

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

### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The following discussion and analysis should be read together with the audited consolidated financial statements of Tucows Inc. (the "Company", "we", "us", "Tucows" or "our") as at December 31, 2020 and December 31, 2019 and for the years ended December 31, 2020, 2019 and 2018 and accompanying notes set forth elsewhere in this report. All financial information is presented in U.S. dollars.

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

### OVERVIEW

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

We accomplish this by reducing the complexity 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 principal place of business is located in Canada. We manage our business as segments, Network Access Services, which primarily derives revenue from two distinct service offerings - Mobile Services and Fiber Internet services, and Domain Services, which derives revenue from three distinct service offerings - wholesale, retail and portfolio. To assist us in forecasting growth and to help us monitor the effectiveness of our operational strategies, our management regularly reviews revenue and cost of revenues for each of our segments in order to gain more depth and understanding of the key business metrics driving our business.

For the years ended December 31, 2020, 2019 and 2018, we reported revenue of \$311 million, \$337 million and \$346 million, respectively.

#### *Network Access Services*

Network Access Services derives revenues from two distinct service offerings - Mobile Services and Fiber Internet services. Mobile Services includes retail mobile services, mobile platform and other professional services supporting MVNOs, whereas Fiber Internet services is focused on providing fixed high-speed Internet access services to individuals and small businesses across the United States as well as billing solutions to small ISPs. Network Access Services revenues are all generated in the U.S. and are provided on a monthly basis. Ting Mobile and Internet services have no fixed contract terms, while our MSE customer agreements have set contract lengths with the underlying MVNO.

Mobile Services were historically focused on providing mobile telephony services through our MVNO brand Ting Mobile. As mentioned above, on August 1, 2020 the Company sold substantially all of the customer relationships associated with Ting Mobile to DISH as part of the Purchase Agreement and now only retains a small subset of customers for which it continues to provide retail mobile services through the Ting Mobile brand. As part of the Purchase Agreement, the Company granted DISH the right to use and an option to purchase the Ting brand. Historically, we also operated other MVNO brands, ZipSim and Always Online Wireless (collectively referred to as the "Roam Mobility brands"). However, as a result of the developments in the economy and the heavily impacted business and leisure travel industries as a result of the COVID-19 pandemic early into the year, the Company was faced with considerable lack of demand for a SIM-enabled roaming service and decided to shut down the operations of the Roam Mobility brands in June 2020, which was completed by September 30, 2020. Although we still provide retail mobile services to a small subset of customers retained from the Purchase Agreement, this service offering no longer represents the Company's strategic focus for Mobile Services going forward. Instead, we have transitioned away from a MVNO and towards a MSE, where we will focus on delivering a wide range of functions including billing, activation, provisioning, funnel marketing, and other professional services to mobile providers via our Mobile Platform. DISH is now the first Tucows mobile technology customer.

Fiber Internet services derives revenue from the sale of fixed high-speed Internet access ("Ting Internet") in select communities throughout the United States, including towns in North Carolina, Maryland, Idaho, Colorado, Virginia, and California 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. On January 1, 2020, the Company completed its acquisition of Cedar. Cedar is a telecommunications provider serving multiple markets in the Western Slope of Colorado and northwestern New Mexico. Cedar has focused the last several years on building fiber to enterprise, anchor institution, and residential customers. The purchase price was \$14.1 million, less an estimated purchase price adjustment of approximately \$0.2 million relating to a working capital deficit and assessment of the fair value of contingent consideration, for net purchase consideration of \$13.9 million. The cash consideration due at closing of \$9.0 million was financed by an advance on the 2019 Amended Credit Facility. The Company also issued 32,374 of Tucows Inc. shares (\$2 million) with a two-year restriction period at closing. Included in the agreement is contingent consideration totaling up to \$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 definitive transaction agreement. The fair value of the contingent consideration was determined to be \$3.1 million using a discount rate of 11.2%. As of December 31, 2020, Ting Internet had access to 56,000 serviceable addresses and 15,000 active accounts under its management compared to having access to 36,000 serviceable addresses and 10,000 active accounts under its management as of December 31, 2019.

**Domain Services**

Domain Services derives revenues from three distinct service offerings - wholesale, retail and portfolio. Wholesale includes the sale of domain name registration services and value added services through our reseller focused brands - OpenSRS, eNom, EPAG and Ascio. Retail services is also focused on the sale of domain name registration and email services but with an end customer focus, selling to individuals and small businesses through our brands Hover and eNom portfolio of websites. Lastly, we make a portfolio of surname domain names available for sale as part of our RealNames email service. Domain Services revenues are attributed to the country in which the contract originates, which is primarily in Canada and the U.S. for OpenSRS and eNom brands. Ascio domain services contracts and EPAG agreements primarily originate in Europe.

Wholesale derives revenues primarily from the registration fees charged to resellers in connection with new, renewed and transferred domain name registrations. In addition to domain name registrations we also provide other value added services including hosted email, Internet security services, Internet hosting, WHOIS privacy, publishing tools and more. In addition, we also derive revenue by monetizing domain names which are near the end of their lifecycle through advertising revenue or auction sale. All of these services are made available to end-users through a network of 36,000 web hosts, ISPs and other resellers around the world. Together the OpenSRS, eNom, EPAG and Ascio Domain Services manage 25.4 million domain names under the Tucows, eNom, EPAG and Ascio ICANN registrar accreditations and for other registrars under their own accreditations. Domains under management has increased by 1.6 million domain names since December 31, 2019. The increase is driven by increased registrations experienced by our brands during the COVID-19 pandemic, which saw more businesses establish and expand their online presence, offset by the continued erosion of registrations related to non-core customers from our eNom brand.

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. Our retail domain services 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 services generate revenue by offering names in our surname domain portfolio for resale through our RealNames email service. The Company expects portfolio revenue to remain flat into Fiscal 2021 (as defined below) and thereafter.

**KEY BUSINESS METRICS and Non-GAAP Measure**

We regularly review a number of business metrics, including the following key metrics and non-GAAP measure, to assist us in evaluating our business, measure the performance of our business model, identify trends impacting our business, determine resource allocations, formulate financial projections and make strategic business decisions. Following the sale of substantially all of the Ting Mobile customers as part of the Purchase Agreement, we have ceased reporting Ting Mobile subscribers and accounts under management. The following tables set forth the key business metrics which we believe are the primary indicators of our performance for the periods presented:

**Adjusted EBITDA**

Tucows reports all financial information in accordance with United States generally accepted accounting principles (“GAAP”). Along with this information, to assist financial statement users in an assessment of our historical performance, we typically disclose and discuss a non-GAAP financial measure, adjusted EBITDA, on investor conference calls and related events that excludes 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.

**Ting Internet**

	For the year ended December 31,		
	2020	2019	2018
	(in '000's)		
Ting Internet accounts under management	15	10	7
Ting Internet serviceable addresses (1)	56	36	28

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

**Domain Services**

	For the year ended December 31,(1)		
	2020	2019	2018
	(in 000's)		
Total new, renewed and transferred-in domain name registrations provisioned	18,220	17,285	17,358
Domains under management			
Registered using Registrar Accreditation belonging to the Tucows Group	19,685	19,233	18,537
Registered using Registrar Accreditation belonging to Resellers	5,692	4,540	4,772
Total domain names under management(2)	25,377	23,773	23,309

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

(2) Throughout 2018, the Company completed bulk transfers of 2.89 million names, for domain names under management related to Namecheap.

## **OPPORTUNITIES, CHALLENGES AND RISKS**

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.

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

On August 1, 2020, the Company and its wholly owned Subsidiary Ting, Inc. entered into a Purchase Agreement with DISH pursuant to which Ting sold substantially all of its retail mobile customer relationships, and mobile handset and SIM inventory to DISH and granted the right to use and an option to purchase the Ting brand. Select MNO agreements previously established to operate the Ting Mobile MVNO business were assigned to DISH as part of this Purchase Agreement. The transferred assets under the Purchase Agreement do not include the technology platforms and related intellectual property and infrastructure necessary to enable or support the mobile customers. The Company will retain assets used to provide MSE services to DISH, as discussed below.

Contemporaneously with the execution of the Purchase Agreement on August 1, 2020, the Company, through its wholly owned subsidiary Ting, Inc. entered into a services agreement under which Ting will act as a MSE with DISH in support of DISH's MVNO businesses. Under the terms of the MSE Agreement, the Company and its affiliates are permitted to sell mobile service enabler services to other third parties. The identified risks associated with this pivot from MVNO to MSE have been discussed at length above in Part I under the caption "Item 1A Risk Factors" in this Annual Report on Form 10-K.

As an ISP, we have invested and expect to continue to invest in new fiber to the home ("FTTH") deployments in select markets in the United States. The investments are a reflection of our ongoing efforts to build FTTH network via public-private partnerships in communities we identify as having strong, unmet demand for FTTH services. Given the significant upfront build and operational investments for these FTTH deployments, there is risk that future technological and regulatory changes as well as competitive responses from incumbent local providers, may result in us not fully recovering these investments.

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

### ***Domain Services***

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

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

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

Sales of domain names from our surname 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 portfolio sales is unpredictable and may lead to significant quarterly fluctuations in our Portfolio revenue. The Company expects portfolio revenue to decline into 2021 and starting in the first quarter of 2021 will no longer separately breakout Portfolio revenues.

An in-depth assessment of the risk factors impacting our businesses has been discussed at length above in Part I under the caption "Item 1A Risk Factors" in this Annual Report on Form 10-K.

## Critical Accounting Policies

The following is a discussion of our critical accounting policies and methods. Critical accounting policies are defined as those that are both important to the portrayal of our financial condition and results of operations and are reflective of significant judgments and uncertainties made by management that may result in materially different results under different assumptions and conditions. “Note 2 – Significant Accounting Policies” of the Notes to the Consolidated Financial Statements for the year ended December 31, 2020 (“Fiscal 2020”) included in Part II, Item 8 of this Annual Report, includes further information on the significant accounting policies and methods used in the preparation of our consolidated financial statements.

The preparation of the consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, management evaluates its estimates, including those related to amounts recognized for carrying values of revenues, bad debts, and inventory obsolescence which requires estimates of sales forecasts and other marketplace considerations, internal use software which requires estimates of whether the costs incurred meet the criteria for capitalization based on the stage of the projects, the portion of MSE billings related to professional services, the recoverability of goodwill and intangible assets which require estimates of future cash flows and discount rates, lease liability which requires estimates of incremental borrowing rate and the expectation of exercising lease renewal periods, income taxes, contingencies and litigation, and estimates of credit spreads for determination of the fair value of derivative instruments. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances at the time they are made. Under different assumptions or conditions, the actual results will differ, potentially materially, from those previously estimated. Many of the conditions impacting these assumptions and estimates are outside of the Company’s control.

## Revenue Recognition Policy

The Company’s revenues are derived from (a) the provisioning of mobile and fiber Internet services; and from (b) domain name registration contracts, other domain related value-added services and domain sale contracts. Amounts received in advance of meeting the revenue recognition criteria described below are recorded as deferred revenue. All products are generally sold without the right of return or refund.

Revenue is measured based on consideration specified in a contract with a customer and excludes any sales incentives and amounts collected on behalf of third parties. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer.

### *Nature of goods and services*

The following is a description of principal activities – separated by reportable segments – from which the Company generates its revenue. For more detailed information about reportable segments. See “Note 19 – Segment Reporting” of the Notes to the Consolidated Financial Statements included in this report for more information.

#### (a) Network Access Services

The Company generates Network Access Services revenues primarily through the provisioning of retail mobile services, mobile platform and professional services supporting MVNOs, fixed high-speed Internet access services and other revenues, including billing solutions to small ISPs.

### *Mobile Services - Retail Mobile Services*

Ting Mobile wireless usage contracts grant customers access to standard talk, text and data mobile services. Ting Mobile contracts are billed based on the customer's selected rate plan, which can be either usage based or an unlimited plan. All rate plan options are charged to customers on a postpaid, monthly basis at the end of their billing cycle. As discussed above, on August 1, 2020, the Company and its wholly owned Subsidiary Ting, Inc. entered into a Purchase Agreement with DISH pursuant to which Ting sold substantially all of its retail mobile customer relationships, and mobile handset and SIM inventory to DISH and granted the right to use and option to purchase the Ting brand. Select MNO agreements previously established to operate the Ting Mobile MVNO business were assigned to DISH as part of this Purchase Agreement. Ting, Inc. only retains a small subset of customers to which it continues to provide retail mobile services. All future revenues associated with Retail Mobile Services stream will only be for this subset of customers retained by Ting, Inc.

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.

As part of the DISH Purchase Agreement, as a form of consideration for the sale of the customer relationships, the Company receives a payout on the margin associated with the legacy customer base sold to DISH, over a period of 10 years. This has been classified as Other Income and not considered revenue in the current period.

The Company also operated the Roam Mobility brands historically and through the first half of the 2020 fiscal year, but decided to shut down the businesses due to the considerable lack of demand for SIM-enabled roaming services as a result of the limited business and leisure travel brought about by the COVID-19 pandemic. Our Roam Mobility brands offered standard talk, text and data mobile services. Roam customers prepaid for their usage through the Roam Mobility website. When prepayments were received the amount was deferred, and subsequently recognized as the Company satisfies its obligation to provide mobile services. In addition, revenues associated with the sale of SIM cards were recognized when title and risk of loss is transferred to the subscriber and shipment occurred. Incentive marketing credits given to customers were recorded as a reduction of revenue.

### *Mobile Services - Mobile Platform Services*

Tucows' MSE platform provides network access, provisioning and billing services for MVNOs. These platform fees are billed to our MVNO customers monthly, on a postpaid basis. The fees are based on the volume of their subscribers utilizing the platform during a given month. The Company recognizes revenue over this new revenue stream as the Company satisfies its obligations to provide MSE services on a monthly basis. For any bundled professional services where proceeds are collected before the service period as part of MSE Platform Revenues, the professional services revenue is initially deferred and recognized only as the Company performs its obligation to provide professional services.

*Mobile Services - Other Professional Services*

This revenue stream includes any other professional services, including transitional services, earned in connection with Tucows' new MSE business. These are billed to our customers monthly at set and established rates for services provided in period. The Company recognizes revenue over this new revenue stream as the Company satisfies its obligations to provide professional services.

*Fiber Internet Services*

Fiber Internet 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 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.

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 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.

(b) Domain Services

*Wholesale - Domain Services*

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 rateably 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. We expect Domain services will continue to be the largest portion of our business and will continue to enable us 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 revenue from domain related value-added services like digital certifications, WHOIS privacy and hosted email and by providing 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, which primarily consists of Internet hosting services on 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*

The Company sells the rights to its portfolio of surname domains used in its RealNames email service. 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 RealNames email service. The Company expects portfolio revenue to decline into 2021 and starting in the first quarter of 2021 will no longer separately breakout Portfolio revenues.

## Valuation of Goodwill, Intangible Assets and Long-Lived Assets

The excess of the purchase price over the fair values of the identifiable assets and liabilities from our acquisitions is recorded as goodwill. At December 31, 2020, we had \$116.3 million in goodwill related to our acquisitions and \$47.4 million in intangible assets comprised of indefinite life intangibles of \$12.3 million and finite life intangible assets of \$35.3 million. At December 31, 2019, we had \$109.8 million in goodwill related to our acquisitions and \$57.7 million in intangible assets comprised of indefinite life intangibles of \$12.3 million and finite life intangible assets of \$45.4 million. We report our financial results as two operating segments, Domain Services, being wholesale and retail domain name registration services, value added services and portfolio, and Network Access which derives revenue from Mobile Services and Fiber Internet services. Ninety-three percent of goodwill relates to our Domain Services operating segment and 7% of goodwill relates to our Network Access segment. Of our goodwill balance, \$94.1 million is not deductible for tax purposes. Eighty-nine percent of intangible assets relate to our Domain Services operating segment and 11% of intangible assets relate to our Network Access operating segment.

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

Our indefinite life intangible assets consist of surname domain names and direct navigation domain names. In order to maintain our rights to these domain names, we pay annual renewal fees to the applicable domain name registries. Over the course of time, we sometimes decide not to renew certain under-performing domain names and incur an impairment charge associated with such non-renewal. There was no impairment recorded on indefinite-life intangible assets during 2020, 2019 and 2018.

With regard to long-lived assets comprised of property and equipment and finite life intangible assets, we continually evaluate whether events or circumstances have occurred that indicate the remaining estimated useful lives of our definite-life intangible assets may warrant revision or whether the carrying amount of such assets may not be recoverable and exceed their fair value. We use an estimate of the related undiscounted cash flows over the remaining life of the asset in measuring whether the asset is recoverable. During Fiscal 2020 there was a \$1.4 million impairment recorded on definite-life intangible assets associated with the shutdown of the Roam Mobility brands discussed above. There was no impairment recorded on definite-life intangible assets and property and equipment recorded during 2019 or 2018.

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

Any changes to our key assumptions about our businesses and our prospects, or changes in market conditions, could cause the fair value of our operating segments to fall below its carrying value, resulting in a potential impairment charge. In addition, changes in our organizational structure or how our management allocates resources and assesses performance, could result in a change in our operating segments, requiring a reallocation and updated impairment analysis of goodwill and indefinite life intangible assets. A goodwill or intangible asset impairment charge could have a material effect on our consolidated financial statements because of the significance of goodwill and intangible assets to our consolidated balance sheet. There was no further impairment of goodwill or intangible assets as a result of the annual impairment tests completed during the fourth quarters of 2020, 2019 or 2018.

## Accounting for Income Taxes

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

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

As we account for income taxes under the asset and liability method, we recognize deferred tax assets or liabilities for the anticipated future tax effects of temporary differences between the financial statement basis and the tax basis of our assets and liabilities. We record a valuation allowance to reduce the net deferred tax assets when it is more likely than not that the benefit from the deferred tax assets will not be realized. In assessing the need for a valuation allowance, historical and future levels of income, expectations and risks associated with estimates of future taxable income and ongoing tax planning strategies are considered. In the event that it is determined that the deferred tax assets to be realized in the future would be in excess of the net recorded amount, an adjustment to the deferred tax asset valuation allowance would be recorded. This adjustment would increase income in the period that such determination was made. Likewise, should it be determined that all or part of a recorded net deferred tax asset would not be realized in the future, an adjustment to increase the deferred tax asset valuation allowance would be charged to income in the period that such determination would be made. At December 31, 2020, the valuation allowance of \$11.2 million was related to foreign tax credits and net operating losses that we are not expected to realize.

On a periodic basis, we evaluate the probability that our deferred tax asset balance will be recovered to assess its realizability. To the extent we believe it is more likely than not that some portion of our deferred tax assets will not be realized, we will increase the valuation allowance against the deferred tax assets. Realization of our deferred tax assets is dependent primarily upon future taxable income. Our judgments regarding future profitability may change due to future market conditions, changes in U.S. or international tax laws and other factors. These changes, if any, may require possible material adjustments to these deferred tax assets, impacting net income or net loss in the period when such determinations are made.

In connection with the eNom acquisition in 2017, we acquired deferred tax liabilities primarily composed of prepaid registry fees. As a result, we aligned our tax methodology pertaining to the deductibility of prepaid registry fees for our other subsidiaries. In the first quarter of 2019, we determined that we were in technical violation with respect to the administrative application of the accounting method change relating to the deductibility of prepaid registry fees for these additional subsidiaries. In February 2019, the Company filed an application for relief ("9100 Relief") to correct the issue. In November 2019, the Company was granted 9100 Relief and was given 30 days to file the appropriate forms based on prescribed instructions. The Company timely filed the forms with the IRS in December 2019 and no further action is necessary. We now await the final IRS response and acceptance of the change in accounting method. Management is of the view that it is more likely than not that the IRS will accept the 9100 Relief and filing of the prescribed forms. As such, no additional tax uncertainties or related interest or penalties have been recorded as at of December 31, 2019 and 2020.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017, the transition of U.S international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of foreign earnings.

## Recently Issued Accounting Standards

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

## Current COVID-19 Response

### *Our Employees*

Tucows is a global business. Our first consideration during the global pandemic as a result of the disease caused by the COVID-19 outbreak is for the health and safety of our employees, our customers and their communities, all around the world. Tucows has long encouraged a culture of remote work even prior to this global pandemic, and on Sunday March 8, 2020 Tucows’ executive leadership announced that all employees who could conceivably work from home were encouraged to do so. Tucows is actively and strongly encouraging its workforce to heed travel and all other emergency advisories, including social distancing and where appropriate, self-isolation. We expect our work from home policy to remain in effect until emergency state and governmental declarations where we have physical offices have ended and we believe the risk of community spread of the disease has subsided. Given our experience with remote work prior to COVID-19, we have not and do not expect to have productivity issues while the overwhelming majority of our office-based workforce is dispersed.

For the small group of employees who are unable work from home during this time, including our order fulfillment and Fiber installation teams, many of whom work in the field, they are encouraged to practice social distancing and to continue to follow hygiene best practices and safety protocols as outlined by the Centers for Disease Control and Prevention. At the initial stage of the COVID-19 outbreak, we took steps to cancel and reschedule all in-home installation and service appointments across our Ting Fiber footprint. Since then, the Ting Internet team has established an install solution for our employees and customers that minimizes risks associated with person-to-person contact.

### *Our Customers*

We recognize the important role we play within the Internet space and are committed to continue providing quality service during the COVID-19 outbreak. Services like individual and wholesale domain names, email and hosting do not rely on in-person interaction or the supply chain in the same way physical products and services do. We are providing uninterrupted services for all Domains related services, across our OpenSRS, eNom, Ascio, EPAG and Hover brands.

Our retail mobile services and new MSE business is without any physical storefronts, and is similarly well-positioned to weather this pandemic.

Our Fiber Internet business does not have bandwidth caps or other such limitations. Likewise, our networks are built with the capacity to accommodate future needs. To help our customers remain connected at home during this time, we upgraded all our lower-tier fiber customers to symmetrical gigabit access at no charge. Any additional traffic from our customers working from home has not had and is not expected to have any negative impact on connectivity. As discussed above, our install solution was implemented in early May 2020. With this service limitation, new customer acquisition will remain slower than pre-pandemic levels of growth and installation. Even with an install solution that minimizes risks, customers may be unwilling to have service personnel visit their homes or offices.

### *Our Community*

Tucows believes the Internet is essential infrastructure and an immensely powerful tool, especially in times of crises where coordination is essential.

From an early point in the current global crisis, it was clear to us that we were going to need to do something new and different in how we responded to COVID-19 related domain registrations. Many of these domains are registered for good, helpful purposes, such as community organization, dissemination of healthcare information, and recording people’s experiences through this pandemic. Others, however, purport to sell COVID-19 cures, vaccines, or tests, none of which are legitimately available on the market at the time of the registration and many of which pose a significant health risk to the general public. There are three major components to our COVID-19 activities related to domain registrations: (i) identification, (ii) assessment for harm, and (iii) stakeholder engagement. It is important to note that our response to each and every issue that we find is contextual and dependent on the specific circumstances. We expect to return to our regular procedures as the pandemic and corresponding risks subsides. Although this approach vastly increases the burden on our compliance staff and puts us in the uncomfortable position of having to assess the level of harm represented by a COVID-related domain and the website to which it resolves - we feel these circumstances are exceptional and are determined to do our part.

In order to provide Internet access and assistance to residents of cities and towns that are part of the Ting Fiber network, we have set up free, fiber-fed, drive-up Wi-Fi hotspots. These hotspots enable those with no home Internet access, or insufficient access, to access critical services like online learning and telehealth services, work remotely, check in on and access vital health, government and other services and generally access information. These hotspots will remain in operation as long as they are needed and as long as it is safe and prudent to do so.

We have not experienced any material resource constraints nor do we foresee requiring any material expenditures to continue to implement our business continuity plans described above.

## Current and expected COVID-19 Impacts

### *Financial & Operational Impacts*

Further to the below discussion within this Annual Report around the financial condition and results of operations for the current period financial results, the current impact from COVID-19 has been limited to the Network Access segment, primarily impacting Mobile Services. Management continues to assess the impact of COVID-19 regularly and we do not expect the impact to substantially worsen in 2021, should the COVID-19 pandemic persist. On a segment basis, our current assessment is as follows:

#### Network Access – Mobile Services:

At the outbreak of the pandemic, Mobile services usage dropped significantly as customer usage patterns changed. As a result of regional lockdowns and shelter-in-place orders throughout the United States, more customers were utilizing at-home WIFI networks rather than connecting to cellular networks; which had a corresponding negative impact on our revenues throughout the year. Similarly, with business and leisure travel significantly halted, there was limited demand for SIM-enabled roaming services. As a result of the pandemic, the Company decided to shut down the operations of the Roam Mobility brands given the expected long-term reduction to both business and leisure travel. Additionally, on August 1, 2020, the Company entered into a Purchase Agreement with DISH pursuant to which it sold substantially all of the mobile customer relationships, and mobile handset and SIM inventory to DISH and granted the right to use and purchase the Ting brand. Ting, Inc. only retains a small subset of customers to which it continues to provide retail mobile services. However, since the outbreak of the pandemic we have seen usage stabilize for Ting Mobile, albeit at levels still lower than before the pandemic. This combined with the fact that our exposure is also significantly limited given the above mentioned sale of the majority of our customer relationships to DISH in the current period. Our new MSE platform and professional services businesses are completely online and do not rely on physical storefronts to attract or service customers' needs. We are fully prepared to continue providing uninterrupted Mobile related enablement services to our MVNO customers. We have not and do not expect any corresponding material negative impacts on our revenues for these new revenue streams, nor do we expect the impact to substantially worsen over the coming months.

#### Network Access – Fiber Internet Services:

As discussed above, upon news of the COVID-19 outbreak, we took the major step to cancel and reschedule all in-home installation and service appointments across our Ting Fiber footprint. Since then, the Ting Internet team has established a smart-install solution. This smart-install solution is faster and more efficient than our existing process, all while protecting the health and safety of our employees and customers alike. Although new customer installations initially slowed near the end of the first quarter of 2020, we are now seeing returned growth in both subscribers under management as well as serviceable addresses relative to the prior quarter. Additionally, our existing customer base and most recent acquisition of Cedar both continue to provide increased recurring revenue for us to support this business relative to prior years.

#### Domain Services:

Domain Services are foundational to the functioning of the Internet. As discussed above, services like individual and wholesale domain names, email and hosting do not rely on in-person interaction or the supply chain in the same way physical products and services do. We have not experienced any negative COVID-19 related impacts, either financially or operationally for Domains related services, across our OpenSRS, eNom, Ascio, EPAG & Hover brands. As more businesses face the reality of prolonged physical shutdown and move to establish an online presence, we have seen growth in this segment, primarily driven by large volume resellers in our OpenSRS brand where total domains under management increased by 1.8 million domain names since March 31, 2020, the quarter-end closest to the onset of the pandemic. This growth rate in domains under management was driven by the pandemic, and may not be sustained in the future as domain registrations plateau. Our results of operations for the current period financial results are in line with management's expectation for the period given product, customer mix and current brand trajectories. We will continue to monitor the impact but do not foresee any negative financial or operational impacts associated with this segment.

### *Liquidity & Financial Resource Impacts*

For a complete assessment of our liquidity and covenant positions please reference the relevant discussions within this Annual Report. We have experienced no significant change to our liquidity position or credit risk as a result of the financial and operational impacts related to COVID-19, as discussed above. Our cost or access to funding sources has not changed and is not reasonably likely to change in the near future as a result of the pandemic. Our sources and uses of cash have not been materially impacted and there is no known material uncertainty about our ongoing ability meet covenants or repayment terms of our credit agreements at this time.

### *Internal Controls over Financial Reporting*

Tucows has long encouraged a culture of remote work even prior to COVID-19. Our financial reporting systems and our internal controls over financial reporting and disclosure controls and procedures are already adapted for a remote work environment. There have been no changes during the current period that, as a result of COVID-19, would affect our ability to maintain these systems and controls.

### *COVID-19 Related Assistance & Support*

Currently, Tucows has not received any form of financial or resource related assistance from any government or local authority. There do exist programs in the regions in which we operate that are designed to support corporations like Tucows during this time, primarily in the form employee wage subsidization. Tucows will continue to review the applicability of these programs but does not expect to seek any assistance.

Across our businesses, we have been able to defer portions of installment taxes payable to various Government bodies as payment timelines have been extended in response to the pandemic.

### *Accounting Policy Impacts*

Given the rapidly changing nature of COVID-19 developments and the current uncertainty around the length and severity these developments could create, Tucows does not have sufficient evidence to anticipate a material impairment with respect to goodwill, intangible assets, long-lived assets, or right of use assets. We will continue to monitor the impacts closely and as more information becomes available. We do not foresee any changes in accounting judgements in relation to COVID-19 that will have a material impact on our financial statements.

## RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2020 AS COMPARED TO THE YEAR ENDED DECEMBER 31, 2019

The Company has initially applied Accounting Standard Update (“ASU”) No. 2016-02, *Leases (Topic 842)* on January 1, 2019, which was adopted using the modified retrospective basis. Accordingly, comparative figures have not been restated.

### NET REVENUES

#### Network Access Services

The Company generates Network Access Services revenues primarily through the provisioning of retail mobile services, mobile platform and professional services supporting MVNOs, fixed high-speed Internet access services and other revenues, including billing solutions to small ISPs.

##### *Mobile Services - Retail Mobile Services*

Ting Mobile wireless usage contracts grant customers access to standard talk, text and data mobile services. Ting Mobile contracts are billed based on the customer's selected rate plan, which can be either usage based or an unlimited plan. All rate plan options are charged to customers on a postpaid, monthly basis at the end of their billing cycle. As discussed above, on August 1, 2020, the Company and its wholly owned Subsidiary Ting, Inc. entered into the Purchase Agreement with DISH pursuant to which Ting sold substantially all of its retail mobile customer relationships, and mobile handset and SIM inventory to DISH and granted the right to use and option to purchase the Ting brand. Select MNO agreements previously established to operate the Ting Mobile MVNO business were assigned to DISH as part of this Purchase Agreement. We retained a small subset of customers to which we continue to provide retail mobile services. All future revenues associated with Retail Mobile Services stream will only be for this subset of customers retained by the Company.

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.

As part of the Purchase Agreement, as a form of consideration for the sale of the customer relationships, the Company receives a payout on the margin associated with the legacy customer base sold to DISH, over a period of 10 years. This has been classified as Other Income and not considered revenue in the current period as it represents the payout from a one-time sale and is not considered a part of our core business operations with the shift from MVNO to MSE.

The Company also operated the Roam Mobility brands historically and through the first half of the 2020 fiscal year, but decided to shut down the businesses due to the considerable lack of demand for SIM-enabled roaming services as a result of the limited business and leisure travel brought about by the COVID-19 pandemic. Our Roam Mobility brands offered standard talk, text and data mobile services. Roam customers prepaid for their usage through the Roam Mobility website. When prepayments were received the amount was deferred, and subsequently recognized as the Company satisfies its obligation to provide mobile services. In addition, revenues associated with the sale of SIM cards were recognized when title and risk of loss was transferred to the subscriber and shipment occurred. Incentive marketing credits given to customers were recorded as a reduction of revenue.

##### *Mobile Services - Mobile Platform Services*

Tucows' MSE platform provides network access, provisioning and billing services for MVNOs. These platform fees are billed to our MVNO customers monthly, on a postpaid basis. The fees are based on the volume of their subscribers utilizing the platform during a given month. The Company recognizes revenue over this new revenue stream as the Company satisfies its obligations to provide MSE services on a monthly basis. For any bundled professional services where collection is collected before the service period as part of MSE Platform Revenues, the professional services revenue is initially deferred and recognized only as the Company performs its obligation to provide professional services.

##### *Mobile Services - Other Professional Services*

This revenue stream includes any other professional services, including transitional services, earned in connection with Tucows' new MSE business. These are billed to our customers monthly at set and established rates for services provided in period. The Company recognizes revenue over this new revenue stream as the Company satisfies its obligations to provide professional services.

##### *Fiber Internet Services*

Fiber Internet 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 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.

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 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 Services*

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 rateably 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. We expect Domain services will continue to be the largest portion of our business and will continue to enable us 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 revenue from domain related value-added services like digital certifications, WHOIS privacy and hosted email and by providing 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, which primarily consists of Internet hosting services on 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.

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Portfolio

The Company sells the rights to its portfolio of surname domains used in its RealNames email service. 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 RealNames email service. The Company expects portfolio revenue to decline into 2021 and starting in the first quarter of 2021 will no longer separately breakout Portfolio revenues.

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

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

	Year ended December 31,	
	2020	2019
<b>Network Access Services:</b>		
Mobile Services		
Retail mobile services	\$ 46,540	\$ 84,657
Mobile platform services	564	-
Other professional services	3,416	-
Total Mobile	50,520	84,657
Fiber Internet Services	18,428	11,006
Total Network Access Services	68,948	95,663
<b>Domain Services:</b>		
Wholesale		
Domain Services	186,893	182,957
Value Added Services	19,788	18,922
Total Wholesale	206,681	201,879
Retail	34,323	34,786
Portfolio	1,250	4,817
Total Domain Services	242,254	241,482
	\$ 311,202	\$ 337,145
(Decrease) increase over prior period	\$ (25,943)	
(Decrease) increase - percentage	(8)%	

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

	Year ended December 31,	
	2020	2019
<b>Network Access Services:</b>		
Mobile Services		
Retail mobile services	15%	25%
Mobile platform services	0%	0%
Other professional services	1%	0%
Total Mobile	16%	25%
Fiber Internet Services	6%	3%
Total Network Access Services	22%	28%
<b>Domain Services:</b>		
Wholesale		
Domain Services	61%	55%
Value Added Services	6%	6%
Total Wholesale	67%	61%
Retail	11%	10%
Portfolio	0%	1%
Total Domain Services	78%	72%
	100%	100%

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Total net revenues for Fiscal 2020 decreased by \$25.9 million, or 8%, to \$311.2 million from \$337.1 million for the fiscal year ended December 31, 2020 ("Fiscal 2020"). The overall decrease in revenue was primarily driven by the \$34.1 million reduction of revenues attributable to our Mobile Services streams that were impacted by both the sale of the majority of the customer base of Ting Mobile to DISH Wireless on August 1, 2020 and the shutdown of Roam Mobility brands impacted by loss of mobile subscribers and reduced usage related to COVID-19 when compared to the prior year. As part of the Purchase Agreement, as a form of consideration for the sale of the customer relationships, the Company receives a payout on the margin associated with the legacy customer base sold to DISH over the 10-year term of the agreement. This has been classified as Other Income and not considered revenue in the current period. This decrease in revenues was offset by a \$7.4 million increase related to Fiber Internet services revenues, driven by our recent first quarter acquisition of Cedar as well as through the expansion of our existing Ting Internet footprint. Additionally, smaller increases from Domain Services of \$0.8 million also helped offset any revenue decreases in period, which was driven by an overall increase in domains under management relative to the prior year.

Deferred revenue from domain name registrations and other Internet services at December 31, 2020 increased to \$152.2 million from \$149.3 million at December 31, 2019, primarily due to current period billings for domain name registration and service renewals.

No customer accounted for more than 10% of revenue during Fiscal 2020 or during the fiscal year ending December 31, 2019 ("Fiscal 2019"). As of December 31, 2020 DISH accounted for 59% of total accounts receivable and at December 31, 2019 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**

***Mobile Services***

Net revenues from Mobile Services for Fiscal 2020, as compared to Fiscal 2019, decreased by \$34.2 million or 40% to \$50.5 million. This decrease is driven by a decline in Retail Mobile Services revenue, which decreased by \$38.2 million compared to Fiscal 2019, to \$46.5 million. Ting Mobile accounts for \$35.0 million of this decrease (of which \$2.0 million is reduced device revenues and \$33.0 million relates to service revenues), followed by Roam Mobility at \$3.1 million of the total decrease. The decline in Retail Mobile Services revenue is driven by the sale of substantially all of the Ting Mobile customer base on August 1, 2020 to DISH and the shutdown of Roam Mobility in the Fiscal Year. In addition to these changes, continued subscriber churn and reduced usage related to the COVID-19 pandemic for three full quarters in 2020 also resulted in lower revenues relative to Fiscal 2019. This decrease is offset by an increase in Mobile Platform services revenues by \$0.6 million and Other Professional Services revenues by \$3.4 million, both a result of the new MSE business created, for which DISH is currently the only customer. The current period only reflects seven months of retail mobile services revenue at the existing subscriber base of Ting Mobile, versus a complete twelve-month period in 2019. Subsequent to the sale to DISH, the Retail Mobile Services revenue relates to a small subset of customers retained by the Company. The consideration for the sale of the subscriber base to DISH is captured as Other Income in the current period and described below.

***Fiber Internet Services***

Revenues from Ting Internet and billing solutions generated \$18.4 million in revenue during Fiscal 2020, up \$7.4 million or 67% compared to Fiscal 2019. This growth is driven by the recent first quarter acquisition of Cedar. Cedar contributed \$4.7 million of the increase in revenue during the current period, with \$2.7 million related to the continued expansion of our Ting Internet footprint in new and existing Ting towns throughout the United States.

As of December 31, 2020, Ting Internet had access to 56,000 serviceable addresses and 15,000 active accounts under its management compared to having access to 36,000 serviceable addresses and 10,000 active accounts under its management as of December 31, 2019. These figures include the increase in serviceable addresses and accounts attributable to the Cedar acquisition.

**Domain Services**

***Wholesale***

During Fiscal 2020, Wholesale domain services revenue increased by \$3.9 million or 2% to \$186.9 million. The increase in revenue compared to Fiscal 2019 was primarily driven by a \$4.6 million increase in revenue related to the prior year acquisition of Ascio. Ascio revenues now represent a full year of earned revenue compared to the stub period of attributable revenue during Fiscal 2019. Additionally, we saw a further increase in Wholesale domain revenues of \$5.2 million from our other domain services brands, namely OpenSRS and EPAG due to the increase in domains under management for these brands associated with an uptick in registrations through 2020 in connection with COVID-19. As more businesses establish an online presence during this time, we have seen growth from large volume resellers across these brands. This has had a marginal impact on revenue in the current period but will have a carryforward impact in subsequent periods as revenues are recognized from previously deferred billings. These increases were offset by a decrease of \$5.9 million in Wholesale domain revenues related to our eNom brand, driven by continued decline in domain registrations by non-core customers relative to Fiscal 2019.

Together the OpenSRS, eNom, EPAG and Ascio Domain Services manage 25.4 million domain names under the Tucows, eNom, EPAG and Ascio ICANN registrar accreditations and for other registrars under their own accreditations. Domains under management has increased by 1.6 million domain names since December 31, 2019. The increase is driven by increased registrations experienced by our brands during the COVID-19 pandemic, which saw more businesses establish and expand their online presence, offset by the continued erosion of registrations related to non-core customers from our eNom brand.

Net revenues from value-added services increased by \$0.9 million to \$19.8 million compared to Fiscal 2019. The increase in value-added service revenue over Fiscal 2019 was primarily driven by an increase in expiry stream revenue.

***Retail***

Net revenues from retail decreased by \$0.5 million to \$34.3 million compared to Fiscal 2019. The decrease in revenue was primarily driven by the erosion of retail customers away from our eNom Central brand.

***Portfolio***

Portfolio revenues decreased by \$3.5 million to \$1.3 million compared to Fiscal 2019. This decrease was expected after the Company disposed of its entire domain portfolio in the fourth quarter of Fiscal 2019, excluding surname domains used in the RealNames email service. The Company expects portfolio revenue to decline into 2021 and starting in the first quarter of 2021 will no longer separately breakout Portfolio revenues.

## **COST OF REVENUES**

### **Network Access Services**

#### *Mobile Services - Retail Mobile Services*

Cost of revenues for Retail Mobile Services includes the costs of provisioning mobile services, which is primarily our customers' voice, messaging, data usage provided by our Network Operator, 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.

#### *Mobile Services - Mobile Platform Services*

Cost of revenues, if any, to provide the MSE Platform services including network access, provisioning and billing services for MVNOs.

#### *Mobile Services - Other Professional Services*

Cost of revenues to provide professional services, including transitional services, to our MVNO customers to help support their businesses. This includes any personnel and contractor fees for any client service resources retained by the Company. Only a subset of the Company's employee base provides professional services to our MVNO customers, this cost reflects that group of resources.

#### *Fiber Internet Services*

Cost of revenues primarily includes the costs for provisioning high speed Internet access, which is comprised of network access fees and software licenses and the costs of providing hardware. Hardware costs are comprised of network routers sold to our customers, order fulfillment related expenses, inventory adjustments and fees paid to third-party service providers primarily for printing services in connection with billing services to ISPs.

### **Domain Services**

#### *Wholesale - Domain Services*

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 rateably 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.

#### *Wholesale - 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 and fees paid to 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 fees on a basis consistent with the recognition of revenues from our customers, namely rateably 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. 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 rateably over the renewal term. In the fourth quarter of 2019, the Company disposed of its entire domain portfolio, excluding surname domains used in the RealNames email service. As expected, this has resulted in a material decline in portfolio costs of revenues in Fiscal 2020. The Company expects portfolio revenues and costs of revenue to decline into 2021 and starting in the first quarter of 2021 will no longer separately breakout Portfolio revenues or costs.

**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)*

	<b>Year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Network Access Services:</b>		
Mobile Services		
Retail mobile services	\$ 22,942	\$ 44,415
Mobile platform services	56	-
Other professional services	2,970	-
Total Mobile	25,968	44,415
Fiber Internet Services	6,982	3,928
Total Network Access Services	32,950	48,343
<b>Domain Services:</b>		
Wholesale		
Domain Services	146,788	148,530
Value Added Services	3,161	2,986
Total Wholesale	149,949	151,516
Retail	17,023	17,093
Portfolio	479	627
Total Domain Services	167,451	169,236
<b>Network Expenses:</b>		
Network, other costs	10,194	9,190
Network, depreciation and amortization costs	13,484	9,599
Network, impairment	1,638	-
	25,316	18,789
	\$ 225,717	\$ 236,368
(Decrease) increase over prior period	\$ (10,651)	
(Decrease) increase - percentage	-5%	

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

	<b>Year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Network Access Services:</b>		
Mobile Services		
Retail mobile services	10%	19%
Mobile platform services	1%	0%
Other professional services	1%	0%
Total Mobile	12%	19%
Fiber Internet Services	3%	2%
Total Network Access Services	15%	21%
<b>Domain Services:</b>		
Wholesale		
Domain Services	64%	63%
Value Added Services	1%	1%
Total Wholesale	65%	64%
Retail	8%	7%
Portfolio	0%	0%
Total Domain Services	73%	71%
<b>Network Expenses:</b>		
Network, other costs	5%	4%
Network, depreciation and amortization costs	6%	4%
Network, impairment	1%	0%
	12%	8%
	100%	100%

Total cost of revenues for Fiscal 2020 decreased by \$10.7 million, or 5%, to \$225.7 million from \$236.4 million in Fiscal 2019. The decrease was primarily driven by the \$18 million of reduced costs attributable to our Mobile Services streams. Consistent with above, Fiscal 2020 results now include three full quarters impacted from loss of mobile subscribers and reduced usage related to COVID-19, in addition to the 2020 results including the sale of Ting Mobile customers and the shutdown of Roam Mobility. Both of these contribute to the current period results having significantly lower costs. Additionally, further decreases in domain name services of \$1.8 million, related to continued erosion in Wholesale and Retail domain registrations by non-core customers primarily from our existing Domain Services brands, namely eNom. These decreases were offset by increased network expenses of \$6.5 million and Fiber access costs of \$3.1 million as a result of continued Fiber network expansion. The increase in network expenses included a \$1.6 million impairment related to Ting TV, a product under development for Ting Fiber that was discontinued. These increased Fiber costs of revenues are driven by both our recent first quarter acquisition of Cedar as well as through the expansion of our existing Ting Internet footprint.

Prepaid domain registration and other Internet services fees as of December 31, 2020 increased by \$1.9 million, or 2%, to \$111.1 million from \$109.2 million at December 31, 2019 primarily due to current period domain name registration and annual service renewals.

## **Network Access Services**

### ***Mobile Services***

Cost of revenues from Mobile Services for Fiscal 2020, as compared to Fiscal 2019, decreased by \$18.4 million or 41% to \$26.0 million. This is driven by decreased Retail Mobile Services costs of \$21.5 million, of which \$19.6 million relates to Ting Mobile (of which \$2.3 million is reduced device costs and \$17.3 million relates to service costs) and \$1.9 million relates to Roam Mobility. Consistent with the above discussion around net revenues, the driving factors for these decreases from Fiscal 2019 are related to the sale of substantially all of the Ting Mobile customer base and the shutdown of Roam Mobility in the current Fiscal Year. Residual Retail Mobile Services costs are also impacted by three quarters of the COVID-19 pandemic, characterized by a decline in mobile subscribers and reduced usage which translates into lower year-to-date costs. The decline also included reduced minimum commitment charges with network operators which decreased by \$4.3 million compared to the Fiscal 2019. This decrease is offset by an increase of \$3.0 million related to costs associated with Other Professional Services provided to DISH.

### ***Fiber Internet Services***

In Fiscal 2020, costs related to provisioning high speed Internet access and billing solutions increased \$3.1 million, or 79%, to \$7.0 million as compared to \$3.9 million during Fiscal 2019. The increase in costs were primarily driven by increased direct costs and bandwidth costs related to the continued expansion of the Ting Fiber network, for both existing towns and cities as well as those acquired via the Cedar acquisition.

## **Domain Services**

### ***Wholesale***

Costs for wholesale domain services for Fiscal 2020 decreased by \$1.7 million to \$146.8 million, when compared to Fiscal 2019. The decrease was primarily driven by a \$6.1 million decrease in wholesale domain services costs associated with the erosion of domain registrations by non-core customers for our eNom brand. This decrease in eNom registrations was offset by increased Wholesale domain services costs of \$4.3 million from our other wholesale brands, namely OpenSRS, EPAG and Ascio. The offsetting increase is largely a result of the prior year acquisition of Ascio, where Ascio costs now represent a full year compared to the stub period of attributable costs during Fiscal 2019. To a lesser extent any residual increase was a result of increased domains under management for OpenSRS as a result of COVID-19 impacts discussed above.

Costs for wholesale value-added services for Fiscal 2020 increased by \$0.2 million to \$3.2 million, when compared to Fiscal 2019. The increase in cost of revenue is primarily related to an increase in certificate costs related to Ascio and increased Expiry sales compared to Fiscal 2019.

### ***Retail***

Costs for retail for Fiscal 2020 decreased by \$0.1 million, to \$17.0 million, when compared to Fiscal 2019. The decrease was a result of an overall declining volume of transactions related to the eNom retail brands.

### ***Portfolio***

Costs for portfolio decreased by \$0.1 million for Fiscal 2020, to \$0.5 million when compared to Fiscal 2019. This decrease was expected after the Company disposed of its entire domain portfolio in the fourth quarter of Fiscal 2019, excluding surname domains used in the RealNames email service. The Company expects portfolio costs to decline into 2021 and starting in the first quarter of 2021 will no longer separately breakout Portfolio costs.

## **Network Expenses**

Network costs for Fiscal 2020 increased by \$6.5 million to \$25.3 million when compared to Fiscal 2019. The comparative increase was primarily driven by depreciation as a result of the expansion of the Company's increased network infrastructure associated with the continuing expansion of the Ting Fiber footprint, inclusive of \$0.7 million related to the Cedar acquisition. In addition to these Fiber network increases, the second quarter of 2020 included a \$1.6 million impairment related to Ting TV, a product under development for Ting Fiber.

**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)*

	<b>Year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Sales and marketing	\$ 34,274	\$ 34,270
Increase over prior period	\$ 4	
Increase - percentage	0%	
Percentage of net revenues	11%	10%

Sales and marketing expenses for Fiscal 2020 remained flat at \$34.3 million when compared to Fiscal 2019. Although the Company initially forecasted an increase in sales and marketing expenses for Fiscal 2020, the sale of substantially all of the Ting Mobile customer base and the shutdown of Roam Mobility through the latter half of the Fiscal Year effectively offset any increases in expenditure seen from the Cedar and Ascio acquisitions or the continued build out of the Ting Fiber network.

Excluding movements in exchange rates, we expect sales and marketing expenses for the fiscal year ending December 31, 2021 ("Fiscal 2021") to increase in absolute dollars, as we adjust our marketing programs and sales and customer support personnel costs to support our network access services marketing and customer service needs.

**TECHNICAL OPERATIONS AND DEVELOPMENT**

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

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

	<b>Year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Technical operations and development	\$ 12,427	\$ 9,717
Increase over prior period	\$ 2,710	
Increase - percentage	28%	
Percentage of net revenues	4%	3%

Technical operations and development expenses for Fiscal 2020 increased by \$2.7 million, or 28%, to \$12.4 million. The increase in costs relates primarily to increased salaries and benefits driven by an expanding workforce and wage inflation focused on our shared services and engineering teams of \$2.3 million, as well as increased spending related to contract and outsourcing spends to aid in platform development efforts across our business lines of \$0.4 million. Additionally, Fiscal 2020 reflected a full year of people costs related to the workforce acquired in the Ascio acquisition on March 18, 2019, as compared to a stub period of costs in Fiscal 2019.

Excluding movements in exchange rates, we expect technical operations and development expenses for Fiscal 2021, in absolute dollars, to increase when compared to Fiscal 2020 to support the ongoing growth in our operations.

**GENERAL AND ADMINISTRATIVE**

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

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

	<b>Year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
General and administrative	\$ 20,268	\$ 17,880
Increase over prior period	\$ 2,388	
Increase - percentage	13%	
Percentage of net revenues	7%	5%

General and administrative expenses for Fiscal 2020 increased by \$2.4 million, or 13%, to \$20.3 million as compared to Fiscal 2019.

The increase was primarily driven by an increase in people costs of \$1.5 million, an increase in foreign exchange expense of \$1.4 million, and an increase in professional fees of \$0.6 million in connection with the sale of the Ting Mobile customer relationships to DISH. These increases in general and administrative expenses were offset by a decrease in both credit card fees and bad debts associated with the Mobile Services business, in the amounts of \$0.8 million and \$0.2 million, respectively. Additionally, the current year saw a decrease in transitional costs related to Ascio and eNom of \$0.2 million and \$0.2 million, respectively.

Excluding movements in exchange rates, we expect general and administrative expenses for Fiscal 2021, in absolute dollars, to increase when compared to Fiscal 2020 largely to support the growth of our business.

**DEPRECIATION OF PROPERTY AND EQUIPMENT**
*(Dollar amounts in thousands of U.S. dollars)*

	Year ended December 31,	
	2020	2019
Depreciation of property and equipment	\$ 488	\$ 486
Increase over prior period	\$ 2	
Increase - percentage	0%	
Percentage of net revenues	0%	0%

Depreciation costs for Fiscal 2020 remained flat at \$0.5 million for Fiscal 2019.

**LOSS (GAIN) ON DISPOSAL OF PROPERTY AND EQUIPMENT**
*(Dollar amounts in thousands of U.S. dollars)*

	Year ended December 31,	
	2020	2019
Loss on disposition of property and equipment	\$ (17)	\$ 73
Decrease over prior period	\$ (90)	
Decrease - percentage	(123)	
Percentage of net revenues	(0)%	0%

Loss (gain) on disposal of property and equipment decreased \$0.1 million in Fiscal 2020. The decrease was a result of Fiscal 2019 including equipment disposal from the former Kirkland, Washington office. The Company saw a small gain in the current year on the disposition of property and equipment from the shutdown of the St. Catharines, Ontario office.

**AMORTIZATION OF INTANGIBLE ASSETS**
*(Dollar amounts in thousands of U.S. dollars)*

	Year ended December 31,	
	2020	2019
Amortization of intangible assets	\$ 10,080	\$ 9,209
Increase over prior period	\$ 871	
Increase - percentage	9%	
Percentage of net revenues	3%	3%

Amortization of intangible assets increased \$0.9 million for Fiscal 2020, to \$10.1 million. The increase is primarily driven by the acquisition of Cedar as well as a full year's worth of amortization of acquired Ascio intangible assets for which the prior year represented a stub period.

Network rights, brand and customer relationships acquired in connection with the following acquisitions are amortized on a straight-line basis over a range of two to seven years: eNom in January 2017, Ascio in March of 2019, and Cedar in January 2020. As discussed above, the balance of the Roam Mobility brands was fully impaired as at June 30, 2020 as part of shutdown of the Roam brands. This is reflected below in the impairment of definite life intangible assets of \$1.4 million.

**IMPAIRMENT OF DEFINITE LIFE INTANGIBLE ASSETS**
*(Dollar amounts in thousands of U.S. dollars)*

	Year ended December 31,	
	2020	2019
Impairment of definite life intangible assets	\$ 1,431	\$ -
Increase over prior period	\$ 1,431	
Increase - percentage	N/A%	
Percentage of net revenues	0%	-%

Impairment of definite life intangible assets for Fiscal 2020 was \$1.4 million as compared to nil in Fiscal 2019. The increase is driven by the write-off of customer relationships acquired in connection with our Roam Mobility Brands. As discussed above, Roam Mobility saw a decline in mobile subscribers and reduced usage related to the COVID-19 pandemic. As at June 30, 2020, the Company decided to shut down the Roam Mobility brands and related business as a result of this lack of demand for SIM-enabled roaming services due to the continued decrease of both business and leisure travel caused by the pandemic. As part of that shut down, the associated customer relationships previously acquired were written off in period.

**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)*

	Year ended December 31,	
	2020	2019
Loss (gain) on currency forward contracts	\$ (383)	\$ (198)
Decrease over prior period	\$ (185)	
Decrease - percentage	93%	
Percentage of net revenues	0%	0%

We have entered into certain forward exchange contracts that do not comply with the requirements of hedge accounting to meet a portion of our future Canadian dollar requirements through December 2020. During Fiscal 2020, the Company recorded a net gain of \$0.5 million on the change in fair value of outstanding contract as well as a \$0.1 million realized loss on matured contracts. In Fiscal 2019 the Company recorded a net gain of \$0.3 million in the change in fair value of outstanding contracts as well as a \$0.1 million realized loss on matured contracts.

At December 31, 2020, our balance sheet reflects a derivative instrument asset of \$3.9 million as a result of our existing foreign exchange contracts. Until their respective maturity dates, these contracts will fluctuate in value in line with movements in the Canadian dollar relative to the U.S. dollar.

**OTHER INCOME (EXPENSES)**

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

	Year ended December 31,	
	2020	2019
Other income (expense), net	\$ 3,843	\$ (4,769)
Increase over prior period	\$ 8,612	
Increase - percentage	(181)%	
Percentage of net revenues	1%	1%

Other income increased by \$8.6 million when compared to Fiscal 2019. This was primarily due to the \$7.6 million increase due to the gain on sale of Ting customer assets to DISH in the current period. This gain represented the net effect of proceeds earned from DISH in regards to the legacy customer base of \$11.1 million offset by the write off of certain Mobile intangible and contract assets totaling \$3.5 million. In addition to this, another contributing factor in the increase was lower interest incurred on our Amended 2019 Credit Facility, obtained to fund the acquisition of eNom, Ascio and Cedar and funding for expenditures associated with the Company's Fiber to the Home program.

**INCOME TAXES**

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

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

	Year ended December 31,	
	2020	2019
Provision for income taxes	\$ 4,985	\$ 9,173
Decrease in provision over prior period	\$ (4,188)	
Decrease - percentage	(46)%	
Effective tax rate	46%	37%

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

Fiscal 2020 includes tax on profits of \$10.8 million compared to \$24.6 million for Fiscal 2019. Our Fiscal 2020 income tax expense includes a tax expense of less than \$0.1 million related to the adoption of ASU 2016-09, which requires all excess tax benefits and tax deficiencies related to employee share-based payments to be recognized through income tax expense on a prospective basis. The Fiscal 2019 tax recovery related to excess tax benefits related to employee share-based compensation was \$0.6 million.

On December 22, 2017, the Act was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system, bonus depreciation that will allow for full expensing of qualified property, and a one-time transition tax on the mandatory deemed repatriation of foreign earnings.

In Fiscal 2020, the Company did not utilize the bonus depreciation with respect to its continued investment in the Ting Internet business. Despite this, due to the reduction in tax rate to 21%, it is unlikely we will ultimately be able to fully claim the Fiscal 2020 foreign taxes paid in future years as a foreign tax credit. As such, we have taken a valuation allowance on foreign tax credits not utilized for 2020 income tax purposes and net operating losses not expected to be utilized in the future, the net negative effect of which is a \$2.9 million addition to income tax expense, as compared to \$5.3 million additional tax expense in Fiscal 2019.

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

#### ADJUSTED EBITDA

We believe that the provision of this supplemental non-GAAP measure allows investors to evaluate the operational and financial performance of our core business using similar evaluation measures to those used by management. We use adjusted EBITDA to measure our performance and prepare our budgets. Since adjusted EBITDA is a non-GAAP financial performance measure, our calculation of adjusted EBITDA may not be comparable to other similarly titled measures of other companies; and should not be considered in isolation, as a substitute for, or superior to measures of financial performance prepared in accordance with GAAP. Because adjusted EBITDA is calculated before recurring cash charges, including interest expense and taxes, and is not adjusted for capital expenditures or other recurring cash requirements of the business, it should not be considered as a liquidity measure. See the Consolidated Statements of Cash Flows included in the attached financial statements. Non-GAAP financial measures do not reflect a comprehensive system of accounting and may differ from non-GAAP financial measures with the same or similar captions that are used by other companies and/or analysts and may differ from period to period. We endeavor to compensate for these limitations by providing the relevant disclosure of the items excluded in the calculation of adjusted EBITDA to net income based on 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), accretion of contingent consideration, stock-based compensation, asset impairment, loss on the disposal of Ting Mobile customer assets, gains and losses from unrealized foreign currency transactions and costs that are one-time in nature and not indicative of on-going performance (profitability), including acquisition and transition costs. 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:

Reconciliation of Net income to Adjusted EBITDA (In Thousands of US Dollars) (unaudited)	Twelve months ended December 31,		
	2020 (unaudited)	2019 (unaudited)	2018 (unaudited)
Net income for the period	\$ 5,775	\$ 15,398	\$ 17,135
Depreciation of property and equipment	12,632	8,961	5,722
Impairment of property and equipment	1,638	-	-
Loss (gain) on disposition of property and equipment	(17)	73	-
Amortization of intangible assets	11,420	10,333	9,243
Impairment of intangible assets	1,431	-	-
Write-down on disposal of Ting Mobile customer assets	3,513	-	-
Interest expense, net	3,611	4,769	3,687
Accretion of contingent liability	344	-	-
Provision for income taxes	4,985	9,173	9,020
Stock-based compensation	3,718	2,876	2,574
Unrealized loss (gain) on change in fair value of forward contracts	(500)	(313)	207
Unrealized loss (gain) on foreign exchange revaluation of foreign denominated monetary assets and liabilities	461	(581)	940
Acquisition and other costs <sup>1</sup>	1,961	1,216	1,526
Adjusted EBITDA	\$ 50,972	\$ 51,905	\$ 50,054

<sup>1</sup> Acquisition and other costs represents transaction-related expenses, transitional expenses, such as redundant post-acquisition expenses, primarily related to our acquisition of Ascio in March 2019, Cedar in January 2020, and the disposition of certain Ting Mobile assets in August 2020. Expenses include severance or transitional costs associated with department, operational or overall company restructuring efforts, including geographic alignments.

Adjusted EBITDA for the year ended December 31, 2020 decreased by \$0.9 million, or 2% to \$51.0 million when compared to the year ended December 31, 2019. The decrease in adjusted EBITDA from period-to-period was primarily driven by lower contribution from the erosion of wholesale and retail registrations from our eNom brand as well as Mobile Services due to the sale of Ting Mobile customer relationships to DISH as well as the shutdown of Roam Mobility. The overall decrease in EBITDA was partially offset by an increased contribution from wholesale domain registrations from our OpenSRS and EPAG brands who have seen an increase in domains under management over the course of the COVID-19 pandemic as more businesses move online. The increase is also impacted by increased contribution from Ascio due to the full year of contribution in 2020 relative to the stub period in 2019 due to acquisition timing. Additionally, the acquisition of Cedar and continued expansion of the Ting Fiber network has seen increased contribution from Fiber year-over-year.

**OTHER COMPREHENSIVE INCOME (LOSS)**

To mitigate the impact of the change in fair value of our foreign exchange contracts on our financial results, in October 2012 we begun applying hedge accounting for the majority of the contracts we need to meet our Canadian dollar requirements on a prospective basis. The impact of the fair value adjustment on outstanding hedged contracts for Fiscal 2020 was a net gain in other comprehensive income of \$1.9 million compared to a net gain of \$1.3 million for Fiscal 2019.

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

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

	<b>Year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Other comprehensive income (loss)	\$ 1,863	\$ 1,283
Increase over prior period	\$ 580	
Increase - percentage	45%	
Percentage of net revenues	1%	0%

The impact of the fair value adjustments on outstanding hedged contracts during 2020 was a gain in OCI of \$1.7 million as compared to a loss of \$1.1 million during 2019.

The net amount reclassified to earnings during 2020 was a loss of \$0.2 million compared to a loss of \$0.2 million during 2019.

**RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2019 AS COMPARED TO THE YEAR ENDED DECEMBER 31, 2018**

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

The Company has initially applied ASC 2014-09 (Topic 606) on January 1, 2018 using the modified retrospective method. Under this method, the comparative information is not restated.

**NET REVENUES**

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

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

	<b>Year ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Network Access Services:</b>		
Mobile Services		
Retail mobile services	\$ 84,657	\$ 89,340
Mobile platform services	-	-
Other professional services	-	-
Total Mobile	84,657	89,340
Fiber Internet Services	11,006	7,984
Total Network Access Services	95,663	97,324
<b>Domain Services:</b>		
Wholesale		
Domain Services	182,957	189,434
Value Added Services	18,922	17,756
Total Wholesale	201,879	207,190
Retail		
Portfolio	4,817	6,975
Total Domain Services	241,482	248,689
	\$ 337,145	\$ 346,013
(Decrease) increase over prior period	\$ (8,868)	
(Decrease) increase - percentage		(3%)

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

	Year ended December 31,	
	2019	2018
<b>Network Access Services:</b>		
Mobile Services		
Retail mobile services	25%	26%
Mobile platform services	0%	0%
Other professional services	0%	0%
Total Mobile	25%	26%
Fiber Internet Services	3%	2%
Total Network Access Services	28%	28%
<b>Domain Services:</b>		
Wholesale		
Domain Services	55%	55%
Value Added Services	6%	5%
Total Wholesale	61%	60%
Retail	10%	10%
Portfolio	1%	2%
Total Domain Services	72%	72%
	100%	100%

Total net revenues for Fiscal 2019 decreased by \$8.9 million, or 3%, to \$337.1 million from \$346.0 million for the fiscal year ended December 31, 2018 (“Fiscal 2018”). The overall decrease in revenue was primarily driven by the \$16.9 million acceleration of revenue related to the Namecheap bulk transfer of 2.89 million names throughout Fiscal 2018. Wholesale and domain revenue decreased a further \$5.8 million during Fiscal 2019 related an erosion in Wholesale domain registrations by noncore customers. Ting Mobile handset and mobile usage revenue decreased \$4.6 million due to a decrease in mobile subscribers, and portfolio revenue decreased \$2.2 million. The decreases in revenues were offset by a \$17.4 million increase related to the acquisition of Ascio, a domain registrar business acquired on March 18, 2019, an increase in Wholesale domain revenue related to price increases, as well as a \$3.0 million increase in revenue related to the expanding Ting Internet footprint. Deferred revenue from domain name registrations and other Internet services at December 31, 2019 increased to \$149.3 million from \$143.7 million at December 31, 2018, primarily due to the acquisition of Ascio.

No customer accounted for more than 10% of revenue during Fiscal 2019 or Fiscal 2018, and no customers accounted for more than 10% of accounts receivable as of December 31, 2019 and 2018. Management judgment is required at the time of recording of revenue to assess whether the collection of the resulting receivables is reasonably assured. On an ongoing basis, we assess the ability of our customers to make required payments. Based on this assessment, we expect the carrying amount of our outstanding receivables, net of allowance for doubtful accounts, to be fully collected.

## **Network Access Services**

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

Net revenues from mobile phone equipment and services for Fiscal 2019, as compared to Fiscal 2018, decreased by \$4.6 million or 5% to \$84.7 million. The overall decrease in revenue was primarily related to a decline in mobile service revenue, which decreased by \$2.2 million compared to Fiscal 2018, to \$78.2 million, as a result of a decline in mobile subscribers. Revenues from the sale of mobile hardware and related accessories decreased by \$2.4 million compared to Fiscal 2018, to \$6.5 million. The decrease in device revenue was primarily driven by reduced demand for higher-priced devices compared to Fiscal 2018.

Other revenues from Ting Internet and billing solutions generated \$11.0 million in revenue during Fiscal 2019, up \$3.0 million or 38% compared to Fiscal 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, North Carolina in the first quarter of 2019.

As of December 31, 2019, Ting Mobile had 160,000 mobile subscribers and 289,000 mobile devices under its management compared to 163,000 subscribers and 296,000 devices under its management as of December 31, 2018.

As of December 31, 2019, Ting Internet had access to 36,000 serviceable addresses and 10,000 active accounts under its management compared to having access to 28,000 serviceable addresses and 7,000 active accounts under its management as of December 31, 2018.

## **Domain Services**

### ***Wholesale***

During Fiscal 2019, Wholesale domain services revenue decreased by \$6.4 million or 3% to \$183.0 million. The decrease in revenue compared to Fiscal 2018 was primarily driven by the \$16.9 million acceleration of revenue related to the Namecheap bulk transfer of 2.89 million domain names during 2018. Wholesale domain revenue decreased a further \$10.1 million related to the erosion of registrations by non-core customers during Fiscal 2019. The overall decrease in Wholesale domain revenues was partially offset by a \$17.4 million increase in revenue related to the acquisition of Ascio and a \$3.2 million increase in revenue related to price increases.

The number of overall transactions from new, renewed and transferred-in domain name registrations for Fiscal 2019, as compared to Fiscal 2018, decreased by 0.1 million to 17.3 million. The decrease was primarily driven by the departure of a few large, low margin customers, including Namecheap. The overall decrease was partially offset by an increase in new, renewed and transferred-in domain name registrations related to the acquisition of Ascio. 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.

Net revenues from value-added services increased by \$1.1 million to \$18.9 million compared to Fiscal 2018. The increase in value-added service revenue over Fiscal 2018 was primarily driven by an increase in expiry stream revenue.

### ***Retail***

Net revenues from retail increased by \$0.3 million to \$34.8 million compared to Fiscal 2018. Revenue increased, because Fiscal 2018 revenue was negatively impacted by the fair value effect of deferred revenue acquired in the eNom acquisition to a greater extent than in Fiscal 2019.

### ***Portfolio***

Portfolio revenues decreased by \$2.2 million to \$4.8 million compared to Fiscal 2018. The decrease is due to a decrease in the volume of portfolio sales in Fiscal 2019. In the fourth quarter of 2019, the Company disposed of its entire domain portfolio, excluding surname domains used in the RealNames email service. The Company expects portfolio revenue to materially decline in Fiscal 2020 and thereafter.

**COST OF REVENUES**

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

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

	<b>Year ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Network Access Services:</b>		
<b>Mobile Services</b>		
Retail mobile services	\$ 44,415	\$ 46,061
Mobile platform services	-	-
Other professional services	-	-
<b>Total Mobile</b>	<b>44,415</b>	<b>46,061</b>
Fiber Internet Services	3,928	3,994
<b>Total Network Access Services</b>	<b>48,343</b>	<b>50,055</b>
<b>Domain Services:</b>		
<b>Wholesale</b>		
Domain Services	148,530	160,216
Value Added Services	2,986	3,154
<b>Total Wholesale</b>	<b>151,516</b>	<b>163,370</b>
<b>Retail</b>	<b>17,093</b>	<b>17,725</b>
Portfolio	627	953
<b>Total Domain Services</b>	<b>169,236</b>	<b>182,048</b>
<b>Network Expenses:</b>		
Network, other costs	9,190	9,846
Network, depreciation and amortization costs	9,599	7,294
	<b>18,789</b>	<b>17,140</b>
	<b>\$ 236,368</b>	<b>\$ 249,243</b>
(Decrease) increase over prior period	\$ (12,875)	
(Decrease) increase - percentage		(5%)

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

	Year ended December 31,	
	2019	2018
<b>Network Access Services:</b>		
Mobile Services		
Retail mobile services	19%	18%
Mobile platform services	0%	0%
Other professional services	0%	0%
Total Mobile	19%	18%
Fiber Internet Services	2%	2%
Total Network Access Services	21%	20%
<b>Domain Services:</b>		
Wholesale		
Domain Services	63%	65%
Value Added Services	1%	1%
Total Wholesale	64%	66%
Retail	7%	7%
Portfolio	0%	0%
Total Domain Services	71%	73%
<b>Network Expenses:</b>		
Network, other costs	4%	4%
Network, depreciation and amortization costs	4%	3%
	8%	7%
	100%	100%

Total cost of revenues for Fiscal 2019 decreased by \$12.8 million, or 5%, to \$236.4 million from \$249.2 million in Fiscal 2018. The decrease was primarily driven by the \$16.8 million acceleration of costs related to the Namecheap bulk transfer of 2.89 million names during Fiscal 2018. Wholesale domain and value added service costs decreased a further \$9.9 million related to an erosion in registrations by non-core customers. Retail domain costs decreased \$0.6 million related to the churn of low margin customers and portfolio costs decreased by \$0.4 million. Cost of revenue decreased a further \$1.7 million due to a decline in mobile subscribers. The overall decrease in cost of revenue was offset by an increase of \$14.8 million of costs related to the acquisition of Ascio, and an increase of \$1.7 million in Network Expenses associated with the expanding Ting Internet footprint. Prepaid domain registration and other Internet services fees as of December 31, 2019 increased by \$2.7 million, or 3%, to \$109.2 million from \$106.5 million at December 31, 2018 primarily from the acquisition of Ascio.

**Network Access Services**

***Mobile and Other Services***

Cost of revenues from mobile phone equipment and services for Fiscal 2019, as compared to Fiscal 2018, decreased by \$1.7 million or 4% to \$44.4 million. The decrease in mobile usage charges was primarily driven by a decrease in Roam Mobility brands related costs of \$1.8 million related to lower network operator costs in the current period and restructuring charges that were incurred during Fiscal 2018. The decrease was also driven by lower mobile hardware and related accessories costs, which decreased \$2.1 million as compared to Fiscal 2018. The decrease in hardware sales was primarily driven by reduced demand for higher-priced devices compared to Fiscal 2018. The decrease in mobile usage costs were offset by an increase in Ting mobile service related costs of \$2.2 million related to increased minimum charges with network operators.

In Fiscal 2019, costs related to provisioning high speed Internet access and billing solutions decreased \$0.1, or 3%, to \$3.9 million as compared to \$4.0 million during Fiscal 2018. The decrease in costs was primarily due to the fact that overhead resources have been increasingly focused on capital activities as compared to Fiscal 2018.

**Domain Services**

***Wholesale***

*Domain Service*

Costs for wholesale domain services for Fiscal 2019 decreased by \$11.7 million to \$148.5 million, when compared to Fiscal 2018. The decrease was primarily driven by the accelerated recognition of \$16.8 million domains revenue associated with the Namecheap bulk transfer of 2.89 million names throughout Fiscal 2018. Wholesale domain costs decreased a further \$9.7 million related to an erosion in registrations by non-core customers. The decreases were partially offset by a \$14.8 million increase related to the acquisition of Ascio.

*Value-Added Services*

Costs for wholesale value-added services for Fiscal 2019 decreased by \$0.2 million to \$3.0 million, when compared to Fiscal 2018. The decrease in cost of revenue is primarily related to an overall decline in certification and email sales during Fiscal 2018.

***Retail***

Costs for retail for Fiscal 2019 decreased by \$0.6 million, to \$17.1 million, when compared to Fiscal 2018. The decrease was a result of an overall declining volume of transactions related to certain retail brands.

***Portfolio***

Costs for portfolio decreased by \$0.4 million for Fiscal 2019, to \$0.6 million when compared to Fiscal 2018, the decrease in cost is primarily driven by a lower volume of portfolio sales compared to Fiscal 2018. In the fourth quarter of 2019, the Company disposed of its entire domain portfolio, excluding surname domains used in the RealNames email service. The Company expects portfolio cost of revenue to materially decline in Fiscal 2020 and thereafter in-line with the expected decline in revenue.

**Network Expenses**

Network costs for Fiscal 2019 increased by \$1.7 million to \$18.8 million when compared to Fiscal 2018, which is primarily driven by the increase in network costs and depreciation of the fiber assets associated with the continuing expansion of the Ting Fiber footprint.

**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)

	Year ended December 31,	
	2019	2018
Sales and marketing	\$ 34,270	\$ 33,063
Increase over prior period	\$ 1,207	
Increase - percentage	4%	
Percentage of net revenues	10%	10%

Sales and marketing expenses for Fiscal 2019 increased by \$1.2 million, or 4%, to \$34.3 million as compared to Fiscal 2018. This increase primarily related to a \$1.3 million increase in people costs acquired in the acquisition of Ascio in the first quarter of 2019. Stock-based compensation expenses also increased \$0.2 million in Fiscal 2019 to attract and retain labor. The overall increase in sales and marketing expense was partially offset by a decrease in other marketing expenses of \$0.3 million.

**TECHNICAL OPERATIONS AND DEVELOPMENT**

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

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

	Year ended December 31,	
	2019	2018
Technical operations and development	\$ 9,717	\$ 8,748
Increase over prior period	\$ 969	
Increase - percentage	11%	
Percentage of net revenues	3%	3%

Technical operations and development expenses for Fiscal 2019 increased by \$1.0 million, or 11%, to \$9.7 million. The increase in costs relates primarily to a \$0.7 million increase related to the Ascio acquisition, with a further increase of \$0.3 million related to increased salaries and benefits driven by an expanding workforce and wage inflation.

**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)

	Year ended December 31,	
	2019	2018
General and administrative	\$ 17,880	\$ 17,710
Increase over prior period	\$ 170	
Increase - percentage	1%	
Percentage of net revenues	5%	5%

General and administrative expenses for Fiscal 2019 increased by \$0.2 million, or 1%, to \$17.9 million as compared to Fiscal 2018. The overall increase in general and administrative expense was primarily driven by a \$0.7 million increase related to Ascio expenses. The overall increase in general and administrative expenses was partially offset by a foreign exchange gain of \$0.5 million.

**DEPRECIATION OF PROPERTY AND EQUIPMENT**

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

	Year ended December 31,	
	2019	2018
Depreciation of property and equipment	\$ 486	\$ 424
Increase over prior period	\$ 62	
Increase - percentage	15%	
Percentage of net revenues	0%	0%

Depreciation costs for Fiscal 2019 increased to \$0.5 million when compared to \$0.4 million for Fiscal 2018. The increase is driven by an increase in computer hardware assets, compared to Fiscal 2018.

**LOSS ON DISPOSAL OF PROPERTY AND EQUIPMENT***(Dollar amounts in thousands of U.S. dollars)*

	Year ended December 31,	
	2019	2018
Loss on disposition of property and equipment	\$ 73	\$ -
Increase over prior period	\$ 73	
Increase - percentage	N/A%	
Percentage of net revenues	0%	-%

Loss on disposal costs were \$0.1 million during the Fiscal 2019 related to equipment disposal from the Kirkland office.

**AMORTIZATION OF INTANGIBLE ASSETS***(Dollar amounts in thousands of U.S. dollars)*

	Year ended December 31,	
	2019	2018
Amortization of intangible assets	\$ 9,209	\$ 7,247
Increase over prior period	\$ 1,962	
Increase - percentage	27%	
Percentage of net revenues	3%	2%

Amortization of intangible assets increased \$2.0 million for Fiscal 2019, to \$9.2 million. The increase is primarily driven by the acquisition of Ascio.

Network rights, brand and customer relationships acquired in connection with the acquisitions eNom in January 2017, Roam Mobility brands in September of 2017 and Ascio in March of 2019 are amortized on a straight-line basis over a range of two to seven years.

**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)*

	Year ended December 31,	
	2019	2018
Loss (gain) on currency forward contracts	\$ (198)	\$ 254
Decrease over prior period	\$ (452)	
Decrease - percentage	178%	
Percentage of net revenues	0%	0%

We have entered into certain forward exchange contracts that do not comply with the requirements of hedge accounting to meet a portion of our future Canadian dollar requirements through December 2019. During Fiscal 2019, the Company recorded a net gain of \$0.3 million on the change in fair value of outstanding contracts as well as a \$0.1 million realized loss on matured contracts. In Fiscal 2018 the Company recorded a net loss of \$0.2 million for the change in fair value of outstanding contracts and a loss of less than \$0.1 million of settlements of contracts not designated as hedges.

At December 31, 2019, our balance sheet reflects a derivative instrument asset of \$0.7 million as a result of our existing foreign exchange contracts. Until their respective maturity dates, these contracts will fluctuate in value in line with movements in the Canadian dollar relative to the U.S. dollar.

**OTHER INCOME AND (EXPENSES)***(Dollar amounts in thousands of U.S. dollars)*

	Year ended December 31,	
	2019	2018
Other income (expense), net	\$ (4,769)	\$ (3,169)
Increase over prior period	\$ (1,600)	
Increase - percentage	50%	
Percentage of net revenues	1%	1%

Other expenses increased by \$1.6 million when compared to Fiscal 2018 primarily due to interest incurred on our credit facility with the majority of the borrowings on the credit facility to support the build-out of the Ting Fiber network. 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 obtained to fund 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 of \$0.5 million 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**

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

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

	<b>Year ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Provision for income taxes	\$ 9,173	\$ 9,020
Increase in provision over prior period	\$ 153	
Increase - percentage	2%	
Effective tax rate	37%	34%

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

Fiscal 2019 includes tax on profits of \$24.6 million compared to \$26.2 million for Fiscal 2018. Our Fiscal 2019 income tax expense benefited from the inclusion of a \$0.6 million tax recovery related to the adoption of ASU 2016-09, which requires all excess tax benefits and tax deficiencies related to employee share-based payments to be recognized through income tax expense on a prospective basis. The Fiscal 2018 tax recovery related to excess tax benefits related to employee share-based compensation was \$0.7 million.

On December 22, 2017, the Act was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system, bonus depreciation that will allow for full expensing of qualified property, and a one-time transition tax on the mandatory deemed repatriation of foreign earnings.

In Fiscal 2019, the Company was able to utilize the bonus depreciation with respect to its continued investment in the Ting Internet business. The impact of this, together with the reduction in tax rate to 21%, make it unlikely we will ultimately be able to fully claim the Fiscal 2019 foreign taxes paid in future years. As such, we have taken a valuation allowance for foreign tax credits and R&D tax credits not utilized for 2019 income tax purposes and net operating losses not expected to be utilized in the future, the net negative effect of which is a \$5.3 million addition to income tax expense, as compared to \$2.8 million additional tax expense in Fiscal 2018.

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

**OTHER COMPREHENSIVE INCOME (LOSS)**

To mitigate the impact of the change in fair value of our foreign exchange contracts on our financial results, in October 2012 we began applying hedge accounting for the majority of the contracts we need to meet our Canadian dollar requirements on a prospective basis. The impact of the fair value adjustment on outstanding hedged contracts for Fiscal 2019 was a net loss in other comprehensive income of \$0.8 million compared to a net loss of \$0.1 million for Fiscal 2018.

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

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

	<b>Year ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Other comprehensive income (loss)	\$ 1,283	\$ (810)
Increase over prior period	\$ 2,093	
Increase - percentage	(258)%	
Percentage of net revenues	0%	0%

The impact of the fair value adjustments on outstanding hedged contracts during 2019 was a gain in OCI of \$1.1 million as compared to a loss of \$1.0 million during 2018.

The net amount reclassified to earnings during 2019 was a loss of \$0.2 million compared to a loss of \$0.2 million during 2018.

***Liquidity and capital resources***

As of December 31, 2020, our cash and cash equivalents balance decreased \$12.1 million when compared to December 31, 2019. Our principal uses of cash were \$44.5 million for the continued investment in property, equipment and intangible assets, \$8.8 million for the Acquisition of Cedar, \$3.3 million in stock repurchases, and \$0.6 million of other costs, including tax payment associated with stock option exercises and loan payable costs. These uses of cash were offset by cash provided by operating activities of \$36.1 million, advances of \$8.0 million from our 2019 Amended Credit Facility (as defined below), and \$1.0 million of proceeds received on exercise of stock options.

***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 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.

On November 27, 2019, the Company entered into Amending Agreement No. 1 to the Amended and Restated Senior Secured Credit Agreement (collectively with the Amended and Restated Senior Secured Credit Agreement, the “Amended 2019 Credit Facility”) to amend certain defined terms in connection with the Cedar acquisition.

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.

***Other Credit Facilities***

Prior to the Company entering into the Amended 2019 Credit Facility, the Company had entered into the 2017 Amended Credit Facility and prior credit facilities with Bank of Montreal (“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 2017 Amended Credit Facility and the prior credit facilities with BMO have been terminated.

As of December 31, 2020, the Company held contracts in the amount of \$31.8 million with BMO to trade U.S. dollars in exchange for Canadian dollars under an uncommitted treasury risk management facility which assists the Company with hedging Canadian dollar exposures.

**Cash Flow from Operating Activities**

**Year ended December 31, 2020**

Net cash inflows from operating activities were \$36.1 million, a decrease of 11% when compared to the prior year. Net income, after adjusting for non-cash charges, during Fiscal 2020 was \$36.0 million, a decrease of 6% when compared to the prior year. Net income included non-cash charges and recoveries of \$30.2 million such as depreciation, amortization, impairment of indefinite life intangible asset, loss on write-off of property and equipment, write-down on disposal of Ting Mobile customer assets and contract costs, excess tax benefits on stock-based compensation, stock-based compensation, the provision for unrealized losses on currency forward contracts and a recovery for deferred tax. This generation of cash from net income was further increased by a working capital change of \$0.1 million. We generated \$6.7 million from movements in inventory, income taxes recoverable, accrued liabilities, customer deposits and deferred revenue. These positive contributions were offset by cash use of \$6.6 million to invest in accounts receivable, prepaid expenses and deposits, deferred costs of fulfillment, accounts payable, and accreditation fees.

**Year ended December 31, 2019**

Net cash inflows from operating activities were \$40.4 million, an increase of 9% when compared to the prior year. Net income, after adjusting for non-cash charges, during Fiscal 2019 was \$38.4 million, an increase of 8% when compared to the prior year. Net income included non-cash charges and recoveries of \$23.0 million such as depreciation, amortization, impairment of indefinite life intangible asset, excess tax benefits on stock-based compensation, stock-based compensation, the provision for unrealized losses on currency forward contracts and a recovery for deferred tax. This generation of cash from net income was further increased by a working capital change of \$2.0 million. We generated \$13.3 million from movements in inventory, prepaid registration costs, prepaid expenses and deposits, accrued liabilities and customer deposits. These positive contributions were offset by cash use of \$11.3 million to invest in accounts receivable, deferred revenue, income taxes recoverable, accounts payable, and accreditation fees.

**Year ended December 31, 2018**

Net cash inflows from operating activities were \$37.2 million, an increase of 17% when compared to the prior year. Net income, after adjusting for non-cash charges, during Fiscal 2018 was \$35.4 million, an increase of 18% when compared to the prior year. Net income included non-cash charges and recoveries of \$18.3 million such as depreciation, amortization, impairment of indefinite life intangible asset, excess tax benefits on stock-based compensation, stock-based compensation, the provision for unrealized losses on currency forward contracts and a recovery for deferred tax. This generation of cash from net income was further increased by our increasing working capital of \$1.8 million. We generated \$24.9 million from movements in accounts receivables, deferred registration costs, accounts payable and income taxes recoverable. These positive contributions were offset by cash use of \$23.1 million to invest in deferred revenue, accreditation fees, inventory, prepaid expenses and deposits, customer deposits and accrued liabilities.

**Cash Flow from Financing Activities**

***Year ended December 31, 2020***

Net cash inflows from financing activities during Fiscal 2020 totaled \$5.1 million as compared to cash inflows of \$43.5 million during Fiscal 2019. Net cash inflows of \$8.0 million resulting from draws on the 2019 Amended Credit Facility and \$1.0 million from proceeds received on the exercise of stock options. These cash inflows were partially offset by \$3.3 million outflow for stock repurchases, \$0.6 million outflow from the net impact of exercise of stock options and \$0.1 million of loan costs.

***Year ended December 31, 2019***

Net cash inflows from financing activities during Fiscal 2019 totaled \$43.5 million as compared to cash outflows of \$12.9 million during Fiscal 2018. Net cash inflows of \$57.4 million resulting from draws on the 2019 Amended Credit Facility to fund the FTTH capital expenditures, the acquisition of Ascio and general working capital requirements. These cash inflows were partially offset by outflows of \$8.1 million of principal repayments relating to our 2019 Credit Amended Credit Facility, \$5.0 million in stock repurchases, \$0.6 million of loan costs and \$0.2 million outflow from the net impact of exercise of stock options.

***Year ended December 31, 2018***

Net cash outflows from financing activities during Fiscal 2018 totaled \$12.9 million as compared to cash inflows of \$65.2 million during Fiscal 2017. Net cash inflows of \$7.0 million resulting from draws on the 2017 Amended Credit Facility to fund the FTTH capital expenditures and general working capital requirements. These cash inflows were partially offset by outflows of \$19.6 million of principal repayments relating to our 2017 Credit Amended Credit Facility, \$0.3 million outflow from the net impact of exercise of stock options

**Cash Flow from Investing Activities**

***Year ended December 31, 2020***

Investing activities during the Fiscal 2020 used net cash of \$53.3 million as compared to using \$76.1 million during Fiscal 2019.

Cash outflows of \$44.5 million related to the investment in property, equipment and intangible assets, primarily to support the continued expansion of our fiber footprint. In addition, the Company used \$8.8 million in connection with the acquisition of Cedar. The Company continues to invest in our existing Ting Towns of Centennial, Colorado, Charlottesville, Virginia, Fuquay-Varina, North Carolina, Wake Forest, North Carolina, Holly Springs, North Carolina, and Sandpoint, Idaho as well as ramping construction in Roaring Fork, Colorado, Rolesville, North Carolina, and Culver City, California, 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 2021.

***Year ended December 31, 2019***

Investing activities during the Fiscal 2019 used net cash of \$76.1 million as compared to using \$29.7 million during Fiscal 2018.

Cash outflows of \$28.5 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 \$44.1 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, Virginia, Holly Springs, North Carolina and Westminster, Maryland as well ramping construction in Sandpoint, Idaho, Centennial, Colorado, and Fuquay Varina, North Carolina, 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.

***Year ended December 31, 2018***

Investing activities during the Fiscal 2018 used net cash of \$29.7 million as compared to using \$94.1 million during Fiscal 2017.

In the second half of Fiscal 2018, the Company purchased customer relationships related to hosting and mobile services for \$0.6 million. On February 14, 2018, the Company acquired the remaining 10% interest in Ting Virginia, LLC. for a consideration of \$1.2 million. The consideration was funded through cash flow from operations. See Note 3(a) of the Notes to the Consolidated Financial Statements included in this report. In addition, the Company invested \$27.9 million in property and equipment, primarily to support the continued expansion of our fiber footprint. The Company continues to invest in our Ting towns of Charlottesville, Virginia, Holly Springs, North Carolina and Westminster, Maryland.

We may need additional funds or seek other financing arrangements to facilitate more rapid expansion, develop new or enhance existing products or services, respond to competitive pressures or acquire or invest in complementary businesses, technologies, services or products. We may also evaluate potential acquisitions of other businesses, products and technologies. We currently have no commitments or agreements regarding the acquisition of other businesses. If additional financing is required, we may need additional equity or debt financing and any additional financing may be dilutive to existing investors. We may not be able to raise funds on acceptable terms, or at all.

**Off Balance Sheet Arrangements**

We did not have any off-balance sheet arrangements as of December 31, 2020.

**Contractual Obligations**

For the purpose of the contractual obligations table below, contractual obligations for purchases of goods or services are defined as agreements that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. The expected timing of payment of the obligations discussed below is estimated based on information available to us as of December 31, 2020. Timing of payments and actual amounts paid may be different depending on the time of receipt of goods or services or changes to agreed-upon amounts for some obligations. The following table summarizes our contractual obligations at December 31, 2020 (Dollar amounts in thousands of US dollars):

<u>Contractual Obligations for the year ending December 31,</u>	<u>Contractual Lease Obligations</u>	<u>Debt Obligations</u>	<u>Purchase Obligations (1)</u>	<u>Total Obligations</u>
2021	\$ 2,084	\$ -	\$ 10,262	\$ 12,346
2022	2,057	-	9,742	11,799
2023	1,979	122,400	13,967	138,346
2024	1,439	-	19,078	20,517
2025	900	-	5,283	6,183
Thereafter	4,071	-	93	4,164
	<u>\$ 12,530</u>	<u>\$ 122,400</u>	<u>\$ 58,425</u>	<u>\$ 193,355</u>

(1) Purchase obligations include all other legally binding service contracts for mobile telephone services and other operational agreements to be delivered during Fiscal 2021 and subsequent years. Note, Purchase Obligations do not include interest payments on the Company's credit facilities.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We develop products in Canada and sell these services in North America and Europe. Our sales are primarily made in U.S. dollars, while a major portion of expenses are incurred in Canadian dollars. Our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. Our interest income is sensitive to changes in the general level of Canadian and U.S. interest rates, particularly since the majority of our investments are in short-term instruments. Based on the nature of our short-term investments, we have concluded that there is no material interest rate risk exposure as of December 31, 2020. 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; 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 forward contracts to mitigate the exchange rate risk on portions of our Canadian dollar exposure.

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As of December 31, 2020, we had the following outstanding foreign exchange forward contracts to trade U.S. dollars in exchange for Canada dollars:

<u>Maturity date (Dollar amounts in thousands of U.S. dollars)</u>	<u>Notional amount of U.S. dollars</u>	<u>Weighted average exchange rate of U.S. dollars</u>	<u>Fair value</u>
January - March 2021	11,125	1.4283	1,327
April - June 2021	9,879	1.4283	1,179
July - September 2021	10,782	1.4362	1,353
	<u>\$ 31,786</u>	1.4310	<u>\$ 3,860</u>

As of December 31, 2020, the Company had \$31.8 million of outstanding foreign exchange forward contracts which will convert to CDN \$45.5 million. Of these contracts, \$26.8 million met the requirements for hedge accounting.

As of December 31, 2019, the Company had \$30.5 million of outstanding foreign exchange forward contracts which will convert to CDN \$40.5 million. Of these contracts, \$26.1 million met the requirements for hedge accounting.

We have performed a sensitivity analysis model for foreign exchange exposure over the year ended December 31, 2020. The analysis used a modeling technique that compares the U.S. dollar equivalent of all expenses incurred in Canadian dollars, at the actual exchange rate, to a hypothetical 10% adverse movement in the foreign currency exchange rates against the U.S. dollar, with all other variables held constant. Foreign currency exchange rates used were based on the market rates in effect during the year ended December 31, 2020. The sensitivity analysis indicated that a hypothetical 10% adverse movement in foreign currency exchange rates would result in a decrease in pre-tax net income for the year ended December 31, 2020 of approximately \$4.5 million. There can be no assurances that the above projected exchange rate decrease will materialize. Fluctuations of exchange rates are beyond our control. We will continue to monitor and assess the risk associated with these exposures and may take additional actions in the future to hedge or mitigate these risks.

### Credit Risk

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

### Interest rate risk

Our exposure to interest rate fluctuations relate primarily to our 2019 Amended Credit Facility.

As of December 31, 2020, we had an outstanding balance of \$121.7 million on the 2019 Amended Credit Facility. The 2019 Amended Credit Facility bears a base interest rate based on borrowing elections by the Company with a marginal rate calculated as a function the Company's total Funded Debt to EBITDA, plus the applicable LIBOR rate. In May 2020, the Company entered into a pay-fixed, receive-variable interest rate swap with a Canadian chartered bank to limit the potential interest rate fluctuations incurred on its future cash flows related to variable interest payments on the Credit facility. The notional value of the interest rate swap was \$70 million. The Company does not use the interest rate swap for trading or speculative purposes. The contract is coterminous with the Credit facility, maturing in June 2023. As of December 31, 2020, an adverse change of one percent on the interest rate would have the effect of increasing our annual interest payment on 2019 Amended Credit Facility by approximately \$0.5 million, assuming that the loan balance as of December 31, 2020 is outstanding for the entire period.

The Company is currently charged interest based on LIBOR, a key global reference interest rate. The interest is partially hedged by interest rate swaps held by the Company. Currently, LIBOR's regulator and administrators are seeking to discontinue the publication of LIBOR. Global markets working groups around the world continue to search and recommend an alternative reference rate for LIBOR. In the U.S., the Alternative Reference Rates Committee ("ARRC") has identified the Secured Overnight Financing Rate ("SOFR") as its preferred alternative rate for USD LIBOR, however work continues across all jurisdictions to evaluate alternatives and establish transition plans and timelines. Both the credit facility agreement and the interest rate swaps will need to be amended when an alternative reference rate is chosen, at which time we may adopt some of the practical expedients provided by ASU 2020-04. As mentioned above, the Company has assessed which existing contracts reference LIBOR and we will continue to monitor the situation and recommendations for an alternative reference rate as they become available. Additionally, the Company will continue proactive discussions and renegotiations with counterparties around the reference rate change as appropriate.