TUCOWS INC /PA/
Form 10-K
March 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO

SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 001-32600

Tucows Inc.

(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania	**23-2707366**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
96 Mowat Avenue	
Toronto, Ontario, Canada	**M6K 3M1**
(Address of Principal Executive Offices)	(Zip Code)

Registrant’s telephone number, including area code: **(416) 535-0123**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**

Common stock, no par value NASDAQ

Securities registered pursuant to Section 12(g) of the Act:

(Title of Class)
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

As of June 30, 2015 (the last day of our most recently completed second quarter), the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $253.6 million. Such aggregate market value was computed by reference to the closing sale price per share of $27.85 as reported on the NASDAQ on such date. For purposes of making this calculation only, the registrant has defined affiliates as including all officers, directors and beneficial owners of more than ten percent of the outstanding shares of common stock of the Company. In making such calculation, the registrant is not making a determination of the affiliate or non-affiliate status of any holders of shares of the registrant's common stock.

The number of shares outstanding of the registrant's common stock as of March 4, 2016 was 10,691,106.

TUCOWS INC.

ANNUAL REPORT ON FORM 10-K

For Fiscal Year Ended December 31, 2015

TABLE OF CONTENTS

TRADEMARKS, TRADE NAMES AND SERVICE MARKS

Tucows®, EPAG®, Hover®, OpenSRS®, Platypus®, Ting® and YummyNames® are registered trademarks of Tucows Inc. or its subsidiaries. Other service marks, trademarks and trade names of Tucows Inc. or its subsidiaries may be used in this Annual Report on Form 10-K (this “Annual Report”). All other service marks, trademarks and trade names referred to in this Annual Report are the property of their respective owners. Solely for convenience, any trademarks referred to in this Annual Report may appear without the ® or TM symbol, but such references are not intended to indicate, in any way, that we or the owner of such trademark, as applicable, will not assert, to the fullest extent under applicable law, our or its rights, or the right of the applicable licensor, to these trademarks.

Information Concerning Forward-Looking Statements

This Annual Report on Form 10-K contains, in addition to historical information, forward-looking statements by us with regard to our expectations as to financial results and other aspects of our business that involve risks and uncertainties and may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “may,” “should,” “anticipate,” “believe,” “plan,” “estimate,” “expect” and “intend,” and o similar expressions are intended to identify forward-looking statements. The forward-looking statements contained in this report include statements regarding, among other things, the competition we expect to encounter as our business develops and competes in a broader range of Internet services, the Company's foreign currency requirements, specifically for the Canadian dollar; Ting mobile and fixed Internet access subscriber growth and retention rates, the number of new, renewed and transferred-in domain names we register as our business develops and competes; the effect of a potential global top level domain (“gTLD”) expansion by the Internet Corporation for Assigned Names and Numbers (“ICANN”) on the number of domains we register and the impact it may have on related revenues; our belief that the market for domain name registration will trend upward gradually and may be affected by market volatility; our belief that, by increasing the number of services we offer, we will be able to generate higher revenues; the revenue that our parked page vendor relationships may generate in the future; the effectiveness of our intellectual property protection, including our ability to license proprietary rights to network partners and to register additional trademarks and service marks; the potential impact of current and pending claims on our business; our valuations of certain deferred tax assets; our expectation to collect our outstanding receivables, net of our allowance for doubtful accounts; our expectation regarding fluctuations in certain expense and cost categories; our expectations regarding our unrecognized tax benefit and the timing or completion of certain audits of our US, Canadian and German tax returns; our expectations regarding cash from operations to fund our business; the impact of cancellations of or amendments to market development fund programs under which we receive funds, and general business conditions and economic uncertainty. These statements are based on management’s current expectations and are subject to a number of uncertainties and risks that could cause actual results to differ materially from those described in the forward-looking statements. Many factors affect our ability to achieve our objectives and to successfully develop and commercialize our services including:

- Changes in the nature of key strategic relationships with our Mobile Virtual Network Operator ("MVNO") partners;
- The effects of vigorous competition on a highly penetrated mobile telephony market, including the impact of competition on the price we are able to charge subscribers for services and devices and on the geographic areas served by our MVNO partner wireless networks;
- Our ability to manage any potential increase in subscriber churn or bad debt expense;
- Our ability to continue to generate sufficient working capital to meet our operating requirements;
- Our ability to maintain a good working relationship with our vendors and customers;

- The ability of vendors to continue to supply our needs;

- Actions by our competitors;

- Our ability to attract and retain qualified personnel in our business;

- Our ability to effectively manage our business;

- The effects of any material impairment of our goodwill or other indefinite-lived intangible assets;

- Our ability to obtain and maintain approvals from regulatory authorities on regulatory issues;

- Our ability to invest in the build-out of fiber networks into selected towns and cities to provide Internet access services to residential and commercial customers while maintaining the development and sales of our established services;

- Pending or new litigation; and

- Factors set forth herein under the caption "Item 1A Risk Factors".

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

PART I

ITEM 1. BUSINESS

Overview

Our principal place of business is located in Canada.

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

We accomplish this by reducing the complexity our customers' experience as they access the Internet (at home or on the go) and while using Internet services such as domain name registration, email and other Internet services. We are organized, managed and report our financial results as two segments, Network Access Services and Domain Services, which are differentiated primarily by their services, the markets they serve and the regulatory environments in which they operate.

Our management regularly reviews our operating results on a consolidated basis, principally to make decisions about how we utilize our resources and to measure our consolidated operating performance. To assist us in forecasting growth and to help us monitor the effectiveness of our operational strategies, our management regularly reviews revenue for each of our service offerings in order to gain more depth and understanding of the key business metrics driving our business. Accordingly, we report Network Access Services and Domain Services revenue separately.

Network Access Services

Network Access Services derives revenue from the sale of retail mobile phones and services ("Ting Mobile") to individuals and small businesses through the Ting website.

We also derive revenue from the sale of fixed high-speed Internet access ("Ting Internet") in select towns including Holly Springs, North Carolina; Westminster, Maryland; and Charlottesville, Virginia. We also derive revenue from providing Internet hosting and network consulting services to customers in Central Virginia through our acquisition of a 70% share in Ting Virginia, LLC on February 27, 2015.

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

Domain Services

Domain Services include wholesale and retail domain name registration services, value added services and portfolio services. We earn revenues primarily from the registration fees charged to resellers in connection with new, renewed and transferred domain name registrations; the sale of retail Internet domain name registration and email services to individuals and small businesses; and by making our portfolio of domain names available for sale.

Domain Services revenues are attributed to the country in which the contract originates, primarily Canada.

Domain Services' primary distribution channel is a global network of more than 13,000 resellers in more than 100 countries who typically provide their customers, the end-users of the Internet, with a critical component for establishing and maintaining an online presence. Our primary focus is serving the needs of this network of resellers by providing superior services, easy-to-use interfaces, proactive and attentive customer service. We seek to provide superior customer service to our resellers by anticipating their business needs and technical requirements. This includes providing easy-to-use interfaces that enable resellers to quickly and easily integrate our services into their individual business processes. We also provide "second tier" support to our resellers in the event resellers experience issues with our services. In addition, our Network Operating Center provides proactive support to our resellers by monitoring all network infrastructure to address deficiencies before customer services are impacted.

We believe that the underlying platforms for our services are among the most mature, reliable and functional reseller-oriented provisioning and management platforms in our industry, and we continue to refine, evolve and improve these services for both resellers and end-users.

Wholesale, primarily branded as OpenSRS, derives revenue from its Domain Service and from providing Value-Added Services. The OpenSRS Domain Service manages 13.3 million domain names under the Tucows ICANN registrar accreditation and for other registrars under their own accreditations. Value-Added Services include hosted email which provides email delivery and webmail access to millions of mailboxes, SSL certificates, and reseller billing services. All of these services are made available to end-users through a network of over 13,000 web hosts, Internet service providers ("ISPs"), and other resellers around the world. In addition, we also derive revenue from the bulk sale of domain names and advertising from the OpenSRS Domain Expiry Stream.

Retail, primarily through our retail website hover.com (“Hover”), derives revenues from the sale of domain name registration and email services to individuals and small businesses. Retail also includes our Real 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.

The Tucows Domain Portfolio generates revenue by offering the portfolio’s domain names for resale via our reseller network and other channels. In addition, we generate revenue from the payments for the sale of rights to gTLD strings under the New gTLD program.

Additional information about segments can be found in “Note 18 – Segment information” in the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report.

Net Revenues

Network Access Services

Mobile and Other services

We derive revenue from Ting's sale of retail mobile phones and services to individuals and small businesses nationally as well as providing fixed high speed internet access in select cities and Internet hosting and network consulting services to customers in Central Virginia. Ting provides customers with access to our provisioning and management tools via the ting.com website.

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

Domain Services

Wholesale - OpenSRS Domain Service

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

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

With respect to the sale of domain registrations, we earn registration fees in connection with each new, renewed and transferred-in registration and from providing provisioning services to Service Providers and registrars on a monthly basis. Domain registrations are generally purchased for terms of one to ten years. Payments for the full term of all services, or billed revenue, are received at the time of activation of service and where appropriate are recorded as deferred revenue and are recognized as earned ratably over the term of provision of service. This accounting treatment reasonably approximates a recognition pattern that corresponds with the provision of the services during the quarters and the year.

Wholesale – OpenSRS Value-Added Services

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

We also derive revenue from other Value-Added Services primarily from provisioning SSL certificates and the bulk sale of domain names and advertising from the OpenSRS Domain Expiry Stream.

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

Retail – Hover

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

Portfolio

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

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

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

For information about geographic areas, see "Note 18 – Segment information" in the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report

Intellectual Property

We believe that we are well positioned in the wholesale domain registration and email markets due in part to our highly-recognized "Tucows" and "OpenSRS" brands and the respect they confer on us as a defender of end-user rights and reseller-friendly approaches to doing business. We were among the first group of 34 registrars to be accredited by

ICANN in 1999, and we remain active in Internet governance issues.

Our success and ability to compete depend on our ability to develop and maintain the proprietary aspects of our brand name and technology. We rely on a combination of trademark, trade secret and copyright laws, as well as contractual restrictions to protect our intellectual property rights.

We have registered the Tucows trademark in the United States, Canada and the European Union and we register additional service marks and trademarks as appropriate and where such protection is available.

We seek to limit disclosure of our intellectual property by requiring all employees and consultants with access to our proprietary information to commit to confidentiality, non-disclosure and work-for-hire agreements. All of our employees are required to sign confidentiality and non-use agreements, which provide that any rights they may have in copyrightable works or patentable technologies accrue to us. Before entering into discussions with potential vendors and partners about our business and technologies, we require them to enter into a non-disclosure agreement. If these discussions result in a license or other business relationship, we also generally require that the agreement containing the parties' rights and obligations include provisions for the protection of its intellectual property rights.

Customers

The majority of the customers to whom we provide reseller services are generally either web hosts or ISPs. A small number are consultants and designers providing our services to their business clients. Both our Retail Domain Services and our Network Access Services customers are a very broad mix of consumers, small businesses and corporations.

No customer represented more than 10% of our consolidated revenues in any of the last three fiscal years.

While web hosts and ISPs are capitalizing on the growth in Internet usage and the demand for new services, they also face significant competition from numerous other service providers with competitive or comparable offerings. This has led such web hosts and ISPs to focus on core competencies, as such resellers are increasingly seeking to outsource non-core services. Outsourcing enables these resellers to better focus on customer acquisition and retention efforts by eliminating the need to own, develop and support non-core applications in-house.

Seasonality

During the summer months and certain other times of the year, such as major holidays, Internet usage often declines. As a result, many of our services (OpenSRS, Hover and Ting) may experience reduced demand during these times. For example, our experience shows that new domain registrations decline during the summer months and around the year-end holidays. Seasonality may also affect advertising, which may have a slight impact on advertisement-based revenue. These seasonal effects could cause fluctuations in our financial results.

Competition

Our competitors may be divided into the following groups:

- US Mobile Phone Service providers such as AT&T, Verizon, T-Mobile and Sprint, who primarily compete with Ting Mobile Services.
- Retail-oriented domain registrars, such as GoDaddy and Web.com who compete with our Reseller customers in Wholesale Domain Services and with Hover.
- Wholesale-oriented domain registrars, such as Rightside and Melbourne IT, who market services to resellers such as our customers.
- Wholesale Email Service providers, such as Google, Microsoft, Bluetie and MailTrust.

We expect to continue to experience significant competition from the competitors identified above and, as our business continues to develop, we expect to encounter competition from other providers. Service providers, Internet portals, web hosting companies, email hosting companies, outsourced application companies, country code registries and major telecommunication firms may broaden their services to include services we offer.

We believe the primary competitive factors in our Domain Services are:

- Providing superior customer service by anticipating the technical requirements and business objectives of resellers and providing them with technical advice to help them understand how our services can be customized to meet their particular needs;

- Providing cost savings over in-house solutions by relieving resellers of the expense of acquiring and maintaining hardware and software and the associated administrative burden;
- Enabling resellers to better manage their relationships with their end-users;
- Facilitating scalability through an infrastructure designed to support millions of transactions across millions of end-users; and
- Providing superior technology and infrastructure, consisting of industry-leading software and hardware that allow resellers to provide these services to their customers without having to make substantial investments in their own software or hardware.

Although we encounter pricing pressure in many markets in which we compete, we believe the effects of that pressure are mitigated by the fact that we deliver a high degree of value to our customers through our business and technical practices. We believe our status as a trusted supplier also allows us to mitigate the effects of this type of competition. We believe that the long-term relationships we have made with many customers results in a sense of certainty that would not be available to those customers through a competitor.

Employees

As of December 31, 2015, we had approximately 325 full-time employees. None of our employees are currently represented by a labor union. We consider our relations with our employees to be good.

Corporate Information

We were incorporated under the laws of the Commonwealth of Pennsylvania in November 1992 under the name Infonautics, Inc. In August 2001, we completed our acquisition of Tucows Inc., a Delaware corporation, and we changed our name from Infonautics, Inc. to Tucows Inc. Our principal executive offices are located at 96 Mowat Avenue, Toronto, Ontario, M6K 3M1 Canada. Our telephone number is (416) 535-0123. We have offices in Germany, the Netherlands and the United States of America.

The public may read and copy any materials we file with the Securities and Exchange Commission, or SEC, at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549 on official business days during the hours of 10:00 am to 3:00 pm. The public may obtain information on the operation of the Public Reference Room by calling 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically at http://sec.gov.

Our web site address is tucows.com. We make available through our web site, free of charge, copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC. The information on the web site listed above is not and should not be considered part of this Annual Report and is not incorporated by reference in this document.

Executive Officers of the Registrant

The following table sets forth the names, ages and titles of persons currently serving as our executive officers.

Name	Age	Title
Elliot Noss	53	President and Chief Executive Officer
Michael Cooperman	64	Chief Financial Officer
David Woroch	53	Executive Vice President, Domains
Kenneth Schafer	56	Executive Vice President, Product
Carla Goertz	58	Executive Vice President, Human Resources
Michael Goldstein	44	Vice President, Sales and Marketing
Jody Stocks	51	Vice President, Engineering
Ross Rader	44	Vice President, Customer Experience

Elliot Noss has served as our President and Chief Executive Officer since May 1999 and served as Vice President of Corporate Services for Tucows Interactive Limited, which was acquired by Tucows in May 1999, from April 1997 to May 1999.

Michael Cooperman has served as our Chief Financial Officer since January 2000. From October 1997 to September 1999, Mr. Cooperman was the Chief Executive Officer of Archer Enterprise Systems Inc., a developer of sales force automation software.

David Woroch joined Tucows in March 2000 after thirteen years at IBM and, over the past sixteen years, has helped build Tucows' sales, marketing, business development, product management and technical support capabilities. Mr. Woroch currently serves as our Executive Vice President, Domains and he oversees the Domains business at Tucows, including OpenSRS (wholesale), Hover (retail) and the premium domain portfolio.

Kenneth Schafer has served as our Executive Vice President, Product since June 3 2009, having joined Tucows in 2006 as VP Marketing. Prior to joining Tucows, Mr. Schafer worked as an independent strategic Internet consultant for eight years.

Carla Goertz has served as Executive Vice President of Human Resources since June of 2009, having joined Tucows in 2005 as a Vice President of Human Resources. Prior to Joining Tucows, Carla had held several senior roles, as VP Human Resources and Administration at Systems Xcellence Inc., and Castek Software Inc., as well as Director of Human Resources at Tech Data Canada Corp. Carla received her CHRP in 1994 and was educated at Sheridan College.

Michael Goldstein has served as our Vice President, Sales and Marketing since September 2009. Before joining us, Mr. Goldstein spent five years at Ogilvy, NY as a Partner, Marketing Director managing advertising, brand identity, digital and public relations campaigns for clients such as TD Ameritrade, Kraft, GlaxoSmithKline and DoubleClick.

Jody Stocks has served as our Vice President, Engineering since 2012. Jody joined Tucows in October 2005 and served as our Director of MIS until 2008 when he was appointed Director of Software Engineering.

Ross Rader has been with Tucows since the very beginning. As Vice President, Customer Experience since 2012, he leads our customer service and support organization. In 2000, as our Director of Assigned Names, Ross helped launch Tucows OpenSRS service. In 2005, as General Manager, Retail Services he oversaw Tucows' retail domain operations, including the development and launch of Hover in 2008.

Investor Information

The public may read and copy any materials we file with the Securities and Exchange Commission, or SEC, at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549 on official business days during the hours of 10:00 am to 3:00 pm. The public may obtain information on the operation of the Public Reference Room by calling 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically at *http://sec.gov*.

Our web site address is *tucows.com*. We make available through our web site, free of charge, copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC. The information on the web site listed above is not and should not be considered part of this Annual Report on Form 10-K and is not incorporated by reference in this document.

We were incorporated in the Commonwealth of Pennsylvania in November 1992. Our executive offices are located at 96 Mowat Avenue, Toronto, Ontario, Canada M6K 3M1. Our telephone number is (416) 535-0123.

ITEM 1A. RISK FACTORS

Our business faces significant risks. Some of the following risks relate principally to our business and the industry and statutory and regulatory environment in which we operate. Other risks relate principally to the securities markets and ownership of our stock. The risks described below may not be the only risks we face. Additional risks that we do not yet know of or that we currently think are immaterial may also impair our business operations. If any of the events or circumstances described in the following risk factors actually occur, our business, financial condition or results of operations could suffer, and the trading price of our common stock could decline.

Risks Related to Our Business and Industry

Risks Related to Network Access Services

Competition in the wireless industry could adversely affect Ting's revenues and profitability.

The wireless communications market is extremely competitive, and competition for customers is increasing. We compete with (1) facilities-based wireless communications providers and their prepaid affiliates or brands, including Verizon, AT&T, Sprint and T-Mobile; and (2) other MVNOs.

Most of our competitors have substantially greater financial, technical, personnel and marketing resources and a larger market share than we do, and we may not be able to compete successfully against them or other wireless communications providers. Due to their size and bargaining power, our larger competitors obtain discounts for facilities, equipment, handsets, content, and services, potentially placing us at a competitive disadvantage. As consolidation in the industry creates even larger competitors, our competitors' purchasing advantages may increase further, hampering our efforts to attract and retain customers. Certain of our competitors may also use their ownership of local wireline and wireless telecommunications facilities to introduce service features and calling plans, such as free wireless-to-landline calls, that we are unable to offer at similar cost. Their larger wireless customer bases may make discounted or free in-network calling (that we do not offer currently) more attractive than any similar service that we may offer. This may adversely affect our ability to compete against these competitors in the longer term.

Ting has a short operating history which may not be indicative of our future performance and, if our revenue and earnings growth are not sustainable, we may not be able to generate the earnings necessary to fund our operations or continue to grow our business.

We launched Ting nationally in February 2012. Consequently, Ting has a limited operating and financial history upon which to evaluate its business model, financial performance and ability to succeed in the future. You should consider its prospects in light of the risks it may encounter, including risks and expenses faced by a new business competing in rapidly evolving and highly competitive markets. Ting cannot be certain that its Mobile Virtual Network Operator ("MVNO") business model or any specific products or services will be profitable or competitive in the long-term against larger, facilities-based wireless providers or other MVNOs. Ting also cannot predict whether its MVNO model will allow it to offer the wireless services that customers may demand in the future. If Ting is unable to achieve sufficient revenues and earnings from operations, its financial results will be adversely affected and it may not have sufficient cash to fund its current operations or sustain its continued growth.

Ting's service offerings may not be successful in the long term if it is unable to retain customers or attract new customers.

Ting services may not prove to be successful or profitable in the long term. Ting's long-term success is dependent upon its sustained ability to generate sufficient revenue from its subscribers based on their use of its services and its ability to respond to churn by adding new customers. If Ting is unable to sustain or increase the revenue that it generates from its existing customers or obtain new customers to replace churned customers, our operational performance and financial results may be adversely affected.

Ting may face competitive pressure to reduce prices for our products and services, which may adversely affect our profitability and other financial results.

As competition in the U.S. wireless communications industry has increased, providers have lowered prices or increased the number of minutes, messages and/or data units available under monthly service plans to attract or retain customers. To remain competitive with existing and future competitors, we may be compelled to offer greater subsidies for our handsets, reduce the prices for our services or increase the minutes, messages and/or data units that we offer under our postpaid monthly plans. Any subsidies or price reductions that we offer in order to remain competitive may reduce our margins and revenues, and may adversely affect our profitability and cash flows. Lower handset prices may also make our services more accessible to new, lower-value customers with less disposable income available to spend on our services. In addition, as handset prices decline and handsets become more disposable, customers without long-term contracts may change their wireless providers more frequently, thereby increasing our churn and resulting in higher acquisition costs to replace those customers. A shift to lower value or less loyal customers could have an adverse impact on our results of operations and cash flows.

The blurring of the traditional dividing lines among long distance, local, wireless, video and Internet services contributes to increased competition for Ting services.

The traditional dividing lines among long distance, local, wireless, video and Internet services are increasingly becoming blurred. In addition, the dividing lines between voice and data services are also becoming blurred. Through mergers, joint ventures and various service expansion strategies, major providers are striving to provide integrated services in many of the markets we serve. This trend is also reflected in changes in the regulatory environment that have encouraged competition and the offering of integrated services. We expect competition to continue to intensify as a result of the entrance of new competitors or the expansion of services offered by existing competitors. If we cannot compete effectively, our revenues, growth and profitability may be materially adversely affected.

If Ting is unable to keep pace with technological advances, our revenues, growth and profitability may be materially adversely affected.

The U.S. wireless communications industry is experiencing rapid growth of new technologies, products and services. We cannot predict which of many possible future technologies, products, or services will be important to maintain our competitive position or what expenditures we will be required to make in order to develop and provide these technologies, products or services. To the extent we do not keep pace with technological advances or fail to timely respond to changes in the competitive environment affecting our industry, we could lose market share or experience a decline in revenue, cash flows and net income. As a result of the financial strength and benefits of scale enjoyed by some of our competitors, they may be able to offer services at lower prices than we can, thereby adversely affecting our revenues, growth and profitability.

Ting employs a postpaid business model which exposes us to increased credit risk.

Ting offers its wireless services on a postpaid basis. The success of its postpaid offerings depends on its ability to manage its credit risk while attracting new customers with profitable usage patterns. Ting has a short operating history and there can be no assurance that it will be able to manage its credit risk or generate sufficient revenue to cover its postpaid-related expenses, including losses arising from its customers' failure to make payments when due. Ting manages credit risk exposure using techniques that are designed to set terms and limits for the credit risk it accepts. The techniques it uses may not accurately predict future defaults due to, among other things, inaccurate assumptions or fraud. Ting's ability to manage credit risk may also be adversely affected by legal or regulatory changes, competitors' actions, consumer behavior, and inadequate collections staffing or techniques. While Ting continually seeks to improve its assumptions and controls, its failure to manage its credit risks appropriately may materially adversely affect our profitability and ability to grow.

Ting may be limited in its ability to grow its business and customer base for its wireless service offerings unless it can continue to obtain network capacity at favorable rates and meet the growing demands on its business systems and processes.

To further expand our MVNO business, we must continue to obtain wireless network capacity at favorable rates and terms, provide adequate customer service and acquire and market a sufficient quantity and mix of handsets and related accessories. Our operating performance and ability to attract new customers may be adversely affected if we are unable to meet the increasing demands for our services in a timely and efficient manner, while adequately addressing the growing demands on our customer service, billing, and other back- office functions. Any change in our ability, or the ability of third parties with whom we contract, to provide these services also could adversely affect our operations and financial performance.

As an MVNO, Ting is dependent on two major network operators for their wireless networks and any disruptions of Ting's use of such networks may adversely affect its business and financial results.

As an MVNO, we do not own or operate a physical network, but rather utilize the nationwide wireless communication networks of two major mobile Network Operators ("Network Operators"). To be successful, we will need to continue to provide our customers with reliable service over their nationwide wireless communication networks. We rely on them and their third-party affiliates to maintain their wireless facilities and government authorizations and to comply with government policies and regulations. If they fail to do so, we may incur substantial losses. Delays or failure to add network capacity, or increased costs of adding capacity or operating the network, could limit our ability to increase our customer base, limit our ability to increase our revenues, or cause a deterioration of our operating margin. Some of the risks related to their nationwide wireless communication networks and infrastructure include: major equipment failures, breaches of network or information technology security that affect their wireless networks, including transport facilities, communications switches, routers, microwave links, cell sites or other equipment or third-party owned local and long-distance networks on which we rely, power surges or outages, software defects and disruptions beyond their control, such as natural disasters and acts of terrorism, among others. The Master Services Agreements "MSA" with our Network Operators does not contain any contractual indemnification provisions relating to network outages or other disruptions. Any impact on their nationwide wireless communication networks could disrupt Ting's operations, require significant resources, result in a loss of subscribers or impair our ability to attract new subscribers, which in turn could have a material adverse effect on our business, results of operations and financial condition.

We are dependent on technology used by our Network Operators. Wireless communications technology is evolving rapidly. A significant change in current wireless network technologies or the emergence of alternative technologies could reduce significantly our ability to offer a full range of data services, as compared to our competitors. If our Network Operators fail to keep up with these changes, we may lose customers or may not be able to attract new customers.

If our Network Operators terminate or determine that they do not wish to renew their Master Services Agreements on expiration for any reason, we may be unable to obtain the wireless services necessary to operate our business. In addition, transition to an alternative provider may be limited to a provider with a CDMA or GSM network as certain of our handsets are not capable of operating on all networks. Such a transition could be time-consuming and costly and we could lose a substantial number of customers during the transition period.

Our dependence on our Network Operators is not limited to our use of their nationwide networks. We rely on them and their third-party affiliates for other critical operational matters, including:

- continued expansion and improvement of their nationwide networks and their third-party affiliates' networks, which is expected to require additional investment;

- deployment of upgrades and maintenance of their nationwide networks;
- maintenance by our Network Operators of their relationships with their third-party affiliates;
- maintenance by our Network Operators and their third-party affiliates of FCC authorizations in good standing;
- integration of new services into their nationwide networks;
- certification of new handsets for use on their nationwide networks;
- compliance with FCC, state E911 and other regulatory requirements;
- obtaining telephone numbers;
- maintenance of interconnection agreements; and
- compliance with applicable laws and regulations.

Ting competes with Network Operators' products and services, and we can provide no assurance of our continued partnership with the Network Operators.

We compete with Network Operators' products and services for mobile telephony services. In addition, our Network Operators may from time to time create products or acquire interests in businesses that directly or indirectly compete with us. As a result, their interests may be different from, or adverse to, ours. We can provide no assurance of our continued partnership with the Network Operators.

Risks related to Domain Services

We may not be able to maintain or improve our competitive position and may be forced to reduce our prices because of strong competition in the market for Internet services generally and domain name registration, in particular, which we expect will continue to intensify.

The market for Internet services generally and domain registrations in particular is intensely competitive and rapidly evolving as participants strive to protect their current market share and improve their competitive position, and we expect competition to intensify in the future. Most of our existing competitors are also expanding the variety of services that they offer. These competitors include, among others, domain name registrars, website design firms, website hosting companies, Internet service providers, Internet portals and search engine companies, including Google, Microsoft, Web.com, GoDaddy, VeriSign and Yahoo!. Competitors like Microsoft, Google and Yahoo!, as well as other large Internet companies, have the ability to offer these services for free or at a reduced price as part of a bundle with other service offerings. If these companies decide to devote greater resources to the development, promotion and sale of these new products and services, greater numbers of individuals and businesses may choose to use these competitors as their starting point for creating an online presence and as a general platform for running their online business operations. In particular, VeriSign may in the future decide to offer additional services that compete with our domain name registration services or other services. If VeriSign were to become a competitor of ours in our core business areas, VeriSign would likely enjoy a number of competitive advantages, including its position as the largest registry, as well as superior financial and operational resources and customer awareness within our industry.

In addition, these and other large competitors, in an attempt to gain market share, may offer aggressive price discounts on the services they offer. These pricing pressures may require us to match these discounts in order to remain competitive, which would reduce our margins, or cause us to lose customers who decide to purchase the discounted service offerings of our competitors. As a result of these factors, in the future it may become increasingly difficult for us to compete successfully

We also face significant competition from other existing registrars and the continued introduction of new registrars in the domain registration industry. Currently ICANN has over 2,100 active registrars who register domain names in one or more of the generic top level domains, or gTLDs, that it oversees. Not all of these accredited registrars, however, are operational. There are relatively few barriers to entry in this market, so as this market continues to develop we expect the number of competitors to increase. The continued entry into the domain registration industry and the rapid growth of some competitive registrars and service providers who have already entered the industry may make it difficult for us to maintain our current market share. As a result, we may not be able to compete effectively.

In addition, we cannot predict the impact ICANN’s New gTLD Program will have on the domain name industry. Our competitive position depends in part on our ability to secure access to these new gTLDs. A significant portion of our business relies on our ability to sell domain name registrations to our customers, and any limitations on our access to new gTLDs could adversely impact our ability to sell domain name registrations to customers, and thus adversely impact our business. In addition, the New gTLD Program could substantially change the domain name industry in unexpected ways and is expected to result in an increase in the number of domains registered by our competitors. If we do not properly manage our response to the change in business environment, and accurately predict the market's preference for specific gTLDs, it could adversely impact our competitive position or market share.

Each registry and the ICANN regulatory body impose a charge upon the registrar for the administration of each domain registration. If these fees increase, this may have a significant impact upon our operating results.

Each registry typically imposes a fee in association with the registration of each domain. For example, Verisign, the registry for .com, presently charges a $7.85 fee for each .com registration and ICANN currently charges a $0.18 fee for each .com domain name registered in the generic top level domains, or gTLDs, that fall within its purview. We have no control over these agencies and cannot predict when they may increase their respective fees. In terms of the current registry agreement between ICANN and Verisign that was approved by the U.S. Department of Commerce in November 2012, VeriSign will continue as the exclusive registry for the .com gTLD until November 2018. In addition, pricing of New gTLDs is generally not set or controlled by ICANN, which could result in aggressive price increases on any particularly successful New gTLDs. The increase in these fees with respect to any gTLDs either must be included in the prices we charge to our service providers, imposed as a surcharge or absorbed by us. If we absorb such cost increases, or if surcharges act as a deterrent to registration, our profits may be adversely impacted by these third-party fees.

We rely on our network of resellers to renew their domain registrations through us and to distribute our services, and if we are unable to maintain these relationships or establish new relationships, our revenues will decline.

The growth of our business depends on, among other things, our resellers' renewal of their customers' domain registrations through us. Resellers may choose to renew their domains with other registrars or their registrants may choose not to renew and pay for renewal of their domains. This may reduce our resellers' number of domain name registration customers which in turn would drive up their customer acquisition costs and harm our operating results. If resellers decide, for any reason, not to renew their registrations through us, it may in turn reduce the market to which our resellers could market our other higher-margin services, thereby further impacting our revenue and profitability and harming our operating results.

We believe that companies operating on the Internet are facing a period of consolidation. In addition, some of our resellers may decide to seek ICANN accreditation. Both of these situations could reduce the number of our active resellers, in which case our revenues may suffer.

If any of our competitors merge with one another, they will present a stronger combined force in the market and may attract the business of both existing and prospective resellers. In addition, our resellers may opt to build their own technical systems and seek ICANN accreditation in order that they may process domain applications themselves. If a number of our customers decide to pursue this option, our sales may decrease materially.

Our failure to secure agreements with country code registries or our subsequent failure to comply with the regulations of the country code registries could cause customers to seek a registrar that offers these services.

The country code top-level domain, or ccTLD, registries require registrars to comply with specific regulations. Many of these regulations vary from ccTLD to ccTLD. If we fail to comply with the regulations imposed by ccTLD registries, these registries will likely prohibit us from registering or continuing to register domains in their ccTLD. Any failure on our part to offer domain registrations in a significant number of ccTLDs or in a popular ccTLD would cause us to lose a competitive advantage and could cause resellers to elect to take their business to a registrar that does offer these services.

Our standard agreements may not be enforceable, which could subject us to liability.

We operate on a global basis and all of our resellers must execute our standard agreements that govern the terms of the services we provide to our customers. These agreements contain provisions intended to limit our potential liability arising from the provision of services to our resellers and their customers, including liability resulting from our failure to register or maintain domains properly, from downtime or poor performance with respect to our Internet services, or for insecure or fraudulent transactions pursuant to which we have issued SSL certificates. As most of our customers purchase our services online, execution of our agreements by resellers occurs electronically or, in the case of our terms of use, is deemed to occur because of a user’s continued use of the website following notice of those terms. We believe that our reliance on these agreements is consistent with the practices in our industry, but if a domestic, foreign or international court were to find that either one of these methods of execution is invalid or that key provisions of our services agreements are unenforceable, we could be subject to liability that has a material adverse effect on our business or we could be required to change our business practices in a way that increases our cost of doing business.

Regulation could reduce the value of Internet domain names or negatively impact the Internet domain acquisition process, which could significantly impair the value attributable to our acquisitions of Internet domain names.

The acquisition of expiring domain names for parked page commercialization, the sale of names or acquisition of names for other uses involves the registration of thousands of Internet domain names, both in the United States and internationally. We have acquired and intend to continue to acquire previously-owned Internet domain names that have expired and have, following the period of permitted reclamation by their prior owners, been made available for sale. The acquisition of Internet domain names generally is governed by federal or international regulatory bodies. The regulation of Internet domain names in the United States and in foreign countries is subject to change. Regulatory bodies could establish additional requirements for previously-owned Internet domain names or modify the requirements for holding Internet domain names. As a result, we might not acquire or maintain names that contribute to our financial results in the same manner as we currently do. Because certain Internet domain names are important assets, a failure to acquire or maintain such Internet domain names could adversely affect our financial results and our growth. Any impairment in the value of these important assets could cause our stock price to decline.

We have presence in the hosted messaging and email market, which is a volatile business.

Factors that are likely to contribute to fluctuations in our operating results from provisioning hosted email services include:

- the demand for outsourced email services;
- our ability to attract and retain customers and provide customer satisfaction;
- the ability to upgrade, develop and maintain our systems and infrastructure and to effectively respond to the rapid technological changes in the email market;
- the budgeting and payment cycles of our existing and potential customers;
- the amount and timing of operating costs and capital expenditures relating to expansion of the email service; and
- the introduction of new or enhanced services by competitors.

In order to succeed in the hosted email business, our email product must remain competitive. We believe that some of the competitive factors affecting the market for hosted email services include:

- breadth of platform features and functionality of our offering and the sophistication and innovation of our competitors;
- scalability, reliability, performance and ease of expansion and upgrade;
- ease of integration with customers' existing systems; and
- flexibility to enable customers to manage certain aspects of their systems and leverage outsourced services in other cases when resources, costs and time to market reasons favor an outsourced offering.

We believe competition will continue to be strong and further increase as our market attracts new competition, current competitors aggressively pursue customers, increase the sophistication of their offerings and as new participants enter the market. Many of our current and potential competitors have longer operating histories, larger customer bases, greater brand recognition in the business and greater financial, marketing and other resources than we do. Any delay in our development and delivery of new services or enhancement of existing services would allow our competitors additional time to improve their product offerings and provide time for new competition to develop and market messaging services. Increased competition could result in pricing pressures, reduced operating margins and loss of market share, any of which could cause our financial results to decline.

If we are unable to maintain our relationships with our customers our revenue may decline.

Our network of resellers is our principal source for distributing services. We also rely on our resellers to market, promote and sell our services. Our ability to increase revenues in the future will depend significantly on our ability to maintain our reseller network, to sell more services through existing resellers and to develop our relationships with existing resellers by providing customer and sales support and additional products. Resellers have no obligations to distribute our services and may stop doing so at any time. If we are not able to maintain our relationships with resellers, our ability to distribute our services will be harmed, and our revenue may decline.

Disputes over registration of domain names, the activities of our reseller's customers or the content of their websites could subject us to liability and could negatively affect the public's perception of our corporate image.

As a registrar of domain names services, we may be subject to potential liability for illegal activities by our resellers' customers on their websites. We provide an automated service that enables users to register domain names. We do not monitor or review, nor does our accreditation agreement with ICANN require that we monitor or review, the appropriateness of the domain names we register for our customers or the content of their websites, and we have no control over the activities in which these customers engage. While we have policies in place to terminate domain names or to take other action if presented with evidence of illegal conduct, customers could nonetheless engage in prohibited activities without our knowledge.

Several bodies of law may be deemed to apply to us with respect to various customer activities. Because we operate in a relatively new and rapidly evolving industry, and since our industry is characterized by rapid changes in technology and in new and growing illegal activity, these bodies of laws are constantly evolving. Some of the laws that apply to us with respect to certain customer activities include the following:

- The Communications Decency Act of 1996, or CDA, generally protects online service providers, such as Tucows, from liability for certain activities of their customers, such as posting of defamatory or obscene content, unless the online service provider is participating in the unlawful conduct. Notwithstanding the general protections from liability under the CDA, we may nonetheless be forced to defend ourselves from claims of liability covered by the CDA, resulting in an increased cost of doing business.

- The Digital Millennium Copyright Act of 1998, or DMCA, provides recourse for owners of copyrighted material who believe that their rights under U.S. copyright law have been infringed on the Internet. Under this statute, we generally are not liable for infringing content posted by third parties. However, if we receive a proper notice from a copyright owner alleging infringement of its protected works by web pages for which we provide hosting services, and we fail to expeditiously remove or disable access to the allegedly infringing material, fail to post and enforce a digital rights management policy or a policy to terminate accounts of repeat infringers, or otherwise fail to meet the requirements of the safe harbor under the statute, the owner may seek to impose liability on us.

Although established statutory law and case law in these areas to date generally have shielded us from liability for customer activities, court rulings in pending or future litigation may serve to narrow the scope of protection afforded us under these laws. In addition, laws governing these activities are unsettled in many international jurisdictions, or may prove difficult or impossible for us to comply with in some international jurisdictions. Also, notwithstanding the exculpatory language of these bodies of law, we may be embroiled in complaints and lawsuits which, even if ultimately resolved in our favor, add cost to our doing business and may divert management’s time and attention. Finally, other existing bodies of law, including the criminal laws of various states, may be deemed to apply or new statutes or regulations may be adopted in the future, any of which could expose us to further liability and increase our costs of doing business.

Domain name registrars also face potential tort law liability for their role in wrongful transfers of domain names. The safeguards and procedures we have adopted may not be successful in insulating us against liability from such claims in the future. In addition, we face potential liability for other forms of “domain name hijacking,” including misappropriation by third parties of our network of customer domain names and attempts by third parties to operate websites on these domain names or to extort the customer whose domain name and website were misappropriated. Furthermore, our risk of incurring liability for a security breach on a customer website would increase if the security breach were to occur following our sale to a customer of an SSL certificate that proved ineffectual in preventing it. Finally, we are exposed to potential liability as a result of our private domain name registration service, wherein we become the domain name registrant, on a proxy basis, on behalf of our customers. While we have a policy of providing the underlying Whois information and reserve the right to cancel privacy services on domain names giving rise to domain name disputes including when we receive reasonable evidence of an actionable harm, the safeguards we have in place may not be sufficient to avoid liability in the future, which could increase our costs of doing business.

Other Risks Related to Our Business

The international nature of our business exposes us to certain business risks that could limit the effectiveness of our growth strategy and cause our results of operations to suffer.

Expansion into international markets is an element of our growth strategy. Introducing and marketing our services internationally, developing direct and indirect international sales and support channels and managing foreign personnel and operations will require significant management attention and financial resources. We face a number of risks associated with expanding our business internationally that could negatively impact our results of operations, including:

- management, communication and integration problems resulting from cultural differences and geographic dispersion;

- compliance with foreign laws, including laws regarding liability of online resellers for activities of customers and more stringent laws in foreign jurisdictions relating to the privacy and protection of third-party data;

- accreditation and other regulatory requirements to provide domain name registration, website hosting and other services in foreign jurisdictions;

- competition from companies with international operations, including large international competitors and entrenched local companies;

- to the extent we choose to make acquisitions to enable our international expansion efforts, the identification of suitable acquisition targets in the markets into which we want to expand;

- difficulties in protecting intellectual property rights in international jurisdictions;

- political and economic instability in some international markets;

- sufficiency of qualified labor pools in various international markets;

- currency fluctuations and exchange rates;

- potentially adverse tax consequences or an inability to realize tax benefits; and

- the lower level of adoption of the Internet in many international markets.

We may not succeed in our efforts to expand our international presence as a result of the factors described above or other factors that may have an adverse impact on our overall financial condition and results of operations.

We currently license many third party technologies and may need to license further technologies which could delay and increase the cost of product and service developments.

We currently license certain technologies from third parties and incorporate them into certain of our services including email, anti-spam and anti-virus. The Internet services market is evolving and we may need to license additional technologies to remain competitive. We may not be able to license these technologies on commercially reasonable terms or at all. To the extent we cannot license necessary solutions, we may have to devote our resources to development of such technologies, which could delay and increase the cost of product and service developments overall.

In addition, we may fail to successfully integrate licensed technology into our services. These third party licenses may expose us to increased risks, including risks related to the integration of new technology and potential intellectual property infringement claims. In addition, an inability to obtain needed licenses could delay product and service development until equivalent technology can be identified, licensed and integrated. Any delays in services or integration problems could hinder our ability to attract and retain customers and cause our business and operating results to suffer.

Our advertising revenues may be subject to fluctuations.

We believe that Internet advertising spending, as in traditional media, fluctuates significantly with economic cycles and during any calendar year, with spending being weighted towards the end of the year to reflect trends in the retail industry. Our advertisers can generally terminate their contracts with us at any time. Advertising spending is particularly sensitive to changes in general economic conditions and typically decreases when economic conditions are not favorable. A decrease in demand for Internet advertising could have a material adverse effect on our business, financial condition and results of operations.

We may acquire companies or make investments in, or enter into licensing arrangements with, other companies with technologies that are complementary to our business and these acquisitions or arrangements could disrupt our business, cause us to require additional financing and dilute your holdings in our company.

We may acquire companies, assets or the rights to technologies in the future in order to develop new services or enhance existing services, to enhance our operating infrastructure, to fund expansion, to respond to competitive pressures or to acquire complementary businesses. Entering into these types of arrangements entails many risks, any of which could materially harm our business, including:

- the diversion of management’s attention from other business concerns;
- the failure to effectively integrate the acquired technology or company into our business;
- the incurring of significant acquisition costs;
- the loss of key employees from either our current business or the acquired business; and
- the assumption of significant liabilities of the acquired company.

In addition, absent sufficient cash flows from operations, we may need to engage in equity or debt financings to secure additional funds to meet our operating and capital needs. We may not be able to secure additional debt or equity financing on favorable terms, or at all, at the time when we need that funding. In addition, even though we may have sufficient cash flow, we may still elect to sell additional equity or debt securities or obtain credit facilities for other reasons. If we raise additional funds through further issuances of equity or convertible debt securities, our existing shareholders could suffer significant dilution in their percentage ownership of our company, and any new equity securities we issue could have rights, preferences and privileges senior to those of holders of our common stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which might make it more difficult for us to obtain additional capital, to pay dividends and to pursue business opportunities, including potential acquisitions. In addition, if we decide to raise funds through debt or convertible debt financings, we may be unable to meet our interest or principal payments.

Any of the foregoing or other factors could harm our ability to achieve anticipated levels of profitability from acquired businesses or to realize other anticipated benefits of acquisitions. We may not be able to identify or consummate any future acquisitions on favorable terms, or at all. If we do effect an acquisition, it is possible that the financial markets or investors will view the acquisition negatively. Even if we successfully complete an acquisition, it could adversely affect our business.

Our corporate culture has contributed to our success, and if we cannot maintain this culture as we grow, we could lose the innovation, creativity and teamwork fostered by our culture, and our business may be harmed.

We believe that a critical contributor to our success has been our corporate culture, which we believe fosters innovation, creativity and teamwork. As our organization grows and we are required to implement more complex organizational management structures, we may find it increasingly difficult to maintain the beneficial aspects of our corporate culture. This could negatively impact our future success.

Our business depends on a strong brand. If we are not able to maintain and enhance our brand, our ability to expand our customer base will be impaired and our business and operating results will be harmed.

In recognition of the evolving nature of the internet services market and to make it easier to clearly differentiate each service we offer from our competitors, we enhanced our branding by focusing our service offerings under four distinct brands namely “OpenSRS”, “YummyNames”, “Hover” and “Ting”. We also believe that maintaining and enhancing the “Tucows” corporate brand and our service brands is critical to expanding our customer base. We anticipate that, as our market becomes increasingly competitive, maintaining and enhancing our brands may become increasingly difficult and expensive. Maintaining and enhancing our brands will depend largely on our ability to be a technology leader providing high quality products and services, which we may not do successfully. To date, we have engaged in relatively little direct brand promotion activities. This enhances the risk that we may not successfully implement brand enhancement efforts in the future.

If we fail to protect our proprietary rights, the value of those rights could be diminished.

We rely upon copyright, trade secret and trademark law, confidentiality and nondisclosure agreements, invention assignment agreements and work-for-hire agreements to protect our proprietary technology, all of which offer only limited protection. We cannot ensure that our efforts to protect our proprietary information will be adequate to protect against infringement and misappropriation by third parties, particularly in foreign countries where laws or law enforcement practices may not protect proprietary rights as fully as in the United States of America and Canada.

We have licensed, and may in the future license, some of our trademarks and other proprietary rights to others. Third parties may also reproduce or use our intellectual property rights without seeking a license and thus benefit from our technology without paying for it. Third parties could also independently develop technology, processes or other intellectual property that are similar to or superior to those used by us. Actions by licensees, misappropriation of the intellectual property rights or independent development by others of similar or superior technology might diminish the value of our proprietary rights or damage our reputation.

The unauthorized reproduction or other misappropriation of our intellectual property rights, including copying the look, feel and functionality of our website could enable third parties to benefit from our technology without us receiving any compensation. The enforcement of our intellectual property rights may depend on our taking legal action against these infringing parties, and we cannot be sure that these actions will be successful.

Because of the global nature of the Internet, our websites can be viewed worldwide. However, we do not have intellectual property protection in every jurisdiction. Furthermore, effective trademark, service mark, copyright and trade secret protection may not be available in every country in which our services become available over the Internet. In addition, the legal standards relating to the validity, enforceability and scope of protection of intellectual property rights in Internet-related industries are uncertain and still evolving.

We may not be able to realize the intended and anticipated benefits from our acquisitions of expiring domain names, which could affect the value of these acquisitions to our business and our ability to meet our financial obligations and targets.

We may not be able to realize the intended and anticipated benefits that we currently expect from our acquisition of expiring domain names. These intended and anticipated benefits include increasing our cash flow from operations, broadening our Internet service offerings and delivering services that strengthen our reseller relationships.

Factors that could affect our ability to achieve these benefits include:

- A significant amount of revenue attributed to our domain name assets comes from the provision of personalized email services and the generation of revenue from third party advertisements on parked pages. Some of our existing resellers who provide similar services may perceive this as a competitive threat and therefore may decide to terminate their agreements with us because of our acquisitions of a substantial number of expiring domain names.

- We will need to continue to acquire commercially valuable expiring domain names to grow our presence in the field of direct navigation. We will need to continuously improve our technologies to acquire valuable expiring domain names as competition in the marketplace for appropriate expiring domain names intensifies. Our domain name acquisition efforts are subject to rules and guidelines established by registries which maintain Internet domain name registrations and other registrars who process and facilitate Internet domain name registrations. The registries and registrars may change the rules and guidelines for acquiring expiring domains in ways that may prove detrimental to our domain name acquisition efforts.

- The business of direct navigation is dependent on current technologies and user practices. If browser or search technologies were to change significantly, the practice of direct navigation may be altered to our disadvantage.

If the acquired assets are not integrated into our business as we anticipate, we may not be able to achieve the benefits of these acquired assets or realize the value paid for the asset acquisitions, which could materially harm our business, financial condition and results of operations.

We do not control the means by which end users access our web sites and material changes to current navigation practices or technologies or marketing practices could result in a material adverse effect on our business.

The success of our parked pages business depends in large part upon the current end user tendency to type desired destinations directly into the web browser. End users employ this practice of direct navigation to access our web sites primarily through the following methods: directly accessing our web sites by typing descriptive keywords or keyword strings into the uniform resource locator, or URL, address box of an Internet browser, accessing our web sites by clicking on bookmarked web sites and accessing our web sites indirectly through search engines and directories.

Each of these methods requires the use of a third party product or service, such as an Internet browser or search engine or directory. Internet browsers may provide alternatives to the URL address box to locate web sites, and search engines may from time to time change and establish rules regarding the indexing and optimization of web sites. Product developments and market practices for these means of access to our web sites are not within our control. We may experience a decline in traffic to our web sites if third party browser technologies or search engine methodologies and rules, including those affecting marketing efforts, are changed to our disadvantage.

We may experience unforeseen liabilities in connection with our domain name portfolio, which could negatively impact our financial results.

We currently own a portfolio of domain names that were previously owned by another third-party. In addition, we have acquired, and intend to continue to acquire, other previously owned domain names. While we have a policy against acquiring domain names that infringe on third-party intellectual property rights, including trademarks or confusingly similar business names, in some cases, these acquired names may have trademark significance that is not readily apparent to us or is not identified by us in the bulk purchasing process. As a result, we may face demands by third party trademark owners asserting infringement or dilution of their rights and seeking transfer of the domain names through the Uniform Domain Name Resolution Policy, or UDRP, adopted by ICANN or actions under the Anticybersquatting Consumer Protection Act, or ACPA. We may also face actions from third-parties under national trademark or anti-competition legislation.

We review each claim or demand on its merits and we intend to transfer any such previously owned domain names acquired by us to parties that have demonstrated a valid prior right of claim. We cannot, however, guarantee that we will be able to resolve all such disputes without litigation. The potential violation of third party intellectual property rights and potential causes of action under consumer protection laws may subject us to unforeseen liabilities, including injunctions and judgments for monetary damages.

Once any infringement is detected, disputes concerning the ownership or rights to use intellectual property could be costly and time-consuming to litigate, may distract management from operating the business, and may result in us losing significant rights and our ability to operate all or a portion of our business.

Claims of infringement of intellectual property or other rights of third parties against us could result in substantial costs. Third parties may assert claims of infringement of patents or other intellectual property rights against us concerning past, current or future technologies. Content obtained from third parties and distributed over the Internet by us may result in liability for defamation, negligence, intellectual property infringement, product or service liability and dissemination of computer viruses or other disruptive problems. We may also be subject to claims from third parties asserting trademark infringement, unfair competition and violation of publicity and privacy rights relating specifically to domains. As a domain name registrar, we regularly become involved in disputes over registration of domain names. Most of these disputes arise as a result of a third party registering a domain name that is identical or similar to another party's trademark or the name of a living person. These disputes are typically resolved through the UDRP, ICANN's administrative process for domain name dispute resolution, or less frequently through litigation under the ACPA, or under general theories of trademark infringement or dilution. The UDRP generally does not impose liability on registrars, and the ACPA provides that registrars may not be held liable for registering or maintaining a domain name absent a showing of bad faith intent to profit or reckless disregard of a court order by the registrars. However, we may face liability if we fail to comply in a timely manner with procedural requirements under these rules. In addition, these processes typically require at least limited involvement by us, and therefore increase our cost of doing business. The volume of domain name registration disputes may increase in the future as the overall number of registered domain names increases.

These claims and any related litigation could result in significant costs of defense, liability for damages and diversion of management's time and attention. Any claims from third parties may also result in limitations on our ability to use the intellectual property subject to these claims unless we are able to enter into agreements with the third parties making these claims. If a successful claim of infringement is brought against us and we fail to develop non-infringing technology or to license the infringed or similar technology on a timely basis, we may have to limit or discontinue the business operations which used the infringing technology.

We rely on technologies licensed from other parties. These third-party technology licenses may infringe on the proprietary rights of others and may not continue to be available on commercially reasonable terms, if at all. The loss of this technology could require us to obtain substitute technology of lower quality or performance standards or at greater cost, which could increase our costs and make our products and services less attractive to customers.

The law relating to the liability of online services companies for data and content carried on or disseminated through their networks is currently unsettled and could expose us to unforeseen liabilities.

It is possible that claims could be made against online services companies under U.S., Canadian or foreign law for defamation, negligence, copyright or trademark infringement, or other theories based on data or content disseminated through their networks, even if a user independently originated this data or content. Several private lawsuits seeking to impose liability upon Internet service companies have been filed in U.S. and foreign courts. While the United States has passed laws protecting ISPs from liability for actions by independent users in limited circumstances, this protection may not apply in any particular case at issue. Our ability to monitor, censor or otherwise restrict the types of data or content distributed through our network is limited. Failure to comply with any applicable laws or regulations in particular jurisdictions could result in fines, penalties or the suspension or termination of our services in these jurisdictions. Our insurance may not be adequate to compensate or may not cover us at all in the event we incur liability for damages due to data and content carried on or disseminated through our network. Any costs not covered by insurance that are incurred as a result of this liability or alleged liability, including any damages awarded and costs of litigation, could harm our business and prospects.

Privacy concerns relating to our technology could damage our reputation and deter current and potential users from using our services.

From time to time, concerns have been expressed about whether our services compromise the privacy of our users and others. Concerns about our practices with regard to the collection, use, disclosure or security of personal information or other privacy-related matters, even if unfounded, could damage our reputation and operating results and expose us to litigation and possible liability, including claims for unauthorized purchases with credit card information, impersonation, or fraud claims and other claims relating to the misuse of personal information and unauthorized marketing purposes. While we strive to comply with all applicable data protection laws and regulations, as well as our own privacy policies, any failure or perceived failure to comply may result in proceedings or actions against us by government entities or others, which could potentially have an adverse effect on our business.

In addition, due to the fact that our services are web based, the amount of data we store for our users on our servers (including personal information) has been increasing. Any systems failure or compromise of our security that results in the release of our users' data could seriously limit the adoption of our services as well as harm our reputation and brand and, therefore, our business. We may also need to expend significant resources to protect against security breaches. The risk that these types of events could seriously harm our business is likely to increase as we expand the number of Internet services we offer.

A large number of legislative proposals are pending before the United States Congress, various state legislative bodies and foreign governments concern data protection. In addition, the interpretation and application of data protection laws in Europe and elsewhere are still unsettled. We cannot guarantee that our current information-collection procedures and disclosure policies will be found to be in compliance with existing or future laws or regulations. If our policies and procedures are found not to be in compliance, in addition to the possibility of fines, this could result in an order requiring that we change our data practices, which could in turn have a material effect on our business. Complying with these various laws could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business.

Because we are required to recognize revenue for our services over the term of the applicable customer agreement, changes in our sales may not be immediately reflected in our operating results.

We recognize revenue from our customers ratably over the respective terms of their agreements with us as required by GAAP. Typically, our domain name registration agreements have terms that range from one to ten years, and our website hosting agreements have annual or month-to-month terms. Accordingly, any increases or decreases in sales during a particular period do not translate into immediate, proportional increases or decreases in revenue during that period, and a substantial portion of the revenue that we recognize during a quarter, is derived from deferred revenue from customer agreements that we entered into during previous quarters. As a result, we may not generate net earnings despite substantial sales activity during a particular period, since we are not permitted under GAAP to recognize all of the revenue from these sales immediately, and because we are required to reflect a significant portion of our related operating expenses in full during that period. Conversely, the existence of substantial deferred revenue may prevent deteriorating sales activity from becoming immediately observable in our consolidated statement of operations.

In addition, we may not be able to adjust spending in a timely manner to compensate for any unexpected revenue shortfall, and any significant shortfall in revenue relative to planned expenditures could negatively impact our business and results of operations.

Global currency fluctuations may adversely affect our revenues and earnings.

Our revenue is primarily realized in U.S. dollars and a major portion of our operating expenses are paid in Canadian dollars. Our operating results are accordingly subject to fluctuations in foreign currency exchange rates, which could adversely affect our future operating results. We attempt to mitigate a portion of these risks through foreign currency hedging, based on our judgment of the appropriate trade-offs among risk, opportunity and expense. We have established a hedging program to partially hedge our exposure to foreign currency exchange rate fluctuations for Canadian Dollars.

We regularly review our hedging program and make adjustments as necessary based on the judgment factors discussed above. Our hedging activities may not offset more than a portion of the adverse financial impact resulting from unfavorable movement in foreign currency exchange rates, which could adversely affect our financial condition or results of operations.

If we do not maintain a low rate of credit card chargebacks, we will face the prospect of financial penalties and could lose our ability to accept credit card payments from customers, which would have a material adverse effect on our business, financial condition and results of operations.

A substantial majority of our revenue originates from online credit card transactions. Under current credit card industry practices, we are liable for fraudulent and disputed credit card transactions because we do not obtain the cardholder’s signature at the time of the transaction, even though the financial institution issuing the credit card may have authorized the transaction. Under credit card association rules, penalties may be imposed at the discretion of the association. Any such potential penalties would be imposed on our credit card processor by the association. Under our contract with our processor, we are required to reimburse our processor for such penalties. Our current level of fraud protection, based on our fraudulent and disputed credit card transaction history, is within the guidelines established by the credit card associations. However, we face the risk that one or more credit card associations may, at any time, assess penalties against us or terminate our ability to accept credit card payments from customers, which would have a material adverse effect on our business, financial condition and results of operations.

Forecasting our tax rate is complex and subject to uncertainty.

We are subject to income and other taxes in a number of jurisdictions and our tax structure is subject to review by both domestic and foreign tax authorities. We must make significant assumptions, judgments and estimates to determine our current provision for income taxes, deferred tax assets and liabilities and any valuation allowance that may be recorded against our deferred tax assets. Although we believe that our estimates are reasonable, the ultimate determination of our tax liability is always subject to review by the applicable tax authorities. Any adverse outcome of such a review could have a negative effect on our operating results and financial condition in the period or periods for which such determination is made. Our current and future tax liabilities could be adversely affected by:

- international income tax authorities, including the Canada Revenue Agency and the U.S. Internal Revenue Service, challenging the validity of our arms- length related party transfer pricing policies or the validity of our contemporaneous documentation.
- changes in the valuation of our deferred tax assets; or
- changes in tax laws, regulations, accounting principles or the interpretations of such laws.

Our business may be adversely affected if our internal controls are not effective.

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate the effectiveness of our internal control over financial reporting as of the end of each year, and to include a management report assessing the effectiveness of our internal control over financial reporting in each Annual Report on Form 10-K. Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. Over time, controls may become inadequate because changes in conditions or deterioration in the degree of compliance with policies or procedures may occur. Implementation of new technology related to the control system may result in misstatements due to errors that are not detected and corrected during testing. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

As a result, we cannot assure you that material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in material weaknesses, cause us to fail to timely meet our periodic reporting obligations, or result in material misstatements in our financial statements. Any such failure could also adversely affect the results of periodic management evaluations regarding disclosure controls and the effectiveness of our internal control over financial reporting required under Section 404 of the Sarbanes-Oxley Act of 2002 and the rules proclaimed after that. The existence of a material weakness could result in errors in our financial statements that could result in a restatement of financial statements, cause us to fail to timely meet our reporting obligations and cause investors to lose confidence in our reported financial information, leading to a decline in our stock price, and it could make it more difficult for us to attract and retain qualified persons to serve on our Board of Directors or as executive officers.

Impairment of goodwill and other intangible assets would result in a decrease in earnings.

Current accounting rules require that goodwill and other intangible assets with indefinite useful lives are not amortized, but instead must be tested for impairment at least annually. These rules also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. To the extent such evaluation indicates that the useful lives of intangible assets are different than originally estimated, the amortization period is reduced or extended and, accordingly, the quarterly amortization expense is increased or decreased. We have substantial goodwill and other intangible assets, and we would be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or intangible assets is determined. Any impairment charges or changes to the estimated amortization periods could have a material adverse effect on our financial results.

We could suffer uninsured losses.

Although we maintain general liability insurance, claims could exceed the coverage obtained or might not be covered by our insurance. While we typically obtain representations from our technology and content providers and contractual partners concerning the ownership of licensed technology and informational content and obtain indemnification to cover any breach of these representations, we still may not receive accurate representations or adequate compensation for any breach of these representations. We may have to pay a substantial amount of money for claims that are not covered by insurance or indemnification or for claims where the existing scope or adequacy of insurance or indemnification is disputed or insufficient.

Difficult economic and financial conditions could have a material adverse effect on us.

The financial results of our business are both directly and indirectly dependent upon economic conditions throughout the world, which in turn can be impacted by conditions in the global financial markets. Uncertainty about global economic conditions may lead businesses to postpone spending in response to tighter credit and reductions in income or asset values. Weak economic activity may lead government customers to cut back on services. Factors such as interest rates, availability of credit, inflation rates, changes in laws (including laws relating to taxation), trade barriers, currency exchange rates and controls, and national and international political circumstances (including wars, terrorist acts or security operations) could have a material adverse effect on our business and investments, which could reduce our revenue, profitability and value of our assets. These factors may also adversely affect the business, liquidity and financial condition of our customers. In addition, periods of poor economic conditions could increase our ongoing exposure to credit risks on our accounts receivable balances. This could have a material adverse effect on our business, financial condition and results of operations.

Our quarterly and annual operating results may fluctuate and our future revenues and profitability are uncertain.

Our quarterly and annual operating results may fluctuate significantly in the future as a result of a variety of factors, many of which are outside of our control. Our quarterly and annual operating results may be adversely affected by a wide variety of factors, including:

- our ability to maintain revenue growth at current levels or anticipate a decline in revenue from any of our services;
- our ability to identify and develop new technologies or services and to commercialize those technologies into new services in a timely manner;
- the mix of our services sold during the quarter or year;
- our ability to make appropriate decisions which will position us to achieve further growth;
- concentrated capital expenditures in any particular period to support our growth or for other reasons;
- changes in our pricing policies or those of our competitors, changes in domain name fees charged to us by Internet registries or ICANN, or other competitive pressures on selling prices;
- our ability to identify, hire, train, motivate and retain highly qualified personnel, and to achieve targeted productivity levels;
- market acceptance of Internet services generally and of new and enhanced versions of our services in particular;
- our ability to establish and maintain a competitive advantage;
- the continued development of our global distribution channel and our ability to compete in multiple countries successfully as part of our sales and marketing strategy;
- the number and significance of service enhancements and new service and technology announcements by our competitors;

- our ability to identify, develop, deliver and introduce in a timely manner new and enhanced versions of our current service offerings that anticipate market demand and address customer needs;
- changes in foreign currency exchange rates and issues relating to the conversion to the Canadian dollar;
- foreign, federal or state regulation affecting our business;
- our ability to continue to attract users to our website;
- our ability to attract software developers to participate in our Author Resource Center;
- our ability to continue to attract advertisers to place content on our website;
- technical difficulties or other factors that result in system downtime;
- seasonality of the markets and businesses of our customers;
- news relating to our industry as a whole;
- our ability to enforce our intellectual property rights;
- our ability to manage Internet fraud and information theft; and
- current economic conditions.

Our operating expenses may increase. We base our operating expense budgets on expected revenue trends that are more difficult to predict in periods of economic uncertainty. We intend to continue our efforts to control discretionary spending; however, we will continue to selectively incur expenditures in areas that we believe will strengthen our position in the marketplace. If we do not meet revenue goals, we may not be able to meet reduced operating expense levels and our operating results will suffer. It is possible that in one or more future quarters, our operating results may be below our expectations and the expectations of public market analysts and investors. In that event, the price of our common stock may fall.

Our business and financial performance could be adversely affected, directly or indirectly, by disasters, by terrorist activities or by international hostilities.

Neither the occurrence nor the potential impact of disasters, terrorist activities or international hostilities can be predicted. However, these occurrences could impact us directly as a result of damage to our facilities or by preventing us from conducting our business in the ordinary course, or indirectly as a result of their impact on our customers, suppliers or other counterparties. We could also suffer adverse consequences to the extent that disasters, terrorist activities or international hostilities affect the financial markets or the economy in general or in any particular region. For example, a significant earthquake could impact us directly by disrupting our business operations.

Our ability to mitigate the adverse consequences of such occurrences is in part dependent on the quality of our resiliency planning, and our ability, if any, to anticipate the nature of any such event that occurs. The adverse impact of disasters or terrorist activities or international hostilities also could be increased to the extent that there is a lack of preparedness on the part of national or regional emergency responders or on the part of other organizations and businesses that we deal with, particularly those that we depend upon but have no control over.

Risks Related To the Internet and Our Technology

Our business could be materially harmed if the administration and operation of the Internet no longer rely upon the existing domain system.

The domain registration industry continues to develop and adapt to changing technology. This development may include changes in the administration or operation of the Internet, including the creation and institution of alternate systems for directing Internet traffic without the use of the existing domain system. Some of our competitors have begun registering domains with extensions that rely on such alternate systems. These competitors are not subject to ICANN accreditation requirements and restrictions. Other competitors have attempted to introduce naming systems that use keywords rather than traditional domains. The widespread acceptance of any alternative systems could eliminate the need to register a domain to establish an online presence and could materially adversely affect our business, financial condition and results of operations.

The law relating to the use of and ownership in intellectual property on the Internet is currently unsettled and may expose us to unforeseen liabilities.

There have been ongoing legislative developments and judicial decisions concerning trademark infringement claims, unfair competition claims and dispute resolution policies relating to the registration of domains. To help protect ourselves from liability in the face of these ongoing legal developments, we have taken the following precautions:

- our standard registration agreement requires that each registrant indemnify, defend and hold us harmless for any dispute arising from the registration or use of a domain registered in that person’s name; and
- since December 1, 1999, we have required our resellers to ensure that all registrants are bound to the UDRP as approved by ICANN.

Despite these precautions, we cannot be assured that our indemnity and dispute resolution policies will be sufficient to protect us against claims asserted by various third parties, including claims of trademark infringement and unfair competition.

New laws or regulations concerning domains and registrars may be adopted at any time. Our responses to uncertainty in the industry or new regulations could increase our costs or prevent us from delivering our domain registration services over the Internet, which could delay growth in demand for our services and limit the growth of our revenues. New and existing laws may cover issues such as:

- pricing controls;
- the creation of additional generic top level domains and country code domains;
- consumer protection;
- cross-border domain registrations;
- trademark, copyright and patent infringement;
- domain dispute resolution; and
- the nature or content of domains and domain registration.

An example of legislation passed in response to novel intellectual property concerns created by the Internet is the ACPA enacted by the United States government in November 1999. This law seeks to curtail a practice commonly known in the domain registration industry as cybersquatting. A cybersquatter is generally defined in the ACPA as one who registers a domain that is identical or similar to another party's trademark, or the name of another living person, with the bad faith intent to profit from use of the domain. The ACPA states that registrars may not be held liable for registration or maintenance of a domain for another person absent a showing of the registrar's bad faith intent to profit from the use of the domain. Registrars may be held liable, however, if they do not comply promptly with procedural provisions of the ACPA. For example, if there is litigation involving a domain, the registrar is required to deposit a certificate representing the domain registration with the court. If we are held liable under the ACPA, any liability could have a material adverse effect on our business, financial condition and results of operations.

If Internet usage does not grow or if the Internet does not continue to expand as a medium for commerce, our business may suffer.

Our success depends upon the continued development and acceptance of the Internet as a widely used medium for commerce and communication. Rapid growth in the uses of, and interest in, the Internet is a relatively recent phenomenon and its continued growth cannot be assured. A number of factors could prevent continued growth, development and acceptance, including:

- the unwillingness of companies and consumers to shift their purchasing from traditional vendors to online vendors;
- the Internet infrastructure may not be able to support the demands placed on it, and its performance and reliability may decline as usage grows;
- security and authentication issues may create concerns with respect to the transmission over the Internet of confidential information; and
- privacy concerns, including those related to the ability of websites to gather user information without the user's knowledge or consent, may impact consumers' willingness to interact online.

Any of these issues could slow the growth of the Internet, which could limit our growth and revenues.

We believe that part of our growth will be derived from resellers in international markets and may suffer if Internet usage does not continue to grow globally.

We believe that a major source of growth for Internet-based companies will come from individuals and businesses outside the United States where Internet access and use is currently less prevalent. A substantial number of our resellers are currently based outside the United States and we plan to grow our business in other countries. If Internet usage in these jurisdictions does not increase as anticipated, our revenues may not grow as anticipated.

We may be unable to respond to the rapid technological changes in the industry, and our attempts to respond may require significant capital expenditures.

The Internet and electronic commerce are characterized by rapid technological change. Sudden changes in user and customer requirements and preferences, the frequent introduction of new applications and services embodying new technologies and the emergence of new industry standards and practices could make our applications, services and systems obsolete. The emerging nature of applications and services in the Internet application and services industry and their rapid evolution will require that we continually improve the performance, features and reliability of our applications and services. Our success will depend, in part, on our ability:

- to develop and license new applications, services and technologies that address the increasingly sophisticated and varied needs of our current and prospective customers; and
- to respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis.

The development of applications and services and other proprietary technology involves significant technological and business risks and requires substantial expenditures and lead-time. We may be unable to use new technologies effectively or adapt our internally developed technology and transaction- processing systems to customer requirements or emerging industry standards in a timely manner, or at all. Our internal development teams may also be unable to keep pace with new technological developments that affect the marketplace for our services. In addition, as we offer new services and functionality, we will need to ensure that any new services and functionality are well integrated with our current services, particularly as we offer an increasing number of our services as part of bundled suites. To the extent that any new services offered by us do not interoperate well with our existing services, our ability to market and sell those new services would be adversely affected and our revenue level and ability to achieve and sustain profitability might be harmed. Updating technology internally and licensing new technology from third parties may require us to incur significant additional capital expenditures.

We could experience system failures and capacity constraints which could diminish our ability to effectively provide our services and could damage our reputation and harm our operating results.

The availability of our services depends on the continuing operation of our information technology and communications systems. Any damage to or failure of our systems could result in interruptions in our service, which could reduce our revenues and profits, and damage our brand. Our systems are vulnerable to damage or interruption from earthquakes, terrorist attacks, floods, fires, power loss, telecommunications failures, computer viruses, computer denial of service attacks or other attempts to harm our systems. Some of our data centers are located in areas with a high risk of major earthquakes. Our data centers are also subject to break-ins, sabotage and intentional acts of vandalism, and to potential disruptions if the operators of these facilities have financial difficulties. Some of our systems are not fully redundant, and our disaster recovery planning cannot account for all eventualities. The occurrence of a natural disaster, a decision to close a facility without adequate notice or other unanticipated problems at our data centers could result in lengthy interruptions in our service.

Our systems face security risks, and any compromise of the security of these systems could disrupt our business, damage our reputation and result in the disclosure of confidential information, liability for damages and loss of customers.

In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners, and personally identifiable information of our customers and employees. We have previously been the target of attempted attacks and must monitor and develop our systems to protect our and our customer’s data from misappropriation. Our ability to securely process and maintain this information is critical to our business. Despite our security measures, our systems may be vulnerable to unauthorized access by hackers or others, computer viruses and other disruptive problems. Someone who is able to circumvent security measures could misappropriate customer or proprietary information or cause interruptions in Internet operations. Internet and online resellers have in the past experienced, and may in the future experience, interruptions in service because of the accidental or intentional actions of Internet users, current and former employees or others.

We may need to expend significant capital and other resources to protect against the threat of security breaches or alleviate problems caused by breaches. Eliminating computer viruses and alleviating other security problems may require interruptions, delays or cessation of service to users accessing our websites and the web pages that deliver our content services. An information technology systems security breach may lead to a material disruption of our systems and/or the loss of business information, which may materially and adversely affect our business. Risks relating to such a security breach may include, among other things: a material adverse impact on our business and future financial results due to the theft, destruction, loss, misappropriation or release of confidential data, negative publicity resulting in reputation or brand damage with our customers, vendors or peers due to the theft, destruction, loss, misappropriation or release of confidential data, operational or business delays resulting from the disruption of information technology systems and subsequent clean-up and mitigation activities and adverse effects on our compliance with regulatory laws and regulations. Repeated or substantial interruptions could result in the loss of customers and reduced revenues.

We may have difficulty scaling and adapting our existing architecture to accommodate increased traffic and technology advances or changing business requirements, which could lead to the loss of customers and cause us to incur additional expenses.

To be successful, our network infrastructure must perform well and be reliable. The greater the user traffic and the greater the complexity of our services, the more computing power we will need. We have spent and expect to continue to spend substantial amounts on the purchase of new equipment to upgrade our technology and network infrastructure to enable it to handle increased traffic. This expansion is expensive and complex and could result in inefficiencies or operational failures. If we do not expand successfully, or if we experience inefficiencies and operational failures, the quality of our services and our customers' experience could decline. This could damage our reputation and lead us to lose current and potential customers. Cost increases, loss of traffic or failure to accommodate new technologies or changing business requirements could harm our operating results and financial condition.

We rely on bandwidth providers, data centers and other vendors in providing services to our customers, and any failure or interruption in the services provided by these third parties could harm our ability to operate our business and damage our reputation.

We rely on vendors, including data center and bandwidth providers in providing services to our customers. Any disruption in the network access or co-location services provided by these providers or any failure of these providers to handle current or increased volumes of use could significantly harm our business. Any financial or other difficulties our providers face may also have negative effects on our business. We exercise little control over these vendors, which increases our vulnerability to problems with the services they provide. We license technology and related databases to facilitate certain aspects of our data center and connectivity operations, including Internet traffic management services. We have experienced and expect to continue to experience interruptions and delays in service and availability for such elements. Any errors, failures, interruptions or delays in connection with these technologies and information services could harm our relationship with customers, adversely affect our brand and expose us to liabilities.

New tax treatment of companies engaged in Internet commerce may adversely affect the demand for our marketing services and our financial results.

Due to the global nature of the Internet, it is possible that, although our services and the Internet transmissions related to them typically originate in Virginia, Toronto and Germany, governments of other states or foreign countries might attempt to regulate our transmissions or levy sales, income or other taxes relating to our activities. Tax authorities at the international, federal, state and local levels are currently reviewing the appropriate treatment of companies engaged in Internet commerce. New or revised international, federal, state or local tax regulations may subject us or our customers to additional sales, income and other taxes. We cannot predict the effect of current attempts to impose sales, income or other taxes on commerce over the Internet on Tucows or on our customers. New or revised taxes and, in particular, sales taxes, would likely increase the cost of doing business online and decrease the attractiveness of advertising and selling goods and services over the Internet. New taxes could also create significant increases in internal costs necessary to capture data, and collect and remit taxes. Any of these events could have an adverse effect on our business and results of operations.

We may be accused of intellectual property infringement of the technology we have employed to support both our back end platform and the products and services we offer to and through our resellers and may be sued for damages caused by actual use of the platforms or products and services and we may be required to pay substantial damage awards.

We seek to ensure that we have licensed or otherwise secured the necessary rights to use and offer for use all intellectual property relating to our platforms and the services we offer resellers through the platforms. Despite our efforts, we may be sued by third parties claiming rights in and to the technology we employ or by third parties who claim to have suffered as a result of any use, or inability to use, the platforms, products and services. If we are sued, defense of any such claims may require the resources of both our time and money. If a third-party is successful in its assertions, we may be required to pay damages that may have a material impact on our financial resources.

Ting may lose customers if it fails to keep up with rapid technological change occurring in the wireless industry.

The wireless communications industry is experiencing significant technological change, including ongoing improvements in the capacity and quality of digital technology, the development and commercial acceptance of wireless broadband data services, shorter development cycles for new products and enhancements, and changes in consumer requirements and preferences. These changes may cause uncertainty about future demand for our wireless services and may affect the prices that we will be able to charge for these services. Rapid changes in technology, moreover, may lead to the development of wireless communications services or alternative services that consumers prefer over our services. Our operational performance and financial results may be adversely affected if we are unable to deploy future technologies or services on a timely basis or at an acceptable cost.

We have entered into agreements with unrelated parties for certain business operations for Ting. Any difficulties experienced by us in these arrangements could result in additional expense, loss of subscribers and revenue, interruption of our services or a delay in the roll-out of new technology.

We have entered into agreements with unrelated parties for the day-to-day execution of services, the development and maintenance of certain systems necessary for the operation of our business, and for network equipment, handsets, devices, and other equipment. We expect our dependence on key suppliers to continue as more advanced technologies are developed.

In addition, our ability to subsidize handsets is limited because we do not require long-term contracts that may produce a more stable revenue stream.

Our reputation and business may be harmed and it may be subject to legal claims if there is loss, disclosure or misappropriation of or access to our subscribers' or our own information or other breaches of our information security.

We make extensive use of online services and centralized data processing, including through third-party service providers. The secure maintenance and transmission of customer information is an important element of our operations. Our information technology and other systems that maintain and transmit customer information, including location or personal information, or those of service providers, may be compromised by a malicious third-party penetration of our network security, or that of a third-party service provider, or impacted by advertent or inadvertent actions or inactions by our employees, or those of a third-party service provider. Cyber-attacks, which include the use of malware, computer viruses and other means for disruption or unauthorized access, have increased in frequency, scope and potential harm in recent years. While, to date, we have not been subject to cyber-attacks or other cyber incidents which, individually or in the aggregate, have been material to our operations or financial condition, the preventive actions we take to reduce the risk of cyber incidents and protect our information technology and networks may be insufficient to repel a major cyber-attack in the future. As a result, our subscribers' information may be lost, disclosed, accessed, used, corrupted, destroyed or taken without the subscribers' consent.

In addition, we and third-party service providers process and maintain our proprietary business information and data related to our business-to-business customers or suppliers. Our information technology and other systems that maintain and transmit this information, or those of service providers, may also be compromised by a malicious third-party penetration of our network security or that of a third-party service provider, or impacted by intentional or inadvertent actions or inactions by our employees or those of a third-party service provider. We also purchase equipment from third parties that could contain software defects, Trojan horses, malware, or other means by which third parties could access our network or the information stored or transmitted on such networks or equipment. As a result, our business information, or subscriber or supplier data may be lost, disclosed, accessed, used, corrupted, destroyed or taken without consent.

Any major compromise of our data or network security, failure to prevent or mitigate the loss of our services or customer information and delays in detecting any such compromise or loss could disrupt our operations, impact our reputation and subscribers' willingness to purchase our service and subject us to additional costs and liabilities, including litigation, which could be material.

Governmental and Regulatory Risks

Governmental and regulatory policies or claims concerning the domain registration system, and industry reactions to those policies or claims, may cause instability in the industry and disrupt our business.

ICANN Oversight of Domain Name Registration System

ICANN is a private sector, not-for-profit corporation formed in 1998 by the U.S. Department of Commerce for the express purposes of overseeing a number of Internet related tasks previously performed directly on behalf of the U.S. government, including managing the domain name registration system. ICANN has been subject to strict scrutiny by the public and by the U.S. and other governments around the world with many of those governments becoming increasingly interested in Internet governance. For example, the U.S. Congress has held hearings to evaluate ICANN's selection process for new TLDs. In addition, ICANN faces significant questions regarding efficacy as a private sector entity. ICANN may continue to evolve both its long-term structure and mission to address perceived shortcomings such as a lack of accountability to the public and a failure to maintain a diverse representation of interests on its board of directors. We continue to face the risks that:

- the U.S. or any other government may reassess its decision to introduce competition into, or ICANN’s role in overseeing, the domain registration market;

- the Internet community or the U.S. Department of Commerce or U.S. Congress may refuse to recognize ICANN’s authority or support its policies, which could create instability in the domain registration system;

- some of ICANN’s policies and practices, and the policies and practices adopted by registries and registrars, could be found to conflict with the laws of one or more jurisdictions;

- ICANN may lose any one of the several claims pending against it in both the U.S. and international courts, in which case its credibility may suffer and its policies may be discredited;

- the terms of the Registrar Accreditation Agreement (the “RAA”), under which we are accredited as a registrar, could change in ways that are disadvantageous to us or under certain circumstances could be terminated by ICANN preventing us from operating our Registrar, or ICANN could adopt unilateral changes to the RAA that are unfavorable to us, that are inconsistent with our current or future plans, or that affect our competitive position;

- ICANN and, under their registry agreements, VeriSign and other registries may impose increased fees received for each ICANN accredited registrar and/or domain name registration managed by those registries;

- ICANN or any registries may implement policy changes that would impact our ability to run our current business practices throughout the various stages of the lifecycle of a domain name;

- ICANN or any registries may implement policy changes that would impact our ability to run our current business practices throughout the various stages of the lifecycle of a domain name;

- foreign constituents may succeed in their efforts to have domain name registration removed from a U.S. based entity and placed in the hands of an international cooperative; and

- international regulatory or governing bodies, such as the International Telecommunications Union or the European Union, may gain increased influence over the management and regulation of the domain registration system, leading to increased regulation in areas such as taxation and privacy.

If any of these events occur, they could create instability in the domain registration system. These events could also disrupt or suspend portions of our domain registration solution, which would result in reduced revenue.

Governmental Regulation Affecting the Internet

To date, government regulations have not materially restricted use of the Internet in most parts of the world. The legal and regulatory environment pertaining to the Internet, however, is uncertain and may change. New laws may be passed, existing but previously inapplicable laws may be deemed to apply to the Internet, or existing legal safe harbors may be narrowed, both by U.S. federal or state governments and by governments of foreign jurisdictions. These changes could affect:

- the liability of online resellers for actions by customers, including fraud, illegal content, spam, phishing, libel and defamation, infringement of third-party intellectual property and other abusive conduct;
- other claims based on the nature and content of Internet materials, such as pornography;
- user privacy and security issues;
- consumer protection;
- sales and other taxes, including the value-added tax of the European Union member states;
- characteristics and quality of services; and
- cross-border commerce.

The adoption of any new laws or regulations, or the application or interpretation of existing laws or regulations to the Internet, could hinder growth in use of the Internet and online services generally, and decrease acceptance of the Internet and online services as a means of communications, commerce and advertising. In addition, such changes in laws could increase our costs of doing business, subject our business to increased liability or prevent us from delivering our services over the Internet, thereby harming our business and results of operations.

We may be subject to government regulation that may be costly and may interfere with our ability to conduct business.

Although transmission of our websites primarily originates in Canada and the United States, the Internet is global in nature. Governments of foreign countries might try to regulate our transmissions or prosecute us for violations of their laws. Because of the increasing popularity and use of the Internet, federal, state and foreign governments may adopt laws or regulations in the future concerning commercial online services and the Internet, with respect to:

- user privacy;
- children;
- copyrights and other intellectual property rights and infringement;
- domains;
- pricing;
- content regulation;
- defamation;
- taxation; and
- the characteristics and quality of products and services.

Laws and regulations directly applicable to online commerce or Internet communications are becoming more prevalent. Laws and regulations such as those listed above or others, if enacted, could expose us to substantial liability and increase our costs of compliance and doing business.

Ting's Network Operators' failure to obtain the proper licenses and governmental approvals from regulatory authorities would cause Ting to be unable to successfully operate its business.

The FCC licenses currently held by our Network Operators and their third-party affiliates to provide wireless services are subject to renewal and revocation. There is no guarantee that their wireless licenses will be renewed. The FCC requires all wireless licensees to meet certain requirements, including so-called "build-out" requirements, to retain their licenses. Their failure to comply with certain FCC requirements in a given license area could result in the revocation of their wireless license for that geographic area.

Government regulation could adversely affect Ting's prospects and results of operations; the FCC and state regulatory commissions may adopt new regulations or take other actions that could adversely affect its business prospects, future growth or results of operations.

The FCC and other federal, state and local, as well as international, governmental authorities have jurisdiction over our business and could adopt regulations or take other actions that would adversely affect our business prospects or results of operations.

The licensing, construction, operation, sale and interconnection arrangements of wireless telecommunications systems are regulated by the FCC and, depending on the jurisdiction, international, state and local regulatory agencies. In particular, the FCC imposes significant regulation on licensees of wireless spectrum with respect to how radio spectrum is used by licensees, the nature of the services that licensees may offer and how the services may be offered, and resolution of issues of interference between spectrum bands.

The FCC grants wireless licenses for terms of generally ten years that are subject to renewal and revocation. There is no guarantee that our Network Operators' licenses will be renewed. Failure to comply with FCC requirements applicable to a given license could result in revocation of that license and, depending on the nature of the non-compliance, other licenses.

Various states are considering regulations over terms and conditions of service, including certain billing practices and consumer-related issues that may not be pre-empted by federal law. If imposed, these regulations could make it more difficult and expensive to implement national sales and marketing programs and could increase the costs of our wireless operations.

Risks Related to our Stock

Our share price is volatile, which may make it difficult for shareholders to sell their shares of common stock when they want to, at an attractive price.

Our share price has varied recently and the price of our common stock may decrease in the future, regardless of our operating performance. Investors may be unable to resell their common stock following periods of volatility because of the market's adverse reaction to this volatility.

The following factors may contribute to this volatility:

- actual or anticipated variations in our quarterly operating results;
- interruptions in our services;
- seasonality of the markets and businesses of our customers;
- announcements of new technologies or new services by our company or our competitors;
- our ability to accurately select appropriate business models and strategies;
- the operating and stock price performance of other companies that investors may view as comparable to us;
- news relating to our industry as a whole; and
- news relating to trends in our markets.

The stock market in general and the market for Internet-related companies in particular, including our company, has experienced volatility. This volatility often has been unrelated to the operating performance of these companies. These broad market and industry fluctuations may cause the price of our common stock to drop, regardless of our performance.

Future sales of shares of our common stock by our existing shareholders could cause our share price to fall.

If our shareholders sell substantial amounts of common stock in the public market, the market price of the common stock could fall. The perception among investors that these sales will occur could also produce this effect.

We cannot guarantee that our recently announced stock buyback program will be fully consummated or that such program will enhance the long-term value of our share price.

In February 2016, the Company's Board of Directors approved a stock buyback program to repurchase up to $40 million of the Company's common stock, which can be discontinued at any time. Although this buyback program has been approved, there is no obligation for the Company to repurchase any specific dollar amount of stock. The stock buyback program could affect the price of our stock and increase volatility in the market. We cannot guarantee that this program will be fully consummated or that such program will enhance the long-term value of our share price.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We do not own any real property. Our principal administrative, engineering, marketing and sales office totals approximately 26,900 square feet and is located in Toronto, Ontario under a lease that expires on December 31, 2020. In addition, we also maintain offices of approximately 14,100 square feet in St Catharines, Ontario, approximately 11,200 square feet in Charlottesville, Virginia, approximately 4,000 square feet in Starkville, Mississippi, approximately 2,900 square feet in Bonn, Germany and satellite offices in Westminster, Maryland and Amsterdam, Netherlands.

Substantially all of our computer and communications hardware is located at our facilities or at server hosting facilities in Toronto, Ontario and Ashburn, Virginia.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Price Range of Common stock

Our common stock is traded on the NASDAQ Capital Market under the symbol "TCX". Our common stock is also traded on the Toronto Stock Exchange under the symbol "TC".

The following table sets forth the range of high and low sales prices for our common stock for the periods indicated:

Year	Fiscal Quarter Ended	High	Low
2015	March 31, 2015	19.75	17.29
	June 30, 2015	29.73	17.37
	September 30, 2015	32.23	22.29
	December 31, 2015	28.60	19.60
2014	March 31, 2014	14.92	11.62
	June 30, 2014	15.45	12.07
	September 30, 2014	16.59	12.14
	December 31, 2014	19.63	13.59

As of March 5, 2016, Tucows had 69 shareholders of record, excluding shareholders whose shares are held in nominee or "street" name by brokers.

We have not declared or paid any cash dividends on our common stock during the fiscal years ended December 31, 2015 and December 31, 2014, and we do not intend to do so in the immediate future, but we may decide to do so in the future depending on ongoing market conditions. Our ability to pay any cash dividends on our common stock, should our Board of Directors decide to do so, is also dependent on our earnings and cash requirements.

Purchases of equity securities by the issuer and affiliated purchasers

Modified Dutch Tender Offers:

On January 7, 2015, we successfully concluded a modified “Dutch auction tender offer” that was previously announced in December 2014. Under the terms of the offer, we repurchased an aggregate of 193,907 shares of our common stock at a purchase price of $18.50 per share, for a total of $3,587,280, excluding transaction costs of approximately $70,000. The purchase price and all transaction costs were funded from available cash. All shares purchased in the tender offer received the same price and all shares repurchased were immediately retired. As a result of the completion of the tender offer, as of January 31, 2015, we had 11,186,028 shares issued and outstanding.

2016 Stock Buyback Program:

On February 9, 2016, the Company’s Board of Directors authorized the repurchase of up to $40 million of the Company’s common stock at the Company’s discretion. The new $40 million buyback program commenced on February 10, 2016 and will terminate on or before February 9, 2017. Purchases for this program will be made exclusively through the facilities of the NASDAQ Capital Market. All shares purchased by the Company under this program will be retired and returned to treasury. The timing and exact number of common shares purchased will be at the Company’s discretion and will depend on available cash and market conditions. The Company may suspend or discontinue the repurchases at any time, including in the event the Company would be deemed to be making an acquisition of its own shares under Rule 13e-3 of the Exchange Act. Subject to applicable securities laws and stock exchange rules, all purchases will occur through the open market and may be in large block purchases. The Company does not intend to purchase its shares from its management team or other insiders. The purchase will be funded from available working capital and existing credit facilities.

2015 Stock Buyback Program:

On February 11, 2015, we announced a stock buyback program. Under this buyback program, we were authorized to repurchase up to $20 million of our common stock over the 12-month period that commenced on February 11, 2015. Repurchases under this program may include open market purchases, block trades or a combination of such methods. The number of shares purchased and the timing of the purchases will depend on a number of factors, including share price, trading volume and general market conditions, working capital requirements, general business conditions, financial conditions, any applicable contractual limitations and other factors, including alternative investment opportunities.

We repurchased 214,089 shares under this program during the three months ended March 31, 2015 for a total of $4.1 million. We repurchased 25,413 shares under this program during the three months ended June 30, 2015 for a total of $0.5 million. We repurchased 398,000 shares under this program during the three months ended September 30, 2015 for a total of $10.0 million. We repurchased 231,047 shares under this program during the three months ended December 31, 2015 for a total of $5.4 million. In total, we repurchased 868,549 shares under this program during the year ended December 31, 2015 for a total of $20.0 million.

Our current equity-based compensation plans include provisions that allow for the “net exercise” of stock options by all plan participants. In a net exercise, any required payroll taxes, federal withholding taxes and exercise price of the shares due from the option holder can be paid for by having the option holder tender back to the Company a number of shares at fair value equal to the amounts due. These transactions are accounted for by the Company as a purchase and retirement of shares and are included in the table below as common stock received in connection with share-based compensation.

During the fiscal quarter ended December 31, 2015, certain employees and directors tendered 99,675 shares of common stock having a market value of $23.43 per share, or $2.3 million in the aggregate, as payment for related payroll tax obligations and exercise price of the shares due from the option holder arising from the vesting and settlement of stock option awards.

The following table summarizes our share repurchase activity for the periods covered below:

SHARE REPURCHASES

	Year Ended December 31,		
	2015	**2014**	**2013**
Common stock repurchased on the open market or through tender offer			
Number of shares	**1,062,456**	79,392	1,064,299
Aggregate market value of shares (in thousands)	**$23,616**	$1,182	$6,538
Average price per share	**$22.23**	$14.89	$6.14
Common stock received in connection with share-based compensation			
Number of shares	**99,675**	—	—
Aggregate market value of shares (in thousands)	**$2,335**	$—	$—
Average price per share	**$23.42**	$—	$—

The following schedule sets forth the purchase activity for each month during the three months ended December 31, 2015:

ISSUER PURCHASES OF EQUITY SECURITIES FOR THE THREE MONTHS ENDED December 31, 2015

Period	**Total Number of Shares Purchased**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs *(in thousands)***
October 1 through October 31, 2015	-	$ -	-	$ 5,450,000
November 1 through November 30, 2015	79,195	23.90	79,195	3,557,252
December 1 through December 31, 2015	151,852	23.34	151,852	12,890
Total	231,047	$ 23.53	231,047	

33

STOCK PERFORMANCE GRAPH

The following graph and table compares the Company's stock performance to three stock indices over a five-year period assuming a $100 investment was made on the last day of fiscal year 2010.

ITEM 6. SELECTED FINANCIAL DATA

The following table summarizes certain selected financial data. The selected financial data is derived from, and is qualified by reference to, our audited consolidated financial statements for the years ended December 31, 2015, 2014, 2013, 2012, and 2011 and should be read in conjunction with those statements (amounts expressed in thousands, except per share amounts).

	For the year ended December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
Statement of Operations Data					
Revenue	$172,939	$147,667	$129,935	$114,727	$97,065
Total cost of revenues	119,738	107,115	98,508	88,518	73,762
Sales and marketing	18,538	15,394	12,141	8,701	7,443
Technical operations and development	4,503	4,306	4,159	4,303	4,868
General and administrative	10,662	9,459	7,524	6,611	6,097
Depreciation, amortization and impairment of indefinite life intangible assets	690	1,400	1,092	1,085	1,234
Loss (gain) on currency forward contracts	793	358	357	(683)	535
Total other income (expense), net	(73)	(207)	(355)	337	325
Income before provision for income taxes	17,943	9,428	5,800	6,428	3,451
Provision for (recovery of) income taxes	6,569	3,054	1,619	2,004	(2,720)
Net income	$11,374	$6,374	$4,180	$4,424	$6,170
Net income per share attributable to common stockholders					
Basic	$1.04	$0.57	$0.40	$0.39	$0.46
Diluted	$1.00	$0.54	$0.37	$0.36	$0.44
Weighted average shares used in computing net income per share					
Basic	10,969	11,221	10,468	11,458	13,364
Diluted	11,360	11,730	11,281	12,284	13,937

	At December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
Balance Sheet Data					
Cash and cash equivalents	$7,723	$8,271	$12,419	$6,416	$6,408
Prepaid domain name registry and ancillary services fees	55,749	56,380	56,048	57,489	55,809
Total assets	129,130	125,795	121,353	118,773	115,690

Deferred revenue	71,594	71,106	70,018	71,000	69,176
Debt	3,500	0	6,300	3,700	850
Total liabilities	102,801	90,153	94,436	92,223	85,271
Total stockholders' equity	$26,329	$35,642	$26,917	$26,550	$30,419

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" or "our") for the years ended December 31, 2015, 2014 and 2013 and accompanying notes set forth elsewhere in this report. All financial information is presented in U.S. dollars.

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

OVERVIEW

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

Our principal place of business is located in Canada. We manage our business as segments, Network Access Services, which primarily derives revenue from the sale of retail mobile phones and services to individuals and small businesses, and Domain Services, which derives revenue from three distinct service offerings – Wholesale, Retail and Portfolio. Our management regularly reviews our operating results on a consolidated basis, principally to make decisions about how we utilize our resources and to measure our consolidated operating performance. To assist us in forecasting growth and to help us monitor the effectiveness of our operational strategies, our management regularly reviews revenue and cost of revenues for each of our service offerings in order to gain more depth and understanding of the key business metrics driving our business. Accordingly, we report Network Access Services and Domain Services revenue and cost of revenues separately.

For the years ended December 31, 2015, 2014 and 2013, we reported revenue of $173 million, $148 million and $130 million, respectively. For the years ended December 31, 2015, 2014 and 2013, our OpenSRS domain service offering accounted for 49%, 59% and 67% of our total revenue, respectively.

Network Access Services

Network Access Services derives revenue from the sale of retail mobile phones and services to individuals and small businesses through the Ting website, as well as provides high speed Internet access, Internet hosting and network consulting services to customers in select cities in the United States. Ting provides customers with access to our provisioning and management tools to enable them, via the ting.com website, to purchase retail mobile phones and services nationally and fixed Internet access in select cities. Revenues are generated in the United States and are provided on a monthly basis with no fixed contract term. As of December 31, 2015, Ting managed mobile telephony services for approximately 128,000 subscribers and had approximately 202,000 devices under management.

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

Domain Services

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

Our primary distribution channel is a global network of more than 13,000 resellers in more than 100 countries who typically provide their customers, the end-users of the Internet, with a critical component for establishing and maintaining an online presence. Our primary focus is serving the needs of this network of resellers by providing superior services, easy-to-use interfaces, proactive and attentive customer service, reseller-oriented technology and agile design and development processes. We seek to provide superior customer service to our resellers by anticipating their business needs and technical requirements. This includes providing easy-to-use interfaces that enable resellers to quickly and easily integrate our services into their individual business processes, and offering brandable end-user interfaces that emphasize simplicity and visual appeal. We also provide "second tier" support to our resellers by email and phone in the event resellers experience issues or problems with our services. In addition, our Network Operating Center provides proactive support to our resellers by monitoring all services and network infrastructure to address deficiencies before customer services are impacted.

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

Wholesale, primarily branded as OpenSRS, derives revenue from its Domain Service and from providing Value-Added Services. The OpenSRS Domain Service manages 13.3 million domain names under the Tucows ICANN registrar accreditation and for other registrars under their own accreditations. Value-Added Services include hosted email which provides email delivery and webmail access to millions of mailboxes, Internet security services, publishing tools and reseller billing services. All of these services are made available to end-users through a network of over 13,000 web hosts, Internet service providers (“ISPs”), and other resellers around the world. In addition, we also derive revenue from the bulk sale of domain names and advertising from the OpenSRS Domain Expiry Stream.

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

Portfolio generates advertising revenue from our domain name portfolio and from our advertising-supported website, tucows.com. We also generate revenue by offering names in our domain portfolio for resale via our reseller network and other channels. In addition, we generate revenue from the payments for the sale of rights to gTLD strings under the New gTLD Program.

KEY BUSINESS METRICS

We regularly review a number of business metrics, including the following key metrics to, assist us in evaluating our business, measure the performance of our business model, identify trends impacting our business, determine resource allocations, formulate financial projections and make strategic business decisions. The following tables sets 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 required in accordance with United States generally accepted accounting principles (GAAP). Along with this information, to assist financial statement users in an assessment of our historical performance, we typically disclose and discuss a non-GAAP financial measure, adjusted EBITDA, on investor conference calls and related events that exclude certain non-cash and other charges as we believe that the non-GAAP information enhances investors' overall understanding of our financial performance and the comparability of our operating results from period to period.

The Company believes that the provision of this supplemental non-GAAP measure allows investors to evaluate the operational and financial performance of the Company's core business using the same evaluation measures that management uses. Adjusted EBITDA is one of the primary measures the Company uses for planning and budgeting purposes, incentive compensation and to monitor and evaluate our financial and operating results. 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 measure of discretionary cash available to invest in the growth of the business. 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, differ from GAAP measures with the same captions 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. However, the Company's management compensates for these limitations by providing the relevant disclosure of the items excluded in the calculation of adjusted EBITDA to net income based on U.S. GAAP, which should be considered when evaluating the Company's results. Tucows strongly encourages investors to review its financial information in its entirety and not to rely on a single financial measure.

Adjusted EBITDA excludes depreciation, amortization of intangibles, income tax provision, interest expense, interest income, stock-based compensation, asset impairment, net deferred revenue, which comprises the change in deferred revenue, net of prepaid domain name registry and other Internet services fees, to reflect the material amount of cash we collect and pay for domain registrations and other Internet services at the time of activation, losses from foreign currency transactions and infrequently occurring items. Losses from foreign currency transactions, which removes the effect of our foreign exchange contracts, comprise the realized gains/losses from all foreign currency contracts, both hedged and unhedged; the unrealized effect of the change in the mark-to-market values on outstanding unhedged foreign currency contracts, as well as the unrealized effect from the translation of monetary accounts denominated in non-U.S. dollars to U.S. dollars.

The following table reconciles net income to adjusted EBITDA (dollars in '000's):

	Year ended December 31,		
	2015	2014	2013
Net income for the period	$11,374	$6,374	$4,181
Depreciation of property and equipment	1,404	927	843
Amortization of intangible assets	263	596	960
Impairment of indefinite life intangible assets	206	577	
Interest expense, net	159	206	355
Provision for income taxes	6,570	3,055	1,619
Change in net deferred revenue (1)	1,084	863	425
Stock-based compensation	526	543	431
Losses from foreign currency transactions(2)	3,618	1,612	769
Other income	(86)	-	-
Adjusted EBITDA	$25,118	$14,753	$9,583

(1) Net deferred revenue comprises the change in deferred revenue, net of prepaid domain name registry and other Internet services fees, to reflect the material amount of cash we collect and pay for domain registrations and other Internet services at the time of activation. Net deferred revenue for the years ended December 31, 2015 and 2014 includes a benefit of $0.1 million as a result of the translation of deferred revenue and prepaid domain name registry and other Internet services fees to our reporting currency of US dollars. Net deferred revenue for the year ended December 31, 2013, includes a loss of $0.1 million as a result of the translation of deferred revenue and prepaid domain name registry and other Internet services fees to our reporting currency of US dollars.

(2) Previously reported amounts have been adjusted by $477,000, $287,000 and 139,000, respectively, to correct immaterial calculation errors.

Adjusted EBITDA for the year ended December 31, 2015 increased by $10.4 million, or 70% to $25.1 million when compared to the year ended December 31, 2014. Adjusted EBITDA for the years ended December 31, 2014 increased by $5.2 million, or 54% to $14.8 million when compared to the year ended December 31, 2013. These year-on-year increases in adjusted EBITDA were primarily driven by the growth in Ting mobile services.

Network Access Services	**Year ended December 31, (1)**		
	2015	**2014**	**2013**
	(in 000's)		
Ting subscribers under management	128,000	94,000	48,000
Ting devices under management	202,000	147,000	74,000

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

Domain Services

	Year ended December 31, [1]		
	2015	**2014**	**2013**
		(in '000's)	
Total new, renewed and transferred-in domain name registrations provisioned	9,133	9,110	9,076
Domain names under management			
Registered using the Tucows Registrar Accreditation	10,173	10,200	10,630
Registered using our Resellers' Registrar Accreditations	3,163	3,329	3,564
Total domain names under management	13,336	13,529	14,194

(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 revenue discussion below.

OPPORTUNITIES, CHALLENGES AND RISKS

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

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

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

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

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

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

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

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

Net Revenues

Network Access Services

Mobile and Other Services

We derive revenue from Ting's sale of retail mobile phones and services to individuals and small businesses nationally as well as providing fixed high speed internet access in select cities including Westminster, Maryland and Charlottesville, Virginia along with Internet hosting and network consulting services to customers in Charlottesville, Virginia. Ting provides customers with access to our provisioning and management tools to enable them, via the ting.com website, to purchase retail mobile phones and services nationally and fixed Internet access in select cities. Revenues are generated in the United States and are provided on a monthly basis with no fixed contract term.

Domain Services

Wholesale - OpenSRS Domain Service

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

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

Wholesale – OpenSRS Value-Added Services

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

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

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

Retail – Hover

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

Portfolio

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

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

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

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

We also generate advertising and other revenue through our ad-supported content site, tucows.com. This site primarily derives revenue from banner and text advertising. In addition, their revenue is derived from software developers who rely on us as a primary source of distribution. Software developers use our Author Resource Center to submit their products for inclusion on our site and to purchase promotional placements of their software.

Critical Accounting Policies

The following is a discussion of our critical accounting policies and methods. Critical accounting policies are defined as those that are both important to the portrayal of our financial condition and results of operations and are reflective of significant judgments and uncertainties made by management that may result in materially different results under different assumptions and conditions. “Note 2 – Significant accounting policies” in the Notes to the Consolidated Financial Statements for the year ended December 31, 2015 (“Fiscal 2015”) included in Part II, Item 8 of this Annual Report, includes further information on the significant accounting policies and methods used in the preparation of our consolidated financial statements.

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

Revenue recognition policy

We earn revenues from the following services:

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

Revenues derived from provisioning mobile phone service to individuals and small businesses through the Ting website, are recognized once services have been provided. This is based upon either usage (e.g., minutes of traffic/bytes of data processed), period of time (e.g., monthly service fees), various regulatory fees imposed on us by governmental authorities or other established fee schedules. Revenues for wireless services are billed based on the actual amount of monthly services utilized by each customer during their billing cycle on a postpaid basis. Our billing cycle for each customer is computed based on their activation date and not on our reporting period. As a result, we are required to estimate the amount of revenues earned but not billed from the end of each billing cycle to the end of each reporting period. These estimates are based on an assessment of the actual services rendered to each customer since the last billing period against our rate plans existing at that time. Adjustments affecting revenue may occur in periods subsequent to the billing period when the services were provided and are recognized as revenue during the current billing cycle. In addition, revenues associated with the sale of wireless devices and accessories to subscribers is recognized when title and risk of loss is transferred to the subscriber and shipment has occurred. Incentive marketing credits given to customers are recorded as a reduction of revenue.

Revenues from providing fixed high speed internet access in select cities including Westminster, Maryland and Charlottesville, Virginia along with Internet hosting and network consulting services to customers in Charlottesville, Virginia are recognized when the related services are provided.

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

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

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

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

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

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

Valuation of goodwill, intangible assets and long-lived assets

The excess of the purchase price over the fair values of the identifiable assets and liabilities from our acquisitions is recorded as goodwill. At December 31, 2015, we had $21.0 million (2014 - $18.9 million) in goodwill related to our acquisitions and $14.5 million (2014 - $14.2 million) in intangible assets comprised of indefinite life intangibles of $13.3 million (2014 - $13.5 million) and finite life intangible assets of $1.2 million (2014 - $0.7 million).We report our financial results as three operating segments, Domain Services with three distinct service offerings, being wholesale and retail domain name registration services, value added services and portfolio, and Network Access - Mobile Services which derives revenue from the sale of retail mobile phones and telephony services, as well as Network Access – Other Services which derives revenue from fixed high speed internet access, Internet hosting and network consulting services. Ninety percent of goodwill relates to our Domain Services operating segment and 10% of goodwill relates to our Network Access – Other Services operating segment. With the exception of the goodwill relating to the acquisition of the hosted messaging assets of Critical Path and the BRI Group, all goodwill recorded in relation to our acquisitions is not deductible for tax purposes. Ninety-five percent of intangible assets relate to our Domain Services operating segment and 5% of intangible assets relate to our Network Access – Other Services operating segment.

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

Our indefinite life intangible assets consist of surname domain names and direct navigation domain names. In order to maintain our rights to these domain names, we pay annual renewal fees to the applicable domain name registries. During the year we decided not to renew certain under-performing domain names and an impairment charge of $0.2 million was recorded during the fiscal year.

With regard to long-lived assets comprised of property and equipment and finite life intangible assets, we continually evaluate whether events or circumstances have occurred that indicate the remaining estimated useful lives of our definite-life intangible assets may warrant revision or whether the carrying amount of such assets may not be recoverable and exceed their fair value. We use an estimate of the related undiscounted cash flows over the remaining life of the asset in measuring whether the asset is recoverable. There was no impairment recorded on definite-life intangible assets and property and equipment during 2015 and 2014.

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. 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 2015 and 2014.

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.

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.

Recently Issued Accounting Standards

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

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2015 AS COMPARED TO THE YEAR ENDED DECEMBER 31, 2014

NET REVENUES

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

	Year ended December 31, 2015	2014
Network Access Services:		
Mobile Services	58,889,922	35,887,005
Other Services	3,288,711	-
Total Network Access Services	62,178,633	35,887,005
Domain Services:		
Wholesale		
Domain Services	$84,982,007	$86,640,949
Value Added Services	9,297,943	9,654,734
Total Wholesale	94,279,950	96,295,683
Retail	12,341,013	10,417,746
Portfolio	4,139,903	5,066,673
Total Domain Services	110,760,866	111,780,102
	$172,939,499	$147,667,107
Increase over prior period	$25,272,392	
Increase - percentage	17 %	

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

	Year ended December 31, 2015	2014
Network Access Services:		
Mobile Services	35 %	24 %
Other Services	2 %	0 %

Total Network Access Services	37 %	24 %
Domain Services:		
Wholesale		
Domain Services	49 %	59 %
Value Added Services	5 %	7 %
Total Wholesale	54 %	66 %
Retail	7 %	7 %
Portfolio	2 %	3 %
Total Domain Services	63 %	76 %
	100 %	100 %

Total net revenues for Fiscal 2015 increased by $25.3 million, or 17%, to $172.9 million from $147.7 million for the fiscal year ended December 31, 2014 ("Fiscal 2014"). Deferred revenue from domain name registrations and other Internet services at December 31, 2015 increased to $71.6 million from $71.1 million at December 31, 2014.

No customer accounted for more than 10% of revenue during Fiscal 2015 and, at December 31, 2015, no customer accounted for more than 10% of accounts receivable. Significant management judgment is required at the time of recording of revenue to assess whether the collection of the resulting receivables is reasonably assured. On an ongoing basis, we assess the ability of our customers to make required payments. Based on this assessment, we expect the carrying amount of our outstanding receivables, net of allowance for doubtful accounts, to be fully collected.

Network Access Services

Mobile and Other Services

Net revenues from Ting mobile phone equipment and services and the provisioning of high speed Internet access, Internet hosting and network consulting services for Fiscal 2015, as compared to Fiscal 2014, increased by $26.3 million or 73% to $62.2 million. This increase primarily reflects the impact the larger Ting subscriber base is having on Ting mobile service revenue which grew by $23.0 million to $58.9 million as compared to Fiscal 2014. In addition, we generated $3.3 million in revenue in connection with the provisioning of high speed Internet access, Internet hosting and network consulting services during Fiscal 2015. As of December 31, 2015, Ting had 128,000 subscribers and 202,000 mobile devices under its management compared to 94,000 subscribers and 147,000 devices under management as of December 31, 2014.

Domain Services

Wholesale

During Fiscal 2015, domain services revenue decreased by $1.6 million to $85.0 million and the number of transactions from all new, renewed and transferred-in domain name registrations that we processed remained relatively flat at 9.1 million when compared to Fiscal 2014. Domain services revenue and transaction volumes continue to be impacted by the ongoing migration of a few large, low margin customers. These customers have been moving their domain management and domain transaction processing to their own accreditations and in-house systems. We anticipate that the number of new, renewed and transferred-in domain name registrations will continue to be impacted by decisions that large volume customers make with regard to acquiring their own accreditations, as well as the impact on the market, of the significant expansion in the number of New gTLDs added pursuant to the implementation of ICANN’s New gTLD Program. While we anticipate that the number of new, renewed and transferred-in domain name registrations will continue to incrementally increase in the long term, the volatility of these factors could affect the growth of domain names that we manage. Primarily for the same factors impacting domain transactions mentioned above, total domains that we manage under our own accreditation remained relatively unchanged at 10.2 million as of December 31, 2015, when compared to December 31, 2014. Also, as of December 31, 2015, total domains that we manage on behalf of other accredited registrars who use our technical systems to process domain registrations with their own accreditation, decreased to 3.1 million when compared to 3.3 million at the end of December 31, 2014, primarily the result of a single customer that transitioned their domain management platform to an in-house system in Fiscal 2014.

Value-Added Services decreased by $0.4 million to $9.3 million when compared to Fiscal 2014. This decrease was largely due to the $0.6 million decrease in revenue from pay-per-click advertising and the sale of names through the OpenSRS Domain Expiry Stream. The revenue associated with names sales and advertising has 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.

Retail

Net revenues from Retail for Fiscal 2015, as compared to Fiscal 2014, increased by $1.9 million to $12.3 million. This increase was largely due to the success that our retail marketing initiatives and improved websites are having on our ability to attract new customers and retain existing ones for Hover.

Portfolio

Net revenues from Portfolio for Fiscal 2015, as compared to Fiscal 2014, decreased by $1.0 million to $4.1 million. The decrease is primarily related to lower sales of big ticket domains and a decrease in online advertising revenue largely due to the flat to declining trends as a result of factors such as uncertainty around the impact of ICANN’s New gTLD Program and lower traffic and advertising yields that this market is experiencing.

COST OF REVENUES

Network Access Services

Mobile and Other Services

Cost of revenues for network access services includes the costs of provisioning mobile services (primarily our customers' voice, messaging, data usage provided by our MNOs), the costs of providing mobile phone hardware (the cost of mobile phone devices and SIM cards sold to our customers, order fulfillment related expenses, and inventory write-downs) as well as the costs for provisioning high speed Internet access (network access fees, software licenses), and any direct costs incurred in providing web hosting and IT consulting services.

Wholesale

OpenSRS Domain Service

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

Value-Added Services

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

Retail

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

Portfolio

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

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

Network expenses

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

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

	Year ended December 31, 2015	2014
		-
Network Access Services:		
Mobile Services	32,615,415	21,870,780
Other Services	1,627,439	-
Total Network Access Services	34,242,854	21,870,780
Domain Services:		
Wholesale		
Domain Services	$70,763,964	$72,353,061
Value Added Services	1,892,867	2,211,085
Total Wholesale	72,656,831	74,564,146
Retail	5,473,102	4,539,439
Portfolio	717,183	886,637
Total Domain Services	78,847,116	79,990,222
Network Expenses:		
Network, other costs	5,464,777	4,554,635
Network, depreciation and amortization costs	1,183,509	699,670
	6,648,286	5,254,305
	$119,738,256	$107,115,307
Increase over prior period	$12,622,949	
Increase - percentage	12 %	

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

	Year ended December 31, 2015	2014
Network Access Services:		
Mobile Services	27 %	20 %
Other Services	1 %	0 %
Total Network Access Services	28 %	20 %
Domain Services:		
Wholesale		

Domain Services	59	%	68	%
Value Added Services	2	%	2	%
Total Wholesale	61	%	70	%
Retail	5	%	4	%
Portfolio	1	%	1	%
Total Domain Services	67	%	75	%
Network Expenses:				
Network, other costs	4	%	4	%
Network, depreciation and amortization costs	1	%	1	%
	5	%	5	%
	100	%	100	%

Total cost of revenues for Fiscal 2015 increased by $12.6 million, or 12%, to $119.7 million from $107.1 million in Fiscal 2014. This increase was primarily the result of increased network access service expenses due to the impact Ting's larger subscriber base is having on service costs. Prepaid domain registration and other Internet services fees as of December 31, 2015 decreased by $0.7 million, or 1%, to $55.7 million from $56.4 million at December 31, 2014.

Network Access Services

Mobile and Other Services

Cost of revenues from Ting mobile phone equipment and services and the provisioning of high speed Internet access, Internet hosting and network consulting services for Fiscal 2015, as compared to Fiscal 2014, increased by $12.3 million or 57% to $34.2 million. This increase primarily reflects the impact the larger subscriber base had on Ting mobile service cost of revenue which grew by $9.0 million to $25.1 million as compared to Fiscal 2014. In addition, in Fiscal 2015, we incurred costs of $1.6 million in provisioning high speed Internet access, Internet hosting and network consulting services during Fiscal 2015.

<u>Domain Services</u>

Wholesale

Costs for Wholesale for Fiscal 2015 decreased by $1.9 million to $72.7 million, when compared to Fiscal 2014. This reduction in costs is primarily the result of an ongoing shift in product mix to higher margin domain services and with growth in the core wholesale domain services business being off-set with a few large clients migrating their business to their own accreditations.

Retail

Costs for Retail for Fiscal 2015 increased by $1.0 million, to $5.5 million, when compared to Fiscal 2014. This increase resulted primarily from the increased cost of additional volume in Hover services.

Portfolio

Costs for Portfolio decreased by $0.2 million for Fiscal 2015, to $0.7 million when compared to Fiscal 2014, primarily the result of our decision not to renew certain domain names acquired in the June 2006 acquisition of Mailbank.com Inc. as described under impairment of indefinite life intangible assets below.

<u>Network Expenses</u>

Network costs for Fiscal 2015 increased by $1.4 million to $6.6 million when compared to Fiscal 2014. This increase is largely the result of the additional costs we incur as a result of our now providing high speed Internet access, Internet hosting and network consulting services to customers.

SALES AND MARKETING

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

	Year ended December 31,	
	2015	**2014**
Sales and marketing	$18,537,810	$15,394,065
Increase over prior period	$3,143,745	
Increase - percentage	20 %	
Percentage of net revenues	11 %	10 %

Sales and marketing expenses for Fiscal 2015 increased by $3.1 million, or 20%, to $18.5 million as compared to Fiscal 2014. This increase primarily related to workforce expenses incurred in connection with supporting and acquiring network access services customers. As we exceeded our adjusted EBITDA target set for Fiscal 2015 under our overachievement bonus program, sales and marketing workforce related costs in Fiscal 2015 also include a provision of $0.6 million due to this higher performance attainment.

Excluding movements in exchange rates, we expect sales and marketing expenses for the fiscal year ending December 31, 2016 (“Fiscal 2016”) to increase in absolute dollars, as we adjust our marketing programs and sales and customer support personnel costs to support our network access services marketing and customer service needs.

TECHNICAL OPERATIONS AND DEVELOPMENT

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

	Year ended December 31,	
	2015	2014
Technical operations and development	$4,502,845	$4,305,715
Increase over prior period	$197,130	
Increase - percentage	5 %	
Percentage of net revenues	3 %	3 %

Technical operations and development expenses for Fiscal 2015 increased by $0.2 million, or 5%, to $4.5 million when compared to Fiscal 2014. This increase resulted primarily from our exceeding our adjusted EBITDA target set for Fiscal 2015 under our overachievement bonus program and accruing a provision of $0.1 million due to this higher performance attainment.

We expect technical operations and development expenses for Fiscal 2016, in absolute dollars, to increase slightly when compared to Fiscal 2015.

GENERAL AND ADMINISTRATIVE

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

	Year ended December 31,	
	2015	2014
General and administrative	$10,661,949	$9,459,008
Increase over prior period	$1,202,941	
Increase - percentage	13 %	
Percentage of net revenues	6 %	6 %

General and administrative expenses for Fiscal 2015 increased by $1.2 million, or 13%, to $10.7 million as compared to Fiscal 2014. This increase was primarily the result of $0.8 million in increased credit card processing fees and bad debts, largely related to the growth in network access services, increased workforce costs of $0.7 million, primarily the result of our exceeding our adjusted EBITDA target set for Fiscal 2015 under our overachievement bonus program and accruing a provision of $0.6 million due to this higher performance attainment and $0.4 million in increased public listing costs, supply and facility expenses as compared to Fiscal 2014. These increases were partially offset by a decrease of $0.8 million in professional fees and stock based compensation. The decrease in professional fees resulted largely from additional SOX compliance work that we undertook for the first time in Fiscal 2014 as well as pre-acquisition due diligence and other costs of $0.2 million that related to a potential acquisition during Fiscal 2014 that was abandoned once we determined that its completion was not probable. The decrease in stock based compensation expense of $0.1 million was primarily as a result of our decision to implement a minimum vesting requirement to formulaic option grants to our non-employee directors under our 2006 Equity Compensation Plan. In addition, during Fiscal 2015, we realized a gain on foreign exchange of $3.0 million compared to a gain of $1.3 million during Fiscal 2014. These gains in turn were offset by our incurring a loss on foreign exchange revaluation of our foreign denominated assets and liabilities of $3.3 million during Fiscal 2015 compared to a loss of $1.6 million during Fiscal 2014.

We expect general and administrative expenses for Fiscal 2016, in absolute dollars, to increase when compared to Fiscal 2015 largely to support the growth of our business.

DEPRECIATION OF PROPERTY AND EQUIPMENT

Property and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets.

	Year ended December 31,	
	2015	**2014**
Depreciation of property and equipment	$259,307	$226,432
Increase over prior period	$32,875	
Increase - percentage	15 %	
Percentage of net revenues	0 %	0 %

Depreciation costs for Fiscal 2015 increased slightly to $0.3 million when compared to $0.2 million for Fiscal 2014.

AMORTIZATION OF INTANGIBLE ASSETS

	Year ended December 31,	
	2015	**2014**
Amortization of intangible assets	$224,206	$596,620
Decrease over prior period	$(372,414)	
Decrease - percentage	(62)%	
Percentage of net revenues	0%	0%

Amortization of intangible assets consists of amounts arising in connection with the acquisition of EPAG Domainservices GmbH ("EPAG") in July 2011 and the acquisition of the BRI Group in February 2015. Amortization of intangible assets decreased by $0.4 million to $0.2 million, primarily the result of intangible assets related to Innerwise, Inc. being fully amortized in Fiscal 2014.

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

Technology acquired in connection with the acquisition of EPAG is amortized on a straight-line basis over two years.

IMPAIRMENT OF INDEFINITE LIFE INTANGIBLE ASSETS

	Year ended December 31,	
	2015	**2014**
Impairment of indefinite life intangible assets	$206,116	$577,145
(Decrease) increase over prior period	$(371,029)	
Decrease - percentage	(64)%	
Percentage of net revenues	0%	0%

As part of our normal renewal process during Fiscal 2015 and Fiscal 2014, we assessed that certain domain names acquired in the June 2006 acquisition of Mailbank.com Inc. should not be renewed and were allowed to expire. Accordingly, these domain names, with a book value of $0.2 million and $0.6 million, respectively, have been written off and recorded as impairment of indefinite life intangible assets.

LOSS ON CURRENCY FORWARD CONTRACTS

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

	Year ended December 31,	
	2015	**2014**
Loss on currency forward contracts	$792,900	$357,760
Increase over prior period	$435,140	
Increase - percentage	122 %	
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 2016. The impact of the fair value adjustment on outstanding contracts for Fiscal 2015 was a net loss of $1.0 million compared to $0.1 million for Fiscal 2014. The impact of the fair value adjustment on outstanding contracts was increased by a realized gain upon settlement of currency forward contracts of $0.2 million for Fiscal 2015 compared to a realized loss of $0.3 million for Fiscal 2014.

At December 31, 2015, our balance sheet reflects a derivative instrument liability of $2.0 million as a result of our existing foreign exchange contracts. Until their respective maturity dates, these contracts will fluctuate in value in line with movements in the Canadian dollar relative to the U.S. dollar.

OTHER INCOME AND EXPENSES

	Year ended December 31,	
	2015	**2014**
Other income (expense), net	$(73,153)	$(206,730)
Increase over prior period	$133,577	
Increase - percentage	(65)%	
Percentage of net revenues	(0)%	(0)%

Other expenses for Fiscal 2015 primarily consists of interest we incur in connection with our credit facility with the Bank of Montreal, which decreased by $0.1 million when compared with Fiscal 2014. As the terms of the Joint Marketing agreement that we entered into in February 2015 when we waived our rights under the proposed joint venture to operate the .online registry are satisfied, we are recognizing the positive financial contribution from the marketing agreement during Fiscal 2015. Accordingly, other expenses were partially offset by our recognizing $0.1 million in other income in accordance with the terms of the .online Joint Marketing agreement.

INCOME TAXES

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

	Year ended December 31,	
	2015	**2014**
Provision for income taxes	$6,569,227	$3,054,229
Increase in provision over prior period	$3,514,998	
Increase - percentage	115 %	
Effective tax rate	36.6 %	32.4 %

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 carryforwards 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 2015 includes tax on profits of $17.9 million compared to $9.4 million for Fiscal 2014.We had approximately $0.1 million of total gross unrecognized tax benefit as of December 31, 2015 and as of December 31, 2014, which if recognized would favorably affect our income tax rate in future periods. The unrecognized tax benefit relates primarily to prior year Pennsylvania state franchise taxes and other insignificant U.S. state taxes.

A reconciliation of the federal statutory income tax rate to our effective tax rate is set forth in “Note 10 – Income Taxes” of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report.

OTHER COMPREHENSIVE INCOME (LOSS)

To mitigate the impact of the change in fair value of our foreign exchange contracts on our financial results, in October 2012 we begun applying hedge accounting for the majority of the contracts we need to meet our Canadian dollar requirements on a prospective basis. The impact of the fair value adjustment on outstanding hedged contracts for Fiscal 2015 was a net loss in other comprehensive income of $0.5 million compared to $0.4 million for Fiscal 2014.

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

	Year ended December 31,	
	2015	**2014**
Comprehensive income	$(487,011)	$(377,460)
Increase over prior period	$(109,551)	
Decrease - percentage	29%	
Percentage of net revenues	(0)%	(0)%

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2014 AS COMPARED TO THE YEAR ENDED DECEMBER 31, 2013

NET REVENUES

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

	Year ended December 31,	
	2014	**2013**
<u>Network Access Services:</u>		
Mobile Services	35,887,005	16,530,237
Other Services	-	-
Total Network Access Services	35,887,005	16,530,237
<u>Domain Services:</u>		
Wholesale		
Domain Services	$86,640,949	$87,294,173
Value Added Services	9,654,734	10,271,219
Total Wholesale	96,295,683	97,565,392
Retail	10,417,746	8,360,035
Portfolio	5,066,673	7,479,240
Total Domain Services	111,780,102	113,404,667
	$147,667,107	$129,934,904
Increase over prior period	$17,732,203	
Increase - percentage	14 %	

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

	Year ended December 31,	
	2014	**2013**
<u>Network Access Services:</u>		

Mobile Services	24 %	13 %
Other Services	0 %	0 %
Total Network Access Services	24 %	13 %
<u>Domain Services:</u>		
Wholesale		
Domain Services	59 %	67 %
Value Added Services	7 %	8 %
Total Wholesale	66 %	75 %
Retail	7 %	6 %
Portfolio	3 %	6 %
Total Domain Services	76 %	87 %
	100 %	100 %

Total net revenues for Fiscal 2014 increased by $17.7 million, or 14%, to $147.7 million from $129.9 million for the fiscal year ended December 31, 2013 (“Fiscal 2013”). Deferred revenue from domain name registrations and other Internet services at December 31, 2014 increased to $71.1 million from $70.0 million at December 31, 2013.

No customer accounted for more than 10% of revenue during Fiscal 2014 and, at December 31, 2014, no customer accounted for more than 10% of accounts receivable. Significant management judgment is required at the time of recording of revenue to assess whether the collection of the resulting receivables is reasonably assured. On an ongoing basis, we assess the ability of our customers to make required payments. Based on this assessment, we expect the carrying amount of our outstanding receivables, net of allowance for doubtful accounts, to be fully collected.

Network Access Services

Ting

Net revenues from Ting mobile phone services and equipment for Fiscal 2014, as compared to Fiscal 2013, increased by $19.4 million or 117% to $35.9 million. This increase primarily reflects the impact the larger subscriber base is having on service revenues. As of December 31, 2014, Ting had 94,000 subscribers and 147,000 mobile devices under its management compared to 48,000 subscribers and 74,000 devices under management as of December 31, 2013.

Domain Services

Wholesale

During Fiscal 2014, domain services revenue decreased by $0.7 million to $86.6 million and the number of transactions from all new, renewed and transferred-in domain name registrations that we processed remained relatively flat at 9.1 million when compared to Fiscal 2013. Domain services revenue and transaction volumes continue to be impacted by the ongoing migration of a few large, low margin customers. These customers have been moving their domain management and domain transaction processing to their own accreditations and in-house systems. We anticipate that the number of new, renewed and transferred-in domain name registrations will continue to be impacted by decisions large volume customers make with regard to acquiring their own accreditations and the impact that the significant expansion of the number of New gTLDs implementation of ICANN’s New gTLD Program will have on the market. 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. As of December 31, 2014, total domains that we manage under our own accreditation decreased to 10.2 million when compared to 10.6 million at December 31, 2013. This decrease in domains under management primarily resulted from the same factors impacting domain transactions mentioned above. Also, as of December 31, 2014, total domains that we manage on behalf of other accredited registrars who use our technical systems to process domain registrations with their own accreditation, decreased to 3.3 million when compared to 3.6 million at the end of December 31, 2013, primarily the result of a single customer that transitioned their domain management platform to an in-house system earlier this year.

Value-Added Services decreased by $0.6 million to $9.7 million when compared to Fiscal 2013. This decrease was largely due to the $0.7 million decrease in revenue from pay-per-click advertising and the sale of names 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.

Retail

Net revenues from Retail for Fiscal 2014, as compared to Fiscal 2013, increased by $2.1 million to $10.4 million. This increase was largely due to the success that our retail marketing initiatives and improved websites are having on our ability to attract new customers and retain existing ones for Hover.

Portfolio

Net revenues from Portfolio for Fiscal 2014, as compared to Fiscal 2013, decreased by $2.4 million to $5.1 million from $7.5 million. This decrease was primarily related to gains we recognized from our withdrawal of our applications for .media and .marketing during the three months ended September 30, 2013 compared to the gains we recognized from participating in a confidential private auction for .group in July 2014. The market for monetization of domain names is rapidly evolving and is being impacted by uncertainty around the implementation of ICANN’s New gTLD Program. In addition, Portfolio revenues were impacted by lower sales of big ticket domains as well as the impact the uncertainty around the implementation of ICANN’s new gTLD Program is having on our pay-per-click advertising traffic.

COST OF REVENUES

Network Access Services

Ting

The costs of revenue for Ting's mobile phone service include hardware (the cost of devices sold to our customers) and network services (our customers' voice, messaging and data usage) provided by our Mobile Network Operator.

Domain Services

Wholesale

OpenSRS Domain Service

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

Value-Added Services

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

Retail

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

Portfolio

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

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

Network expenses

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

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

	Year ended December 31, 2014	2013
Network Access Services:		
Mobile Services	21,870,780	12,621,093
Other Services	-	-
Total Network Access Services	21,870,780	12,621,093
Domain Services:		
Wholesale		
Domain Services	$72,353,061	$73,468,824
Value Added Services	2,211,085	2,115,167
Total Wholesale	74,564,146	75,583,991
Retail	4,539,439	3,521,023
Portfolio	886,637	1,234,214
Total Domain Services	79,990,222	80,339,228
Network Expenses:		
Network, other costs	4,554,635	4,835,939
Network, depreciation and amortization costs	699,670	711,763
	5,254,305	5,547,702
	$107,115,307	$98,508,023
Increase over prior period	$8,607,284	
Increase - percentage	9 %	

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

	Year ended December 31, 2014	2013
Network Access Services:		
Mobile Services	20 %	13 %
Other Services	0 %	0 %
Total Network Access Services	20 %	13 %
Domain Services:		
Wholesale		

Domain Services	68 %	74 %
Value Added Services	2 %	2 %
Total Wholesale	70 %	76 %
Retail	4 %	4 %
Portfolio	1 %	1 %
Total Domain Services	75 %	81 %
Network Expenses:		
Network, other costs	4 %	5 %
Network, depreciation and amortization costs	1 %	1 %
	5 %	6 %
	100 %	100 %

Total cost of revenues for Fiscal 2014 increased by $8.6 million, or 9%, to $107.1 million from $98.5 million in Fiscal 2013. This increase was primarily the result of increased network access service expenses due to the impact Ting's larger subscriber base is having on service costs. Prepaid domain registration and other Internet services fees as of December 31, 2014 increased by $0.4 million, or 1%, to $56.4 million from $56.0 million at December 31, 2013.

Network Access Services

Ting

Costs for Ting for Fiscal 2014 increased by $9.3 million, to $21.9 million when compared to Fiscal 2013. This increase primarily reflects the impact our larger subscriber base is having on service costs.

Domain Services

Wholesale

Costs for Wholesale for Fiscal 2014 decreased by $1.0 million to $74.6 million, when compared to Fiscal 2013. This reduction in costs is primarily the result of an ongoing shift in product mix to higher margin domain services and with growth in the core wholesale domain services business being off-set with a few large clients migrating their business to their own accreditations.

Retail

Costs for Retail for Fiscal 2014 increased by $1.0 million, to $4.5 million, when compared to Fiscal 2013. This increase resulted primarily from the increased cost of additional volume in Hover services.

Portfolio

Costs for Portfolio decreased by $0.3 million for Fiscal 2014, to $0.9 million when compared to Fiscal 2013, primarily the result of costs associated with our New gTLD applications incurred during Fiscal 2013.

Network Expenses

Network expenses decreased by $0.3 million for Fiscal 2014 to $5.3 million as compared to Fiscal 2013.

These results reflect our improved efficiency in operating and managing our co-location facilities, which has also enabled us to decrease our capital spend on network equipment.

SALES AND MARKETING

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

	Year ended December 31,	
	2014	**2013**
Sales and marketing	$15,394,065	$12,141,036
Increase over prior period	$3,253,029	
Increase - percentage	27 %	
Percentage of net revenues	10 %	9 %

Sales and marketing expenses for Fiscal 2014 increased by $3.3 million, or 27%, to $15.4 million as compared to Fiscal 2013. This increase primarily related to workforce and marketing expenses incurred in acquiring and servicing Ting subscribers.

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, email, retail, domain portfolio and other Internet services, as well as to distribute our digital content services. Editorial costs relating to the rating and review of the software content libraries are included in the costs of product development. All technical operations and development costs are expensed as incurred.

	Year ended December 31,	
	2014	**2013**
Technical operations and development	$4,305,715	$4,158,603
Increase over prior period	$147,112	
Increase - percentage	4 %	
Percentage of net revenues	3 %	3 %

Technical operations and development expenses for Fiscal 2014 increased by $0.1 million, or 4%, to $4.3 million when compared to Fiscal 2013. This increase resulted primarily by our recognizing a 2010 Ontario Interactive Digital Media Tax Credit of $0.4 million, primarily related to eligible personnel costs, during the quarter ended June 30, 2013. This increase was partially offset by a decrease which resulted primarily from improved productivity in workforce related costs.

GENERAL AND ADMINISTRATIVE

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

	Year ended December 31,	
	2014	**2013**
General and administrative	$9,459,008	$7,523,906
Increase over prior period	$1,935,102	
Increase - percentage	26 %	
Percentage of net revenues	6 %	6 %

General and administrative expenses for Fiscal 2014 increased by $1.9 million, or 26%, to $9.5 million as compared to Fiscal 2013. This increase was primarily the result of $1.0 million in increased credit card processing fees and bad debts, largely related to the growth of Ting and $0.6 million in increased professional fees as compared to Fiscal 2013. The professional fee increase included additional SOX compliance work that we have undertaken for the first time as well as pre-acquisition due diligence and other costs of $0.1 million that related to a potential acquisition that was abandoned once we determined that its completion was not probable, as well as increased losses in foreign exchange contracts of $0.2 million when compared to Fiscal 2013.

DEPRECIATION OF PROPERTY AND EQUIPMENT

Property and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets.

	Year ended December 31,	
	2014	**2013**
Depreciation of property and equipment	$226,432	$215,447
Increase over prior period	$10,985	
Increase - percentage	5 %	
Percentage of net revenues	0 %	0 %

Depreciation costs for Fiscal 2014 remained essentially flat at $0.2 million.

AMORTIZATION OF INTANGIBLE ASSETS

	Year ended December 31,	
	2014	**2013**
Amortization of intangible assets	$596,620	$876,120
Decrease over prior period	$(279,500)	
Decrease - percentage	(32)%	
Percentage of net revenues	0%	1%

Amortization of intangible assets consists of amounts arising in connection with the acquisition of Innerwise, Inc. in July 2007 and the acquisition of EPAG in August 2011.

The brand and customer relationships acquired in connection with the acquisitions of Innerwise Inc. and EPAG are being amortized on a straight-line basis over seven years.

Technology acquired in connection with the acquisition of EPAG is amortized on a straight-line basis over two years.

IMPAIRMENT OF INDEFINITE LIFE INTANGIBLE ASSETS

	Year ended December 31,	
	2014	**2013**
Impairment of indefinite life intangible assets	$577,145	$ -
Increase over prior period	$577,145	
Increase - percentage	N/A %	
Percentage of net revenues	0%	- %

As part of our normal renewal process during Fiscal 2014, we assessed that certain domain names acquired in the June 2006 acquisition of Mailbank.com Inc. should not be renewed and were allowed to expire. Accordingly, these domain names, with a book value of $0.6 million, have been written off and recorded as impairment of indefinite life intangible assets during Fiscal 2014. No impairment was recorded on indefinite-life intangible assets during Fiscal 2013.

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.

	Year ended December 31,	
	2014	**2013**
Loss on currency forward contracts	$357,760	357,109
Increase over prior period	$651	
Increase - percentage	0 %	
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 2015. The impact of the fair value adjustment on outstanding contracts for Fiscal 2014 was a net loss of $0.1 million, compared to $0.5 million for Fiscal 2013. The impact of the fair value adjustment on outstanding contracts was increased by a realized loss upon settlement of currency forward contracts of $0.3 million for Fiscal 2014 compared to a realized gain of $0.1 million for Fiscal 2013.

At December 31, 2014, our balance sheet reflects a derivative instrument liability of $1.1 million as a result of our existing foreign exchange contracts. Until their respective maturity dates, these contracts will fluctuate in value in line with movements in the Canadian dollar relative to the U.S. dollar.

OTHER INCOME AND EXPENSES

	Year ended December 31,	
	2014	**2013**
Other income (expense), net	$(206,730)	$(354,857)
Increase over prior period	$148,127	
Increase - percentage	(42)%	
Percentage of net revenues	0 %	(0)%

Other expenses for Fiscal 2014 which primarily consist of interest we incur in connection with our credit facility with the Bank of Montreal, decreased by $0.2 million, to $0.2 million, as compared with Fiscal 2013.

INCOME TAXES

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

	Year ended December 31,	
	2014	**2013**
Provision for income taxes	$3,054,229	1,619,339
Increase in provision over prior period	$1,434,890	
Increase - percentage	89 %	
Effective tax rate	32.4 %	27.9 %

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 carryforwards 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 2014 includes tax on profits of $3.4 million, offset by a recovery of $0.3 million related to investment tax credits.

Fiscal 2013 includes tax on profits of $1.8 million, offset by a recovery of $0.2 million related to investment tax credits.

We had approximately $0.1 million of total gross unrecognized tax benefit as of December 31, 2014 and as of December 31, 2013, which if recognized would favorably affect our income tax rate in future periods. The unrecognized tax benefit relates primarily to prior year Pennsylvania state franchise taxes and other insignificant U.S. state taxes.

A reconciliation of the federal statutory income tax rate to our effective tax rate is set forth in Note 9 of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

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 2014 was a net loss in other comprehensive income of $0.4 million compared to $0.3 million for Fiscal 2013.

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

	Year ended December 31,	
	2014	**2013**
Comprehensive income	$(377,460)	$(289,085)
Increase in provision over prior period	$(88,375)	
Decrease - percentage	31%	
Percentage of net revenues	0%	(0)%

Liquidity and capital resources

As of December 31, 2015, our cash and cash equivalents balance decreased by $0.6 million to $7.7 million when compared to December 31, 2014. Our principal sources of liquidity during Fiscal 2015 was net cash provided by operating activities of $13.3 million, the proceeds of $6.6 million we received on our previously announced agreement to amend our .online joint venture relationship to the Joint Marketing Agreement, the proceeds of $3.5 million we received under our Amended Credit Facility (defined below) to fund the previously announced acquisition of a controlling interest in Ting Virginia, LLC and the proceeds of $4.2 million we received on the exercise of stock options. The resulting proceeds from the exercise of stock options of $4.2 million includes an excess tax benefit from share based compensation expenses of $3.4 million. These sources of funds were partly offset by our repurchasing 868,549 of our shares for $20.0 million through our open market stock buyback that commenced on February 16, 2015 and ended on February 9, 2016, our repurchasing 193,907 shares for $3.6 million through our modified Dutch Auction tender offer (the "Tender Offer") that closed on January 7, 2015 and our investing $3.0 million in additions to property and equipment. In addition, during Fiscal 2015, we made payments of tax obligations resulting from the net exercise of stock options of $1.3 million on behalf of option holders.

We have credit agreements (collectively the "Amended Credit Facility") with the Bank of Montreal which provide us with access to a demand loan revolving facility (the "2012 DLR Loan") and a demand loan revolving reducing facility (the "2012 DLRR Loan") that provide for a $14 million, five-year revolving credit facility, a $3.5 million treasury risk management facility and a $1.0 million operating demand loan. At December 31, 2015 the balance under the 2012 DLRR Loan was $3.5 million and the 2012 DLR Loan was fully repaid. Both of these financing arrangements remain available to fund future operations of the Company, with no set expiration date. In accordance with the terms of the demand loan facilities, repayment of advances under the 2012 DLR Loan consist of interest only payments at U.S. Base Rate plus 1.25%, made monthly in arrears, and prepayment is permitted without penalty.

The Amended Credit Facility also provides for a $3.5 million settlement risk line to assist us with hedging Canadian dollar exposure through foreign exchange forward contracts and/or currency options. Under the terms of the Amended Credit Facility, we may enter into such agreements at market rates with terms not to exceed 18 months. As of December 31, 2015, the Company held contracts in the amount of $24.0 million to trade U.S. dollars in exchange for Canadian dollars.

The Amended Credit Facility contains customary events of default and affirmative and negative covenants and restrictions, including certain financial maintenance covenants such as a maximum total funded debt to EBITDA ratio and a minimum fixed charge ratio. As of December 31, 2015, we were in compliance with all our covenants.

Cash Flow from Operating Activities

Year ended December 31, 2015

Net cash inflows from operating activities were $13.3 million, an increase of 50% when compared to the prior year. Net income, after adjusting for non-cash charges, during Fiscal 2015 was $14.0 million, an increase of 75% when compared to the prior year. Net income included non-cash charges and recoveries of $2.6 million such as depreciation, amortization, impairment of indefinite life intangible asset, stock-based compensation, the provision for unrealized losses on currency forward contracts and a recovery for deferred tax. This generation of cash from net income was partially offset by our increasing working capital by $0.7 million. We used $4.3 million to invest in accounts receivable, inventory, prepaid expenses and deposits and to prepay taxes. These investments in working capital were partially offset by positive contributions of $3.6 million from movements in accounts payable, deferred revenue, deferred registration costs, customer deposits and accrued liabilities.

Year ended December 31, 2014

Net cash inflows from operating activities were $8.9 million, an increase of 2% when compared to the prior year. Net income, after adjusting for non-cash charges, during Fiscal 2014 was $8.0 million, an increase of 42% when compared to the prior year. Net income included non-cash charges and recoveries of $1.7 million such as depreciation, amortization, impairment of indefinite life intangible asset, stock-based compensation, the provision for unrealized losses on currency forward contracts, excess tax benefit related to stock-based compensation and a recovery for deferred tax. In addition, changes in our working capital generated $0.9 million. Positive contributions of $2.9 million from movements in accounts payable, deferred revenue, prepaid expenses and deposits and accrued liabilities were partially offset by our utilizing $2.0 million to fund a reduction in and deferred registration costs, income taxes, customer deposits and inventory and an increase in accounts receivable.

Year ended December 31, 2013

Net cash inflows from operating activities were $8.7 million, an increase of 37% when compared to the prior year. Net income, after adjusting for non-cash charges, during Fiscal 2013 was $5.7 million, which included non-cash charges and recoveries of $1.5 million such as depreciation, amortization, stock-based compensation, the provision for unrealized losses on currency forward contracts, excess tax benefit related to stock-based compensation and a recovery for deferred tax. In addition, changes in our working capital generated $3.0 million. Positive contributions of $5.4 million from movements in deferred registration costs, income taxes, accrued liabilities, inventory, accounts payable and prepaid expenses and deposits, were partially offset by our utilizing $2.4 million to fund a reduction in deferred revenue and customer deposits and an increase in accounts receivable.

Cash Flow from Financing Activities

Year ended December 31, 2015

Net cash used in financing activities during Fiscal 2015 totaled $17.2 million as compared to $4.1 million during Fiscal 2014. Net cash outflows amounting to $24.9 million resulted from $20.0 million used to fund our repurchasing 868,549 of our shares through our open market stock buyback that commenced on February 16, 2015 and our repurchasing of 193,907 shares for $3.6 million through our Tender Offer that closed on January 7, 2015. In addition, during Fiscal 2015, we made payments of tax obligations resulting from the net exercise of stock options of $1.3 million on behalf of option holders. These cash outflows were partially offset by cash inflows of $3.5 million we received under our Amended Credit Facility to fund the previously announced acquisition of a controlling interest in Ting Virginia, LLC and the exercise of stock options of $4.2 million. The resulting proceeds from the exercise of stock options of $4.2 million includes an excess tax benefit from share based compensation expenses of $3.4 million.

Year ended December 31, 2014

Net cash used in financing activities during Fiscal 2014 totaled $4.1 million as compared to $1.4 million during Fiscal 2013. Net cash of $6.3 million was used to fully repay our Amended Credit Facility and $1.2 million was used to repurchase 0.1 million shares under our Normal Course Issuer Bid announced in March 2014. These uses of funds in financing activities were partially offset by the proceeds from the exercise of stock options of $3.4 million.

Year ended December 31, 2013

Net cash used in financing activities during Fiscal 2013 totaled $1.4 million as compared to $5.8 million during Fiscal 2012. Net cash of $6.5 million was used to fund the repurchase of 4.1 million of our shares through a modified “Dutch auction tender offer” that was successfully concluded on January 4, 2013 and to repurchase 0.1 million shares under our current Normal Course Issuer Bid during the three months ended March 31, 2013. In addition, $2.6 million was used to fund principal repayments under our Amended Credit Facility. These uses of funds in financing activities were partially offset by our drawing $5.2 million under our Amended Credit Facility in January 2013 to fund a portion of the modified Dutch auction tender offer and by the proceeds from the exercise of stock options of $2.6 million.

Cash Flow from Investing Activities

Year ended December 31, 2015

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

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

On February 27, 2015, Ting Fiber, Inc., one of our wholly owned subsidiaries, acquired a controlling ownership interest in the newly formed Ting Virginia, LLC and its acquired subsidiaries, Blue Ridge Websoft, LLC (doing business as Blue Ridge InternetWorks), Fiber Roads, LLC and Navigator Network Services, LLC (the "BRI Group") for a consideration of approximately $3.6 million. The purchase price was satisfied through our releasing $3.1 million from the escrow accounts established during Fiscal 2014 and an additional payment of $0.4 million made at closing. In addition, we used $3.0 million to acquire additional property and equipment. Included in these additions is an amount of $2.2 million that we have invested since the acquisition of the BRI Group primarily in expanding our fiber network footprint. We expect our capital expenditures on building and expanding our fiber network to increase significantly during Fiscal 2016 as we seek to extend both our current network and expand to new towns.

Year ended December 31, 2014

Investing activities during Fiscal 2014 used net cash of $8.2 million to fund our contribution for the auction and registry seed capital costs for the .online gTLD joint venture, as well as the escrow accounts that were established to fund our proposed acquisition of a controlling interest in an independent Internet service provider in Charlottesville, Virginia doing business primarily as Blue Ridge InternetWorks. In addition, we used net cash of $0.7 million to acquire additional property and equipment.

Year ended December 31, 2013

Investing activities during Fiscal 2013 used net cash of $1.3 million to acquire additional property and equipment.

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

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

Subsequent events

On February 9, 2016, the Company announced that its Board of Directors has approved a stock buyback program to repurchase up to $40 million of its common stock in the open market. Purchases will be made exclusively through the facilities of the NASDAQ Capital Market. The stock buyback program commenced on February 10, 2016 and will terminate on or before February 9, 2017.

Repurchases under this program may include open market purchases, block trades or a combination of such methods. All shares repurchased by Tucows under the stock buyback program will be retired and returned to treasury. The number of shares purchased and the timing of the purchases will depend on a number of factors, including share price, trading volume and general market conditions, working capital requirements, general business conditions, financial conditions, any applicable contractual limitations and other factors, including alternative investment opportunities.

Off Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of December 31, 2015.

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, 2015. 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, 2015:

Contractual Obligations for the year ending December 31,	**Contractual Lease Obligations**	**Purchase Obligations** (1)	**Total Obligations**
2016	$ 973,000	$ 9,279,000	$ 10,252,000
2017	989,000	12,713,000	13,702,000
2018	1,020,000	443,000	1,463,000
2019	1,003,000	—	1,003,000
2020	991,000	—	991,000
Thereafter	1,188,000	—	1,188,000

	$ 6,164,000	$ 22,435,000	$ 28,599,000

(1) Purchase obligations include all other legally binding service contracts for mobile telephone services and other operational agreements to be delivered during Fiscal 2016 and subsequent years.

64

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, 2015. We are also subject to market risk exposure related to changes in interest rates under our Amended Credit Facility. We do not expect that any changes in interest rates will be material; however, fluctuations in interest rates are beyond our control. We will continue to monitor and assess the risks associated with interest expense exposure and may take additional actions in the future to mitigate these risks.

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

At December 31, 2015, the Company had the following outstanding forward exchange contracts to trade U.S. dollars in exchange for Canadian dollars:

Maturity date	Notional amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Fair value Liability
January – March, 2016	6,992,500	1.2616	(610,737)
April – June, 2016	6,002,500	1.2556	(547,686)
July - September, 2016	6,002,500		