TUCOWS INC /PA/
Form 10-Q
May 09, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2018

OR

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

For the transition period from to

Commission file number 1-32600

TUCOWS INC.

(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania	**23-2707366**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

96 Mowat Avenue,

Toronto, Ontario M6K 3M1, Canada

(Address of Principal Executive Offices) (Zip Code)

(416) 535-0123

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

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

As of May 7, 2018, there were 10,594,645 outstanding shares of common stock, no par value, of the registrant.

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TUCOWS INC.

Form 10-Q Quarterly Report

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TRADEMARKS, TRADE NAMES AND SERVICE MARKS

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PART I.

FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Tucows Inc.

Consolidated Balance Sheets

(Dollar amounts in U.S. dollars)

(unaudited)

	March 31, 2018	**December 31, 2017***
Assets		
Current assets:		
Cash and cash equivalents	$ *16,587,886*	$ *18,049,164*
Accounts receivable, net of allowance for doubtful accounts of $169,420 as of March 31, 2018 and $168,409 as of December 31, 2017	*12,685,140*	*12,376,104*
Inventory	*2,898,383*	*2,944,246*
Prepaid expenses and deposits	*14,710,902*	*14,185,586*
Derivative instrument asset, current portion (note 5)	*21,515*	-
Prepaid domain name registry and ancillary services fees, current portion	*95,019,044*	*103,302,472*
Income taxes recoverable	2,625,063	*3,003,873*
Total current assets	144,547,933	*153,861,445*
Derivative instrument asset, long-term portion (note 5)	*4,588*	-
Prepaid domain name registry and ancillary services fees, long-term portion	*20,640,539*	*23,700,931*
Property and equipment	*28,688,762*	*24,620,298*
Contract costs (note 11)	*1,378,336*	-
Intangible assets (note 6)	*56,047,310*	*58,414,178*
Goodwill (note 6)	*90,053,483*	*90,053,483*
Total assets	$ *341,360,951*	$ *350,650,335*
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ *9,343,179*	$ *7,026,282*
Accrued liabilities	*7,171,475*	*6,412,578*
Customer deposits	*12,980,327*	*15,255,305*

Deferred rent, current portion	*21,048*	*20,991*
Loan payable, current portion (note 7)	*18,289,853*	*18,289,853*
Deferred revenue, current portion	*122,203,880*	*129,154,622*
Accreditation fees payable, current portion	*1,226,544*	*1,174,733*
Income taxes payable	*984,707*	*1,226,157*
Total current liabilities	*172,221,013*	*178,560,521*
Deferred revenue, long-term portion	*28,779,438*	*31,426,906*
Accreditation fees payable, long-term portion	*277,022*	*288,755*
Deferred rent, long-term portion	*129,885*	*129,777*
Loan payable, long-term portion (note 7)	*54,127,120*	*58,634,174*
Deferred gain	*300,580*	*429,400*
Deferred tax liability (note 8)	20,116,385	*19,833,678*
Redeemable non-controlling interest (note 4 (a))	-	*1,136,390*
Stockholders' equity (note 13)		
Preferred stock - no par value, 1,250,000 shares authorized; none issued and outstanding	-	-
Common stock - no par value, 250,000,000 shares authorized; 10,592,115 shares issued and outstanding as of March 31, 2018 and 10,583,879 shares issued and outstanding as of December 31, 2017	*15,426,104*	*15,368,161*
Additional paid-in capital	*2,547,140*	*2,166,768*
Retained earnings	*47,418,839*	*42,675,805*
Accumulated other comprehensive income	*17,425*	-
Total stockholders' equity	*65,409,508*	*60,210,734*
Total liabilities and stockholders' equity	$*341,360,951*	$*350,650,335*

Contingencies (note 16)

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

See accompanying notes to unaudited consolidated financial statements

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Tucows Inc.

Consolidated Statements of Operations and Comprehensive Income

(Dollar amounts in U.S. dollars)

(unaudited)

	Three months ended March 31, 2018	2017*
Net revenues (note 10)	$95,795,691	$69,568,062
Cost of revenues (note 10)		
Cost of revenues	68,972,220	49,310,712
Network expenses	2,574,087	2,343,196
Depreciation of property and equipment	1,131,143	590,347
Amortization of intangible assets (note 6)	499,032	380,162
Total cost of revenues	73,176,482	52,624,417
Gross profit	22,619,209	16,943,645
Expenses:		
Sales and marketing	8,364,787	7,219,322
Technical operations and development	2,094,689	1,694,141
General and administrative	4,531,412	3,457,343
Depreciation of property and equipment	101,072	166,317
Amortization of intangible assets (note 6)	1,831,730	1,380,809
Loss (gain) on currency forward contracts (note 5)	(3,093)	(34,425)
Total expenses	16,920,597	13,883,507
Income from operations	5,698,612	3,060,138
Other income (expense):		
Interest expense, net	(895,962)	(867,993)
Other income, net	123,960	128,897
Total other income (expense)	(772,002)	(739,096)
Income before provision for income taxes	4,926,610	2,321,042
Provision for income taxes (note 8)	1,182,918	(125,449)
Net income before redeemable non-controlling interest	3,743,692	2,446,491

Redeemable non-controlling interest	*(26,336)*	*(125,764)*
Net income attributable to redeemable non-controlling interest	*26,336*	*125,764*
Net income for the period	*3,743,692*	*2,446,491*
Other comprehensive income, net of tax		
Unrealized income on hedging activities (note 5)	*17,425*	*186,229*
Net amount reclassified to earnings (note 5)	-	*(80,620)*
Other comprehensive income net of tax of $5,585 and $60,079 for the three months ended March 31, 2018 and March 31, 2017 (note 5)	*17,425*	*105,609*
Comprehensive income for the period	$*3,761,117*	$*2,552,100*
Basic earnings per common share (note 9)	$*0.35*	$*0.23*
Shares used in computing basic earnings per common share (note 9)	*10,588,718*	*10,474,647*
Diluted earnings per common share (note 9)	$*0.35*	$*0.23*
Shares used in computing diluted earnings per common share (note 9)	*10,792,613*	*10,776,515*

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

See accompanying notes to unaudited consolidated financial statements

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Tucows Inc.

Consolidated Statements of Cash Flows

(Dollar amounts in U.S. dollars)

(unaudited)

	Three months ended March 31,	
	2018	**2017***
Cash provided by:		
Operating activities:		
Net income for the period	$3,743,692	$2,446,491
Items not involving cash:		
Depreciation of property and equipment	1,232,215	756,664
Amortization of debt discount and issuance costs	69,533	67,105
Amortization of intangible assets	2,330,762	1,760,971
Change in capitalized contract costs	25,272	-
Deferred income taxes (recovery)	(47,034)	1,199,661
Excess tax benefits on share-based compensation expense	(143,969)	(989,332)
Amortization of deferred rent	165	4,032
Loss on disposal of domain names	37,478	9,789
Other income	(128,820)	(128,820)
Loss (gain) on change in the fair value of forward contracts	(3,093)	(17,949)
Stock-based compensation	578,182	317,820
Change in non-cash operating working capital:		
Accounts receivable	(309,036)	41,721
Inventory	45,863	170,996
Prepaid expenses and deposits	(525,316)	(3,557,508)
Prepaid domain name registry and ancillary services fees	11,343,820	(5,489,422)
Income taxes recoverable	264,829	(2,660,528)
Accounts payable	2,132,453	(3,446,427)
Accrued liabilities	758,897	1,830,922
Customer deposits	(2,274,978)	(83,591)
Deferred revenue	(9,598,210)	10,240,649
Accreditation fees payable	40,078	(71,327)
Net cash provided by operating activities	9,572,783	2,401,917
Financing activities:		
Proceeds received on exercise of stock options	7,201	19,869
Payment of tax obligations resulting from net exercise of stock options	(147,068)	(712,234)
Proceeds received on loan payable	-	86,998,000
Repayment of loan payable	(4,571,843)	(6,258,278)
Payment of loan payable costs	(4,125)	(591,175)

Net cash (used in) provided by financing activities	*(4,715,835*)	*79,456,182*
Investing activities:		
Additions to property and equipment	*(5,116,854*)	*(3,692,893*)
Acquisition of a portion of the minority interest in Ting Virginia, LLC (note 4(a))	*(1,200,000*)	*(2,000,000*)
Acquisition of Enom Incorporated, net of cash (note 4(b))	-	*(76,237,460*)
Acquisition of intangible assets	*(1,372*)	-
Net cash (used in) investing activities	*(6,318,226*)	*(81,930,353*)
Decrease in cash and cash equivalents	*(1,461,278*)	*(72,254*)
Cash and cash equivalents, beginning of period	*18,049,164*	*15,105,075*
Cash and cash equivalents, end of period	$*16,587,886*	$*15,032,821*
Supplemental cash flow information:		
Interest paid	$*901,344*	$*872,645*
Income taxes paid, net	$*1,337,123*	$*2,342,916*
Supplementary disclosure of non-cash investing and financing activities:		
Property and equipment acquired during the period not yet paid for	$*397,661*	$*250,847*

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

See accompanying notes to unaudited consolidated financial statements

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. **Organization of the Company:**

Tucows Inc. (referred to throughout this report as the “Company”, “Tucows”, “we”, “us” or through similar expressions) provides simple useful services that help people unlock the power of the Internet. The Company provides U.S. consumers and small businesses with mobile phone services nationally and high-speed fixed Internet access in selected towns. The Company is also a global distributor of Internet services, including domain name registration, digital certificates, and email. It provides these services primarily through a global Internet-based distribution network of Internet Service Providers, web hosting companies and other providers of Internet services to end-users.

2. **Basis of presentation:**

The accompanying unaudited interim consolidated balance sheets, and the related consolidated statements of operations and comprehensive income and cash flows reflect all adjustments, consisting of normal recurring adjustments, that are, in the opinion of management, necessary for a fair presentation of the financial position of Tucows and its subsidiaries as at *March 31, 2018* and the results of operations and cash flows for the interim periods ended *March 31, 2018* and *2017.* The results of operations presented in this Quarterly Report on Form *10*-Q are *not* necessarily indicative of the results of operations that *may* be expected for future periods.

The accompanying unaudited interim consolidated financial statements have been prepared by Tucows in accordance with the rules and regulations of the United States Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in the Company's annual audited consolidated financial statements and accompanying notes have been condensed or omitted. Other than the exception noted below, these interim consolidated financial statements and accompanying notes follow the same accounting policies and methods of application used in the annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended *December 31, 2017* included in Tucows' *2017* Annual Report on Form *10*-K filed with the SEC on *March 6, 2018* (the *“2017* Annual Report”). There have been *no* material changes to our significant accounting policies and estimates during the *three* months ended *March 31, 2018* as compared to the significant accounting policies and estimates described in our *2017* Annual Report, except for the adoption of Accounting Standards Update (“ASU”) *No. 2014-09, Revenue from Contracts with Customers (Topic 606)* (“ASU *2014-09”*). See Note *3* for more information.

***3.* Recent accounting pronouncements:**

Recent Accounting Pronouncements Adopted

On *January 1, 2018,* the Company adopted Accounting Standards Updates ("ASU") *No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business* and ASU *2015-16, Simplifying the Accounting for Measurement-Period Adjustments.* The adoption of these updates did *not* have a significant impact on the consolidated financial statements. We also adopted ASU *2014-09* and the impact of such adoption is described in more detail below.

ASU 2014-09: Adoption of Revenue from Contracts with Customers (Topic 606)

On *January 1, 2018,* the Company adopted ASU *2014-09* using the modified retrospective method by recognizing the cumulative effect of initially applying ASU *2014-09* as an adjustment to the opening balance of equity as at *January 1, 2018.* The results for reporting periods beginning after *January 1, 2018* are presented under ASU *2014-09,* while prior period amounts are *not* adjusted and continue to be reported in accordance with our historic accounting policy, under ASC *605,* Revenue Recognition (Topic *605*). The adoption of Topic *606* did *not* affect the Company's cash flows from operating, investing, or financing activities. Furthermore, the impact on timing of revenue recognition was *not* material as the treatment of revenue for services rendered over time is consistent under Topic *606* and Topic *605.* The details of the significant changes and quantitative impact of the changes are set out below. For a more comprehensive description of how the Company recognizes revenue under the new revenue standard in accordance with its performance obligations, see note *10.*

The Company previously recognized commission fees related to Ting Mobile, Ting Internet, eNom domain registration and eNom domain related value-added service contracts as selling expenses when they were incurred. Under ASU *2014-09,* when these commission fees are deemed incremental and are expected to be recovered, the Company capitalizes as an asset such commission fees as costs of obtaining a contract. These commission fees are amortized into income consistently with the pattern of transfer of the good or service to which the asset relates. The estimation of the amortization period for the costs to obtain a contract required judgement.

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Under Topic *606,* the Company has applied the following practical expedients:

a) When the amortization period for costs incurred to obtain a contract with a customer is less than one year, the Company has elected to apply a practical expedient to expense the costs as incurred; and

b) For mobile and internet access services, where the performance obligation is part of contracts that have an original expected duration of one year or less (typically one month), the Company has elected to apply a practical expedient to not disclose revenues expected to be recognized in the future related performance obligations that are unsatisfied (or partially unsatisfied).

On *January 1, 2018* as a result of adopting ASU *2014-09,* the Company recorded a contract cost asset of *$1.4* million with a corresponding increase to opening retained earnings and deferred tax liability of *$1.1* million and *$0.3* million, respectively, due to the deferral of costs of obtaining contracts. The impact of the changes to the Company's financial statements in the current period are as follows:

	March 31, 2018		
Consolidated Balance Sheet	**As reported**	**Adjustments**	**Balances without adoption of Topic 606**
Assets			
Contract Costs (note 11)	$*1,378,336*	$*(1,378,336*)	$-
Total assets	*341,360,951*	$*(1,378,336*)	$*339,982,615*
Liabilities and Shareholders' Equity			
Deferred tax liability (note 8)	$20,116,385	$*(346,900*)	$19,769,485
Retained earnings	*47,418,839*	*(1,031,436*)	*46,387,403*
Total Liabilities and Shareholders' Equity	$*341,360,951*	$*(1,378,336*)	$*339,982,615*

	Three months ended, March 31, 2018		
Consolidated Statements of Operations and Comprehensive Income	**As reported**	**Adjustments**	**Balances without adoption of Topic 606**
Expenses			

Sales and marketing	$8,364,787	$ (25,272)	$8,339,515
Income before provision for income taxes	4,926,610	25,272	4,951,882
Provision for income tax (note 8)	1,182,918	(6,134)	1,189,052
Net income for the period	$3,743,692	$ 19,138	$3,762,830

Recent Accounting Pronouncements Not Yet Adopted

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

***4.* Acquisitions:**

(a) Blue Ridge Websoft

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

On *February 1, 2017,* under the terms of a call option in the agreement, Ting Fiber, Inc. acquired an additional *20%* interest in Ting Virginia, LLC from the selling shareholders (the "Minority Shareholders") for consideration of *$2.0* million.

On *February 13, 2018,* the Company entered into an agreement Minority Shareholders pursuant to which the Minority Shareholders could immediately exercise their put option to sell their remaining *10%* ownership interest in Ting Virginia, LLC for *$1.2* million to the Company. The put option was exercised on *February 13, 2018* and the

Company paid *$1.2* million for the remaining *10%* ownership interest and Ting Virginia, LLC became a wholly-owned subsidiary of the Company.

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(b) eNom, Incorporated

On *January 20, 2017,* the Company entered into a Stock Purchase Agreement (the “Purchase Agreement”) with its indirect wholly owned subsidiary, Tucows (Emerald), LLC, Rightside Group, Ltd., and Rightside Operating Co., pursuant to which Tucows (Emerald), LLC purchased from Rightside Operating Co. all of the issued and outstanding capital stock of eNom, Incorporated (“eNom”), a domain name registrar business. The purchase price was *$77.8* million, which represented the agreed upon purchase of *$83.5* million less an amount of *$5.7* million related to the working capital deficiency acquired.

***5.* Derivative instruments and hedging activities:**

Foreign currency forward contracts

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

The Company has designated certain of these transactions as cash flow hedges of forecasted transactions under Accounting Standards Codification (“ASC”) Topic *815, Derivatives and Hedging*. For certain contracts, as the critical terms of the hedging instrument and the entire hedged forecasted transaction are the same in accordance with ASC Topic *815,* the Company has been able to conclude that changes in fair value and cash flows attributable to the risk of being hedged are expected to completely offset at inception and on an ongoing basis. Accordingly, unrealized gains or losses on the effective portion of these contracts have been included within other comprehensive income. The fair value of the contracts, as of *March 31, 2018,* is recorded as derivative instrument assets. For certain contracts where the hedged transactions are *no* longer probable to occur, the loss on the associated forward contract is reclassified from AOCI to earnings.

As of *March 31, 2018,* the notional amount of forward contracts that the Company held to sell U.S. dollars in exchange for Canadian dollars was *$12.8* million, of which *$11.3* million were designated as hedges as compared to the period as of *December 31, 2017* when the Company held *nil* contracts to trade U.S. dollars in exchange for Canadian dollars.

As of *March 31, 2018,* we 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**
April - June 2018	*3,176,805*	*1.2919*	*7,737*
July - September 2018	*3,394,161*	*1.2893*	*7,165*
October - December 2018	*1,604,112*	*1.2873*	*3,421*
January - March 2019	*1,639,448*	*1.2852*	*3,192*
April - June 2019	*1,599,200*	*1.2831*	*2,788*
July - September 2019	*1,366,226*	*1.2809*	*1,800*
	$*12,779,952*	*1.2875*	$*26,103*

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

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

Fair value of derivative instruments in the consolidated balance sheets

Derivatives	**Balance Sheet Location**	**As of March 31, 2018 Fair Value Asset (Liability)**	**As of December 31, 2017 Fair Value Asset (Liability)**

Foreign currency forward contracts designated as cash flow hedges (net)	Derivative instruments	$ *23,010*	$ -
Foreign currency forward contracts not designated as cash flow hedges (net)	Derivative instruments	$ *3,093*	$ -
Total foreign currency forward contracts (net)	Derivative instruments	$ *26,103*	$ -

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Movement in Accumulated Other Comprehensive Income ("AOCI") balance for the three months ended March 31, 2018:

	Gains and losses on cash flow hedges	**Tax impact**	**Total AOCI**
Opening AOCI balance – December 31, 2017	$-	$ -	$-
Other comprehensive income (loss) before reclassifications	23,010	(5,585)	17,425
Amount reclassified from accumulated other comprehensive income	-	-	-
Other comprehensive income (loss) for the three months ended March 31, 2018	23,010	(5,585)	17,425
Ending AOCI balance – March 31, 2018	$23,010	$(5,585)	$17,425

Effects of derivative instruments on income and other comprehensive income (OCI) for the three months ended March 31, 2018 and March 31, 2017 are as follows:

Derivatives in Cash Flow Hedging Relationship	**Amount of Gain or (Loss) Recognized in OCI, net of tax, on Derivative (Effective Portion)**	**Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)**	**Amount of Gain or (Loss) Reclassified from AOCI into Income, (Effective Portion)**	**Location of Gain or (Loss) Recognized in Income on Derivative (ineffective Portion and Amount Excluded from Effectiveness Testing)**	**Amount of Gain or (Loss) Recognized in Income on Derivative (ineffective Portion and Amount**

					Excluded from Effectiveness Testing)	
		Operating expenses	$ -	Operating expenses	$	—
Foreign currency forward contracts for the three months ended March 31, 2018	$ -	Cost of revenues	$ -	Cost of revenues		—
		Operating expenses	$ 105,355	Operating expenses	$	—
Foreign currency forward contracts for the three months ended March 31, 2017	$ 105,609	Cost of revenues	$ 21,128	Cost of revenues		—

In addition to the above, for those foreign currency forward contracts not designated as hedges, the Company recorded a gain of $3,093 for the change in fair value of outstanding contracts for the three months ended March 31, 2018, in the consolidated statement of operations and comprehensive income. The Company has recorded a total gain of $34,425 for the change in fair value of outstanding contracts and the settlement of contracts not designated as hedges for the three months ended March 31, 2017, in the consolidated statement of operations and comprehensive income.

6. Goodwill and Other Intangible Assets:

Goodwill

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

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The Company's Goodwill balance is *$90.1* million as of *March 31, 2018 (December 31, 2017 – $90.1* million). The Company's goodwill relates *98%* (*$87.9* million) to its Domain Services operating segment and *2%* (*$2.2* million) to its Network Access Services operating segment.

Goodwill is *not* amortized, but is subject to an annual impairment test, or more frequently if impairment indicators are present.

Other Intangible Assets:

Intangible assets consist of acquired brand, technology, customer relationships, surname domain names, direct navigation domain names and network rights. The Company considers its intangible assets consisting of surname domain names and direct navigation domain names as indefinite life intangible assets. The Company has the exclusive right to these domain names as long as the annual renewal fees are paid to the applicable registry. Renewals occur routinely and at a nominal cost. The indefinite life intangible assets are *not* amortized but are subject to impairment assessments performed throughout the year. As part of the normal renewal evaluation process during the periods ended *March 31, 2018* and *March 31, 2017,* the Company assessed that certain domain names that were originally acquired in the *June 2006* acquisition of Mailbank.com Inc. that were up for renewal, should be renewed.

Intangible assets, comprising brand, technology, customer relationships and network rights are being amortized on a straight-line basis over periods of *four* to *fifteen* years.

A summary of acquired intangible assets for the *three* months ended *March 31, 2018* is as follows:

	Surname domain names	**Direct navigation domain names**	**Brand**	**Customer relationships**	**Technology**	**Network rights**	**Total**
Amortization period	**indefinite life**	**indefinite life**	**7 years**	**4 - 7 years**	**2 years**	**15 years**	
Balances December 31, 2017	$*11,209,912*	$*1,552,354*	$*10,792,790*	$*32,185,398*	$*2,112,500*	$*561,224*	$*58,414,178*
Acquisition of customer	-	-	-	*1,372*	-	-	*1,372*

relationships							
Additions to/(disposals from) domain portfolio, net	*(4,543*)	*(32,935*)	-	-	-	-	*(37,478*)
Amortization expense	-	-	*(450,510*)	*(1,381,220*)	*(487,500*)	*(11,532*)	*(2,330,762*)
Balances March 31, 2018	$*11,205,369*	$*1,519,419*	$*10,342,280*	$*30,805,550*	$*1,625,000*	$*549,692*	$*56,047,310*

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

	Year ending December 31,
Remainder of 2018	$*6,910,060*
2019	*7,334,660*
2020	*7,172,160*
2021	*7,172,160*
2022	*7,172,160*
Thereafter	*7,561,322*
Total	$*43,322,522*

As of *March 31, 2018,* the accumulated amortization for the definite life intangible assets was *$17.6* million.

***7.* Loan payable:**

2017 Amended Credit Facility

On *January 20, 2017,* the Company entered into an amended and restated secured Credit Agreement (the *"2017* Amended Credit Agreement") with Bank of Montreal ("BMO" or the "Administrative Agent"), Royal Bank of Canada and Bank of Nova Scotia (collectively with "Lenders") under which the Company increased its access to funds to an aggregate of *$140* million. This amendment and restatement to the Company's *2016* Credit Facility (defined below), among other things, reduced the existing Tucows non-revolving facility (such existing non-revolving facility, together with other existing facilities, the "Existing Facilities") from *$40.0* million to *$35.5* million, and established a new

non-revolving credit facility of *$84.5* million (the “Facility D”). The Company immediately drew down *$84.5* million under Facility D to fund the acquisition of eNom (note *4*(b)). The *“2016* Credit Facility” refers to the credit facility established under the Company’s secured credit agreement (the *“2016* Credit Agreement”) among the Company, BMO and the Lenders, dated as of *August 18, 2016.*

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

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

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

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

Borrowings under the *2017* Amended Credit Facility accrue interest and standby fees at variable rates based on borrowing elections by the Company and the Company's Total Funded Debt to EBITDA as described below. The purpose of Facility A is for general working capital and general corporate requirements, while Facility B and Facility C support share repurchases, acquisitions and capital expenditures associated with the Company's Fiber to the Home program ("FTTH"). Facility D was provided and used for the acquisition of eNom.

The repayment terms for Facility A require monthly interest payments with any final principal payment becoming due upon maturity of the *2017* Amended Credit Facility. Under the repayment terms for Facility B, at *December 31st* of each year, balances drawn during the year that remain outstanding will become payable on a quarterly basis commencing the *first* quarter of the following year, for the period of amortization based on the purpose of the draw. For Facilities C and D, each draw will become payable beginning the *first* full quarter post initial draw for the period of amortization based on the purpose of the draw. The amortization periods for Facilities B, C and D are based on the purposes of the draws as follows: draws for share repurchases are repaid over *four* years, draws for acquisitions over *five* years and draws for FTTH capital expenditures over *seven* years. The *2017* Amended Credit Facility also includes a mechanism that is triggered based on the Company's Total Funded Debt to EBITDA calculation at the end of each fiscal year. If Total Funded Debt to EBITDA exceeds *2.25:1* at *December 31* of each year during the term, the Company is obligated to make a repayment of *50%* of Excess Cash Flow as defined under the agreement.

The *2017* Amended Credit Facility contains customary representations and warranties, affirmative and negative covenants, and events of default. The *2017* Amended Credit Facility requires that the Company to comply with the following financial covenants at all times, which are to be calculated on a rolling *four* quarter basis: (i) maximum Total Funded Debt to EBITDA Ratio of *2.50:1* until *September 30, 2018* and *2.25:1* thereafter; and (ii) minimum

Fixed Charge Coverage Ratio of *1.20:1.* Further, the Company's maximum annual Capital Expenditures cannot exceed *$50.0* million per year, which limit will be reviewed on an annual basis. In addition, funded share repurchases are *not* to exceed *$20* million, or up to *$40* million so long as the total loans related to share repurchases do *not* exceed *1.5* times of trailing *twelve* months EBITDA. As at and for the periods ending *March 31, 2018,* and *March 31, 2017,* the Company was in compliance with these covenants.

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

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

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

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The following table summarizes the Company's borrowings under the credit facilities:

	March 31, 2018	December 31, 2017
Facility C	*5,582,775*	*5,930,338*
Facility D	*67,598,400*	*71,823,300*
Less: unamortized debt discount and issuance costs	*(764,202*)	*(829,611*)
Total loan payable	*72,416,973*	*76,924,027*
Less: loan payable, current portion	*18,289,853*	*18,289,853*
Loan payable, long-term portion	*54,127,120*	*58,634,174*

The following table summarizes our scheduled principal repayments as of March 31, 2018:

Remainder of 2018	*13,717,390*
2019	*18,289,853*
2020	*18,103,004*
2021	*17,542,457*
2022	*4,867,757*
Thereafter	*660,714*
	$*73,181,175*

Other Credit Facilities

Prior to the Company entering into the *2016* Credit Facility, the Company had credit agreements (collectively the "Amended Credit Facility") with BMO that were amended on *November 19, 2012,* and which provided it with access to *two* revolving demand loan facilities (the *"2012* Demand Loan Facilities"), a treasury risk management facility, an operating demand loan and a credit card facility. The Company continues to have access to the treasury risk management facility and credit card facility, with the remaining loan facilities having been extinguished.

The treasury risk management facility under the Amended Credit Facility provides for a *$3.5* million settlement risk line to assist the Company with hedging Canadian dollar exposure through foreign exchange forward contracts and/or currency options. Under the terms of the Amended Credit Facility, the Company *may* enter into such agreements at

market rates with terms *not* to exceed *18* months. As of *March 31, 2018,* the Company held contracts in the amount of *$12.8* million to trade U.S. dollars in exchange for Canadian dollars (note *5*).

In *Q4, 2017,* the Company entered into a corporate credit card program with the Bank of Nova Scotia and the Lenders. The program provides that BMO and the Bank of Nova Scotia *may* establish corporate credit card facilities with the Company in an amount of up to *$5* million.

8. Income taxes

For the *three* months ended *March 31, 2018,* we recorded an income tax expense of *$1.2* million on income before income taxes of *$4.9* million, using an estimated effective tax rate for the fiscal year ending *December 31, 2018* *(*"Fiscal *2018"*) adjusted for certain minimum state taxes as well as the inclusion of a *$0.1* million tax recovery related to ASU *2016-09,* which requires all excess tax benefits and tax deficiencies related to employee share-based payments to be recognized through income tax expense. Comparatively, for the *three* months ended *March 31, 2017,* the Company recorded an income tax recovery of *$0.1* million on income before taxes of *$2.3* million, using an estimated effective tax rate for the *2017* fiscal year and adjusted for the *$1.0* million tax recovery impact related to ASU *2016-09.*

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

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The Company recognizes accrued interest and penalties related to income taxes in income tax expense. The Company did *not* have significant interest and penalties accrued at *March 31, 2018* and *December 31, 2017,* respectively.

9. Basic and diluted earnings per common share:

Basic earnings per common share has been calculated on the basis of net income for the period divided by the weighted average number of common shares outstanding during each year. Diluted earnings per share gives effect to all dilutive potential common shares outstanding at the end of the year assuming that they had been issued, converted or exercised at the later of the beginning of the year or their date of issuance. In computing diluted earnings per share, the treasury stock method is used to determine the number of shares assumed to be purchased from the conversion of common share equivalents or the proceeds of the exercise of options.

The following table reconciles the numerators and denominators of the basic and diluted earnings per common share computation:

	Three months ended March 31,	
	2018	**2017**
Numerator for basic and diluted earnings per common share:		
Net income for the period	$*3,743,692*	$*2,446,491*
Denominator for basic and diluted earnings per common share:		
Basic weighted average number of common shares outstanding	*10,588,718*	*10,474,647*
Effect of outstanding stock options	*203,895*	*301,868*
Diluted weighted average number of shares outstanding	*10,792,613*	*10,776,515*
Basic earnings per common share	$*0.35*	$*0.23*
Diluted earnings per common share	$*0.35*	$*0.23*

For the *three* months ended *March 31, 2018,* outstanding options to purchase *333,300* common shares were *not* included in the computation of diluted income per common share because all such options' exercise price was greater than the average market price of the common shares for the period as compared to the *three* months ended *March 31, 2017,* where *28,500* outstanding options were *not* included in the computation.

During the *three* months ended *March 31, 2018* and *2017, no* common shares were repurchased and cancelled under the terms of our stock repurchase programs announced in *February 2018,* ending in *February 2019* or *March 2017,* ended in *March 2018.*

10. **Revenue**

Significant accounting policy

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

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

Nature of goods and services

The following is a description of principal activities – separated by reportable segments – from which the Company generates its revenue. For more detailed information about reportable segments, see Note *12.*

(a) Network Access Services

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

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

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Ting fixed Internet access contracts provide customers Internet access at their home or business through the installation and use of our fiber optic network. Fixed Internet contracts are generally prepaid and grant customers with unlimited bandwidth based on a fixed price per month basis. Because consideration is collected before the service period, revenue is initially deferred and recognized as the Company performs its obligation to provide Internet access. Though the Company does *not* consider the installation of fixed Internet access to be a distinct performance obligation, the fees related to installation are immaterial and therefore revenue is recognized as billed.

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

Our Roam Mobility brand also offers standard talk, text and data mobile services. Roam customers prepay for their usage through the Roam Mobility website. When prepayments are received the amount is deferred, and subsequently recognized as the Company satisfies its obligation to provide mobile services. In addition, revenues associated with the sale of SIM cards are recognized when title and risk of loss is transferred to the subscriber and shipment has occurred. Incentive marketing credits given to customers are recorded as a reduction of revenue.

In those cases, where payment is *not* received at the time of sale, revenue is *not* recognized at contract inception unless the collection of the related accounts receivable is reasonably assured. The Company records costs that reflect expected refunds, rebates and credit card charge-backs as a reduction of revenues at the time of the sale based on historical experiences and current expectations.

(b) Domain Services

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

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

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

The Company also sells the rights to the Company’s portfolio domains or names acquired through the Company’s domain expiry stream. Revenue generated from sale of domain name contracts, containing a distinct performance obligation to transfer the domain name rights under the Company’s control, is generally recognized once the rights have been transferred and payment has been received in full.

Advertising revenue is derived through domain parking monetization, whereby the Company contracts with *third*-party Internet advertising publishers to direct web traffic from the Company’s domain expiry stream domains and Internet portfolio domains to advertising websites. Compensation from Internet advertising publishers is calculated variably on a cost-per-action basis based on the number of advertising links that have been visited in a given month. Given that the variable consideration is calculated and paid on a monthly basis, *no* estimation of variable consideration is required.

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Disaggregation of Revenue

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

	Three months ended March 31, 2018	2017
Network Access Services:		
Mobile Services	$*21,872,109*	$*17,962,868*
Other Services	*1,736,116*	*1,286,917*
Total Network Access Services	*23,608,225*	*19,249,785*
Domain Services:		
Wholesale		
Domain Services	*58,427,707*	*39,091,817*
Value Added Services	*4,434,572*	*3,907,889*
Total Wholesale	*62,862,279*	*42,999,706*
Retail	*8,436,563*	*6,401,703*
Portfolio	*888,624*	*916,868*
Total Domain Services	*72,187,466*	*50,318,277*
	$*95,795,691*	$*69,568,062*

During the *three* months ended *March 31, 2018, one* customer accounted for *18%* of total revenue, and for the *three* months ended *March 31, 2017, no* customer accounted for more than *10%* of revenue. As at *March 31, 2018* and *December 31, 2017, no* customer accounted for more than *10%* of accounts receivable.

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

	Three months ended March 31, 2018	2017
Network Access Services:		
Mobile Services	$*11,265,767*	$*9,567,160*
Other Services	*940,751*	*825,256*
Total Network Access Services	*12,206,518*	*10,392,416*

Domain Services:		
Wholesale		
Domain Services	*51,314,038*	*34,462,926*
Value Added Services	*857,268*	*575,923*
Total Wholesale	*52,171,306*	*35,038,849*
Retail	*4,409,742*	*3,617,402*
Portfolio	*184,654*	*262,045*
Total Domain Services	*56,765,702*	*38,918,296*
Network Expenses:		
Network, other costs	*2,574,087*	*2,343,196*
Network, depreciation and amortization costs	*1,630,175*	*970,509*
	4,204,262	*3,313,705*
	$*73,176,482*	$*52,624,417*

Contract Balances

The following table provides information about contract liabilities (deferred revenue) from contracts with customers. The Company accounts for contract assets and liabilities on a contract-by-contract basis, with each contract presented as either a net contract asset or a net contract liability accordingly.

Given that Company’s long-term contracts with customers are billed in advance of service, the Company’s contract liabilities relate to amounts recorded as deferred revenues. The Company does *not* have material streams of contracted revenue that have *not* been billed.

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Deferred revenue primarily relates to the portion of the transaction price received in advance related to the unexpired term of domain name registrations and other domain related value-added services, on both a wholesale and retail basis, net of external commissions.

The opening balance of deferred revenue was *$160.6* million as of *Jan 1, 2018.* Significant changes in deferred revenue were as follows:

	March 31, 2018
Balance, beginning of period	$*160,581,528*
Deferral of revenue	*60,370,051*
Recognition of revenue [1]	*(69,968,261*)
Balance, end of period	$*150,983,318*

[1]As a result of the bulk transfer of 2.65 million domain names to Namecheap on January 5th, 2018, recognized revenue for the three months ended March 31, 2018 includes $14.6 million related to previously deferred revenue for these names.

Remaining Performance Obligations:

As the Company fulfills its performance obligations, the following table includes revenues expected to be recognized in the future related performance obligations that are unsatisfied (or partially unsatisfied) as at March 31, 2018:

	March 31, 2018
Remainder of 2018	$*108,710,643*
2019	*24,366,389*
2020	*7,116,720*
2021	*4,010,109*
2022	*2,561,121*
Thereafter	*3,658,053*
Total	$*150,423,035*

For mobile and internet access services, where the performance obligation is part of contracts that have an original expected duration of one year or less (typically one month), the Company has elected to apply a practical expedient to not disclose revenues expected to be recognized in the future related performance obligations that are unsatisfied (or partially unsatisfied).

11. Contract costs

We recognize an asset for the incremental costs of obtaining a contract with a customer if we expect the period of benefit of those costs to be longer than *one* year and those costs are expected to be recoverable under the term of the contract. We have identified certain sales incentive programs that meet the requirements to be capitalized, and therefore, capitalized them as contract costs in the amount of *$1.4* million at *March 31, 2018.*

Capitalized contract acquisition costs are amortized into operating expense based on the transfer of goods or services to which the assets relate which typically range *2 – 10* years. For the quarter ended *March 31, 2018,* the Company capitalized *$195,408* and amortized *$220,680* of contract costs, respectively, for a net expense impact of *$25,272* to the Consolidated Statement of Operations and Comprehensive Income. There was *no* impairment loss recognized in relation to the costs capitalized during the three months ending *March 31, 2018.* The breakdown of the movement in the contract costs balance for the three months ending *March 31, 2018* is as follows:

	March 31, 2018
Balance, beginning of period[1]	$ *1,403,608*
Capitalization of costs	*195,408*
Amortization of costs	*(220,680*)
Balance, end of period	$ *1,378,336*

[1]The beginning balance consists entirely of a cumulative adjustment recorded on *January 1*st, *2018* as a result of the modified retrospective adoption of ASU *2014-09.* See note *3* for additional information.

When the amortization period for costs incurred to obtain a contract with a customer is less than one year, we have elected to apply a practical expedient to expense the costs as incurred. These costs include our internal sales compensation program and certain partner sales incentive programs.

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***12*. Segment reporting:**

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

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

2. Domain Services – This segment includes wholesale and retail domain name registration services, value added services and portfolio services. The Company primarily earns revenues from the registration fees charged to resellers in connection with new, renewed and transferred domain name registrations; the sale of retail Internet domain name registration and email services to individuals and small businesses; and by making its portfolio of domain names available for sale or lease. Domain Services revenues are attributed to the country in which the contract originates, primarily Canada and the U.S.

The Chief Executive Officer (the “CEO”) is the chief operating decision maker and regularly reviews the operations and performance by segment. The CEO reviews gross profit as (a) key measure of performance for each segment and (b) to make decisions about the allocation of resources. Sales and marketing expenses, technical operations and development expenses, general and administrative expenses, depreciation of property and equipment, amortization of intangibles assets, impairment of indefinite life intangible assets, gain on currency forward contracts and other expense net are organized along functional lines and are *not* included in the measurement of segment profitability. Total assets and total liabilities are centrally managed and are *not* reviewed at the segment level by the CEO. The Company follows the same accounting policies for the segments as those described in Notes *2, 3* and *10* to these consolidated financial statements.

Information by operating segments (with the exception of disaggregated revenue, which is contained in Note *10*), which is regularly reported to the CEO is as follows:

	Network Access Services	**Domain Services**	**Consolidated Totals**
Three months ended March 31, 2018			

Net Revenues	$ *23,608,225*	$ *72,187,466*	$ *95,795,691*
Cost of revenues			
Cost of revenues	*12,206,518*	*56,765,702*	*68,972,220*
Network expenses	*490,215*	*2,083,872*	*2,574,087*
Depreciation of property and equipment	*833,060*	*298,083*	*1,131,143*
Amortization of intangible assets	*11,532*	*487,500*	*499,032*
Total cost of revenues	*13,541,325*	*59,635,157*	*73,176,482*
Gross Profit	*10,066,900*	*12,552,309*	*22,619,209*
Expenses:			
Sales and marketing			*8,364,787*
Technical operations and development			*2,094,689*
General and administrative			*4,531,412*
Depreciation of property and equipment			*101,072*
Amortization of intangible assets			*1,831,730*
Loss (gain) on currency forward contracts			*(3,093*)
Income from operations			*5,698,612*
Other income (expenses), net			*(772,002*)
Income before provision for income taxes			$ *4,926,610*

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Three months ended March 31, 2017	Network Access Services	Domain Services	Consolidated Totals
Net Revenues	$*19,249,785*	$*50,318,277*	$*69,568,062*
Cost of revenues			
Cost of revenues	*10,392,416*	*38,918,296*	*49,310,712*
Network expenses	*541,963*	*1,801,233*	*2,343,196*
Depreciation of property and equipment	*426,078*	*164,269*	*590,347*
Amortization of intangible assets	*11,532*	*368,630*	*380,162*
Total cost of revenues	*11,371,989*	*41,252,428*	*52,624,417*
Gross Profit	*7,877,796*	*9,065,849*	*16,943,645*
Expenses:			
Sales and marketing			*7,219,322*
Technical operations and development			*1,694,141*
General and administrative			*3,457,343*
Depreciation of property and equipment			*166,317*
Amortization of intangible assets			*1,380,809*
Loss (gain) on currency forward contracts			*(34,425*)
Income from operations			*3,060,138*
Other income (expenses), net			*(739,096*)
Income before provision for income taxes			$*2,321,042*

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

	March 31, 2018	December 31, 2017
Canada	$*1,555,813*	$*1,176,371*
United States	*27,107,392*	*23,417,435*
Germany	*25,557*	*26,492*
	$*28,688,762*	$*24,620,298*

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

	March 31, 2018	December 31, 2017

Canada	$*7,414,822*	$*7,748,940*
United States	*35,839,260*	*37,783,202*
Germany	*68,440*	*119,770*
	$*43,322,522*	$*45,651,912*

(d) Valuation and qualifying accounts:

Allowance for doubtful accounts excluding provision for credit notes	**Balance at beginning of period**	**Charged to costs and expenses**	**Write-offs during period**	**Balance at end of period**
Three months ended March 31, 2018	$*168,409*	$ *1,011*	$ -	$*169,420*
Year ended December 31, 2017	$*164,145*	$ *4,264*	$ -	$*168,409*

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***13*. Stockholders' Equity:**

The following unaudited table summarizes stockholders' equity transactions for the *three*-month period ended *March 31, 2018:*

	Common stock		Additional paid in	Retained earnings	Accumulated other comprehensive	Total stockholders'
	Number	**Amount**	**capital**	**(deficit)**	**income (loss)**	**equity**
Balances, December 31, 2017	*10,583,879*	$*15,368,161*	$*2,166,768*	$*42,675,805*	$ -	$*60,210,734*
Impact of Adoption of ASU 2014-09	-	-	-	*1,062,952*	-	*1,062,952*
Balance on January 1, 2018	*10,583,879*	*15,368,161*	*2,166,768*	*43,738,757*	-	*61,273,686*
Exercise of stock options	*12,563*	*57,943*	*(50,742*)	-	-	*7,201*
Shares deducted from exercise of stock options for payment of witholding taxes and exercise consideration	*(4,327*)		*(147,068*)	-	-	*(147,068*)
Stock-based compensation (note 15)	-	-	*578,182*	-	-	*578,182*
Net income	-	-	-	*3,743,692*	-	*3,743,692*
Accretion of redeemable non-controlling interest in Ting Virginia, LLC.	-	-	-	*(63,610*)	-	*(63,610*)
Other comprehensive income (loss)	-	-	-	-	*17,425*	*17,425*
Balances, March 31, 2018	*10,592,115*	$*15,426,104*	$*2,547,140*	$*47,418,839*	$ *17,425*	$*65,409,508*

On *February 14, 2018,* the Company announced that its Board of Directors has approved a stock buyback program to repurchase up to *$40* million of its common stock in the open market. Purchases will be made exclusively through the facilities of the NASDAQ Capital Market. The stock buyback program commenced on *February 14, 2018* and will terminate on or before *February 13, 2019.* During the *three* months ended *March 31, 2018,* the Company did *not* repurchase any shares under this program.

On *March 1, 2017,* the Company announced that its Board of Directors had approved a stock buyback program to repurchase up to *$40* million of its common stock in the open market. Purchases were to be made exclusively through the facilities of the NASDAQ Capital Market. The stock buyback program commenced on *March 1, 2017* and terminated on *February 14, 2018.* During the *three* months ended *March 31, 2018,* the Company did *not* repurchase

any shares under this program.

On *February 9, 2016,* the Company announced that its Board of Directors had approved a stock buyback program to repurchase up to *$40* million of its common stock in the open market. Purchases were to be made exclusively through the facilities of the NASDAQ Capital Market. The stock buyback program commenced on *February 10, 2016* and terminated on *February 9, 2017.* During the *three* months ended *March 31, 2017,* the Company did *not* repurchase any shares under this program.

***14.* Share-based payments**

Stock options

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

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Details of stock option transactions for the *three* months ended *March 31, 2018* and *March 31, 2017* are as follows:

Three months ended March 31, 2018		**Three months ended March 31, 2017**
Number of shares	**Weighted average exercise price per share**	