

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains, in addition to historical information, forward-looking statements by us with regard to our expectations as to financial results and other aspects of our business that involve risks and uncertainties and may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “may,” “should,” “anticipate,” “believe,” “plan,” “estimate,” “expect” and “intend,” and other similar expressions are intended to identify forward-looking statements. The forward-looking statements contained in this report include statements regarding, among other things: the competition we expect to encounter as our business develops and competes in a broader range of Internet services; the Company's foreign currency requirements, specifically for the Canadian dollar; Ting mobile, Roam mobile and fixed Internet access subscriber growth and retention rates; our belief regarding the underlying platform for our domain services, our expectation regarding the trend of sales of domain names and advertising; our belief that, by increasing the number of services we offer, we will be able to generate higher revenues; the revenue that our parked page vendor relationships may generate in the future; our expectation regarding litigation; the potential impact of current and pending claims on our business; our valuations of certain deferred tax assets; our expectation to collect our outstanding receivables, net of our allowance for doubtful accounts; our expectation regarding fluctuations in certain expense and cost categories; our expectations regarding our unrecognized tax; our expectations regarding cash from operations to fund our business; the impact of cancellations of or amendments to market development fund programs under which we receive funds, our expectation regarding our ability to manage realized gains/losses from foreign currency contracts; our expectations regarding the migration of mobile subscribers acquired from STS Media Inc., a Mobile Virtual Networks Operator (“MVNO”) doing business as FreedomPop and Unreal Mobile Brands, to Ting; our expectations regarding increased price competition among MVNO; our expectations regarding when Ting's services will be operational on the Verizon mobile network; our expectations regarding costs associated with migrating Ting customers using the T-Mobile platform to an alternative platform, including Verizon; our expectations regarding our ability to complete the migration of customers from the T-Mobile platform by December 20, 2020; and general business conditions and economic uncertainty. These statements are based on management's current expectations and are subject to a number of uncertainties and risks that could cause actual results to differ materially from those described in the forward-looking statements. Many factors affect our ability to achieve our objectives and to successfully develop and commercialize our services including:

- Changes in the nature of key strategic relationships with our MVNO partners;
- The effects of vigorous competition on a highly penetrated mobile telephony market, including the impact of competition on the price we are able to charge subscribers for services and devices and on the geographic areas served by our MVNO partner wireless networks;
- Our ability to manage any potential increase in subscriber churn or bad debt expense;
- Our ability to continue to generate sufficient working capital to meet our operating requirements;
- Our ability to service our debt commitments;
- Our ability to maintain a good working relationship with our vendors and customers;
- The ability of vendors to continue to supply our needs;
- Actions by our competitors;
- Our ability to attract and retain qualified personnel in our business;
- Our ability to effectively manage our business;
- The effects of any material impairment of our goodwill or other indefinite-lived intangible assets;
- Our ability to obtain and maintain approvals from regulatory authorities on regulatory issues;
- Our ability to invest in the build-out of fiber networks into selected towns and cities to provide Internet access services to residential and commercial customers while maintaining the development and sales of our established services;

- Adverse tax consequences such as those related to changes in tax laws or tax rates or their interpretations, including with respect to the impact of the Tax Cuts and Jobs Act of 2017;
- The application of judgment in determining our global provision for income taxes, deferred tax assets or liabilities or other tax liabilities given the ultimate tax determination is uncertain;
- Our ability to effectively integrate acquisitions;
- Our ability to attract and retain customers by securing access to the latest mobile network technology, and migrating existing customers when necessary;
- Our ability to adapt the Company's mobile infrastructure in order to maximize the number of mobile subscriber additions following the expiration of our T-Mobile agreement in December 2019.
- Our ability to migrate existing T-Mobile customers to one of our MVNO partners, in an efficient and cost-effective manner;
- Pending or new litigation; and
- Factors set forth under the caption "Item 1A Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on March 5, 2019 (the "2018 Annual Report") and factors set forth under the caption "Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 filed with the SEC on May 8, 2019.

As previously disclosed under the caption "Item 1A Risk Factors" in our 2018 Annual Report, data protection regulations may impose legal obligations on us that we cannot meet or that conflict with our ICANN contractual requirements.

Specifically, the European Commission has adopted the General Data Protection Regulation (the "GDPR"), which introduces numerous privacy-related changes for companies operating in the European Union, effective on May 25, 2018. The GDPR includes obligations around the procurement, processing, publication and sharing of personal data. Potential fines for violations of certain provisions of GDPR reach as high as 4% of a company's annual total revenue, potentially including the revenue of its international affiliates. The interpretation and application of the GDPR is still unsettled for the industry. Our domain name registrar businesses, and the contracts we have with domain name registries and ICANN, require us to process and share personal data. The solutions we develop for GDPR-compliance may not be adequate in the views of regulatory authorities or ICANN, which may cause the loss of WHOIS privacy revenue or increase our costs of developing compliant solutions or subject us to litigation, liability, civil penalties, or loss of market share. As the privacy laws and regulations around the world continue to evolve, these changes could adversely affect our business operations in similar ways.

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

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

## **OVERVIEW**

Our mission is to provide simple useful services that help people unlock the power of the Internet.

We accomplish this by reducing the complexity of our customers' experience as they access the Internet (at home or on the go) and while using Internet services such as domain name registration, email and other Internet services. We are organized, managed and report our financial results as 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 management regularly reviews our operating results on a consolidated basis, principally to make decisions about how we utilize our resources and to measure our consolidated operating performance. To assist us in forecasting growth and to help us monitor the effectiveness of our operational strategies, our management regularly reviews revenue for each of our service offerings in order to gain more depth and understanding of the key business metrics driving our business. Accordingly, we report Network Access Services and Domain Services revenue separately.

For the three months ended September 30, 2019 and September 30, 2018, we reported revenue of \$88.1 million and \$83.5 million, respectively.

For the nine months ended September 30, 2019 and September 30, 2018, we reported revenue of \$251.2 million and \$260.4 million, respectively.

### ***Network Access Services***

Network Access Services includes mobile, fixed high-speed Internet access services and other revenues, including, billing solutions to small ISPs.

Our primary mobile service offering (“Ting Mobile”) is mainly distributed through the Ting website and to a lesser extent certain third-party retail stores and on-line retailers. We generate revenues from the sale of retail telephony services, mobile phone hardware and related accessories to individuals and small businesses through the Ting website. Ting Mobile’s primary focus is providing simple and easy to use services, including simple value pricing, in particular for multi-line accounts, and superior customer care. Our Roam Mobility, Zipsim and Always Online Wireless brands (collectively “Roam Mobility brands”) operate as a MVNO on the same nationwide Global System for Mobile communications network as Ting Mobile. Roam Mobility brands cater to international travellers and distribute products through third-party retail stores and product branded websites.

The Company also derives revenue from the sale of fixed high-speed Internet access (“Ting Internet”) in select towns throughout the United States, with further expansion underway to both new and existing Ting towns. Our primary sales channel of Ting Internet is through the Ting website. The primary focus of Ting Internet is to provide reliable Gigabit Internet services to consumer and business customers.

Revenues from Ting Mobile and Ting Internet are generated in the U.S. and are provided on a monthly basis with no fixed contract term. Revenues from Roam Mobility brands are generated in the U.S. and Canada on a prepaid usage basis with no fixed contract terms.

As of September 30, 2019, Ting managed mobile telephony services for approximately 294,000 subscribers and 166,000 accounts. For a discussion of subscribers and how they impacted our financial results, see the Net Revenue discussion below.

### ***Domain Services***

Domain Services includes wholesale and retail domain name registration services, value added services and portfolio services derived through our OpenSRS, eNom, Ascio 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, mainly the Canadian and the U.S. Ascio domain services contracts, which were acquired by the Company on March 18, 2019 and primarily originate in Europe.

Our primary distribution channel is a global network of approximately 37,000 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. Our primary focus is serving the needs of this network of resellers by providing the broadest portfolio of generic top-level domain (“gTLD”) and the country code top-level domain 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, eNom and Ascio, derives revenue from its domain service and from providing value-added services. The OpenSRS, eNom and Ascio domain services manage approximately 23.9 million domain names under the Tucows, eNom and Ascio ICANN registrar accreditations and for other registrars under their own accreditations, which has increased 0.2 million domain names since September 30, 2018. The increase from prior year is primarily due to the acquisition of 1.9 million names acquired in the Ascio acquisition on March 18, 2019. The increase was offset by bulk transfers of 0.4 million domain names in the fourth quarter of 2018, which were registered to a single customer, Namecheap, who transferred the names to their own ICANN registrar credentials. A further decrease of 0.9 million domain names is related to the bulk transfer domain names in the third quarter of 2019, which were registered to a single, low margin hosted customer. A further decrease of 0.4 million domain names was related to the erosion of registrations related to non-core customers.

In addition to the bulk transfers to Namecheap mentioned above, an additional 2.89 million domain names were transferred during the first three quarters of 2018. The Company recognized, on an accelerated basis, \$16.3 million of revenue and \$16.2 million of cost of revenues sold related to previously deferred revenue and deferred prepaid registry fees on the transfers that took place during the first three quarters of 2018.

Value-Added Services include hosted email which provides email delivery and webmail access to millions of mailboxes, Internet security services, Internet hosting, WHOIS privacy, publishing tools and other value-added services. All of these services are made available to end-users through a network of 37,000 web hosts, 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 including our reseller network. We also generate advertising revenue from our portfolio.

## KEY BUSINESS METRICS

We regularly review a number of business metrics, including the following key metrics and non-U.S. generally accepted accounting principles (“GAAP”) measures, to assist us in evaluating our business, measure the performance of our business model, identify trends impacting our business, determine resource allocations, manage our operational cash flow, formulate financial projections and make strategic business decisions. The following 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 U.S. 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

#### Ting Mobile

|                                          | September 30,       |                     |
|------------------------------------------|---------------------|---------------------|
|                                          | 2019 <sup>(1)</sup> | 2018 <sup>(1)</sup> |
|                                          | (in 000s)           |                     |
| Ting mobile accounts under management    | 166                 | 162                 |
| Ting mobile subscribers under management | 294                 | 296                 |

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

#### Ting Internet

|                                                    | September 30, |      |
|----------------------------------------------------|---------------|------|
|                                                    | 2019          | 2018 |
|                                                    | (in 000s)     |      |
| Ting Internet accounts under management            | 10            | 6    |
| Ting Internet serviceable addresses <sup>(1)</sup> | 34            | 23   |

(1) Defined as premises to which Ting has the capability to provide a customer connection in a service area.

**Domain Services**

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

|                                                                             | <b>Three months ended September 30,</b> |                            |
|-----------------------------------------------------------------------------|-----------------------------------------|----------------------------|
|                                                                             | <b>2019 <sup>(1)</sup></b>              | <b>2018 <sup>(1)</sup></b> |
|                                                                             | <b>(in 000's)</b>                       |                            |
| Total new, renewed and transferred-in domain name registrations provisioned | 4,227                                   | 4,170                      |

|                                                                             | <b>Nine months ended September 30,</b> |                            |
|-----------------------------------------------------------------------------|----------------------------------------|----------------------------|
|                                                                             | <b>2019 <sup>(1)</sup></b>             | <b>2018 <sup>(1)</sup></b> |
|                                                                             | <b>(in 000's)</b>                      |                            |
| Total new, renewed and transferred-in domain name registrations provisioned | 13,166                                 | 13,444                     |

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

Domain names under management:

|                                                                        | <b>September 30,</b>       |                            |
|------------------------------------------------------------------------|----------------------------|----------------------------|
|                                                                        | <b>2019 <sup>(1)</sup></b> | <b>2018 <sup>(1)</sup></b> |
|                                                                        | <b>(in 000's)</b>          |                            |
| Domain names under management:                                         |                            |                            |
| Registered using Registrar Accreditation belonging to the Tucows Group | 19,491                     | 18,990                     |
| Registered using Registrar Accreditations belonging to Resellers       | 4,367                      | 4,718                      |
| Total domain names under management                                    | 23,858                     | 23,708                     |

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

## OPPORTUNITIES, CHALLENGES AND RISKS

As a MVNO, our Ting Mobile and Roam services are 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.

Historically Ting Mobile had been able to continually grow customer additions and maintain a consistent churn rate, which had allowed us to maintain net new customer additions despite the impact of churn on a fast-growing customer base. Recently, outside of the acquisition of subscribers from MVNO competitors subscribers as TPO, Ringplus and FreedomPop mobile brands, the volume of gross additions has decreased while churn has remained consistent causing a net decline in our customer base, partially due to price competition. 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.

On June 6, 2018, our current MNOs, T-Mobile and Sprint, submitted a formal merger application to the Federal Communications Commission (FCC), who recently completed their regulatory review and approved the merger application, subject to certain divestiture requirements. The proposed merger is still subject to a lawsuit filed by the state attorneys general from multiple states and the District of Columbia. If T-Mobile and Sprint successfully consummate the merger, the consolidation of our MNOs could hinder our ability in the future to negotiate favourable rates and access to mobile services. On July 9, 2019, the Company announced that by the end of the year it will offer service with a new MNO partner, Verizon. The Company also announced that it will not renew its agreement with T-Mobile effective December 19, 2019, whom operate on a GSM ("Global System for Mobile") platform. As a consequence, the Company may incur significant marketing costs developing incentives to entice our current customers who use GSM devices to migrate to Code Division Multiple Access ("CDMA") devices, which are compatible with Ting Mobile's other MNOs, Sprint and Verizon. Due to the difficulty of identifying which inducements will be most effective, some customers may refuse or fail to migrate to CDMA compatible devices, which would result in increased customer churn.

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 domain expiry stream. The revenue associated with names sales and advertising has recently experienced flat to declining trends due to lower traffic and advertising yields in the marketplace, which we expect to continue. Expanding data protection regulations may impose legal obligations on us that we cannot meet or that conflict with our ICANN contractual requirements. Specifically, the European Commission has adopted the GDPR, which introduces numerous privacy-related changes for companies operating in the European Union, effective on May 25, 2018. The solutions we develop for GDPR-compliance may not be adequate in the views of regulatory authorities or ICANN, which may cause the loss of WHOIS privacy revenue or increase our costs of developing compliant solutions or subject us to litigation, liability, civil penalties, or loss of market share. As the privacy laws and regulations around the world continue to evolve, these changes could adversely affect our business operations in similar ways.

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**

The Company generates Network Access Services revenues primarily through the provisioning of mobile services. Other sources of revenue include the provisioning of fixed high-speed Internet access as well as billing solutions to ISP.

#### *Mobile*

Ting Mobile usage contracts grant customers access to standard talk, text and data mobile services. Ting mobile contracts are billed based on the actual amount of monthly services utilized by each customer during their billing cycle and charged to customers on a postpaid basis. Voice minutes, text messages and megabytes of data are each billed separately based on a tiered pricing program. The Company recognizes revenue for Ting mobile usage based on the actual amount of monthly services utilized by each customer.

Ting Mobile services are primarily contracted through the Ting website, for one month at a time and contain no commitment to renew the contract following each customer's monthly billing cycle. The Company's billing cycle for all Ting Mobile customers is computed based on the customer's activation date. In order to recognize revenue as the Company satisfies its obligations, we compute the amount of revenues earned but not billed from the end of each billing cycle to the end of each reporting period. In addition, revenues associated with the sale of wireless devices and accessories are recognized when title and risk of loss is transferred to the customer and shipment has occurred. Incentive marketing credits given to customers are recorded as a reduction of revenue.

Our Roam Mobility brand also offers standard talk, text and data mobile services. Roam customers prepay for their usage through the Roam Mobility website. When prepayments are received the amount is deferred, and subsequently recognized as the Company satisfies its obligation to provide mobile services. In addition, revenues associated with the sale of SIM cards are 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.

#### *Other services*

Other services derive revenues from providing Ting Internet to individuals and small businesses in select cities. In addition, we provide billing, provisioning and customer care software solutions to ISPs through our Platypus billing software. Ting fixed Internet access contracts provide customers Internet access at their home or business through the installation and use of our fiber optic network. Ting Internet contracts are generally prepaid and grant customers with unlimited bandwidth based on a fixed price per month basis. Since consideration is collected before the service period, revenue is initially deferred and recognized as the Company performs its obligation to provide Internet access. Though the Company does not consider the installation of fixed Internet access to be a distinct performance obligation, the fees related to installation are immaterial and therefore revenue is recognized as billed.

Ting Internet services are primarily contracted through the Ting website, for one month at a time and contain no commitment to renew the contract following each customer's monthly billing cycle. The Company's billing cycle for all Ting fixed Internet access customers is computed based on the customer's activation date. In order to recognize revenue as the Company satisfies its obligations, we compute the amount of revenues earned but not billed from the end of each billing cycle to the end of each reporting period. In addition, revenues associated with the sale of Internet hardware to subscribers are 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.

In those cases, where payment is not received at the time of sale, revenue is not recognized until contract inception unless the collection of the related accounts receivable is reasonably assured. The Company records costs that reflect 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.

## **Domain Services**

### *Wholesale*

Domain registration contracts, which can be purchased for terms of one to ten years, provide our resellers and retail registrant customers with the exclusive right to a personalized internet address from which to build an online presence. The Company enters into domain registration contracts in connection with each new, renewed and transferred-in domain registration. At the inception of the contract, the Company charges and collects the registration fee for the entire registration period. Though fees are collected upfront, revenue from domain registrations are recognized ratably over the registration period as domain registration contracts contain a ‘right to access’ license of IP, which is a distinct performance obligation measured over time. The registration period begins once the Company has confirmed that the requested domain name has been appropriately recorded in the registry under contractual performance standards.

Historically, our wholesale 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 Ascio and its 700-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.

The Company is an ICANN accredited registrar. Thus, the Company is the primary obligor with our reseller and retail registrant customers and is responsible for the fulfillment of our registrar services to those parties. As a result, the Company reports revenue in the amount of the fees we receive directly from our reseller and retail registrant customers. Our reseller customers maintain the primary obligor relationship with their retail customers, establish pricing and retain credit risk to those customers. Accordingly, the Company does not recognize any revenue related to transactions between our reseller customers and their ultimate retail customers.

### *Wholesale – Value-Added Services*

We derive domain related value-added services like digital certifications, WHOIS privacy and hosted email and provide our resellers and retail registrant customers with tools and additional functionality to be used in conjunction with domain registrations. All domain related value-added services are considered distinct performance obligations which transfer the promised service to the customer over the contracted term. Fees charged to customers for domain related value-added services are collected at the inception of the contract, and revenue is recognized on a straight-line basis over the contracted term, consistent with the satisfaction of the performance obligations.

We also derive revenue from other value-added services primarily from Internet hosting services, advertising from the OpenSRS and eNom domain expiry streams.

### *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 parking monetization, whereby the Company contracts with third-party Internet advertising publishers to direct web traffic from the Company’s domain expiry stream domains and Internet portfolio domains to advertising websites. Compensation from Internet advertising publishers is calculated variably on a cost-per-action basis based on the number of advertising links that have been visited in a given month.

The Company also sells the rights to the Company’s portfolio domains or names acquired through the Company’s domain expiry stream. Revenue generated from sale of domain name contracts, containing a distinct performance obligation to transfer the domain name rights under the Company’s control, is generally recognized once the rights have been transferred and payment has been received in full. Domain 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 preparation of our consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. There have been no material changes to the critical accounting policies and estimates as previously disclosed in Part II, Item 7 of our 2018 Annual Report, except for the adoption of Accounting Standard Update (“ASU”) No. 2016-02, *Leases (Topic 842)* (“ASU 2016-02”), which was adopted using the modified retrospective basis. Accordingly, comparative figures have not been restated. The adoption of ASU 2016-02 did not have a material impact on our consolidated statements of operations and comprehensive income. For further information on our critical accounting policies and estimates, see “Note 3 – Recent accounting pronouncements” to the consolidated financial statements of the Company in Part I, Item 1 in this Quarterly Report on Form 10-Q.

## RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AS COMPARED TO THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018

### NET REVENUES

The following table presents our net revenues, by revenue source (*Dollar amounts in thousands of U.S. dollars*):

|                                       | Three months ended September 30, |                     | Nine months ended September 30, |                     |
|---------------------------------------|----------------------------------|---------------------|---------------------------------|---------------------|
|                                       | 2019                             | 2018 <sup>(1)</sup> | 2019                            | 2018 <sup>(1)</sup> |
| <b>Network Access Services:</b>       |                                  |                     |                                 |                     |
| Mobile Services                       | \$ 21,722                        | \$ 22,546           | \$ 63,516                       | \$ 66,829           |
| Other Services                        | 2,890                            | 2,033               | 7,977                           | 5,664               |
| Total Network Access Services         | 24,612                           | 24,579              | 71,493                          | 72,493              |
| <b>Domain Services</b>                |                                  |                     |                                 |                     |
| Wholesale                             |                                  |                     |                                 |                     |
| Domain Services                       | 47,259                           | 45,071              | 136,336                         | 146,038             |
| Value Added Services                  | 5,154                            | 4,540               | 14,113                          | 13,576              |
| Total Wholesale                       | 52,413                           | 49,611              | 150,449                         | 159,614             |
| Retail                                | 8,713                            | 8,731               | 26,138                          | 25,644              |
| Portfolio                             | 2,391                            | 598                 | 3,119                           | 2,650               |
| Total Domain Services                 | 63,517                           | 58,940              | 179,706                         | 187,908             |
|                                       | \$ 88,129                        | \$ 83,519           | \$ 251,199                      | \$ 260,401          |
| (Decrease) increase over prior period | 4,610                            |                     | (9,202)                         |                     |
| (Decrease) increase - percentage      | 6%                               |                     | -4%                             |                     |

<sup>1</sup>As a result of the bulk transfers of 2.65 million domain names to Namecheap on January 5, 2018 and 0.24 million domain names to Namecheap on September 25, 2018, recognized revenue for the three and nine months ended September 30, 2018 includes \$1.7 million and \$16.3 million, respectively, related to previously deferred revenue, a portion of which would have otherwise been recognized after September 30, 2018.

The following table presents our revenues, by revenue source, as a percentage of total revenues (*Dollar amounts in thousands of U.S. dollars*):

|                                 | Three months ended September 30, |      | Nine months ended September 30, |      |
|---------------------------------|----------------------------------|------|---------------------------------|------|
|                                 | 2019                             | 2018 | 2019                            | 2018 |
| <b>Network Access Services:</b> |                                  |      |                                 |      |
| Mobile Services                 | 25%                              | 27%  | 25%                             | 26%  |
| Other Services                  | 3%                               | 2%   | 3%                              | 2%   |
| Total Network Access Services   | 28%                              | 29%  | 28%                             | 28%  |
| <b>Domain Services</b>          |                                  |      |                                 |      |
| Wholesale                       |                                  |      |                                 |      |
| Domain Services                 | 53%                              | 55%  | 55%                             | 56%  |
| Value Added Services            | 6%                               | 5%   | 6%                              | 5%   |
| Total Wholesale                 | 59%                              | 60%  | 61%                             | 61%  |
| Retail                          | 10%                              | 10%  | 10%                             | 10%  |
| Portfolio                       | 3%                               | 1%   | 1%                              | 1%   |
| Total Domain Services           | 72%                              | 71%  | 72%                             | 72%  |
|                                 | 100%                             | 100% | 100%                            | 100% |

Total net revenues for the three months ended September 30, 2019 increased by \$4.6 million or 6% to \$88.1 million when compared to the three months ended September 30, 2018. The three-month increase was primarily driven by a \$5.8 million increase in revenue related to the acquisition of Ascio, a \$1.0 million increase in value added services revenue related to expiry revenue, a \$0.9 million increase in Other Services revenue related to an increase in Ting Internet subscribers and \$1.8 million increase in Portfolio revenue. The increase in revenue was offset by a \$4.0 million decrease in Wholesale domain revenue, \$1.7 million of which is related to the acceleration of Namecheap revenue in the third quarter of 2018, the remaining \$2.3 million relating to a decline in domain registrations related to non-core customers. Revenue also decreased \$0.8 million due to a decrease in mobile handset and usage revenue.

Total net revenues for the nine months ended September 30, 2019 decreased by \$9.2 million or 4% to \$251.2 million when compared to the nine months ended September 30, 2018. The nine-month decrease was primarily driven by the \$16.3 million acceleration of revenue related to the Namecheap bulk transfer of 2.89 million names throughout the first three quarters of 2018, combined with a further \$4.7 million decrease in Wholesale domain revenue, primarily related a decline in domain registrations related to non-core customers during the nine months ended September 30, 2019. Revenue also decreased \$3.3 million due to a decrease in Ting Mobile handset and mobile usage revenue. The decrease in revenues was offset by a \$11.9 million increase related to the acquisition of Ascio as well as a \$0.5 million increase related to Retail Domain revenue and \$0.5 million related to Portfolio revenue. Revenue also increased \$2.3 million in Other Services revenue related to an increase in Ting Internet subscribers.

Deferred revenue from domain name registrations and other Internet services at September 30, 2019 increased to \$154.1 million from \$143.7 million at December 31, 2018, primarily due to the addition of deferred revenue acquired in the Ascio acquisition on March 18, 2019.

During the three and nine months ended September 30, 2019, no customer accounted for more than 10% of total revenue. For the three and nine months ended September 30, 2018, no customer accounted for more than 10% of total revenue. As at September 30, 2019 and December 31, 2018, no customer accounted for more than 10% of accounts receivable. Though a significant portion of the Company's domain services revenues are prepaid by our customers, where the Company does collect receivables, significant management judgment is required at the time revenue is recorded to assess whether the collection of the resulting receivables is reasonably assured. On an ongoing basis, we assess the ability of our customers to make required payments. Based on this assessment, we expect the carrying amount of our outstanding receivables, net of allowance for doubtful accounts, to be fully collected.

#### ***Network Access Services***

Net revenues from mobile phone equipment and services for the three months ended September 30, 2019 decreased by \$0.8 million or 4% to \$21.7 million as compared to the three months ended September 30, 2018. This decrease reflects a decline in service revenues of \$0.3 million to \$20.2 million as compared to the three months ended September 30, 2018. The decline in service revenue compared to the three months ended September 30, 2018 is related to a decline in the mobile subscriber base, which notwithstanding the acquisition of approximately 12,000 FreedomPop subscribers who migrated throughout the third quarter of 2019, was lower compared to the three months ended September 2018. Revenues from the sale of mobile hardware and related accessories decreased by \$0.5 million to \$1.5 million as compared to the three months ended September 30, 2018. The decrease in device revenue was primarily driven by reduced demand for high-priced devices compared to the three months ended September 30, 2018.

Other revenues from Ting Internet and billing solutions generated \$2.9 million in revenue during the three months ended September 30, 2019, up \$0.9 million from the three months ended September 30, 2018. Growth in Ting Internet revenues was as a result of the increased Ting Internet footprint in existing Ting towns throughout the United States, as well as the addition of Fuquay-Varina, NC in the first quarter of 2019.

As of September 30, 2019, Ting Mobile had 166,000 accounts under management and 294,000 subscribers under management compared to 162,000 accounts and 296,000 subscribers under management as of September 30, 2018.

As of September 30, 2019, Ting Internet had 10,000 subscribers under management and 34,000 serviceable addresses under management compared to 6,000 subscribers and 23,000 serviceable addresses as of September 30, 2018.

#### ***Wholesale***

During the three months ended September 30, 2019, Wholesale domain services revenue increased by \$2.2 million or 5% to \$47.3 million when compared to the three months ended September 30, 2018. The three-month increase was primarily driven by a \$5.8 million increase in revenue related to the acquisition of Ascio. The increase was partially offset by a \$3.6 million decrease in Wholesale domain revenue, of which \$1.7 million related to the acceleration of Namecheap revenue in the third quarter of 2018, and the remaining \$1.9 related to a decline in domain registrations by non-core customers.

During the nine months ended September 30, 2019, Wholesale domain services revenue decreased by \$9.7 million or 7% to \$136.3 million when compared to the nine months ended September 30, 2018. The nine-month decrease was primarily driven by the \$16.3 million acceleration of revenue related to the Namecheap bulk transfer of 2.89 million names during the first three quarters of 2018, combined with a further \$5.3 million decrease in revenue related to the erosion in registrations by non-core customers during the nine months ended September 30, 2019. The overall decrease in Wholesale domain revenues was offset by an \$11.9 million increase in revenue related to the acquisition of Ascio.

Total domains that we manage increased to 23.9 million as of September 30, 2019, when compared to 23.7 million at September 30, 2018. This increase was primarily related to the Company's acquisition, on March 18, 2019, of Ascio, a domain registrar business, and all of CSC's assets related to that business which included approximately 1.9 million domain names under management. The increase from Ascio was partially offset by the migration of a few large, low margin customers, including Namecheap. These customers moved their domain management and domain transaction processing to their own accreditations and in-house systems. In the twelve months following September 30, 2018 the Company completed bulk transfers of 0.4 million domain names to Namecheap's credentials, transfers of 0.9 million domain names related to a large, low-margin hosted customer and experienced a further decline in registrations of 0.4 million domain names related to the erosion of registrations belonging to non-core customers. 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.

During the three months ended September 30, 2019, value added services revenue increased by \$0.6 million to \$5.2 million when compared to the three months ended September 30, 2018. The three-month increases were primarily driven by an increase in expiry revenue of \$1.0 million, offset by a decrease in hosting revenue of \$0.4 million.

During the nine months ended September 30, 2019, value added services revenue increased by \$0.5 million to \$14.1 million when compared to the nine months ended September 30, 2018. The nine-month increase was primarily driven by an increase in expiry revenue of \$1.2 million, offset by a decrease in hosting revenue of \$0.7 million.

### ***Retail***

Net revenues from retail for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018, decreased by less than \$0.1 million to \$8.7 million.

Net revenues from retail for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018, increased by \$0.5 million, or 2%, to \$26.1 million. The nine-month 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.

### ***Portfolio***

Net revenues from portfolio for the three months ended September 30, 2019, increased by \$1.8 million to \$2.4 million, as compared to the three months ended September 30, 2018, due to an increase in portfolio sales, driven by a large bulk sale in the third quarter of 2019.

Net revenues from portfolio for the nine months ended September 30, 2019, increased by \$0.5 million to \$3.1 million, as compared to the nine months ended September 30, 2018, due to an increase in portfolio sales.

## **COST OF REVENUES**

### **Network Access Services**

#### ***Mobile***

Cost of revenues for mobile services includes the costs of provisioning mobile services, which is primarily our customers' voice, messaging, data usage provided by our MNOs, and the costs of providing mobile phone hardware, which is 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, comprised of network access fees and software licenses, the costs of providing hardware, comprised of the cost of network routers sold to our customers, order fulfillment related expenses, and inventory write-downs and fees paid to third-party service providers, primarily for printing services in connection with billing services to ISPs.

**Wholesale**

*Domain Service*

Cost of revenues for domain registrations represents the amortization of registry and accreditation 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 represent a payment for distinct goods or services provided by the Company, and thus do not meet the criteria for revenue recognition under ASU 2014-09, 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, third-party hosting services. 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 and accreditation 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.

**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 (Dollar amounts in thousands of U.S. dollars):

|                                              | Three months ended September 30, |                     | Nine months ended September 30, |                     |
|----------------------------------------------|----------------------------------|---------------------|---------------------------------|---------------------|
|                                              | 2019                             | 2018 <sup>(1)</sup> | 2019                            | 2018 <sup>(1)</sup> |
| <b>Network Access Services:</b>              |                                  |                     |                                 |                     |
| Mobile Services                              | \$ 11,171                        | \$ 11,399           | \$ 32,721                       | \$ 34,643           |
| Other Services                               | 936                              | 872                 | 2,960                           | 3,103               |
| Total Network Access Services                | 12,107                           | 12,271              | 35,681                          | 37,746              |
| <b>Domain Services</b>                       |                                  |                     |                                 |                     |
| <b>Wholesale</b>                             |                                  |                     |                                 |                     |
| Domain Services                              | 38,337                           | 37,414              | 110,993                         | 124,572             |
| Value Added Services                         | 773                              | 807                 | 2,306                           | 2,412               |
| Total Wholesale                              | 39,110                           | 38,221              | 113,299                         | 126,984             |
| Retail                                       | 4,359                            | 4,465               | 13,126                          | 13,320              |
| Portfolio                                    | 180                              | 148                 | 455                             | 528                 |
| Total Domain Services                        | 43,649                           | 42,834              | 126,880                         | 140,832             |
| <b>Network Expenses:</b>                     |                                  |                     |                                 |                     |
| Network, other costs                         | 2,254                            | 2,315               | 7,034                           | 7,590               |
| Network, depreciation and amortization costs | 2,545                            | 1,838               | 6,872                           | 5,194               |
|                                              | 4,799                            | 4,153               | 13,906                          | 12,784              |
|                                              | \$ 60,555                        | \$ 59,258           | \$ 176,467                      | \$ 191,362          |
| (Decrease) increase over prior period        | 1,297                            |                     | (14,895)                        |                     |
| (Decrease) increase - percentage             | 2%                               |                     | -8%                             |                     |

<sup>1</sup>As a result of the bulk transfers of 2.65 million domain names to Namecheap on January 5, 2018 and 0.24 million domain names to Namecheap on September 25, 2018, recognized revenue for the three and nine months ended September 30, 2018 includes \$1.7 million and \$16.2 million, respectively, related to previously deferred revenue, a portion of which would have otherwise been recognized after September 30, 2018.

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

|                                              | Three months ended September 30, |      | Nine months ended September 30, |      |
|----------------------------------------------|----------------------------------|------|---------------------------------|------|
|                                              | 2019                             | 2018 | 2019                            | 2018 |
| <b>Network Access Services:</b>              |                                  |      |                                 |      |
| Mobile Services                              | 18%                              | 19%  | 19%                             | 18%  |
| Other Services                               | 2%                               | 1%   | 2%                              | 2%   |
| Total Network Access Services                | 20%                              | 20%  | 21%                             | 20%  |
| <b>Domain Services</b>                       |                                  |      |                                 |      |
| <b>Wholesale</b>                             |                                  |      |                                 |      |
| Domain Services                              | 64%                              | 64%  | 63%                             | 65%  |
| Value Added Services                         | 1%                               | 1%   | 1%                              | 1%   |
| Total Wholesale                              | 65%                              | 65%  | 64%                             | 66%  |
| Retail                                       | 7%                               | 8%   | 7%                              | 7%   |
| Portfolio                                    | 0%                               | 0%   | 0%                              | 0%   |
| Total Domain Services                        | 72%                              | 73%  | 71%                             | 73%  |
| <b>Network Expenses:</b>                     |                                  |      |                                 |      |
| Network, other costs                         | 4%                               | 4%   | 4%                              | 4%   |
| Network, depreciation and amortization costs | 4%                               | 3%   | 4%                              | 3%   |
|                                              | 8%                               | 7%   | 8%                              | 7%   |
|                                              | 100%                             | 100% | 100%                            | 100% |

Total cost of revenues for the three months ended September 30, 2019, increased by \$1.3 million, or 2%, to \$60.6 million when compared to the three months ended September 30, 2018. The three-month increase was driven by the \$4.7 million increase related to the acquisition of Ascio. The increase in cost of revenue was also related to a \$0.6 million increase in Network, depreciation and amortization associated with the expanding Ting Internet footprint. The increase in cost of revenue was offset by a \$4.0 million decrease in wholesale domain related costs, of which \$1.6 million was related to the acceleration of Namecheap costs in the third quarter of 2018, and the remaining \$2.4 million was related to an erosion in registrations by non-core customers.

Total cost of revenues for the nine months ended September 30, 2019, decreased by \$14.9 million, or 8%, to \$176.5 million when compared to the nine months ended September 30, 2018. The nine-month decrease was primarily driven by the \$16.2 million acceleration of costs related to the Namecheap bulk transfer of 2.89 million names in the first three quarters of 2018. Wholesale and retail domain costs decreased a further \$7.5 million related to an erosion in registrations by non-core customers. Cost of revenue decreased a further \$1.8 million due to a decrease in Ting Mobile handset sales and \$0.5 million related to Network, other costs. The overall decrease in cost of revenue was offset by an increase of \$9.4 million related to the acquisition of Ascio, and an increase of \$1.7 million in Network, depreciation and amortization costs associated with the expanding Ting internet footprint.

## **Network Access Services**

### ***Mobile and Other Services***

Cost of revenues from mobile phone equipment and services for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018, decreased by \$0.2 million or 2% to \$11.2 million. The decrease was primarily driven by lower mobile hardware and related accessories costs, which decreased \$0.5 million to \$1.8 million as compared to the three months ended September 30, 2018. The decrease in cost of revenue was offset by an increase in mobile usage costs of \$0.3 million, or 3% to \$9.4 million as compared to the three months ended September 30, 2018. The increase in mobile usage costs was a result of a decrease in Roam Mobility costs of \$0.3 million related to lower network operator costs in the current period and restructuring charges that were incurred during the three months ended September 30, 2018, combined with an increase in Ting Mobile costs of \$0.6 million as a result of increased minimum charges with network operators.

Cost of revenues from mobile phone equipment and services for the nine months ended September 30, 2019, decreased by \$1.9 million or 6% to \$32.7 million, as compared to the nine months ended September 30, 2018. Mobile usage costs decreased \$0.1 million, or 1% to \$27.5 million. The decrease in mobile usage charges was as a result of a decrease in Roam Mobility related costs of \$1.4 million related to lower network operator costs in the current period and restructuring charges that were incurred during the nine months ended September 30, 2018, offset by an increase in Ting mobile related costs of \$1.3 million related to increased minimum charges with network operators. The decrease was also driven by lower mobile hardware and related accessories costs, which decreased \$1.8 million to \$5.2 million as compared to the nine months ended September 30, 2018. The decrease in hardware sales was primarily driven by reduced demand for higher-priced devices compared to the nine months ended September 30, 2018.

During the three months ended September 30, 2019, costs related to provisioning high speed Internet access and billing solutions remained flat at \$0.9 as compared to the nine months ended September 30, 2018.

During the nine months ended September 30, 2019, costs related to provisioning high speed Internet access and billing solutions decreased \$0.1, or 5% as compared to the nine months ended September 30, 2018. The decrease in costs was primarily due to the fact that overhead resources have been increasingly focused on capital activities as compared to the nine months ended September 30, 2018.

## **Domain Services**

### ***Wholesale***

Costs for Wholesale and Value-added services for the three months ended September 30, 2019 increased by \$0.9 million, or 2%, to \$39.1 million when compared to the three months ended September 30, 2018. The increase was primarily driven by \$4.7 million increase related to the acquisition of Ascio. The increase in cost of revenues was offset by decreases related to the \$1.7 million acceleration of Namecheap costs in the third quarter of 2018, and a further \$2.1 million related to a decrease in domain registrations related to non-core customers.

Costs for Wholesale and Value-added services for the nine months ended September 30, 2019 decreased by \$13.7 million, or 11%, to \$113.3 million when compared to the nine months ended September 30, 2018. The increase was primarily driven by the accelerated recognition of \$16.2 million domains revenue associated with the Namecheap bulk transfer of 2.89 million names in the first quarter of 2018. Wholesale domain costs decreased a further \$6.9 million related to an erosion in registrations by non-core customers. The decreases were partially offset by a \$9.4 million increase related to the acquisition of Ascio.

### ***Retail***

Costs for retail for the three months ended September 30, 2019 decreased by \$0.1 million, or 2% to \$4.4 million as compared to the three months ended September 30, 2018.

Costs for retail for the nine months ended September 30, 2019 decreased by \$0.2 million, to \$13.1 million when compared to the nine months ended September 30, 2018.

***Portfolio***

Costs for portfolio for the three months ended September 30, 2019 increased by less than \$0.1 million, when compared to the three months ended September 30, 2018.

Costs for portfolio for the nine months ended September 30, 2019 decreased by \$0.1 million, when compared to the nine months ended September 30, 2018.

**Network Expenses**

Network costs for the three months ended September 30, 2019 increased by \$0.6 million to \$4.8 million when compared to the three months ended September 30, 2018. The three-month increase was driven by depreciation as a result of the expansion of the Company's increased network infrastructure.

Network costs for the nine months ended September 30, 2019 increased by \$1.1 million to \$13.9 million when compared to the nine months ended September 30, 2018. The nine-month increase was driven by depreciation as a result of the expansion of the Company's network infrastructure.

## 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.

(Dollar amounts in thousands of U.S. dollars)

|                            | Three months ended September 30, |          | Nine months ended September 30, |           |
|----------------------------|----------------------------------|----------|---------------------------------|-----------|
|                            | 2019                             | 2018     | 2019                            | 2018      |
| Sales and marketing        | \$ 8,769                         | \$ 8,412 | \$ 26,366                       | \$ 24,629 |
| Increase over prior period | \$ 357                           |          | \$ 1,737                        |           |
| Increase - percentage      | 4%                               |          | 7%                              |           |
| Percentage of net revenues | 10%                              | 10%      | 10%                             | 9%        |

Sales and marketing expenses for the three months ended September 30, 2019 increased by \$0.4 million, or 4%, to \$8.8 million when compared to the three months ended September 30, 2018. This three-month increase related primarily to an increase of \$0.4 million in Ting people and marketing costs, which have increased to support future network access related growth. The increase in sales and marketing costs was offset by a \$0.1 million decrease related to contracted service costs.

Sales and marketing expenses for the nine months ended September 30, 2019 increased by \$1.7 million, or 7%, to \$26.4 million when compared to the nine months ended September 30, 2018. This nine-month increase related primarily to an increase of \$1.1 million in Ting people and marketing costs, which have increased to support future network access related growth. Sales and marketing costs also increased \$0.6 million related people costs acquired in the acquisition of Ascio in the first quarter of 2019.

## 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. All technical operations and development costs are expensed as incurred.

(Dollar amounts in thousands of U.S. dollars)

|                                      | Three months ended September 30, |          | Nine months ended September 30, |          |
|--------------------------------------|----------------------------------|----------|---------------------------------|----------|
|                                      | 2019                             | 2018     | 2019                            | 2018     |
| Technical operations and development | \$ 2,876                         | \$ 2,207 | \$ 8,151                        | \$ 6,657 |
| Increase over prior period           | \$ 669                           |          | \$ 1,494                        |          |
| Increase - percentage                | 30%                              |          | 22%                             |          |
| Percentage of net revenues           | 3%                               | 3%       | 3%                              | 3%       |

Technical operations and development expenses for the three months ended September 30, 2019 increased by \$0.7 million, or 30%, to \$2.9 million when compared to the three months ended September 30, 2018. The increase in costs relates primarily to increased salaries and benefits driven by an expanding workforce and wage inflation, including the workforce acquired in the Ascio acquisition on March 18, 2019.

Technical operations and development expenses for the nine months ended September 30, 2019 increased by \$1.5 million, or 22%, to \$8.2 million when compared to the nine months ended September 30, 2018. The increase in costs relates primarily to increased salaries and benefits driven by an expanding workforce and wage inflation, including the workforce acquired in the Ascio acquisition on March 18, 2019.

## 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.

(Dollar amounts in thousands of U.S. dollars)

|                            | Three months ended September 30, |          | Nine months ended September 30, |           |
|----------------------------|----------------------------------|----------|---------------------------------|-----------|
|                            | 2019                             | 2018     | 2019                            | 2018      |
| General and administrative | \$ 4,574                         | \$ 4,120 | \$ 13,818                       | \$ 12,906 |
| Increase over prior period | \$ 454                           |          | \$ 912                          |           |
| Increase - percentage      | 11%                              |          | 7%                              |           |
| Percentage of net revenues | 5%                               | 5%       | 6%                              | 5%        |

General and administrative expenses for the three months ended September 30, 2019 increased by \$0.5 million, or 11%, to \$4.6 million when compared to the three months ended September 30, 2018. The increase was primarily driven by a \$0.2 million increase related to the acquisition of Ascio, an increase in foreign exchange expense of \$0.4 million and an increase in people costs of \$0.1 million. The increase in general and administrative expenses was offset by a decrease in contract costs of \$0.2 million.

General and administrative expenses for the nine months ended September 30, 2019 increased by \$0.9 million, or 7%, to \$13.8 million when compared to the nine months ended September 30, 2018. The increase was primarily driven by a \$0.6 million increase related to the acquisition of Ascio and an increase in other costs, including contract costs and facility costs of \$0.8 million. The increase in general and administrative expenses was offset by a foreign exchange gain of \$0.5 million.

#### DEPRECIATION OF PROPERTY AND EQUIPMENT

(Dollar amounts in thousands of U.S. dollars)

|                                        | Three months ended September 30, |        | Nine months ended September 30, |        |
|----------------------------------------|----------------------------------|--------|---------------------------------|--------|
|                                        | 2019                             | 2018   | 2019                            | 2018   |
| Depreciation of property and equipment | \$ 117                           | \$ 106 | \$ 375                          | \$ 309 |
| Increase over prior period             | \$ 11                            |        | \$ 66                           |        |
| Increase - percentage                  | 10%                              |        | 21%                             |        |
| Percentage of net revenues             | 0%                               | 0%     | 0%                              | 0%     |

Depreciation costs increased by less than \$0.1 million to \$0.1 million as compared to the three months ended September 30, 2018.

Depreciation costs increased by \$0.1 million to \$0.4 million as compared to the nine months ended September 30, 2018.

#### LOSS ON DISPOSITION OF PROPERTY AND EQUIPMENT

(Dollar amounts in thousands of U.S. dollars)

|                                               | Three months ended September 30, |      | Nine months ended September 30, |      |
|-----------------------------------------------|----------------------------------|------|---------------------------------|------|
|                                               | 2019                             | 2018 | 2019                            | 2018 |
| Loss on disposition of property and equipment | \$ 73                            | \$ - | \$ 73                           | \$ - |
| Increase over prior period                    | \$ 73                            |      | \$ 73                           |      |
| Increase - percentage                         | 100%                             |      | 100%                            |      |
| Percentage of net revenues                    | 0%                               | 0%   | 0%                              | 0%   |

Loss on disposal costs were \$0.1 million during the three months ended September 30, 2019 related to equipment disposal from the Kirkland office.

Loss on disposal costs were \$0.1 million during the nine months ended September 30, 2019 related to equipment disposal from the Kirkland office.

#### AMORTIZATION OF INTANGIBLE ASSETS

(Dollar amounts in thousands of U.S. dollars)

|                                   | Three months ended September 30, |          | Nine months ended September 30, |          |
|-----------------------------------|----------------------------------|----------|---------------------------------|----------|
|                                   | 2019                             | 2018     | 2019                            | 2018     |
| Amortization of intangible assets | \$ 2,544                         | \$ 1,797 | \$ 6,661                        | \$ 5,456 |
| Increase over prior period        | \$ 747                           |          | \$ 1,205                        |          |
| Increase - percentage             | 42%                              |          | 22%                             |          |
| Percentage of net revenues        | 3%                               | 2%       | 3%                              | 2%       |

Amortization of intangible assets for the three months ended September 30, 2019 increased by \$0.7 million to \$2.5 million as compared to the three months ended September 30, 2018. The increase is primarily driven by the acquisition of Ascio.

Amortization of intangible assets for the nine months ended September 30, 2019 increased by \$1.2 million to \$6.7 million as compared to the nine months ended September 30, 2018. The increase is primarily driven by the acquisition of Ascio.

#### LOSS (GAIN) ON CURRENCY FORWARD CONTRACTS

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

(Dollar amounts in thousands of U.S. dollars)

|                                           | Three months ended September 30, |         | Nine months ended September 30, |       |
|-------------------------------------------|----------------------------------|---------|---------------------------------|-------|
|                                           | 2019                             | 2018    | 2019                            | 2018  |
| Loss (gain) on currency forward contracts | \$ 20                            | \$ (27) | \$ (90)                         | \$ 22 |
| Decrease over prior period                | \$ 47                            |         | \$ (112)                        |       |
| Decrease - percentage                     | -174%                            |         | -509%                           |       |
| Percentage of net revenues                | 0%                               | 0%      | 0%                              | 0%    |

The Company recorded a net loss of less than \$0.1 million on the change in fair value of outstanding contracts as well as realized on matured contracts during the three months ended September 30, 2019. The Company recorded a net gain of \$0.1 million on the change in fair value of outstanding contracts as well as realized on matured contracts during the nine months ended September 30, 2019.

At September 30, 2019, our balance sheet reflects a net derivative instrument liability of less than \$0.1 million as a result of our existing foreign exchange contracts.

## OTHER INCOME AND EXPENSES

(Dollar amounts in thousands of U.S. dollars)

|                             | Three months ended September 30, |          | Nine months ended September 30, |            |
|-----------------------------|----------------------------------|----------|---------------------------------|------------|
|                             | 2019                             | 2018     | 2019                            | 2018       |
| Other income (expense), net | \$ (1,263)                       | \$ (930) | \$ (3,549)                      | \$ (2,580) |
| Increase over prior period  | \$ (333)                         |          | \$ (969)                        |            |
| Increase - percentage       | 36%                              |          | 38%                             |            |
| Percentage of net revenues  | (1)%                             | (1)%     | (1)%                            | (1)%       |

Other expenses during the three months ended September 30, 2019 was \$1.3 million, as compared to other expenses of \$0.9 for the three months ended September 30, 2018. Other expense consists primarily of the interest we incur in connection with our Amended 2019 Credit Facility. The interest incurred primarily relates to our loan balances related to the acquisition of eNom, the acquisition of Ascio and funding for expenditures associated with the Company's Fiber to the Home program. Costs in 2018 were partially offset by income from the amortization of a \$1.5 million Joint Marketing Agreement commencing in November 2015, which fully amortized in the fourth quarter of 2018.

## INCOME TAXES

(Dollar amounts in thousands of U.S. dollars)

|                            | Three months ended September 30, |          | Nine months ended September 30, |          |
|----------------------------|----------------------------------|----------|---------------------------------|----------|
|                            | 2019                             | 2018     | 2019                            | 2018     |
| Provision for income taxes | \$ 3,133                         | \$ 1,370 | \$ 6,209                        | \$ 3,781 |
| Increase over prior period | \$ 1,763                         |          | \$ 2,428                        |          |
| Increase - percentage      | 129%                             |          | 64%                             |          |
| Effective tax rate         | 43%                              | 20%      | 39%                             | 23%      |

For the three months ended September 30, 2019, we recorded an income tax expense of \$3.1 million on income before income taxes of \$7.3 million, using an estimated effective tax rate for Fiscal 2019 adjusted for certain minimum state taxes as well as the inclusion of a \$0.1 million tax recovery related to ASU 2016-09, which requires all excess tax benefits and tax deficiencies related to employee share-based payments to be recognized through income tax expense. Comparatively, for the three months ended September 30, 2018, we recorded an income tax expense of \$1.4 million on income before taxes of \$6.7 million, using an estimated effective tax rate for the 2018 fiscal year and reflecting the \$0.2 million tax recovery impacted related to ASU 2016-09.

For the nine months ended September 30, 2019, we recorded an income tax expense of \$6.2 million on income before income taxes of \$15.8 million, using an estimated effective tax rate for Fiscal 2019 adjusted for certain minimum state taxes as well as the inclusion of a \$0.8 million tax recovery related to ASU 2016-09, which requires all excess tax benefits and tax deficiencies related to employee share-based payments to be recognized through income tax expense. Comparatively, for the nine months ended September 30, 2018, we recorded an income tax expense of \$3.8 million on income before taxes of \$16.5 million, using an estimated effective tax rate for the 2018 fiscal year and reflecting the \$0.5 million tax recovery impacted related to ASU 2016-09.

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

We recognize accrued interest and penalties related to income taxes in income tax expense. We did not have significant interest and penalties accrued at September 30, 2019 and December 31, 2018, respectively.

## ADJUSTED EBITDA

We believe that the provision of this supplemental non-GAAP measure allows investors to evaluate the operational and financial performance of our core business using similar evaluation measures to those used by management. We use adjusted EBITDA to measure our performance and prepare our budgets. Because 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 (*Dollar amounts in thousands of U.S. dollars*):

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

|                                                                                                               | Three months ended September 30, |                  | Nine months ended September 30, |                  |
|---------------------------------------------------------------------------------------------------------------|----------------------------------|------------------|---------------------------------|------------------|
|                                                                                                               | 2019                             | 2018             | 2019                            | 2018             |
| Net income for the period                                                                                     | \$ 4,205                         | \$ 5,346         | \$ 9,620                        | \$ 12,699        |
| Depreciation of property and equipment                                                                        | 2,348                            | 1,445            | 6,445                           | 4,006            |
| Loss on disposition of property and equipment                                                                 | 73                               | -                | 73                              | -                |
| Amortization of intangible assets                                                                             | 2,858                            | 2,296            | 7,463                           | 6,953            |
| Interest expense, net                                                                                         | 1,263                            | 914              | 3,549                           | 2,761            |
| Provision for income taxes                                                                                    | 3,133                            | 1,370            | 6,209                           | 3,781            |
| Stock-based compensation                                                                                      | 830                              | 711              | 2,040                           | 1,904            |
| Unrealized loss (gain) on change in fair value of forward contracts                                           | (16)                             | (35)             | (204)                           | 7                |
| Unrealized loss (gain) on foreign exchange revaluation of foreign denominated monetary assets and liabilities | 88                               | (269)            | (402)                           | 191              |
| Acquisition and other costs <sup>1</sup>                                                                      | 50                               | 80               | 956                             | 1,123            |
| Adjusted EBITDA                                                                                               | <u>\$ 14,832</u>                 | <u>\$ 11,858</u> | <u>\$ 35,749</u>                | <u>\$ 33,425</u> |

<sup>1</sup> Acquisition and other costs represents transaction-related expenses, transitional expenses, such as duplicative post-acquisition expenses, primarily related to our acquisition of eNom in January 2017 and Ascio in March 2019. Expenses include severance or transitional costs associated with department, operational or overall company restructuring efforts, including geographic alignments.

Adjusted EBITDA increased to \$14.8 million in the three months ended September 30, 2019 from \$11.9 million in the three months ended September 30, 2018. The increase in adjusted EBITDA from period-to-period was primarily driven by an increased contribution from eNom, which is the result of increased operating cost synergies realized during the first three quarter of 2019, as well as an increased contribution from the Company's portfolio revenue stream. The overall increase in EBITDA was partially offset by increasing mobile usage costs related to Ting Mobile.

Adjusted EBITDA increased to \$35.8 million in the nine months ended September 30, 2019 from \$33.4 million in the nine months ended September 30, 2018. The increase in adjusted EBITDA from period-to-period was primarily driven by a increase in contribution from eNom, which is the result of increased operating cost synergies realized during the first three quarters of 2019, as well as an increased contribution from the Company's portfolio revenue stream. The overall increase in EBITDA was partially offset by increasing mobile usage costs related to Ting Mobile.

## OTHER COMPREHENSIVE INCOME (LOSS)

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

The following table presents OCI for the periods presented:

(*Dollar amounts in thousands of U.S. dollars*)

|                                   | Three months ended September 30, |        | Nine months ended September 30, |         |
|-----------------------------------|----------------------------------|--------|---------------------------------|---------|
|                                   | 2019                             | 2018   | 2019                            | 2018    |
| Other comprehensive income (loss) | \$ (149)                         | \$ 207 | \$ 781                          | \$ (36) |
| Decrease over prior period        | \$ (356)                         |        | \$ 817                          |         |
| Increase - percentage             | 172%                             |        | 2269%                           |         |
| Percentage of net revenues        | 0%                               | 0%     | 0%                              | 0%      |

The impact of the fair value adjustments on outstanding hedged contracts for the three months ended September 30, 2019 was a loss in OCI of \$0.2 million as compared to a gain of \$0.1 million for the three months ended September 30, 2018.

The net amount reclassified to earnings during the three months ended September 30, 2019 was a gain of less than \$0.1 million compared to a gain of \$0.1 million during the three months ended September 30, 2018.

The impact of the fair value adjustments on outstanding hedged contracts for the nine months ended September 30, 2019 was a gain in OCI of \$0.6 million as compared to a loss of \$0.1 million for the nine months ended September 30, 2018.

The net amount reclassified to earnings during the nine months ended September 30, 2019 was a gain of \$0.2 million compared to a gain of \$0.1 million during the nine months ended September 30, 2018.

## **LIQUIDITY AND CAPITAL RESOURCES**

As of September 30, 2019, our cash and cash equivalents balance decreased \$0.6 million when compared to December 31, 2018. Our principal uses of cash were \$28 million for the Acquisition of Ascio Technologies, Inc. (“Ascio”), \$4.6 million in loan repayments, \$0.9 million of other costs, including tax payment associated with stock option exercises, \$5.0 million in stock repurchases, continued investment in property and equipment of \$31.2 million and \$3.6 million acquisition of customer relationships. These uses of cash were offset by proceeds from an advances of \$45.4 million from our 2019 Amended Credit Facility (defined below) to fund Fiber to the Home program and the acquisition of Ascio, and cash provided by operating activities of \$27.2 million for the nine months ended September 30, 2019.

### *Amended 2019 Credit Facility*

On June 14, 2019, the Company and its wholly-owned subsidiaries, Tucows.com Co., Ting Fiber, Inc., Ting Inc., Tucows (Delaware) Inc. and Tucows (Emerald), LLC, entered into an Amended and Restated Senior Secured Credit Agreement (the “Amended 2019 Credit Facility”) with Royal Bank of Canada (“RBC”), as administrative agent, and lenders party thereto (collectively with RBC, the “Lenders”) under which the Company has access to an aggregate of up to \$240 million in funds, inclusive of a \$60 million accordion facility.

In connection with the Amended 2019 Credit Facility, the Company incurred an additional \$0.3 million of fees paid to lenders and \$0.2 million of legal fees related to the debt issuance. Of these fees, \$0.4 million are debt issuance costs, which have been reflected as a reduction to the carrying amount of the loan payable and will be amortized over the term of the credit facility agreement and \$0.1 million have been recorded in General and administrative expenses.

The obligations of the Company under the Amended 2019 Credit Agreement are secured by a first priority lien on substantially all of the personal property and assets of the Company and has a four-year term.

### *2017 Amended Credit Facility*

Prior to entering into the Amended 2019 Credit Facility, the Company had entered into a secured Credit Agreement (as amended, the “2017 Amended Credit Facility”) on January 20, 2017 with Bank of Montreal (“BMO”), RBC and Bank of Nova Scotia (collectively, the “Previous Lenders”) under which the Company had access to an aggregate of up to \$140 million in funds.

On March 18, 2019, the Company entered into the Second Amendment to the 2017 Credit Facility to provide the Previous Lenders’ consent for the acquisition of Ascio, advance the acquisition funding and to reallocate borrowing limits between loan facilities. We incurred costs associated with the Second Amendment to the 2017 Credit Facility of \$0.2 million, which were recorded as debt issuance costs.

The obligations of the Company under the 2017 Amended Credit Facility were secured by a first priority lien on substantially all of the personal property and assets of the Company and had a four-year term.

### *Other Credit Facilities*

Prior to the Company entering into the Amended 2019 Credit Facility and the 2017 Amended Credit Facility, the Company had credit agreements (collectively the “Prior Credit Facilities”) with BMO, which provided the Company with continued access to a treasury risk management facility and a credit card facility. All remaining credit facilities under the Prior Credit Facilities have been terminated.

The treasury risk management facility under the Prior Credit Facilities 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 Prior Credit Facilities, the Company may enter into such agreements at market rates with terms not to exceed 18 months. As of September 30, 2019, the Company held contracts in the amount of \$10.3 million to trade U.S. dollars in exchange for Canadian dollars.

#### ***Cash Flow from Operating Activities***

Net cash provided by operating activities during the three months ended September 30, 2019 was \$11.2 million, as compared to \$11.2 million during the three months ended September 30, 2018.

Net income, after adjusting for non-cash charges, during the nine months ended September 30, 2019 was \$26.7 million. Net income included non-cash charges and recoveries of \$17.9 million such as depreciation, amortization, stock-based compensation, deferred income taxes, excess tax benefits on stock-based compensation, other income, unrealized gains on currency forward contracts, and disposal of domain names. In addition, changes in our working capital used \$0.4 million. Positive contributions of \$11.9 million from movements in accrued liabilities, prepaid domain name fees, and customer deposits were offset by \$11.5 million utilized in changes from deferred revenue and accreditation fees payable, accounts receivable, prepaid expenses, inventory, prepaid domain name fees, income taxes recoverable and accounts payable.

#### ***Cash Flow from Financing Activities***

Net cash inflows from financing activities during the nine months ended September 30, 2019 totaled \$34.9 million as compared to cash outflows of \$13.1 million during the nine months ended September 30, 2018. Cash inflows of \$45.7 million related to (i) a \$28.0 million draw on the 2019 Amended Credit Facility to fund the acquisition of Ascio, (ii) additional draws on the 2019 Amended Credit Facility of \$17.4 million to fund the FreedomPop customer acquisition as well as the further expansion of the Ting Internet fiber network and (iii) a \$0.3 million inflow from the proceeds received on exercise of stock options. Cash inflows were offset by total cash outflows of \$10.8 million of which \$4.6 million related to the repayment of loan payable and payment of loan payable costs, \$5.0 related to stock repurchases in addition to a \$0.5 million outflow for the payment of tax obligations resulting from net exercise of stock options, and \$0.7 of additional loan payable costs.

#### ***Cash Flow from Investing Activities***

Investing activities during the nine months ended September 30, 2019 used net cash of \$62.7 million as compared to using \$20.8 million during the nine months ended September 30, 2018. Cash outflows of \$28.0 million related to the acquisition of Ascio Technologies inc., \$3.6 million related to the acquisition of intangible assets, of which \$3.5 million related to the acquisition of mobile subscribers of the FreedomPop and Unreal MVNO brands, and \$31.2 million of cash outflows was invested in property and equipment, primarily to support the continued expansion of our fiber footprint. The Company continues to invest in our existing Ting Towns of Charlottesville, VA, Holly Springs, NC and Westminster, MD as well ramping construction in Sandpoint, ID, Centennial, CO, and Fuquay Varina, NC, as we seek to extend both our current network and expand to new towns. We expect our capital expenditures on building and expanding our fiber network to continue to increase significantly during Fiscal 2019.

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

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

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.

#### ***Off-Balance Sheet Arrangements***

As of September 30, 2019, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

#### ***Contractual Obligations***

In our Annual Report on Form 10-K for the year ended December 31, 2018, we disclosed our contractual obligations.

On July 2, 2019 the Company entered into a five-year wireless wholesale agreement with Verizon. The Verizon Agreement provides for Ting to purchase and resell wireless services on the Verizon mobile network in the United States with services expected to be operational by late 2019. The Verizon Agreement includes certain minimum spend requirements which increase annually throughout the five-year contract term.

Concurrent with the Verizon Agreement, the Company notified T-Mobile that it does not intend to renew its wholesale services agreement dated December 8, 2014, as amended by a Third Amendment dated April 20, 2018 (as amended, the "T-Mobile Agreement"). The T-Mobile Agreement expires on December 19, 2019. Under the terms of the T-Mobile Agreement, the Company has a twelve-month run-off period to migrate the customers on the T-Mobile network to another network. The Company will continue to have minimum spend requirements with T-Mobile through December 19, 2019 with current wholesale pricing remaining in effect during the run-off period in 2020. The Company expects to incur primarily marketing related costs to migrate Ting customers using the T-Mobile platform to one of the Company's alternative platforms, now including Verizon.

As of September 30, 2019, other than the items mentioned above, there have been no other material changes to those contractual obligations outside the ordinary course of business.

Subsequent to period end, on October 31, 2019, the Company entered into a Stock Purchase Agreement to purchase all of the issued and outstanding shares of Cedar Holdings Group, Incorporated, a fiber Internet provider business based in Durango, Colorado. The closing of the transaction is contingent upon regulatory approval expected to take 45 days. The expected purchase price is \$15.0 million of which \$11.0 million will be paid at closing, \$9.0 million in cash and \$2.0 million in Tucows Inc. shares. The remaining \$4.0 million is expected to be paid on the 24th and 36th month anniversaries of the closing of the transaction dependent upon certain milestones as defined in the Share Purchase Agreement.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

We develop products in Canada and sell these services in North America and Europe. Our sales are primarily made in U.S. dollars, while a major portion of expenses are incurred in Canadian dollars. Our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. Our interest income is sensitive to changes in the general level of Canadian and U.S. interest rates, particularly since the majority of our investments are in short-term instruments. Based on the nature of our short-term investments, we have concluded that there is no material interest rate risk exposure as of September 30, 2019. We are also subject to market risk exposure related to changes in interest rates under our 2019 Amended Credit Facility. We do not expect that any changes in interest rates will be material during fiscal 2019; however, fluctuations in interest rates are beyond our control. We will continue to monitor and assess the risks associated with interest expense exposure and may take additional actions in the future to mitigate these risks.

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

At September 30, 2019, we had the following outstanding forward exchange contracts to trade U.S. dollars in exchange for Canadian dollars:

| <b>Maturity date (Dollar amounts in thousands of U.S. dollars)</b> | <b>Notional amount of U.S. dollars</b> | <b>Weighted average exchange rate of U.S. dollars</b> | <b>Fair Value</b> |
|--------------------------------------------------------------------|----------------------------------------|-------------------------------------------------------|-------------------|
| October - December 2019                                            | 10,327                                 | 1.3174                                                | (41)              |
|                                                                    | <u>\$ 10,327</u>                       | <u>\$ 1.3174</u>                                      | <u>\$ (41)</u>    |

As of September 30, 2019, the Company had \$10.3 million of outstanding foreign exchange forward contracts which will convert to CDN \$13.6 million. Of these contracts, \$9.9 million met the requirements for hedge accounting. As of December 31, 2018, the Company held contracts in the amount of \$40.5 million to trade U.S. dollars in exchange for \$53.3 million Canadian dollars. Of these contracts, \$36.5 million met the requirements for hedge accounting.

We have performed a sensitivity analysis model for foreign exchange exposure over the three months ended September 30, 2019. 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 three months ended September 30, 2019. 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 three months ended September 30, 2019 of approximately \$0.9 million, before the effects of hedging. 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. Subsequent to period-end, the Company entered into additional, forward contracts to exchange US dollars for Canadian dollars. The notional amount of forward contracts the Company entered into was US \$30.5 million, which will convert to CDN \$40.5 million. The forward contracts mature between January and December of 2020.