mobile Services	28%	26%
Other Services	2%	1%
Total Network Access Services	<u>30%</u>	<u>27%</u>
<u>Domain Services:</u>		
Wholesale		
Domain Services	58%	59%
Value Added Services	2%	2%
Total Wholesale	<u>60%</u>	<u>61%</u>
Retail		
Portfolio	5%	5%
Total Domain Services	<u>0%</u>	<u>1%</u>
	<u>65%</u>	<u>67%</u>
<u>Network Expenses:</u>		
Network, other costs	4%	5%
Network, depreciation and amortization costs	1%	1%
	<u>5%</u>	<u>6%</u>
	<u>100%</u>	<u>100%</u>

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Total cost of revenues for Fiscal 2016 increased by \$7.1 million, or 6%, to \$126.8 million from \$119.6 million in Fiscal 2015. This increase was the result of increased network access service expenses due to the impact Ting's larger subscriber base is having on service costs, higher wholesale domain registration costs primarily from acquisition of the international reseller channel of Melbourne IT, as well as, the costs to support a larger Retail domain services customer base. Prepaid domain registration and other Internet services fees as of December 31, 2016 increased by \$4.7 million, or 8%, to \$60.4 million from \$55.7 million at December 31, 2015.

Network Access Services

Mobile and Other Services

Cost of revenues from Ting mobile phone equipment and services for Fiscal 2016, as compared to Fiscal 2015, increased by \$3.3 million or 10% to \$35.9 million. This increase primarily reflects the impact the larger subscriber base had on Ting mobile service cost of revenue which grew by \$3.3 million to \$28.4 million as compared to Fiscal 2015. Mobile hardware and related accessories costs remained flat as compared to Fiscal 2015 as higher priced devices were offset by lower volumes.

In addition, in Fiscal 2016, we incurred costs of \$2.0 million in provisioning high speed Internet access, Internet hosting and network consulting services as compared to \$1.5 million during Fiscal 2015. The increase in costs was primarily due primarily to the expansion of the Ting Fiber foot print and increasing subscriber base.

Domain Services

Wholesale

Costs for Wholesale for Fiscal 2016 increased by \$2.2 million to \$74.9 million, when compared to Fiscal 2015. This increase in costs is primarily the result of the acquisition of the international wholesale reseller channel of Melbourne IT in April 2016 which was somewhat impacted by the continued and ongoing migration of a few large, low margin customers.

Retail

Costs for Retail for Fiscal 2016 increased by \$1.3 million, to \$6.8 million, when compared to Fiscal 2015. This increase resulted primarily from the increased cost of additional volume in Hover services.

Portfolio

Costs for Portfolio decreased by \$0.1 million for Fiscal 2016, to \$0.6 million when compared to Fiscal 2015, primarily as a result of our decision not to renew certain domain names acquired in the June 2006 acquisition of Mailbank.com Inc. as described under impairment of indefinite life intangible assets below.

Network Expenses

Network costs for Fiscal 2016 decreased by \$0.1 million to \$6.6 million when compared to Fiscal 2015. This decrease is primarily due to lower workforce related costs in 2016 driven in part by a provision of \$0.2 million under our overachievement bonus program during Fiscal 2015, which was not repeated in Fiscal 2016, as well as, a year over year benefit from our hedging program. This decrease was offset by an increase in depreciation expense of \$0.2 million.

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 expenses include customer acquisition costs, advertising and other promotional costs.

	<u>Year ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
Sales and marketing	\$ 20,754,752	\$ 17,394,376
Increase over prior period	\$ 3,360,376	
Increase - percentage	19%	
Percentage of net revenues	11%	10%

Sales and marketing expenses for Fiscal 2016 increased by \$3.4 million, or 19%, to \$20.8 million as compared to Fiscal 2015. This increase related primarily to a \$2.4 million marketing spend increase largely to support and acquire Ting mobile and fixed Internet access subscribers, as well as increased workforce, travel related and other expenses of \$1.7 million primarily related to network access growth. The increase in workforce costs was partially offset by our recognizing a provision of \$0.7 million under our overachievement bonus program during Fiscal 2015, which was not repeated in Fiscal 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. Editorial costs relating to the rating and review of the software content libraries are included in the costs of product development. All technical operations and development costs are expensed as incurred.

	<u>Year ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
Technical operations and development	\$ 4,494,819	\$ 4,502,845
Decrease over prior period	\$ (8,026)	
Decrease - percentage	(0)%	
Percentage of net revenues	2%	3%

Technical operations and development expenses for Fiscal 2016 remained relatively flat when compared to Fiscal 2015. We recognized a provision of \$0.2 million under our overachievement bonus program during Fiscal 2015, which was not repeated in Fiscal 2016, which was offset by slight increases across a number of expense categories.

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.

	Year ended December 31,	
	2016	2015
General and administrative	\$ 11,404,793	\$ 10,661,949
Increase over prior period	\$ 742,844	
Increase - percentage	7%	
Percentage of net revenues	6%	6%

General and administrative expenses for Fiscal 2016 increased by \$0.7 million, or 7%, to \$11.4 million as compared to Fiscal 2015. This was primarily the result of a \$1.4 million increase related to credit card processing fees, facilities, stock-based compensation and other costs increasing, primarily to support the growth of network access services and a \$0.6 million increase in professional services fees primarily due to legal and accounting fees incurred in Fiscal 2016 associated with acquisition of eNom. These increases were offset by workforce related costs decreasing by \$1.1 million due to a reduction in overachievement bonuses in Fiscal 2016 versus prior year. Further, during Fiscal 2016, we experienced a loss on foreign exchange of \$0.1 million as compared to a loss of \$0.3 million in Fiscal 2015.

DEPRECIATION OF PROPERTY AND EQUIPMENT

	Year ended December 31,	
	2016	2015
Depreciation of property and equipment	\$ 503,864	\$ 259,307
Increase over prior period	\$ 244,557	
Increase - percentage	94%	
Percentage of net revenues	0%	0%

Depreciation costs for Fiscal 2016 increased to \$0.5 million when compared to \$0.3 million for Fiscal 2015 driven primarily by the ongoing investment in fiber assets for Ting Internet.

AMORTIZATION OF INTANGIBLE ASSETS

	Year ended December 31,	
	2016	2015
Amortization of intangible assets	\$ 905,157	\$ 224,206
Increase over prior period	\$ 680,951	
Increase - percentage	304%	
Percentage of net revenues	0%	0%

Amortization of intangible assets increased \$0.7 million for Fiscal 2016, to \$0.9 million. The increase in amortization reflects impact of the acquisitions of the BRI Group in February 2015 and the acquisition of the international reseller channel of Melbourne IT in April 2016.

Network rights, brand and customer relationships acquired in connection with the acquisitions the BRI Group and the international reseller channel of Melbourne IT are amortized on a straight-line basis over seven years.

IMPAIRMENT OF INDEFINITE LIFE INTANGIBLE ASSETS

	Year ended December 31,	
	2016	2015
Impairment of indefinite life intangible assets	\$ 42,673	\$ 206,116
Decrease over prior period	\$ (163,443)	
Decrease - percentage	(79)%	
Percentage of net revenues	0%	0%

As part of our normal renewal process during Fiscal 2016 and Fiscal 2015, we assessed that certain domain names acquired in the June 2006 acquisition of Mailbank.com Inc. should not be renewed and were allowed to expire. Accordingly, these domain names, with a book value of \$42,673 and \$0.2 million, respectively, have been written off and recorded as impairment of indefinite life intangible assets.

(GAIN) LOSS 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.

	Year ended December 31,	
	2016	2015
(Gain) loss on currency forward contracts	\$ (98,977)	\$ 792,900
Decrease over prior period	\$ (891,877)	
Decrease - percentage	(112)%	
Percentage of net revenues	(0)%	0%

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 for Fiscal 2016 was a net gain of \$0.3 million compared to net loss of \$0.1 million for Fiscal 2015. The impact of the fair value adjustment on outstanding contracts was increased by a realized loss upon settlement of currency forward contracts of \$0.2 million for Fiscal 2016 compared to a realized loss of \$0.7 million for Fiscal 2015.

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At December 31, 2016, our balance sheet reflects a derivative instrument asset of \$0.2 million as a result of our existing foreign exchange contracts. Until their respective maturity dates, these contracts will fluctuate in value in line with movements in the Canadian dollar relative to the U.S. dollar.

OTHER INCOME AND (EXPENSES)

	Year ended December 31,	
	2016	2015
Other income (expense), net	\$ 66,371	\$ (73,153)
Increase over prior period	\$ 139,524	
Increase - percentage	191%	
Percentage of net revenues	0%	(0)%

Other income increased \$0.1 million when compared to Fiscal 2015. Other income consists primarily of \$0.5 million recognition of a positive financial contribution from a Joint Marketing agreement that we entered into in February 2015 where we waived our rights under a proposed joint venture to operate the .online registry. This recognition was partially offset by interest incurred on our credit facility.

INCOME TAXES

The following table presents our provision for income taxes for the periods presented:

	Year ended December 31,	
	2016	2015
Provision for income taxes	\$ 9,045,770	\$ 6,569,227
Increase in provision over prior period	\$ 2,476,543	
Increase - percentage	38%	
Effective tax rate	36.0%	36.6%

We operate in various tax jurisdictions, and accordingly, our income is subject to varying rates of tax. Losses incurred in one jurisdiction cannot be used to offset income taxes payable in another jurisdiction. Our ability to use income tax loss carry forwards and future income tax deductions is dependent upon our operations in the tax jurisdictions in which such losses or deductions arise. Income taxes are computed using the asset and liability method, under which deferred tax assets and liabilities are determined based on the difference between the financial statement carrying values and tax base of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Fiscal 2016 includes tax on profits of \$25.1 million compared to \$17.9 million for Fiscal 2015. We had approximately \$0.1 million of total gross unrecognized tax benefit as of December 31, 2016 and 2015 which if recognized would favorably affect our income tax rate in future periods. The unrecognized tax benefit relates primarily to prior year Pennsylvania state franchise taxes and other insignificant U.S. state taxes.

A reconciliation of the federal statutory income tax rate to our effective tax rate is set forth in "Note 9 – Income Taxes" of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report.

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 begun 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 Fiscal 2016 was a net gain in other comprehensive income of \$1.2 million compared to a net loss of \$0.5 million for Fiscal 2015.

The following table presents other comprehensive income for the periods presented:

	Year ended December 31,	
	2016	2015
Other comprehensive income (loss)	\$ 1,208,606	\$ (487,011)
Increase over prior period	\$ 1,695,617	
Increase - percentage	348%	
Percentage of net revenues	1%	(0)%

Liquidity and capital resources

As of December 31, 2017, our cash and cash equivalents balance increased to \$18.0 million when compared to December 31, 2016. Our principal sources of liquidity were 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 year ended December 31, 2017 of \$31.9 million. These sources of cash were offset by the acquisition of eNom for \$76.2 million, net of cash acquired, \$20.0 million in loan repayments, acquisition of the mobile consumer assets of Otono Networks Inc. as well as the assets of certain small hosting companies, for \$3.0 million, \$2.0 million for the additional 20% interest in Ting Virginia, LLC, \$1.2 million of net tax payments associated with stock option exercises and continued investment in property and equipment of \$12.9 million.

2017 Amended Credit Facility

On January 20, 2017, the Company and certain of its subsidiaries entered into a First Amended and Restated Credit Agreement (the “2017 Amended Credit Agreement”) with Bank of Montreal (“BMO”), Royal Bank of Canada (“RBC”) and Bank of Nova Scotia (with RBC, the “Lenders”) under which the Company increased its access to funds to an aggregate of \$140 million. The 2017 Amended Credit Agreement amends and restates the Company’s Credit Agreement, dated as of August 18, 2016, with BMO and RBC (the “2016 Credit Agreement”). The 2017 Amended Credit Agreement, 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 \$85 million (the “New Facility”, and together with the Existing Facilities, the “2017 Amended Credit Facility”). The obligations of the Company under the 2017 Amended Credit Agreement are secured by a first priority lien on substantially all of the personal property and assets of the Company. Borrowings under the 2017 Amended Credit Agreement 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 and set forth in more detail in the 2017 Amended Credit Agreement. The table below summarizes the details of the 2017 Amended Credit Facility.

Facility	Purpose	Repayment Terms	Amortization Terms
Facility A	General working capital and general corporate requirements	Monthly interest payments; final principal payment due upon maturity	n/a
Facility B	Share repurchases, acquisitions, and capital expenditures associated with FTTH program	Outstanding balances as of December 31 drawn during year payable on quarterly basis beginning in first quarter of following year for applicable period of amortization	Four to seven years depending on purpose of draw
Facility C	Share repurchases, acquisitions, and capital expenditures associated with FTTH program	Each draw payable beginning the first full quarter post-initial draw for applicable period of amortization	Four to seven years depending on purpose of draw
Facility D (1)	eNom acquisition	Each draw payable beginning the first full quarter post-initial draw for applicable period of amortization	Five years

(1) Contemporaneously with entering into the 2017 Amended Credit Agreement, the Company drew down \$84.5 million to fund the acquisition of eNom. The unused portion of the New Facility, approximately \$0.5 million was cancelled in accordance with the terms of the 2017 Amended Credit Agreement.

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The 2017 Amended Credit Agreement includes an additional repayment 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, all as set forth in the 2017 Amended Credit Agreement.

The 2017 Amended Credit Agreement 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 December 31, 2017, we were in compliance with all our covenants.

On June 6, 2017, the Company entered into the First Amendment to the 2017 Amended 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 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 certain definitions, including the definition of "EBITDA" to provide for an add-back in respect of certain liabilities.

On December 5, 2017, the Company entered into the Interim Amendment to the 2017 Amended Credit Agreement (the "Interim Amendment") with BMO and the Lenders. The Interim Amendment provides that BMO and the Bank of Nova Scotia may establish corporate credit card facilities with the Company and amends the definition of "Obligations" to include an aggregate amount of up to \$5.0 million of the credit card facilities in the definition of Obligations.

On January 24, 2018, the Company entered into the Second Interim Amendment to the 2017 Amended Credit Agreement (the "Second Interim Amendment") with BMO and the Lenders. The Second Interim Amendment provides that certain defined terms in Section 1.01 of the 2017 Amended Credit Agreement are added and updated to reflect the inclusion of liabilities to Sprint Mobile similar to the previous inclusion of T-Mobile liabilities. The Second Interim Amendment also permits Tucows to retain bank accounts with Silicon Valley Bank with the aggregate amount held in such accounts not to exceed \$3.0 million.

For more information on the 2017 Amended Credit Agreement, please see Note 8 -Loan payable to the Consolidated Financial Statements of the Company.

Other Credit Facilities

In addition to the 2017 Amended Credit Agreement, the Company is party to a Loan Agreement with BMO, dated as of June 25, 2007, as amended from time to time, most recently in November 2012 (the “2012 Amended Credit Agreement”), pursuant to which the Company currently maintains a treasury risk management facility and credit card facility.

The treasury risk management facility under the 2012 Amended Credit Agreement 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 2012 Amended Credit Agreement, the Company may enter into such agreements at market rates with terms not to exceed 18 months. As of December 31, 2017, the Company held no contracts to trade U.S. dollars in exchange for Canadian dollars.

During the Fiscal 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.

The 2012 Amended Credit Agreement also provided the Company with access to two revolving demand loan facilities (the “2012 Demand Loan Facilities”), and an operating demand loan. In connection with entering into the 2016 Credit Agreement, 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 made under the 2016 Credit Agreement.

Cash Flow from Operating Activities

Year ended December 31, 2017

Net cash inflows from operating activities were \$31.9 million, an increase of 42% when compared to the prior year. Net income, after adjusting for non-cash charges, during Fiscal 2017 was \$30.0 million, an increase of 43% when compared to the prior year. Net income included non-cash charges and recoveries of \$7.7 million such as depreciation, amortization, impairment of indefinite life intangible asset, excess tax benefits on stock-based compensation, stock-based compensation, the provision for unrealized losses on currency forward contracts and a recovery for deferred tax. This generation of cash from net income was further increased by our increasing working capital of \$1.9 million. We generated \$11.1 million from movements in accounts receivables, deferred revenue, deferred registration costs income taxes recoverable and customer deposits. These positive contributions were offset by cash use of \$9.2 million to invest in accounts payables, accreditation fees, inventory, prepaid expenses and deposits and accrued liabilities.

Year ended December 31, 2016

Net cash inflows from operating activities were \$22.5 million, an increase of 34% when compared to the prior year. Net income, after adjusting for non-cash charges, during Fiscal 2016 was \$21.0 million, an increase of 20% when compared to the prior year. Net income included non-cash charges and recoveries of \$4.9 million such as depreciation, amortization, impairment of indefinite life intangible asset, excess tax benefits on stock-based compensation, stock-based compensation, the provision for unrealized losses on currency forward contracts and a recovery for deferred tax. This generation of cash from net income was further increased by our increasing working capital of \$1.5 million. We generated \$11.4 million from movements in accounts payable, deferred revenue, income taxes recoverable, customer deposits and accrued liabilities. These positive contributions were offset by cash use of \$9.9 million to invest in deferred registration costs, accounts receivable, inventory, prepaid expenses and deposits.

Year ended December 31, 2015

Net cash inflows from operating activities were \$16.8 million. Net income, after adjusting for non-cash charges, during Fiscal 2015 was \$17.5 million. Net income included non-cash charges and recoveries of \$6.1 million such as depreciation, amortization, impairment of indefinite life intangible asset, excess tax benefits on stock-based compensation, stock-based compensation, the provision for unrealized losses on currency forward contracts and a recovery for deferred tax. This generation of cash from net income was partially offset by our increasing working capital by \$0.7 million. We used \$4.3 million to invest in accounts receivable, inventory, prepaid expenses and deposits and to prepay taxes. These investments in working capital were partially offset by positive contributions of \$3.6 million from movements in accounts payable, deferred revenue, deferred registration costs, customer deposits and accrued liabilities.

Cash Flow from Financing Activities

Year ended December 31, 2017

Net cash inflows from financing activities during Fiscal 2017 totaled \$65.2 million as compared to cash outflows of \$0.7 million during Fiscal 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 \$20.0 million of principal repayments relating to our 2017 Credit Amended Credit Facility, \$1.2 million outflow from the net impact of exercise of stock options and \$0.6 million of debt issuance costs.

Year ended December 31, 2016

Net cash inflows from financing activities during Fiscal 2016 totaled \$0.7 million as compared to cash outflows of \$20.6 million during Fiscal 2015. Net cash inflows of \$11.0 million resulting from draws on the 2016 Credit Facility to repay balances outstanding of the 2012 Demand Loan Facilities and to fund FTTH capital expenditures and the proceeds from a \$6.0 million draw on the 2012 Demand Loan Facilities to fund the Melbourne IT reseller channel acquisition. These cash inflows were partially offset by outflows of \$7.2 million resulting from the repurchasing of 308,416 of our shares during Fiscal 2016 through our open market stock buyback that commenced on February 9, 2016, principal repayments of \$9.8 million relating to our 2012 Demand Loan Facilities and 2016 Credit Facility, \$0.5 million of discount and debt issuance costs, and a \$0.2 million outflow from the net impact of exercise of stock options.

Year ended December 31, 2015

Net cash used in financing activities during Fiscal 2015 totaled \$20.6 million. Net cash outflows amounting to \$24.9 million resulted from \$20.0 million used to fund our repurchasing 868,549 of our shares through our open market stock buyback that commenced on February 16, 2015 and our repurchasing of 193,907 shares for \$3.6 million through our tender offer that closed on January 7, 2015. In addition, during Fiscal 2015, we made payments of tax obligations resulting from the net exercise of stock options of \$1.3 million on behalf of option holders. These cash outflows were partially offset by cash inflows of \$3.5 million we received under our 2012 Amended Credit Agreement to fund the acquisition of a controlling interest in Ting Virginia, LLC and the proceeds on exercise of stock options of \$0.8 million.

Cash Flow from Investing Activities

Year ended December 31, 2017

Investing activities during the Fiscal 2017 used net cash of \$94.1 million as compared to using \$14.4 million during Fiscal 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, 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 2017, the Company incurred acquisition related expenditures of \$0.3 million in connection with this acquisition. The purchase price and the majority of the related acquisition costs were financed through borrowings under Facility D of the 2017 Amended Credit Agreement. On June 13, 2017, the parties entered into an amendment to the Purchase Agreement, which, among other things, amended certain definitions contained in the Purchase Agreement.

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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 3(a) to the consolidated financial statements included in this report.

In the second half of Fiscal 2017, the Company purchased customer relationships related to shared hosting and domain services for \$0.3 million.

On September 19, 2017, the Company acquired the consumer related assets of Otono, Networks Inc. for consideration of \$2.6 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 seven years.

In addition, the Company invested \$12.9 million in property and equipment, primarily to support the continued expansion of our fiber footprint. The Company continues to invest in our Ting towns of Charlottesville, VA, Holly Springs, NC and Westminster, MD. We expect our capital expenditures on building and expanding our fiber network to increase significantly during Fiscal 2018, including construction ramping in Sandpoint, ID and Centennial, CO, as we seek to extend both our current network and expand to new towns.

Year ended December 31, 2016

Investing activities during Fiscal 2016 used net cash of \$14.4 million as compared to our generating net cash of \$3.3 million during Fiscal 2015.

On April 1st, 2016, the Company acquired the international reseller channel from Melbourne IT Limited for consideration of \$6.0 million, excluding legal and registry related transaction costs of \$0.2 million. The consideration was funded through a \$6.0 million draw on the 2012 Demand Loan Facilities. The Company also acquired the customer bases of a series of small hosting companies for total consideration of \$0.3 million.

In addition, the Company invested \$7.9 million in property and equipment, primarily to support the continued expansion of our fiber footprint. The Company continues to invest in our Ting towns of Charlottesville, VA, Holly Springs, NC, and Westminster, MD.

Year ended December 31, 2015

Investing activities during Fiscal 2015 generated net cash of \$3.3 million as compared to our use of \$8.9 million during Fiscal 2014.

Investing activities benefited from the proceeds of \$6.6 million we received on our previously announced agreement with our .online joint venture partners to release each other from any and all obligations under the .online joint venture term sheet and instead enter into the joint marketing agreement to launch marketing programs, with incentives and obligations to ensure the success of the .online registry. These marketing arrangements will contribute income of \$1.5 million, which will be recognized evenly over the term of the marketing agreement which commenced in November 2015.

On February 27, 2015, Ting Fiber, Inc., one of our wholly owned subsidiaries, acquired a controlling ownership interest in the newly formed Ting Virginia, LLC and its acquired subsidiaries, Blue Ridge Websoft, LLC (doing business as Blue Ridge InternetWorks), Fiber Roads, LLC and Navigator Network Services, LLC (collectively, the "BRI Group") for a consideration of approximately \$3.6 million. The purchase price was satisfied through our releasing \$3.1 million from the escrow accounts established during Fiscal 2014 and an additional payment of \$0.4 million made at closing. In addition, we used \$3.0 million to acquire additional property and equipment. Included in these additions is an amount of \$2.2 million that we have invested since the acquisition of the BRI Group primarily in expanding our fiber network 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 need 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. We may also evaluate potential acquisitions of other businesses, products and technologies. We currently have no commitments or agreements regarding the acquisition of other businesses. If additional financing is required, we may need additional equity or debt financing and any additional financing may be dilutive to existing investors. We may not be able to raise funds on acceptable terms, or at all.

Subsequent events

On January 5, 2018, Washington State Court, King County granted Namecheap Inc. a preliminary injunction requiring the Company to bulk transfer 2.65 million domain names to Namecheap's credentials. The Company completed the transfer by January 16, 2018. As a result of the bulk transfer, the Company will recognize in the first quarter of 2018 \$14.6 million of revenue and \$14.5 million of cost of goods sold related to previously deferred revenue and deferred prepaid registry fees.

On January 24, 2018, the Company entered into the Second Interim Amendment to the 2017 Amended Credit Agreement (the "Second Interim Amendment") with BMO and the Lenders. The Second Interim Amendment is described in "Liquidity and capital resources – 2017 Amended Credit Facility" above.

On February 14, 2018, the Company announced that its Board of Directors has 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 14, 2018 and will terminate on or before February 13, 2019. The previously announced \$40 million buyback program for the period March 1, 2017 to February 28, 2018 was terminated on February 14, 2018. Repurchases under this program may include open market purchases, block trades or a combination of such methods. All shares repurchased by Tucows under the stock buyback program will be retired and returned to treasury. The number of shares purchased and the timing of the purchases will depend on a number of factors, including share price, trading volume and general market conditions, working capital requirements, general business conditions, financial conditions, any applicable contractual limitations and other factors, including alternative investment opportunities.

On February 13, 2018, the Company entered into an agreement with the Minority Shareholders of Ting Virginia, LLC pursuant to which the Minority Shareholders could immediately exercise their put option to sell their remaining 10% ownership interest in Ting Virginia, LLC for \$1.2 million. The put option was simultaneously exercised and the Company paid \$1.2 million for the remaining 10% ownership interest and Ting Virginia, LLC became a wholly-owned subsidiary of the Company.

Off Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of December 31, 2017.

Contractual Obligations

For the purpose of the contractual obligations table below, contractual obligations for purchases of goods or services are defined as agreements that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. The expected timing of payment of the obligations discussed below is estimated based on information available to us as of December 31, 2017. Timing of payments and actual amounts paid may be different depending on the time of receipt of goods or services or changes to agreed-upon amounts for some obligations. The following table summarizes our contractual obligations at December 31, 2017:

Contractual Obligations for the year ending December 31,	Contractual Lease Obligations	Purchase Obligations ⁽¹⁾	Total Obligations
2018	\$ 1,989,000	\$ 34,405,000	\$ 36,394,000
2019	1,569,000	12,121,000	13,690,000
2020	1,119,000	553,000	1,672,000
2021	455,000	31,000	486,000
2022	348,000	28,000	376,000
Thereafter	1,857,000	227,000	2,084,000
	<u>\$ 7,337,000</u>	<u>\$ 47,365,000</u>	<u>\$ 54,702,000</u>

(1) Purchase obligations include all other legally binding service contracts for mobile telephone services and other operational agreements to be delivered during Fiscal 2018 and subsequent years. Note, Purchase Obligations do not include interest payments on the Company's credit facilities.

ITEM 7A. 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 December 31, 2017. We are also subject to market risk exposure related to changes in interest rates under our 2017 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. As of December 31, 2017, we have not entered into any new forward foreign exchange contracts.

As of December 31, 2016, the Company had \$26.6 million of outstanding foreign exchange forward contracts which converted to CDN \$36.0 million. Of these contracts, \$24.0 million met the requirements for hedge accounting.

We have performed a sensitivity analysis model for foreign exchange exposure over the year ended December 31, 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 year ended December 31, 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 year ended December 31, 2017 of approximately \$2.9 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.