

TUCOWS INC /PA/  
Form 10-K  
March 11, 2015

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**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, 2014**

**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**

**M6K 3M1**

**Toronto, Ontario, Canada**

(Zip Code)

(Address of Principal Executive Offices)

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

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

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
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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 Smaller reporting company  
(Do not check if a 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, 2014 (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 \$112.3 million. Such aggregate market value was computed by reference to the closing sale price per share of \$12.24 as reported on the NASDAQ on such date (after giving effect to the one for four reverse stock split of December 30, 2013). 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 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 6, 2015 was 11,081,390.

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**TUCOWS INC.**

**ANNUAL REPORT ON FORM 10-K**

**For Fiscal Year Ended December 31, 2014**

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**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.

EXPLANATORY NOTE

The Company was previously a “smaller reporting company” under applicable SEC rules and regulations that determined it no longer qualified as such as of its June 30, 2014 determination date, at which time the Company met the definition of an “accelerated filer.” In accordance with Item 10(f)(2)(i) of Regulation S-K, the Company is permitted to use the scaled disclosure requirements applicable to smaller reporting companies in this Annual Report on Form 10-K. The Company will be transitioning to the disclosure requirements applicable to accelerated filers beginning with the Company’s Quarterly Report on Form 10-Q for the quarterly period ending March 31, 2015.

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## 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 other similar expressions are intended to identify forward-looking statements. The forward-looking statements contained in this report include statements regarding, among other things, the number of new, renewed and transferred-in domain names, the competition we expect to encounter as our business develops and competes in a broad range of Internet services, 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, our belief that the market for domain name registration will trend upward gradually, our belief that it is more likely than not that net deferred assets will be realized; our intent to continue acquisitions of previously owned domain names, the effect of the anticipated generic top-level domain (“gTLD”) expansion by the Internet Corporation for Assigned Names and Numbers (“ICANN”) on the number of domains we register and related revenues; the impact on operations and risks relating to our potential participation in ICANN’s New gTLD Program; our expectations regarding increases in certain costs and expenses; judgments and assessments regarding the collection of receivables; and our belief that, by increasing the number of applications and services we offer, we will be able to generate higher revenues. 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:

- 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 achieve gross profit margins at which we can be profitable;
- Our ability to attract and retain qualified personnel in our business;
- Our ability to effectively manage our business;
- Our ability to obtain and maintain approvals from regulatory authorities on regulatory issues;

• Our ability to develop and commercialize new services such as Ting while maintaining 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.

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



## **PART I**

### **ITEM 1. BUSINESS**

#### **Overview**

Our mission is to provide simple useful services that help people unlock the power of the Internet. We accomplish this by reducing the complexity of our customers' experience as they acquire, deliver or use Internet services such as domain name registration, email and mobile phone service.

Our primary distribution channel is a global network of more than 13,000 resellers in over 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 some of the most mature, reliable and functional reseller-oriented provisioning and management platforms in our industry, and we continue to refine, evolve and improve these platforms for both resellers and end-users.

Our principal place of business is located in Canada. We report our financial results as two operating segments, which are differentiated primarily by their services, the markets they serve and the regulatory environments in which they operate. The two segments are Domain Services and Network Access Services and are described as follows:

1. 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.

2. Network Access Services - This segment derives revenue from the sale of retail mobile phones and services to individuals and small businesses through the Ting website. Revenues are generated in the United States.

Our chief operating decision maker regularly reviews our operating results for the Domain Services and Network Access Services segments, principally to make decisions about how we utilize our resources and to measure our consolidated operating performance. In addition, to assist us in forecasting growth and to help us monitor the effectiveness of our operational strategies, our chief operating decision maker regularly reviews revenue for each of our service offerings in order to gain more understanding of the key metrics driving our business. Accordingly, we report revenue in the following service areas:

Wholesale Domain Services, primarily branded as OpenSRS, derives revenue from its Domain Service and from providing Value-Added Services. The OpenSRS Domain Service manages over 13 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 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 and the Marketing Development Funds we receive from vendors from time-to-time to expand or maintain the market position for their services.

Retail Domain Services, primarily our Hover website, derives revenues from the sale of domain name registration and email services to individuals and small businesses. Retail Domain Services also includes our RealNames Service – based on over 35,000 surname domains – that allows roughly two-thirds of Americans to purchase an email address based on their last name.

Portfolio Domain Services generates advertising revenue from our domain name portfolio. 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.

Network Access Services, primarily our Ting website, derives revenues from the sale of mobile phone service to individuals and small businesses.

Our business model is characterized by non-refundable, up-front payments, which lead to recurring revenue and positive operating cash flow.

## **Net Revenues**

### *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.

With the acquisition of EPAG Domainservices GmbH (“EPAG”) in August 2011, we now offer registration services for over 500 TLDs.

Our Domain Service 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 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.

### *Domain Services - 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.

Other services included in Value-Added Services include fees we receive from time-to-time from vendors to expand or maintain the market position for their services. In addition, we provide billing, provisioning and customer care software solutions to ISPs through our Platypus billing software.

#### *Domain Services - Retail – Hover*

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

#### *Domain Services - 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 or suspend the nature of 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](http://tucows.com).

#### *Network Access Services - Ting*

We derive revenue from Ting's sale of retail mobile phones and services to individuals and small businesses. Ting provides customers with access to our provisioning and management tools to enable them, via the [ting.com](http://ting.com) website, to purchase retail mobile phones and services. Revenues are generated in the United States and are provided on a monthly basis with no fixed contract term.

#### **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 competition may be divided into the following groups:

- Retail-oriented domain registrars, such as GoDaddy and Web.com who compete with our Resellers and our own retail operations for end-users.

- 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.

- US Mobile Phone Service providers such as AT&T, Verizon, T-Mobile and Sprint.

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.

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, 2014, we had approximately 225 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 in Toronto, Ontario, Canada and we have offices in Germany, the Netherlands and the United States of America.

## Executive Officers of the Registrant

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

<u>Name</u>	<u>Age</u>	<u>Title</u>
Elliot Noss	52	President and Chief Executive Officer
Michael Cooperman	63	Chief Financial Officer
David Woroch	52	Executive Vice President, Sales and Support

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 has served as our Executive Vice President, Sales and Support since June 3, 2009 and served as our Vice President Sales and Support since July 2001. From March 2000 to July 2001, Mr. Woroch served as our Director of Sales for North America. Before joining us, Mr. Woroch spent 13 years at IBM Canada in a variety of roles including sales, marketing, finance and strategic planning.

## **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**

*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 1,400 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. The New gTLD Program's goals include enhancing competition and consumer choice, and enabling the benefits of innovation via the introduction of a wide range of New gTLDs. As of February 26, 2015 ICANN has delegated and introduced over 520 of these New gTLDs into the Root Zone. We believe that the introduction of the wide range of New gTLDs, once completed, will result in an increase in the number of domains we register and related revenues commencing in 2014. In addition, while the delegation of New gTLDs could substantially change the domain name industry in unexpected ways, we believe that the New gTLD Program will provide us with new revenue opportunities. The New gTLD Program is a new, complex and untested process and if we do not properly manage our response to any resulting changes in the business environment, 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. 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 will decrease.

***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 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.

*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.



***If the practice of direct navigation becomes less popular either as a result of evolving technologies or user practices, our ability to generate revenue from the practice of click through advertising may suffer.***

A significant amount of revenue generated from the commercialization of domain names owned by the Company is dependent on our agreements with third party providers. The monetization of these domain names is currently largely dependent on the paid listings allocated by these providers to the websites associated with our domain names. This allocation may depend on each provider's advertiser base, internal policies and other factors and determinations that may or may not be controlled by or known to us.

***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.

***We have identified material weaknesses in our internal control over financial reporting that could, if not remediated, result in material misstatements in our financial statements. In addition, current and potential stockholders could lose confidence in our financial reporting, which could cause our stock price to decline.***

In connection with the audit of our consolidated financial statements as of and for the year ended December 31, 2014, we have concluded that there are material weaknesses relating to our internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

Specifically, we identified material weaknesses relating to (i) manual journal entries and (ii) account analysis and support, primarily due to the limited number of personnel in our accounting group to ensure segregation of duties. With respect to manual journal entries, we determined that the design and operating effectiveness of our controls were inadequate to ensure that manual journal entries were independently reviewed and approved for validity, accuracy and completeness. With respect to account analysis support, we determined that the design and operating effectiveness of our controls were inadequate to ensure detailed reviews and verification of inputs and calculations related to the analysis of accounts or transactions and schedules supporting financial statement amounts and notes. For additional information on these matters, see Part II, Item 9A of this Annual Report on Form 10-K. As a result of these material weaknesses, management has determined that our disclosure controls and procedures and internal control over

financial reporting were not effective as of December 31, 2014.

In light of the material weaknesses identified, we performed additional analysis and other post-closing procedures to ensure that our consolidated financial statements were prepared in accordance with GAAP and accurately reflected our financial position and results of its operations as of and for the year ended December 31, 2014. Subsequent to our December 31, 2014 fiscal year end, we began taking a number of actions, including designing and implementing new controls and revising existing controls, in order to remediate the material weaknesses described above. We expect to continue our remediation efforts, including testing of operating effectiveness of new controls during the fiscal year ending December 31, 2015. We expect to incur additional costs remediating these material weaknesses.

Although we believe we took appropriate actions to remediate the control deficiencies we identified and to strengthen our internal control over financial reporting, we may need to take additional measures to fully mitigate the material weaknesses, and the measures we have taken, and expect to take, to improve our internal controls may not be sufficient to address the issues identified, to ensure that our internal controls are effective or to ensure that the identified material weaknesses will not result in a material misstatement of our annual or interim consolidated financial statements. In addition, other material weaknesses or deficiencies may be identified in the future. If we are unable to correct material weaknesses or deficiencies in internal controls in a timely manner, our ability to record, process, summarize and report financial information accurately and within the time periods specified in the rules and forms of the SEC will be adversely affected. This failure could negatively affect the market price and trading liquidity of our common stock, cause investors to lose confidence in our reported financial information, subject us to civil and criminal investigations and penalties, and generally materially and adversely impact our business and financial condition.

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.

***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 may no longer be 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.

***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 and had no revenues before that time. 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.***

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. Those who receive inexpensive handsets as gifts and are not interested in using our service may fail to return them. As a result, we could lose our investment in these customers and handsets.

***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 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.

Other prospective entrants in the wireless communications industry, such as cable operators, now offer bundled local, long distance, high-speed data, and television and video services. The ability of these providers to bundle telecommunications, Internet, and video with wireless services, as well as their financial strength and economies of scale, may enable them to offer wireless services at prices that are lower than the prices at which we can offer

comparable services. If we cannot compete effectively with these service providers, our revenues, profits, cash flows and growth may be adversely affected.

***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, and the rapid development 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 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 its Network Operators' for its wireless network and any disruptions to their networks may adversely affect its business and financial results.***

We are dependent on our Network Operators' physical networks. 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 fails 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 our Network Operators' products.***

We compete with several of our Network Operators' products. 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.

***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.

**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 Catharine's, Ontario, approximately 4,000 square feet in Starkville, Mississippi, approximately 2,900 square feet in Bonn, Germany and approximately 500 square feet in 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 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 was traded on the NYSE MKT under the symbol "TCX" from August 18, 2005 through December 27, 2013. Since December 30, 2013, our common stock has been 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".

On December 30, 2013, we effected a reverse stock split of our common stock at a ratio of 1-for-4. The following table sets forth the range of high and low sales prices for our common stock for the periods indicated, as adjusted to reflect the reverse stock split:

<b>Year</b>	<b>Fiscal Quarter Ended</b>	<b>High</b>	<b>Low</b>
<b>2015</b>	January 1, 2015 through March 6, 2015	\$19.75	\$17.29
<b>2014</b>	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
<b>2013</b>	March 31, 2013	14.45	9.20
	June 30, 2013	9.92	7.12
	September 30, 2013	8.64	6.64
	December 31, 2013	9.00	5.68

As of March 5, 2015, Tucows had 345 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, 2014 and December 31, 2013, 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**

Our stock buyback program, which we initially commenced on March 4, 2014, was suspended on November 12, 2014 when we announced our intention to commence a Dutch Auction Tender Offer. We did not repurchase any equity securities during the fourth quarter of the year ended December 31, 2014.

**ITEM 6. SELECTED FINANCIAL DATA**

Not applicable.

## **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, 2014, 2013 and 2012 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. Our actual results may vary from the results anticipated by these statements. Please see "Information Concerning Forward-Looking Statements" on page 1.

### **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 acquire, deliver or use the Internet 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, Domain Services and Network Access 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 report our financial results as two operating segments, Domain Services, which derives revenue from three distinct service offerings – Wholesale, Retail and Portfolio, and Network Access Services, which derives revenue from the sale of retail mobile phones and services to individuals and small businesses. Our chief operating decision maker regularly reviews our operating results for the Domain Services and Network Access Services segments, 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 chief operating decision maker 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 Domain Services and Network Access Services revenue separately.

#### ***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 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 13.5 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 40,000 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](http://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.

### *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. Ting revenues are generated in the United States.

For the years ended December 31, 2014, 2013 and 2012, we reported revenue of \$148 million, \$130 million and \$115 million, respectively. For the years ended December 31, 2014, 2013 and 2012, our OpenSRS domain service offering accounted for 59%, 67% and 77% of our total revenue, respectively.

## **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 table sets forth, the key business metrics which we believe are the primary indicators of our performance for the periods presented:

### Domain Services

Year ended December 31,		
<sup>(1)</sup>		
2014	2013	2012
	(in	
	'000's)	

Total new, renewed and transferred-in domain name registrations provisioned	9,110	9,076	9,213
Domain names under management			
Registered using the Tucows Registrar Accreditation	10,200	10,630	10,643
Registered using our Resellers' Registrar Accreditations	3,329	3,564	3,363
Total domain names under management	13,529	14,194	14,006

(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.

### Network Access Services

	Year ended		
	December 31, (1)		
	2014	2013	2012
	(in 000's)		
Ting subscribers under management	94,000	48,000	10,000
Ting devices under management	147,000	74,000	15,000

(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.

### OPPORTUNITIES, CHALLENGES AND RISKS

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.

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

As a Mobile Virtual Network Operator "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 three 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 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.

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**

### **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 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 or suspend the nature of 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](http://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.

## **Network Access Services**

### *Ting*

We derive revenue from Ting's sale of retail mobile phones and services to individuals and small businesses. 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. Revenues are generated in the United States and are provided on a monthly basis with no fixed contract term.

## **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 to the consolidated financial statements for the year ended December 31, 2014 ("Fiscal 2014"), 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:

Domain Services - Wholesale (OpenSRS Domain Service and OpenSRS Value-Added Services);

Domain Services - Retail (Hover);  
Domain Services - Portfolio (Domain Portfolio monetization and sales) and  
Network Access Services – Ting (sale of retail mobile phones and services).

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.

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.

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](http://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, 2014, we had \$18.9 million (2013 - \$18.9 million) in goodwill related to our

acquisitions and \$14.2 million (2013 - \$15.4 million) in intangible assets comprised of indefinite life intangibles of \$13.5 million (2013 - \$14.1 million) and finite life intangible assets of \$0.7 million (2013 - \$1.3 million). We report our financial results as two 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 Services which derives revenue from the sale of retail mobile phones and telephony services to individuals and small businesses. The goodwill and intangible assets are all related to our Domain Services segment. The goodwill recorded in relation to these acquisitions is not deductible for tax purposes.

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 \$0.6 million was recorded in the first two quarters of 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 2014 and 2013.

We performed a qualitative assessment to determine whether there were events or circumstances which would lead to a determination, that 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 Domain Services operating segment 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 Domain Services operating segment 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 impairment of goodwill or intangible assets as a result of the annual impairment tests completed during the fourth quarters of 2014 and 2013.

### **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 Form 10-K for information regarding recently issued accounting standards.



**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:

	<b>Year ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
<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
<u>Network Access Services:</u>		
Ting	35,887,005	16,530,237
Total Network Access Services	35,887,005	16,530,237
	\$ 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:

	<b>Year ended</b>	
	<b>December</b>	
	<b>31,</b>	
	<b>2014</b>	<b>2013</b>
<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 %
<u>Network Access Services:</u>		
Ting	24 %	13 %
Total Network Access Services	24 %	13 %
	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.

## 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 handful of 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.

### **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.

## **COST OF REVENUES**

### **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 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.

**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:

	<b>Year ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
<u>Domain Services:</u>		
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		
Portfolio	4,539,439	3,521,023
Total Domain Services	886,637	1,234,214
	79,990,222	80,339,228
<u>Network Access Services:</u>		
Ting	21,870,780	12,621,093
Total Network Access Services	21,870,780	12,621,093
<u>Network Expenses:</u>		
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:

	<b>Year ended</b>		<b>December</b>	
	<b>31,</b>			
	<b>2014</b>	<b>2013</b>		
<u>Domain Services:</u>				
Wholesale				
Domain Services	68 %	74 %		
Value Added Services	2 %	2 %		
Total Wholesale	70 %	76 %		
Retail				
Portfolio	4 %	4 %		
Total Domain Services	1 %	1 %		
	75 %	81 %		
<u>Network Access Services:</u>				
Ting	20 %	13 %		
Total Network Access Services	20 %	13 %		
<u>Network Expenses:</u>				
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.

### 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 handful of 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 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.

**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.

	<b>Year ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
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.

Excluding movements in exchange rates, we expect sales and marketing expenses for the fiscal year ending December 31, 2015 (“Fiscal 2015”) to increase in absolute dollars, as we adjust our marketing programs and sales and customer support personnel costs to support our Ting marketing and customer servicing 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, 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.

	<b>Year ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
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.

We expect technical operations and development expenses for Fiscal 2015, in absolute dollars, to increase slightly when compared to Fiscal 2014.

## 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	\$8,505,920	\$7,204,895		
Increase over prior period	\$1,301,025			
Increase - percentage	18	%		
Percentage of net revenues	6	%	6	%

General and administrative expenses for Fiscal 2014 increased by \$1.3 million, or 18%, to \$8.5 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 \$0.2 million that related to a potential acquisition that was abandoned once we determined that its completion was not probable. These increases were partly offset by our recognizing a realized foreign exchange gain of \$1.0 million when compared to Fiscal 2013, partially offset by an unrealized loss of \$0.6 million pertaining to the translation of our non U.S. dollar net assets to our functional currency of U.S. dollars.

We expect general and administrative expenses for Fiscal 2015, in absolute dollars, to increase when compared to Fiscal 2014 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,			
	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

	<b>Year ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
Impairment of indefinite life intangible assets	\$577,145	\$ -
Increase over prior period	\$577,145	

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.

	<b>Year ended December 31,</b>			
	<b>2014</b>	<b>2013</b>		
Loss (gain) on currency forward contracts	\$1,310,848	\$676,120		
Increase over prior period	\$634,728			
Increase - percentage	94	%		
Percentage of net revenues	1	%	1	%

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 \$1.3 million for Fiscal 2014 compared to \$0.2 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 %	
Percentage of net revenues	2 %	1 %

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 began applying hedge accounting for the majority of the contracts we need to meet our Canadian dollar requirements on a prospective basis. The impact of the fair value adjustment on outstanding hedged contracts for Fiscal 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:

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



**RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2013 AS COMPARED TO THE YEAR ENDED DECEMBER 31, 2012**

**NET REVENUES**

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

	<b>Year ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
<u>Domain Services:</u>		
Wholesale		
Domain Services	\$87,294,173	\$87,434,450
Value Added Services	10,271,219	10,586,460
Total Wholesale	97,565,392	98,020,910
Retail	8,360,035	6,775,160
Portfolio	7,479,240	5,965,147
Total Domain Services	113,404,667	110,761,217
<u>Network Access Services:</u>		
Ting	16,530,237	3,965,684
Total Network Access Services	16,530,237	3,965,684
	\$ 129,934,904	\$ 114,726,901
Increase over prior period	\$ 15,208,003	
Increase - percentage	13	%

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

	<b>Year ended</b>	
	<b>December</b>	
	<b>31,</b>	
	<b>2013</b>	<b>2012</b>
<u>Domain Services:</u>		
Wholesale		
Domain Services	67 %	76 %
Value Added Services	8 %	9 %

Total Wholesale	75 %	85 %
Retail	6 %	6 %
Portfolio	6 %	5 %
Total Domain Services	87 %	96 %
<u>Network Access Services:</u>		
Ting	13 %	4 %
Total Network Access Services	13 %	4 %
	100 %	100 %

Total net revenues for Fiscal 2013 increased by \$15.2 million, or 13%, to \$129.9 million from \$114.7 million for the fiscal year ended December 31, 2012 (“Fiscal 2012”). Deferred revenue from domain name registrations and other Internet services at December 31, 2013 decreased to \$70.0 million from \$71.0 million at December 31, 2012. Deferred revenue has been impacted by the transfer of a significant number of names by certain of our customers from our registrar accreditation to their own registrar accreditation, no longer registering new domain names on our platform.

No customer accounted for more than 10% of revenue during Fiscal 2013 and, at December 31, 2013, no customer accounted 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.

## **Domain Services**

### ***Wholesale***

During Fiscal 2013, domain services revenue decreased by \$0.1 million to \$87.3 million when compared to Fiscal 2012, primarily the result of two customers who have acquired their own registrar accreditation no longer registering new domain names on our platform.

Value-Added Services decreased by \$0.3 million to \$10.3 million when compared to Fiscal 2012. This decrease was largely due to the \$0.6 million decrease in revenue from sale of domain names and advertising from the OpenSRS Domain Expiry Stream which was primarily attributable to slower sales to certain third-party partners. This decrease was partially offset by increased digital certificate and email sales.

During Fiscal 2013, the number of transactions from all new, renewed and transferred-in domain name registrations that we processed decreased by 0.1 million transactions to 9.1 million when compared to Fiscal 2012 and reflects the impact of customers who have acquired their own registrar accreditation no longer registering new domain names on our platform. 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 in the market could affect the growth of domain names that we manage.

As of December 31, 2013, the total domain names under our management remain essentially flat at 10.6 million, when compared to December 31, 2012. The total domain names under our management continue to be impacted by two customers who have acquired their own accreditation no longer registering new domain names on our platform. In addition, we provide provisioning services on a monthly basis to accredited registrars who use our technical systems to process domain registrations with their own accreditation. As of December 31, 2013, we managed 3.6 million domain names on behalf of other accredited registrars, an increase of 0.2 million compared as of December 31, 2012.

### ***Retail***

Net revenues from Retail for Fiscal 2013, as compared to Fiscal 2012, increased by \$1.6 million to \$8.4 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***

During Fiscal 2013, Portfolio revenue increased by \$1.5 million, or 25%, to \$7.5 million when compared to Fiscal 2012. This increase primarily resulted from payments we received on our withdrawal for the domain related rights for our .media and .marketing new gTLD applications being partially offset by lower sales of big ticket domains and certain of our vendors electing not to repeat market development programs that they undertook during fiscal 2012.

We have two primary buyers for our domain names - domain investors and businesses. While businesses domain sales continue to grow, we have begun to see evidence of domain investors interest slowing as they attempt to assess the impact the introduction of new gTLD's may have on their businesses. Accordingly, until the impact of new gTLD's can be appropriately assessed, we will be shifting our efforts towards appealing more to businesses while continuing to work with domain investors.

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.

**Network Access Services**

***Ting***

Net revenues from Ting mobile phone services and equipment for Fiscal 2013, as compared to Fiscal 2012, increased by \$12.6 million to \$16.5 million and primarily reflects the impact of Ting's growing subscriber base.

As of December 31, 2013, Ting had 48,000 subscribers and 74,000 mobile devices under its management compared to 10,000 subscribers and 15,000 devices under management as of December 31, 2012.

**COST OF REVENUES**

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

	<b>Year ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
<u>Domain Services:</u>		
Wholesale		
Domain Services	\$73,468,824	\$73,168,196
Value Added Services	2,115,167	2,032,328
Total Wholesale	75,583,991	75,200,524
Retail	3,521,023	2,675,843
Portfolio	1,234,214	832,008
Total Domain Services	80,339,228	78,708,375
<u>Network Access Services:</u>		
Ting	12,621,093	4,129,020
Total Network Access Services	12,621,093	4,129,020
<u>Network Expenses:</u>		
Network, other costs	4,835,939	4,925,058
Network, depreciation and amortization costs	711,763	755,280
	5,547,702	5,680,338
	\$98,508,023	\$88,517,733
Increase over prior period	\$9,990,290	
Increase - percentage	11	%

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

	<b>Year ended</b>			
	<b>December</b>			
	<b>31,</b>			
	<b>2013</b>		<b>2012</b>	
<u>Domain Services:</u>				
Wholesale				
Domain Services	74	%	82	%
Value Added Services	2	%	2	%

Total Wholesale	76	%	84	%
Retail	4	%	3	%
Portfolio	1	%	1	%
Total Domain Services	81	%	88	%
<u>Network Access Services:</u>				
Ting	13	%	5	%
Total Network Access Services	13	%	5	%
<u>Network Expenses:</u>				
Network, other costs	5	%	6	%
Network, depreciation and amortization costs	1	%	1	%
	6	%	7	%
	100	%	100	%

Total cost of revenues for Fiscal 2013 increased by \$10.0 million, or 11%, to \$98.5 million from \$88.5 million in Fiscal 2012 primarily the result of increased sales volumes. Prepaid domain registration and other Internet services fees as of December 31, 2013 decreased by \$1.5 million, or 3%, to \$56.0 million from \$57.5 million at December 31, 2012. Prepaid domain registration and other Internet services fees have been impacted by certain of our customers, who have acquired their own registrar accreditation, no longer registering new domain names on our platform.



**Domain Services**

***Wholesale***

Costs for Wholesale for Fiscal 2013 increased by \$0.4 million to \$75.6 million, when compared to Fiscal 2012, primarily the result of increases in registration fees paid to the registries that were implemented on January 15, 2012 and the fact that certain marketing initiatives undertaken by both vendors and resellers in fiscal 2012 have either been significantly scaled back or cancelled for fiscal 2013.

***Retail***

Costs for Retail for Fiscal 2013, increased by \$0.8 million, to \$3.5 million, when compared to Fiscal 2012. This increase resulted primarily from the increased cost resulting from the additional volume in Hover services.

***Portfolio***

Costs for Portfolio increased by \$0.4 million for Fiscal 2013, to \$1.2 million when compared to Fiscal 2012, primarily the result of costs associated with our New gTLD applications.

**Network Access Services**

***Ting***

Costs for Ting for Fiscal 2013 increased by \$8.5 million, to \$12.6 million when compared to Fiscal 2012. This increase primarily reflects the impact our larger subscriber base is having on service costs.

**Network Costs**

Network costs decreased by \$0.2 million for Fiscal 2013, to \$5.5 million as compared to Fiscal 2012.

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.

	<b>Year ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Sales and marketing	\$12,141,036	\$8,701,446
Increase over prior period	\$3,439,590	
Increase - percentage	40	%
Percentage of net revenues	9	% 8 %

Sales and marketing expenses for Fiscal 2013 increased by \$3.4 million, or 40%, to \$12.1 million as compared to Fiscal 2012. This increase primarily related to workforce and marketing expenses incurred in connection with our Ting mobile service offering.

## 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,			
	2013	2012		
Technical operations and development	\$4,158,603	\$4,302,820		
Decrease over prior period	\$(144,217 )			
Decrease - percentage	(3	)%		
Percentage of net revenues	3	%	4	%

Technical operations and development expenses for Fiscal 2013 decreased by \$0.1 million, or 3%, to \$4.2 million when compared to Fiscal 2012. These decreases primarily resulted from a decrease in workforce costs. This decrease resulted from payment received for a 2010 Ontario Interactive Digital Media Tax Credit (“OIDMTC”) of \$0.4 million, primarily related to eligible personnel costs, during Fiscal 2013. This was partially offset by an increase in workforce related costs in the amount of \$0.3 million.

## 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,			
	2013	2012		
General and administrative	\$7,204,895	\$6,610,819		
Increase over prior period	\$594,076			
Increase - percentage	9	%		
Percentage of net revenues	6	%	6	%

General and administrative expenses for Fiscal 2013 increased by \$0.6 million, or 9%, to \$7.2 million as compared to Fiscal 2012. This increase was primarily the result of incremental workforce related costs as well as additional costs incurred in processing a higher volume of credit cards.

## DEPRECIATION OF PROPERTY AND EQUIPMENT

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

	<b>Year ended</b>			
	<b>December 31,</b>			
	<b>2013</b>	<b>2012</b>		
Depreciation of property and equipment	\$215,447	\$190,420		
Increase over prior period	\$25,027			
Increase - percentage	13	%		
Percentage of net revenues	0	%	0	%

Depreciation costs for Fiscal 2013 remained essentially flat at \$0.2 million.

### **LOSS ON DISPOSITION OF PROPERTY AND EQUIPMENT**

	<b>Year ended December</b>			
	<b>31,</b>			
	<b>2013</b>	<b>2012</b>		
Loss on disposition of property and equipment	\$-	\$118,944		
(Decrease) increase over prior period	\$(118,944)			
Decrease - percentage	(100	)%		
Percentage of net revenues	0	%	0	%

As part of our ongoing initiatives to improve the efficiency of our production environment, we retired some older computer hardware at our co-location facilities during Fiscal 2012, which resulted in a loss on the disposition of such equipment.

**AMORTIZATION OF INTANGIBLE ASSETS**

	<b>Year ended</b>		<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>		
Amortization of intangible assets	\$876,120	\$876,120		
Decrease over prior period	\$-			
Decrease - percentage	-	%		
Percentage of net revenues	1	%	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.

**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.

	<b>Year ended December</b>		<b>31,</b>	
	<b>2013</b>	<b>2012</b>		
Loss (gain) on currency forward contracts	\$676,120	\$(682,851)		
Increase over prior period	\$1,358,971			
Increase - percentage	(199	)%		
Percentage of net revenues	1	%	(1	)%

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 2014. The impact of the fair value adjustment on outstanding contracts for Fiscal 2013 was a net loss of \$0.5 million, compared to a net gain of \$1.1 million for Fiscal 2012. The impact of the fair value adjustment on outstanding contracts was increased by a realized loss upon settlement of currency forward contracts of \$0.2 million for Fiscal 2013 and partially offset by a realized loss of \$0.4 million for Fiscal 2012.

At December 31, 2013, our balance sheet reflects a derivative instrument liability of \$0.5 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,	
	2013	2012
Other income (expense), net	\$(354,857)	\$336,848
Decrease over prior period	\$(691,705)	
Decrease - percentage	(205 )%	
Percentage of net revenues	(0 )%	0 %

Other expenses for Fiscal 2013 increased by \$0.7 million, to \$0.4 million, as compared with Fiscal 2012. During Fiscal 2013 we made interest payments of \$0.4 million pursuant to the terms of our credit facility with the Bank of Montreal. During Fiscal 2012, we sold certain intangible assets with no book value for \$0.5 million, which was partially offset by the interest payable in Fiscal 2012 of \$0.2 million pursuant to the terms of our credit facility with the Bank of Montreal.

**INCOME TAXES**

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

	<b>Year ended December</b>	
	<b>31,</b>	
	<b>2013</b>	<b>2012</b>
Provision for income taxes	\$1,619,339	\$2,004,156
Decrease in provision over prior period	\$(384,817 )	
Decrease - percentage	(19 )%	
Percentage of net revenues	1 %	2 %

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

Fiscal 2012 includes tax on profits of \$2.1 million, offset by a recovery of \$0.1 million related to investment tax credits.

We had approximately \$0.1 million of total gross unrecognized tax benefit as of December 31, 2013 and \$0.4 million of total gross unrecognized tax benefit as of December 31, 2012, 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 began applying hedge accounting for the majority of the contracts we need to meet our Canadian dollar requirements on a prospective basis. The impact of the fair value adjustment on outstanding hedged contracts for Fiscal 2013 was a net gain in other comprehensive income of \$0.3 million. The impact of the fair value adjustment on outstanding hedged contracts was a net loss in other comprehensive income of \$44,000 for Fiscal 2012.

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

	<b>Year ended</b>			
	<b>December 31,</b>			
	<b>2013</b>	<b>2012</b>		
Other comprehensive income (loss)	\$(289,085)	\$44,104		
Decrease in provision over prior period	\$(333,189)			
Decrease - percentage	(755)	)%		
Percentage of net revenues	(0)	)%	0	%

### ***Liquidity and capital resources***

As of December 31, 2014, our cash and cash equivalents balance decreased by \$4.1 million to \$8.3 million when compared to December 31, 2013. Our principal sources of liquidity during Fiscal 2014 was net cash provided by operating activities of \$8.9 million and the proceeds of \$3.4 million we received on the exercise of stock options.

We have credit agreements (collectively the “Amended Credit Facility”) with the Bank that were amended on November 19, 2012, and 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, 2014, the 2012 DLR Loan and the DLRR Loan were fully repaid.

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, 2014, the Company held contracts in the amount of \$26.2 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, 2014, we were in compliance with all our covenants.

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

#### ***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 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.

***Year ended December 31, 2012***

Net cash inflows from operating activities were \$6.3 million, an increase of 8% when compared to the prior year. Net income, after adjusting for non-cash charges, during Fiscal 2012 was \$6.0 million, which included non-cash charges and recoveries of \$1.6 million such as a provision for deferred tax, gain on currency forward contracts, depreciation, amortization and stock-based compensation. The remainder of our source of net cash flow from operating activities was from changes in our working capital, with positive contributions of \$4.3 million from movements in deferred revenue, accounts payable, accrued expenses, income taxes recoverable and customer deposits being partially offset by our utilizing \$4.0 million to fund deferred registration costs, deposits with registries, accounts receivable and prepaid expenses.

***Cash Flow from Financing Activities***

***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.

***Year ended December 31, 2012***

Net cash used in financing activities during Fiscal 2012 totaled \$5.8 million as compared to \$0.4 million during Fiscal 2011. Net cash of \$9.1 million was used to fund the repurchase of 7.6 million of our shares through a modified “Dutch auction tender offer” that was successfully concluded on January 23, 2012 and to repurchase 2.4 million shares under our current Normal Course Issuer Bid during Fiscal 2012. A portion of the amount to fund the modified Dutch auction tender offer was from a \$4.0 million draw down on our DLR Loan facility. In addition, during Fiscal 2012, \$1.2 million was used to fund principal repayments under our loan agreements. These uses were partially offset by the proceeds of \$0.4 million we received on the exercise of options by directors and employees of the Company.

***Cash Flow from Investing Activities***

***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.

***Year ended December 31, 2012***

Investing activities during Fiscal 2012 used net cash of \$0.5 million; \$1.0 million was used to acquire additional property and equipment, which was partially offset by the selling of certain intangible assets with no book value for

\$0.5 million during Fiscal 2012.

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## Subsequent events

(a) On January 8, 2015, we announced the successful conclusion of a modified “Dutch auction tender offer” that was previously announced on December 8, 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 \$60,000. 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 7, 2015, we had 11,135,825 shares issued and outstanding.

(b) In January 2015, we borrowed \$3.5 million under our Amended Credit Facility in order to fund the acquisition of a controlling ownership in Ting Virginia, LLC. This borrowing is subject to the terms and conditions described in note 8 to the Consolidated Financial Statements. See item (d) below.

(c) On February 11, 2015, we announced that our Board of Directors had approved a stock buyback program to repurchase up to \$20 million of our common stock in the open market and privately negotiated transactions. Purchases will be made exclusively through the facilities of the NASDAQ Capital Market. The stock buyback program commenced on February 16, 2015 and will terminate on or before February 15, 2016. As of March 6, 2015, we have spent a total of \$2.0 million to repurchase 108,605 shares under this stock buyback program, and therefore, the remaining repurchase authorization is \$18.0 million. All shares purchased by us under the stock buyback program will be retired and returned to treasury.

(d) On February 24, 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. Ting Virginia, LLC is an independent Internet service provider in Charlottesville, Virginia, doing business primarily as Blue Ridge InternetWorks. The BRI Group provides high speed internet access, Internet hosting and network consulting services to over 3,000 customers in central Virginia. We will satisfy the purchase price through an advance under our 2012 DLR Loan facility.

(e) In February 2015, we waived our rights under the proposed joint venture to operate the .online registry and instead entered into a Joint Marketing agreement with our venture partners under which our original capital contributions have been returned and a set of go-forward marketing arrangements have been created instead. These marketing arrangements have resulted in a positive financial contribution for us, which will be recognized once all the terms of the contract have been satisfied, commencing in the three months ending March 31, 2015.

## Off Balance Sheet Arrangements and Contractual Obligations

We do not have any transactions with unconsolidated entities, such as entities often referred to as structured finance or special purpose entities, whereby we have financial guarantees, subordinated retained interests, derivative instruments, or other contingent arrangements that expose us to material continuing risks, contingent liabilities, or any other obligation under a variable interest in an unconsolidated entity that provides financing, liquidity, market risk, or credit risk support to us.

### ***Contractual Obligations***

For the purpose of this table, 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, 2014. 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, 2014:

<b><u>Contractual Obligations for the year ending December 31,</u></b>	<b>Contractual Lease Obligations</b>	<b>Purchase Obligations (1)</b>	<b>Total Obligations</b>
2015	\$ 659,000	\$ 3,951,000	\$ 4,610,000
2016	608,000	8,051,000	8,659,000
2017	642,000	12,688,000	13,330,000
2018	642,000	—	642,000
2019	642,000	—	642,000
Thereafter	1,731,000	—	1,731,000
	\$ 4,924,000	\$ 24,690,000	\$ 29,614,000

(1) Purchase obligations include all other legally binding service contracts for mobile telephone services and other operational agreements to be delivered during Fiscal 2015 and subsequent years.

**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, 2014. 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, 2014, 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	Fair value
		average exchange rate of U.S. dollars	
January – March, 2015	6,720,000	1.0811	(471,428 )
April – June, 2015	6,500,000	1.1042	(339,014 )
July - September, 2015	6,500,000	1.1282	(217,769 )
October - December, 2015	6,500,000	1.1536	(87,594 )
Total	\$26,220,000	1.1165	\$(1,115,805)



As of December 31, 2014 the Company has \$26.2 million of outstanding foreign exchange forward contracts which will convert to CDN \$29.3 million. Of these contracts, \$22.3 million met the requirements for hedge accounting. As of December 31, 2013 the Company had \$26.5 million of outstanding foreign exchange forward contracts which will convert to CDN \$27.8 million. Of these contracts, \$20.6 million met the requirements for hedge accounting.

We have performed a sensitivity analysis model for foreign exchange exposure over the year ended December 31, 2014. The analysis used a modeling technique that compares the U.S. dollar equivalent of all expenses incurred in Canadian dollars, at the actual exchange rate, to a hypothetical 10% adverse movement in the foreign currency exchange rates against the U.S. dollar, with all other variables held constant. Foreign currency exchange rates used were based on the market rates in effect during the year ended December 31, 2014. The sensitivity analysis indicated that a hypothetical 10% adverse movement in foreign currency exchange rates would result in a decrease in net income for the year ended December 31, 2014 of approximately \$2.4 million. There can be no assurances that the above projected exchange rate decrease will materialize. Fluctuations of exchange rates are beyond our control. We will continue to monitor and assess the risk associated with these exposures and may take additional actions in the future to hedge or mitigate these risks.

### **Credit Risk**

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

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Our consolidated financial statements and supplementary data required by this item are attached to this Annual Report on Form 10-K beginning on page F-1.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934 (the “Exchange Act”), management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated, as of the end of the period covered by this report, the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that due to the material weaknesses in our internal control over financial reporting that is described below in Management’s Annual Report on Internal Control over Financial Reporting, our disclosure controls and procedures were not effective as of December 31, 2014.

Notwithstanding the identified material weaknesses described below, based on the additional analysis and other post-closing procedures described below performed by the Company, our management does not believe that these deficiencies had an adverse effect on our reported operating results or financial condition and management has determined that the financial statements and other information included in this report and other periodic filings present fairly in all material respects our financial condition, results of operations and cash flows at and for the periods presented in accordance with accounting principles generally accepted in the United States (“GAAP”).

### **Management’s Annual Report on Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2014. In making this assessment, our management used the criteria for effective internal control over financial reporting described in the 1992 “Internal Control—Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that due to the material weaknesses described below, our internal control over financial reporting was not effective as of December 31, 2014.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company’s annual or interim financial statements will not be prevented or detected on a timely basis. In connection with our assessment of the effectiveness of internal control over financial reporting, primarily due to the limited number of personnel in our accounting group to ensure segregation of duties, our management identified the following material weaknesses that existed as of December 31, 2014:

Manual journal entries. The design and operating effectiveness of our controls were inadequate to ensure that manual journal entries were independently reviewed and approved for validity, accuracy and completeness.

Account analysis and support. The design and operating effectiveness of our controls were inadequate to ensure detailed reviews and verification of inputs and calculations related to the analysis of accounts or transactions and schedules supporting financial statement amounts and notes.

These deficiencies are pervasive in nature and create a reasonable possibility that a material misstatement of the annual or interim financial statements would not have been prevented or detected on a timely basis.

KPMG LLP, our independent registered public accounting firm, has audited our consolidated financial statements and expressed an unqualified opinion thereon. KPMG LLP has issued an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2014 and issued an adverse opinion. These reports are set forth at the beginning of Part II, Item 8 of this Annual Report on Form 10-K.

### **Remediation Plan for Material Weaknesses in Internal Control over Financial Reporting**

In light of the material weaknesses identified above, the Company performed additional analysis and other post-closing procedures to ensure that the Company's consolidated financial statements were prepared in accordance with GAAP and accurately reflect its financial position and results of its operations as of and for the year ended December 31, 2014. As a result, notwithstanding the material weaknesses as described above, management concluded that the consolidated financial statements included in this Form 10-K present fairly, in all material respects, the Company's financial position, results of operations and cash flows for the periods presented.

In addition, subsequent to our December 31, 2014 fiscal year end, we began taking steps to redesign processes and controls to ensure a more precise independent review is performed for manual journal entries and reconciliations, where appropriate, relating to critical calculations and estimates. In addition, we are assessing tools and potential enhancements to document, support and review manual journal entries and account reconciliation processes. We are also evaluating our financial team organizational structure, and what changes to roles and responsibilities we can make to enhance controls and compliance. We expect to continue our remediation efforts, including testing of operating effectiveness of new or improved controls for a reasonable period of time. If appropriate, we expect to make further changes to our internal controls to enhance or further develop the remediation plan we have already adopted.

### **Changes in Internal Control over Financial Reporting**

Other than the material weaknesses noted above, there have been no changes in our internal controls over financial reporting during the quarter ended December 31, 2014 that have materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

In evaluating our internal controls for 2014 we continued to rely on the Internal control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations for the Treadway Commission. We plan to adopt the Internal Control – Integrated Framework (2013) issues by the Committee of Sponsoring Organizations of the Treadway Commission in 2015.

**ITEM 9B. OTHER INFORMATION**

None.

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## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Co-Chairman of the Board since September 2012

**Allen Karp**

and Director since October 2005

Mr. Karp, 74, was with Cineplex Odeon Corporation in various positions since 1986, where he retired as Chairman and Chief Executive Officer in 2002 and as Chairman Emeritus in 2005. From 1966 to 1986, he practiced law at the law firm of Goodman and Carr LLP, where he was named partner in 1970. Mr. Karp was until recently a Director of Brookfield Real Estate Services Inc., the Chair of its corporate governance committee and sat on the audit committee, and was Chairman of the Board of Directors of IBI Group Inc., and was Chairman of the Nominating, Governance and Compensation Committee. Mr. Karp is a past director of the Toronto International Film Festival Group, where he served as Chairman of the Board from 1999 to 2007 and has served as Chairman of its Corporate Governance Committee since 2007. Additionally, Mr. Karp was previously a director of several other public corporations.

Mr. Karp has extensive executive leadership skills, long-standing senior management experience, a strong ethics and compliance focus and audit committee experience. These skills and qualifications, in addition to his current service on the boards of directors of other public companies, enable him to bring valuable perspectives to our Board, particularly with respect to corporate governance matters, and qualify him to be a director of Tucows.

Co-Chairman of the Board since September 2012

**Rawleigh H. Ralls**

and Director since May 2009

Mr. Ralls, 52, is a founding partner of Lacuna, LLC, an investment management company focused on both public and private companies, which he formed in October 2006. Prior thereto, from 1999 to 2006, he was Chairman of Netidentity.com, an Internet email and web hosting company, where he led corporate strategy and development until the firm's sale in 2006. Mr. Ralls currently serves on the Board of Directors of a number of companies, including Savoya, LLC, IntraOp Medical, Knowledge Factor, and Mocupay, Inc.

Mr. Ralls has a wealth of industry experience, most notably the experience that he gained through his leadership of Netidentity.com. In addition, Mr. Ralls contributes a unique perspective to the Board's discussions and considerations based on the two decades of investing and portfolio management experience. All of these attributes qualify Mr. Ralls to be a director of Tucows.

**Erez Gissin** Director since August 2001

Mr. Gissin, 56, has served since 2010 as a managing partner in Helios Energy Investment, a Renewable Energy investment fund, and since 2005 as the Chief Executive Officer of BCID Ltd., an investment company focusing on infrastructure development projects in China. From July 2000 to March 2005, Mr. Gissin has served as the Chief Executive Officer of IP Planet Networks Ltd., an Israeli satellite communication operator providing Internet backbone connectivity and solutions to Internet Service Providers. From July 1995 to July 2000, Mr. Gissin was Vice President, Business Development of Eurocom Communications Ltd., a holding company that controls several telecommunications services, equipment and Internet companies in Israel.

Mr. Gissin has a strong background in the internet communications industry and has gained significant institutional knowledge in his long tenure as one of our directors. Mr. Gissin also has significant leadership experience as the Chief Executive Officer of BCID Ltd. and IP Planet Networks Ltd. and has extensive financial acumen derived from his years of executive experience. All of these qualities qualify Mr. Gissin to be a director of Tucows.

**Joichi Ito** Director since December 2008

Mr. Ito, 48, is the director of the MIT Media Lab. He is a co-founder of Digital Garage (Tokyo Stock Exchange 4819), where he has served on the board since September 2006. Mr. Ito has been a member of the Board of Directors of the New York Times Corporation since June 2012 and of Sony Corporation since June 2013.

From June 2002 until July 2008, Mr. Ito served on the board of Pia Corporation, a ticket and entertainment magazine company in Japan (Tokyo Stock Exchange 4337). He served on the board of ICANN, a U.S. non-profit corporation, from December 2004 until December 2007. ICANN manages the domain name registration system that Tucows uses for its domain name business and ICANN receives fees from Tucows for domain name registrations.

Mr. Ito is also on the board of directors of a number of non-profit organizations, including The Knight Foundation, the MacArthur Foundation and The Mozilla Foundation. He has created numerous Internet companies, including PSINet Japan, Digital Garage and Infoseek Japan and was an early stage investor in Twitter, Six Apart, Flickr, Dopplr, Last.fm, Kickstarter, Formlabs and littleBits. He has served and continues to serve on various Japanese central as well as local government committees and boards, advising the government on IT, privacy and computer security related issues.





Mr. Ito has extensive experience as a director of a number of publicly traded companies and has a wide range of experience with internet companies generally. This experience, along with Mr. Ito's domain specific knowledge, enables him to bring key experience to the Company and qualifies him to be a director of Tucows.

**Elliot Noss** Director since August 2001

Mr. Noss, 52, is our President and Chief Executive Officer and has served in such capacity since the completion of our merger with Tucows Delaware in August 2001. From May 1999 until completion of the merger in August 2001, Mr. Noss served as President and Chief Executive Officer of Tucows Delaware. Before that, from April 1997 to May 1999, Mr. Noss served as Vice President of Corporate Services of Tucows Interactive Ltd., which was acquired by Tucows Delaware in May 1999.

Mr. Noss's lengthy service as our Chief Executive Officer has provided him with extensive knowledge of, and experience with, Tucows' operations, strategy and financial position. In addition, Mr. Noss has widespread knowledge of the internet and software industry generally that, coupled with his operational expertise, qualifies him to be a director of Tucows.

**Jeffrey Schwartz** Director since June 2005

Mr. Schwartz, 52, has served as a director of Dorel Industries since 1987 and as Executive Vice President and Chief Financial Officer since 2003. Mr. Schwartz is a graduate of McGill University in Montreal and has a degree in the field of business administration.

Mr. Schwartz has a significant amount of public-company financial expertise, particularly in his executive experience as the chief financial officer of Dorel Industries, Inc. This executive experience, along with Mr. Schwartz's service as one of our Audit Committee members (and as Chairman of our Audit Committee since 2005), qualifies him to be a director of Tucows.

**Robin Chase** Director since October 2014

Ms Chase, 56, is a transportation entrepreneur. She is founder and former CEO of Zipcar, the largest car sharing company in the world; Buzzcar, a service that brings together car owners and drivers in a car sharing marketplace in France; and GoLoco, an online ridesharing community. She is also Executive Chairman of Veniam, a vehicle

communications company building the networking fabric for the Internet of Moving Things.

Ms Chase is on the Boards of the Massachusetts Department of Transportation, the World Resources Institute, and Tucows. She also served on the National Advisory Council for Innovation & Entrepreneurship for the US Department of Commerce, the Intelligent Transportations Systems Program Advisory Committee for the US Department of Transportation, the OECD's International Transport Forum Advisory Board the Massachusetts Governor's Transportation Transition Working Group, and Boston Mayor's Wireless Task Force.

Ms Chase lectures widely, has been frequently featured in the major media, and has received many awards in the areas of innovation, design, and environment, including Time 100 Most Influential People, Fast Company Fast 50 Innovators, and BusinessWeek Top 10 Designers. Robin graduated from Wellesley College and MIT's Sloan School of Management, was a Harvard University Loeb Fellow, and received an honorary Doctorate of Design from the Illinois Institute of Technology.

Her experience operating companies at the CEO level along with her numerous experiences on these boards and councils qualify her to be a director of Tucows.

Our directors are elected annually and serve until the election or appointment and qualification of their successors or their earlier death, resignation or removal.

### **Executive Officers**

The required information regarding our executive officers is set forth in Part I hereof under the caption "Executive Officers of the Registrant" and is incorporated herein by reference.

## **Governance Principals**

The governance principals of our Board of Directors include the charters of our audit committee, our Corporate Governance and Compensation Committee, our Code of Conduct, and our Code of Ethics. Each of these documents and various other documents embodying our governance principals are published on our website at [tucows.com](http://tucows.com). Amendments and waivers of our Code of Ethics will either be posted on our website or filed with the SEC on a Current Report on Form 8-K.

Mr. Karp and Mr. Ralls, two of our independent directors, serve as Co-Chairmen of the Board. The Board does not have a lead independent director. Our Board currently consists of seven directors, six of whom the Board has determined are “independent” within the meaning of the independence requirements prescribed by the listing standards of the NASDAQ Capital Market. In making this determination with respect to Mr. Ralls, the board considered whether his beneficial ownership of Tucows equity securities constituted a material relationship with the Company that would impair his independence, and concluded that he was independent. The Board believes that this structure, which provides an overwhelming majority of independent directors, coupled with the Board meeting in executive session without any management directors or non-independent directors present, is an appropriate structure for Tucows’ Board. We believe that this structure provides appropriate and independent oversight by the Board. The Board regularly consults with our Chief Executive Officer, who is also a director, and our corporate governance, nominating and compensation committee to review the various types of risk that affect Tucows and the strategies to mitigate such risks. The Board believes that this structure has been effective.

## **Meetings**

Our Board of Directors met five times during Fiscal 2014. Our Board of Directors also took action by unanimous written consent on three occasions during Fiscal 2014. With the exception of Mr. Ito, each director attended at least 80% of the total number of meetings of the Board of Directors and the committees on which he served during Fiscal 2014.

## **Executive Sessions of Independent Directors**

A majority of the independent directors meet quarterly in executive sessions without members of our management present. Mr. Karp is responsible for chairing the executive sessions.

## **Policy regarding attendance**

Directors are expected, but are not required, to attend board meetings, meetings of committees on which they serve, and shareholder meetings, and to spend the time needed and meet as frequently as necessary to discharge their responsibilities properly. Allen Karp attended our 2014 annual meeting of shareholders in person while the remainder of the Board of Directors was available by teleconference.

## Committees

Our Board of Directors has two committees, an audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended, and a corporate governance, nomination and compensation committee. Our committees generally meet in connection with regularly scheduled quarterly and annual meetings of the Board of Directors, with additional meetings held as often as its members deem necessary to perform its responsibilities. From time to time, depending on the circumstances, the Board may form a new committee or disband a current committee.

*The audit committee* currently consists of Mr. Schwartz (Chair), Mr. Karp and Mr. Gissin, all of whom are independent directors as prescribed by the listing standards of the NASDAQ Capital Market.

The audit committee held five meetings during Fiscal 2014. The audit committee also took action by unanimous written consent on one occasion during Fiscal 2014. The audit committee's purposes are:

- To assist the Board of Directors in its oversight of (1) our accounting and financial reporting processes and the audits of our financial statements, and (2) our compliance with legal and regulatory requirements;

- To interact directly with and evaluate the performance of the independent auditors, including to determine whether to engage or dismiss the independent auditors and to monitor the independent auditors' qualifications and independence; and

- To review the report required by the rules of the SEC to be included in our annual Form 10-K.

Each of the members of our Audit Committee is an independent director and satisfies the independence standards as prescribed by the listing standards of the NASDAQ Capital Market and Rule 10A-3 under the Exchange Act and is able to read and understand fundamental financial statements including balance sheets, income statements and cash flow statements. Additionally, the Board of Directors has determined that Mr. Schwartz qualifies as an “audit committee financial expert” as defined under Item 407(d)(5) of Regulation S-K. The Board of Directors has adopted a written charter for the Audit Committee, which the Audit Committee has reviewed and determined to be in compliance with the rules prescribed by the listing standards of the NASDAQ Capital Market and which is available at *tucowsinc.com*.

***The corporate governance, nomination and compensation committee*** currently consists of Mr. Karp (Chair), Mr. Schwartz, and Mr. Ralls, all of whom are independent directors as defined in the listing standards of the NASDAQ Capital Market.

The committee held four meetings during Fiscal 2014. The corporate governance, nomination and compensation committee took action by unanimous written consent twice during the 2014 fiscal year. The corporate governance, nomination and compensation committee’s purposes are:

- To recommend and review the compensation structure for the Company’s senior executives, including the Chief Executive Officer;
- To review employee compensation and benefit programs, including risk oversight;
- To develop and recommend to the Board a set of corporate governance guidelines applicable to the Company and to periodically review the guidelines;
- To oversee the Board’s annual evaluation of its performance and the performance of the other Board committees;
- To advise the Board regarding membership and operations of the Board; and
- To identify individuals qualified to serve as members of the Board, to select, subject to ratification of the Board, the director nominees for the next annual meeting of shareholders and to recommend to the Board individuals to fill vacancies on the Board.

The corporate governance, nominating and compensation committee may delegate authority to one or more members of the committee or one or more members of management when appropriate, but no such delegation is allowed if the authority is required by law, regulation or listing standard to be exercised by the corporate governance, nominating

and compensation committee as a whole. Each of the members of our corporate governance, nominating and compensation committee are independent directors as defined in the listing standards of the NASDAQ Capital Market. The Board of Directors has adopted a written charter for the corporate governance, nominating and compensation committee, which the corporate governance, nominating and compensation committee has reviewed and determined to be in compliance with the rules prescribed by the listing standards of the NASDAQ Capital Market and which is available at *tucows.com*.

In considering candidates for nomination, our Board of Directors shall seek individuals who evidence strength of character, mature judgment and the ability to work collegially with others. Furthermore, it is the policy of our Board of Directors that it endeavor to have directors who collectively possess a broad range of skills, expertise, industry and other knowledge and business and other experience useful to the effective oversight of our business; therefore, in considering whether to nominate a person for election as a director, the independent directors and our Board of Directors will consider, among other factors, the contribution such person can make to the collective competencies of the Board based on such person's background. In determining whether to nominate a current director for re-election, the Board will take into account these same criteria as well as the director's past performance, including his or her participation in and contributions to the activities of the Board.

### **Shareholder nominations to the Board**

Our corporate governance, nominating and compensation committee is responsible for identifying potential nominees to the Board, and will consider any candidate proposed in good faith by one of our shareholders. As set forth in the charter of the corporate governance, nominating and compensation committee, recommendations submitted by the Company's shareholders shall be timely submitted, along with the following to the attention of the Chairperson of the corporate governance, nominating and compensation committee at 96 Mowat Avenue, Toronto, Ontario M6K 3M1 Canada, the following:

- the candidate's name and the information about the individual that would be required to be included in a proxy statement under the rules of the SEC;

- information about the relationship between the candidate and the nominating shareholder;

- the consent of the candidate to serve as a director; and

- proof of the number of our common stock that the nominating shareholder owns and the length of time the shares have been owned.

In order for a shareholder nominee to be considered by the corporate governance, nominating and compensation committee, the shareholder nomination must be delivered at least 120 days before the date on which we first mailed our proxy materials for our prior year's annual meeting of shareholders. Subject to compliance with statutory or regulatory requirements, our Board of Directors does not expect that candidates recommended by shareholders will be evaluated in a different manner than other candidates.

### **Ethics policy for senior officers**

Our Board of Directors has adopted an ethics policy for our senior officers, including our Chief Executive Officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A copy of the ethics policy for senior officers can be obtained without charge from our Internet web site at *tucows.com*.

### **Communications with the Board of Directors**

We provide an informal process for shareholders to send communications to our Board of Directors. If you wish to communicate with our Board of Directors, you may send correspondence to the attention of our Secretary at 96 Mowat Avenue, Toronto, Ontario M6K 3M1 Canada. The Secretary will submit your correspondence to one of the co-chairman of the Board of Directors, the chairman of the appropriate committee, or the appropriate individual director, as applicable.

### **Director compensation**

Directors who are employees receive no additional or special compensation for serving as directors. The Board of Directors determines the total amount of the annual retainer as well as the amounts of any meeting or committee fee based upon recommendations from the corporate governance, nomination and compensation committee of the board and input from the chief executive officer.

### **Equity compensation**

Under the terms of our 2006 Amended and Restated Equity Compensation Plan (the "2006 Plan"), we make automatic formula grants of nonqualified stock options to our non-employee directors and members of committees of our Board of Directors as described below. All stock-based compensation for our Non-employee directors is governed by the

2006 Plan or its predecessor, our 1996 Equity Compensation Plan (the “1996 Plan”). All options granted under the automatic formula grants are immediately exercisable, have an exercise price equal to the fair market value per common shares as determined by the per share price as of the close of business on the date of grant and have a five-year term. Options are granted to directors under the Amended and Restated 2006 Plan as follows:

• on the date each non-employee director becomes a director, he or she is granted options to purchase 4,375 shares of our common stock;

• on the date each director becomes a member of the audit committee, he or she is granted options to purchase 3,750 shares of our common stock;

• on the date each director becomes a member of the corporate governance, nomination and compensation committee, he or she is granted options to purchase 2,500 shares of our common stock;

• on each date on which we hold our annual meeting of shareholders, each non-employee director in office immediately before and after the annual election of directors will receive an automatic grant of options to purchase 3,750 of our common stock;



**Non-Equity compensation**

The co-chairman of our Board receives an annual fee of \$15,000 each. All non-employee directors receive an annual fee of \$15,000. Non-employee directors who serve as members of our audit committee receive an annual fee of \$10,000 with the chairman of our audit committee receiving an additional \$4,000. Non-employee directors who serve on our corporate governance, nomination and compensation committee, receive an annual fee of \$10,000 with the chairman of our corporate governance, nomination and compensation committee receiving an additional \$4,000. In addition, all non-employee directors receive the following meeting attendance fees:

**Director meeting attendance fees:**

May Board Meeting Personal Attendance Fee (inclusive of Committee fees)	\$6,000
November Board Meeting Personal Attendance Fee (inclusive of Committee fees)	\$4,000
Regularly Scheduled Telephonic Board Meeting Attendance Fees (per meeting)	\$750
Regularly Scheduled Telephonic Audit Committee Meeting Attendance Fees (per meeting)	\$400
Regularly Scheduled Telephonic Corporate Governance, Nomination and Compensation Committee Meeting Attendance Fees (per meeting)	\$400

All fees paid to directors are paid in quarterly installments.

We also purchase directors and officer's liability insurance for the benefit of our directors and officers as a group in the amount of \$10 million. We also reimburse our directors for their reasonable out-of-pocket expenses incurred in attending meetings of our Board of Directors or its committees. No fees are payable to directors for attendance at specially called meetings of the board.

The table below shows all compensation paid to each of our non-employee directors during 2014. Each of the directors listed below served for the entire year other than Lloyd Morrisett who retired from the Board in the third quarter of 2014 and Robin Chase who was appointed in the fourth quarter of 2014.

Name	Fees earned or paid in cash (\$)	Option awards (\$) <sup>(1)</sup> <sup>(2)</sup>	Total (\$)
(a)	(b)	(d)	(h)
Allen Karp	67,100	21,281	88,381
Rawleigh Ralls	52,300	21,281	73,581

Erez Gissin	29,000	42,562	71,562
Joichi Ito	19,000	21,281	40,281
Lloyd Morrisett	31,900	—	31,900
Robin Chase	7,750	22,566	30,316
Jeffrey Schwartz	52,100	21,281	73,381
	259,150	150,252	409,402

(1) On September 9, 2014 under the 2006 Plan, our non-employee directors were awarded these automatic formula option grants. Under the 2006 Plan, these options vested immediately and carry an exercise price of \$15.51. All these options remained outstanding at December 31, 2014 and have a five year term. The aggregate grant date fair value of the option grants was calculated in accordance with FASB ASC 718 and based on the Black-Scholes option-pricing model and used the same assumptions that are set forth in Note 11 to our audited consolidated financial statements included in this Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

(2) On October 27, 2014 under the 2006 Plan, Robin Chase our newly appointed non-employee director was awarded automatic formula option grants. Under the 2006 Plan, these options vested immediately and carry an exercise price of \$14.67. All these options remained outstanding at December 31, 2014 and have a five year term. The aggregate grant date fair value of the option grants was calculated in accordance with FASB ASC 718 and based on the Black-Scholes option-pricing model and used the same assumptions that are set forth in Note 11 to our audited consolidated financial statements included in this Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

## **SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers and persons who own more than ten percent of a registered class of our equity securities to file with the SEC reports of ownership and reports of changes in ownership of our common stock and our other equity securities. These persons are required by SEC regulation to furnish us with copies of all Section 16(a) reports they file.

We believe that, under the SEC's rules and based solely upon our review of the copies of the Forms 3, 4 and 5 furnished to us, or written representations from certain reporting persons that any such Forms have been filed in a timely manner and that all of our executive officers, directors and persons who own more than ten percent of a registered class of our equity securities complied with all Section 16(a) filing requirements applicable to them during 2014.

### **Stock ownership of management**

We encourage stock ownership by our directors, officers and employees to align their interests with your interests as shareholders. Under Section 16(a) of the Securities and Exchange Act of 1934, as amended, directors, officers and certain beneficial owners of the Company's equity securities are required to file reports of their transactions in the

Company's equity securities with the SEC on specified due dates. With respect to Fiscal 2014, reports of transactions by all directors, officers and such beneficial holders were filed timely with the exception of Ms. Goertz, who failed to timely file her Form 4 with respect to the acquisition of 5,000 shares of common stock in the open market. In making this statement, the Company has relied on the written representations of its directors, officers and holders of more than ten percent of our outstanding common stock as reported in their filings with the SEC.

**ITEM 11. EXECUTIVE COMPENSATION****Summary compensation table**

The following Summary Compensation table provides a summary of the compensation earned by the chief executive officer, Elliot Noss, and our two other most highly compensated executive officers for services rendered in all capacities during 2014. Specific aspects of this compensation are dealt with in further detail in the tables that follow. All dollar amounts below are shown in U.S. dollars. If necessary, amounts that were paid in Canadian dollars during the 2014 fiscal year were converted into U.S. dollars based upon the exchange rate of 1.1051 Canadian dollars for each U.S. dollar, which represents the average Bank of Canada exchange rate for 2014.

Name and Principal Position	Year	Salary	Bonus <sup>(1)</sup>	Stock	Option	All Other	Total
		(\$)	(\$)	Awards <sup>(2)</sup>	Awards <sup>(3)</sup>	Compensation <sup>(4)</sup>	(\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
<i>Elliot Noss</i> <i>President and Chief Executive Officer</i>	2014	343,589	182,754	—	—	9,501	535,844
<i>Michael Cooperman</i> <i>Chief Financial Officer</i>	2013	357,157	194,302	—	103,400	10,176	665,035
<i>David Woroch</i> <i>Vice President, Sales</i>	2014	269,206	128,121	—	—	11,130	408,457
	2013	279,824	135,284	—	51,700	11,920	478,728
	2014	224,143	134,834	—	—	7,872	366,849
	2013	233,017	140,372	—	51,700	8,431	433,520

(1) Represents bonus earned during the fiscal years ended December 31, 2014, 2013 and 2012.

Of the 2014 amount, the following amounts will be paid in February 2015:

Elliot Noss	\$89,169
Michael Cooperman	\$66,466
David Woroch	\$71,715

Of the 2013 amount, the following amounts were paid in February 2014:

Elliot Noss	\$ 100,094
Michael Cooperman	\$ 73,450
David Woroch	\$ 75,746

Represents the aggregate grant date fair value of such awards, calculated in accordance with FASB ASC 718.

(2) Please see N11 entitled “Stock Options” in the notes to our audited financial statements, for a discussion of the assumptions underlying these calculations.

Represents the aggregate grant date fair value of such awards, calculated in accordance with FASB ASC 718.

(3) Please see Note 11 entitled “Stock Options” in the notes to our audited financial statements, for a discussion of the assumptions underlying these calculations.

(4) Amounts reported in this column are comprised of the following items:

		<b>Additional</b>		<b>Health</b>	
	<b>Year</b>	<b>Health</b>	<b>Car</b>	<b>Club</b>	<b>All Other</b>
		<b>Spending</b>	<b>Allowance</b>	<b>Membership</b>	<b>Compensation</b>
		<b>Credits</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
		<b>(\$)</b>			
<i>Elliot Noss</i>	2014	1,357	8,144	—	9,501
	2013	1,454	8,722	—	10,176
<i>Michael Cooperman</i>	2014	1,357	7,601	2,172	11,130
	2013	1,454	8,140	2,326	11,920
<i>David Woroch</i>	2014	1,357	6,515	—	7,872
	2013	1,454	6,977	—	8,431

**Outstanding Equity Awards at Fiscal Year-End**

The following table sets forth information concerning stock options held by the named executive officers as of December 31, 2014:

Name	Number of	Number of	Option	Option
	Securities	Securities		
Underlying	Underlying	Underlying	Exercise	Expiration
	Unexercised	Unexercised		
Options	Options		Price (\$)	Date
(#)	(#)			
Exercisable	Unexercisable			
<i>Elliot Noss</i>	11,000	—	2.40	5/22/15
	32,000	—	2.80	5/16/17
	6,562	2,188	2.92	8/14/18
	3,750	3,750	5.52	5/17/19
	6,250	6,250	5.76	12/31/19
	3,125	9,375	10.16	11/10/20
	62,687	21,563		
<i>Michael Cooperman</i>	18,750	—	2.40	5/22/15
	32,000	—	2.80	5/16/17
	6,562	2,188	2.92	8/14/18
	3,750	3,750	5.52	5/17/19
	3,125	3,125	5.76	12/31/19
	1,562	4,688	10.16	11/10/20
	65,749	13,751		
<i>David Woroch</i>	16,250	—	2.40	5/22/15
	32,000	—	2.80	5/16/17
	6,562	2,188	2.92	8/14/18
	3,750	3,750	5.52	5/17/19
	3,125	3,125	5.76	12/31/19
	1,562	4,688	10.16	11/10/20
	63,249	13,751		

The stock options grants listed in the above table were issued under our 1996 Plan as well as under our 2006 Plan.

Under the 1996 Plan, these options vest over a period of four years and have a 10 year term. These options are not exercisable for one year after the grant. Thereafter they become exercisable at the rate of 25% after the first year, with the remaining 75% vesting evenly at each month end over the next 36 months, becoming fully exercisable after the fourth year.

Under the 2006 Plan, these options vest over a period of four years and have a 7 year term. These options are not exercisable for one year after the grant. Thereafter they become exercisable at the rate of 25% per annum, becoming fully exercisable after the fourth year.

### **Director Compensation**

The required information regarding our director compensation is set forth in Part III, Item 10 “Directors, Executive Officers and Corporate Governance” and is incorporated herein by reference.

**Potential Payments on Termination or Change In Control**

We have certain agreements that require us to provide compensation to our named executive officers in the event of a termination of employment or a change in control of Tucows. These agreements are summarized following the table below and do not include any payment for termination for cause. The tables below show estimated compensation payable to each named executive officer upon various triggering events. Actual amounts can only be determined upon the triggering event.

<b>Elliot Noss (1)</b>	2014	Termination without Cause	Change in Control
<b>Compensation</b>			
Base Salary/Severance (2)		\$ 687,178	\$ 689,178
Bonus Plan (3)		332,741	332,741
Acceleration of Unvested Equity Awards (4)		260,200	260,200
<b>Benefits (5)</b>			
Car Allowance		16,288	16,288
Healthcare Flexible Spending Account		2,714	2,714
Healthclub		—	—
		\$ 1,299,121	\$ 1,301,121

<b>Michael Cooperman (1)</b>	2014	Termination without Cause	Change in Control
<b>Compensation</b>			
Base Salary/Severance (2)		\$ 471,111	\$ 473,111
Bonus Plan (3)		191,814	191,814
Acceleration of Unvested Equity Awards (4)		123,956	174,188
<b>Benefits (5)</b>			
Car Allowance		13,302	23,278
Healthcare Flexible Spending Account		2,375	4,156
Healthclub		3,801	6,652
		\$ 806,359	\$ 873,199

<b>David Woroch (1)</b>	2014	Termination	Change in
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	without Cause	Control
<b>Compensation</b>		
Base Salary/Severance (2)	\$ 373,571	\$373,571
Bonus Plan (3)	190,836	190,836
Acceleration of Unvested Equity Awards (4)	138,401	138,401
<b>Benefits (5)</b>		
Car Allowance	10,858	18,097
Healthcare Flexible Spending Account	2,262	3,769
Healthclub	—	—
	\$ 715,928	\$724,674

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(1) For the purpose of the table we assumed an annual base salary at the executive's level as of December 31, 2014

Severance for Mr. Noss is compensation for one year plus one month additional compensation for each completed (2) year of service capped at 24 months. For Messrs. Cooperman and Woroch, severance compensation is for six months plus one month additional compensation for each completed year of service.

(3) For the purpose of the table we assumed that the annual incentive bonus target as of December 31, 2014 had been achieved and that no overachievement bonus or special bonuses would be payable.

For purposes of the above table, we have assumed that if we terminate Mr. Noss without cause all his unvested options vest automatically and that for Messrs. Cooperman or Woroch, that their options continue to vest through any severance period. On a change in control we have assumed that all unvested options for Messrs. Noss or (4) Cooperman vest automatically and that for Mr. Woroch, that his options continue to vest through and until the end of any severance period. Amounts disclosed in this table equal the closing market value of our common stock as of December 30, 2014, minus the exercise price, multiplied by the number of unvested shares of our common stock that would vest. The closing market value of our common stock on December 31, 2014 was \$19.41.

Pay for unused vacation, extended health, matching registered retirement savings plan benefit, life insurance and (5) accidental death and dismemberment insurance are standard programs offered to all employees and are therefore not reported.

***Employment Agreements—Termination***

Employment contracts are currently in place for each of the named executive officers, whose contracts detail the severance payments that will be provided on termination of employment and the consequent obligations of non-competition and non-solicitation.

The following details the cash severance payment that will be paid to each of the named executive officers in the event of termination without cause or termination for good reason.

Upon termination without cause, Mr. Woroch is entitled to a severance payment in the amount of six months' compensation plus one months' compensation for each additional completed year of service. Severance payments can be made in equal monthly installments. Mr. Woroch is bound by a standard non-competition covenant for a period of twelve months following their termination.

Messrs Noss and Cooperman's employment agreements are subject to early termination by us due to:

- the death or disability of the executive;

- for "cause;" or

- without "cause."

If we terminate Mr. Noss without "cause," he is entitled to receive 12 months of compensation plus one month of compensation for each year of service, to a maximum of 24 months of compensation.

If we terminate Mr. Cooperman's employment without "cause," he is entitled to receive six months of compensation plus one month of compensation for each year of service.

For purposes of the employment agreements, "cause" is defined to mean the executive's conviction (or plea of guilty or nolo contendere) for committing an act of fraud, embezzlement, theft or other act constituting a felony or willful failure or an executive's refusal to perform the duties and responsibilities of his position, which failure or refusal is not

cured within 30 days of receiving a written notice thereof from our Board of Directors.

*Employment Agreements—Change in Control*

Under their employment agreements, both Mr. Noss and Mr. Cooperman are also entitled to the change in control benefits described in the following paragraph if:

the executive resigns with or without “good reason” within the 30-day period immediately following the date that is six months after the effective date of the “change in control;” or

• within 18 months after a “change in control” and executive’s employment is terminated either:

• without “cause;” or

• by resignation for “good reason.”

If an executive’s employment is terminated following a change in control under the circumstances described in the preceding paragraph, the executive is entitled to receive a lump sum payment based upon the fair market value of the Company on the effective date of the “change in control” as determined by our Board of Directors in the exercise of good faith and reasonable judgment taking into account, among other things, the nature of the “change in control” and the amount and type of consideration, if any, paid in connection with the “change in control.” Depending on the fair market value of the company, the lump sum payments range from \$375,000 to \$2 million in the case of Mr. Noss, and from \$187,500 to \$1 million in the case of Mr. Cooperman. In addition to the lump sum payments, all stock options held by the executive officers will be immediately and fully vested and exercisable as of the date of termination.

A “change in control” is generally defined as:

- the acquisition of 50% or more of our common stock;

- a change in the majority of our Board of Directors unless approved by the incumbent directors (other than as a result of a contested election); and

- certain reorganizations, mergers, consolidations, liquidations or dissolutions, unless certain requirements are met regarding continuing ownership of our outstanding common stock.

“Good reason” is defined to include the occurrence of one or more of the following:

- the executive’s position, management responsibilities or working conditions are diminished from those in effect immediately prior to the change in control, or he is assigned duties inconsistent with his position;

- the executive is required to be based at a location in excess of 30 miles from his principal job location or office immediately prior to the change in control;

- the executive’s base compensation is reduced, or the executive’s compensation and benefits taken as a whole are materially reduced, from those in effect immediately prior to the change in control; or

- we fail to obtain a satisfactory agreement from any successor to assume and agree to perform our obligations to the executive under his employment agreement.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth the beneficial ownership of our common stock, as of March 5, 2015, by each of our chief executive officer, our two other most highly compensated executive officers, as well as by all of our directors and executive officers as a group. The information on beneficial ownership in the table and related footnotes is based upon data furnished to us by, or on behalf of, the persons referred to in the table. Unless otherwise indicated in the footnotes to the table, each person named has sole voting power and sole investment power with respect to the shares included in the table.

Name	Beneficial Ownership of Common Stock				
	Common Stock	Options	Total	Percent of Class <sup>(1)</sup>	
	Beneficially Owned	Exercisable within 60 Days of March 5, 2015	Common Stock Beneficially Owned		
Elliot Noss	702,146 (2)	62,687	764,833	6.9	%
Michael Cooperman	260,082 (3)	65,749	325,831	2.9	%
David Worocho	110,001 (4)	63,249	173,250	1.6	%
Allen Karp	33,750 (5)	35,625	69,375	*	
Rawleigh Ralls	488,750 (6)	25,000	513,750	4.6	%
Robin Chase	—	4,375	4,375	*	
Erez Gissin	18,750	31,250	50,000	*	
Joichi Ito	6,250	7,500	13,750	*	
Jeffrey Schwartz	25,000	35,625	60,625	*	
All directors and executive officers as a group (11 persons)	1,666,029	467,558	2,133,587	18.5	%

\*Less than 1%.

(1) Based on 11,090,790 shares outstanding as of March 5, 2015, adjusted for shares of common stock beneficially owned but not yet issued.

(2) Includes an aggregate of 124,036 shares of common stock that are held in Mr Noss's RRSP accounts. Includes 564,951 shares of Common Stock that are subject to a loan and pledge arrangement entered into by Mr. Noss in

order to satisfy the required Canadian taxes and exercise price due in connection with the exercise of expiring options.

(3) Includes 37,188 shares of common stock that are held in Mr. Cooperman's RRSP account.

(4) Includes 53,984 shares of common stock that are held in Mr. Woroch's RRSP account and 10,750 shares of common stock held in his wife's RRSP account.

(5) Includes 5,000 shares of common stock that are held directly by Mr. Karp's wife.

(6) Of these shares, 56,250 shares are held in Mr. Ralls' IRA account, 6,250 shares are held in Mrs. Ralls' IRA account and 40,000 are held by Mrs. Ralls directly.

**Principal shareholders.**

The following table sets forth information with respect to each shareholder known to us to be the beneficial owner of more than 5% of our outstanding common stock as of March 17, 2014.

Name and Address of Beneficial Owner	Beneficial Ownership of Common Stock		Class
	Number of Shares	Percent of	
Osmium Partners, LLC 300 Drakes Landing Road, Suite 172 Greenbrae, CA 94904	960,269	8.7	(1)
Renaissance Technologies LLC 800 Third Avenue New York, NY 10022	615,135	5.5	%
Elliot Noss 96 Mowat Avenue Toronto, ON M6K 3M1	764,833	6.9	%

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(1)Based on 11,090,790 shares outstanding as of March 5, 2014.

As disclosed on Form 13G/A, filed with the SEC on February 17, 2015 by Mr. John H. Lewis. These shares are held by Osmium Partners, LLC, a Delaware limited liability company (“Osmium Partners”), which serves as the general partner of Osmium Capital, LP, a Delaware limited partnership (the “Fund”) and Osmium Capital II, LP, a Delaware limited partnership (“Fund II”), Osmium Spartan, LP, a Delaware limited partnership (“Fund III”), and Osmium Diamond, LP, a Delaware limited partnership (“Fund IV”) (all of the foregoing, collectively, the “Filers”).

(2)The Fund, Fund II, Fund III and Fund IV are private investment vehicles formed for the purpose of investing and trading in a wide variety of securities and financial instruments. The Fund, Fund II, Fund III and Fund IV directly own the common shares reported in this Statement. Mr. Lewis and Osmium Partners may be deemed to share with the Fund, Fund II, Fund III and Fund IV (and not with any third party) voting and dispositive power with respect to such shares. Each Filer disclaims beneficial ownership with respect to any shares other than the shares owned directly by such Filer.

As disclosed on Form 13G, filed with the SEC on February 12, 2015 by Renaissance Technologies LLC. These shares are held by Renaissance Technologies, LLC ("RTC") and Renaissance Technologies Holdings Corporation (3)("RTHC"). The Schedule 13G reports that as of October 21, 2014, RTC (an investment adviser) and RTHC by virtue of its majority ownership of RTC, have sole voting power over 570,751 shares, sole dispositive power over 610,684 shares and shared dispositive power over 4,451 shares.

As disclosed on Form 4, filed with the SEC on January 15, 2015 by Mr. Noss. Includes an aggregate of 124,036 (4) shares of common stock that are held in Mr. Noss's RRSP accounts. Includes 564,951 shares of Common Stock that are subject to a loan and pledge arrangement entered into by Mr. Noss in order to satisfy the required Canadian taxes and exercise price due in connection with the exercise of expiring options.



**Equity Compensation Plan Information at Fiscal Year Ended December 31, 2014**

Our 2006 Amended and Restated Equity Compensation Plan has 1.725 million shares set aside for issuance.

<b>Plan category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (#)</b>	<b>Weighted average exercise price of outstanding options, warrants and rights (\$)</b>	<b>Number of securities remaining available for future issuance under the plan (excluding securities reflected in the first column) (#)</b>
Equity compensation plans approved by security holders:			
2006 Equity Compensation Plan	965,312	\$ 3.76	183,279
1996 Equity Compensation Plan	10,750	\$ 5.43	—
Equity compensation plans not approved by security holders	—	—	—
<b>Total</b>	<b>976,062</b>	<b>\$ 5.41</b>	<b>183,279</b>

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPEDENCE

#### Review, Approval or Ratification of Transactions with Related Persons

The Audit Committee of the Board of Directors is responsible for reviewing and, if appropriate, approving all related party transactions between us and any officer or director that would potentially require disclosure pursuant to the Audit Committee charter. As of the date of this Annual Report on Form 10-K, we expect that any transactions in which related persons have a direct or indirect interest will be presented to the Audit Committee for review and approval. While neither the Audit Committee nor the board have adopted a written policy regarding related party transactions, the Audit Committee makes inquiries to our management and our auditors when reviewing such transactions. Neither we nor the audit committee are aware of any transaction that was required to be reported with the SEC where such policies and procedures either did not require review or were not followed.

#### Director Independence

Our Board of Directors has determined that each of Messrs. Karp, Ralls, Gissin, Ito, Schwarz and Dr. Morrisett are independent directors as prescribed by the listing standards of the NASDAQ Capital Market. In this Annual Report on Form 10-K, each of these eight directors are referred to individually as an “independent director” and collectively as the “independent directors.”

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

A summary of the fees of KPMG LLP for the years ended December 31, 2014 and 2013 are set forth below:

	<b>2014</b>	<b>2013</b>
	<b>Fees</b>	<b>Fees</b>
Audit Fees(1)	\$453,135	\$251,500
Audit-Related Fees	—	—
Tax Fees(2)	153,518	185,975
All Other Fees	—	—
Total Fees	\$606,653	\$437,475

- (1) Consists of fees and expenses for the audit of consolidated financial statements, the reviews of our Quarterly Reports on Form 10-Q and services associated with registration statements.
  
- (2) Consists of fees and expenses for tax consulting services.

**Audit Committee pre-approval of audit and permissible non-audit services of independent auditors.**

The Audit Committee has adopted a pre-approval policy that provides guidelines for the audit, audit-related, tax and other non-audit services that may be provided to us by our independent auditors. Under this policy, the audit committee pre-approves all audit and certain permissible accounting and non-audit services performed by the independent auditors. These permissible services are set forth on an attachment to the policy that is updated at least annually and may include audit services, audit-related services, tax services and other services. For audit services, the independent auditor provides the audit committee with an audit plan including proposed fees in advance of the annual audit. The Audit Committee approves the plan and fees for the audit.

With respect to non-audit and accounting services of our independent auditors that are not pre-approved under the policy, the employee making the request must submit the request to our chief financial officer. The request must include a description of the services, the estimated fee, a statement that the services are not prohibited services under the policy and the reason why the employee is requesting our independent auditors to perform the services. If the aggregate fees for such services are estimated to be less than or equal to \$25,000, our chief financial officer will submit the request to the chairman of the audit committee for consideration and approval, and the engagement may commence upon the approval of the chairman. The chairman is required to inform the full audit committee of the services at its next meeting. If the aggregate fees for such services are estimated to be greater than \$25,000, our chief financial officer will submit the request to the full audit committee for consideration and approval, generally at its next meeting or special meeting called for the purpose of approving such services. The engagement may only commence upon the approval of full audit committee.

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this Annual Report on Form 10-K:

1. Financial Statements. The financial statements listed in the accompanying index to consolidated financial statements are filed as part of this Annual Report on Form 10-K.
2. Financial Statement Schedules. Schedules are not submitted because they are not required or are not applicable, or the required information is shown in the consolidated financial statements or notes thereto.
3. Exhibits. The Exhibits listed below are filed or incorporated by reference as part of this Annual Report on Form 10-K. Where so indicated by footnote, exhibits which were previously filed are incorporated by reference. For exhibits incorporated by reference, the location of the exhibit in the previous filing is indicated in the footnotes below.

<b>Exhibit No.</b>	<b>Description</b>
3.1.1	Fourth Amended and Restated Articles of Incorporation of Tucows Inc. (Incorporated by reference to Exhibit 3.1 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on November 29, 2007).
3.1.2	Articles of Amendment to Fourth Amended and Restated Articles of Incorporation of Tucows Inc. (Incorporated by reference to Exhibit 3.1 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on January 3, 2014).
3.2	Second Amended and Restated Bylaws of Tucows Inc. (Incorporated by reference to Exhibit 3.2 filed with Tucows' Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the SEC on March 29, 2007).
3.3	Amendment No. 1 to Second Amended and Restated Bylaws of Tucows Inc. (Incorporated by Reference to Exhibit 3.3 filed with Tucows' Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).
10.1*	2006 Equity Compensation Plan, as amended and restated effective as of July 29, 2010 (Incorporated by reference to Exhibit 99(d)(1) filed with Tucows' Schedule TO, as filed with the SEC on September 17, 2010).

- 10.2\* Employment Agreement dated January 22, 2003 between Tucows.com Co. and Elliot Noss (Incorporated by reference to Exhibit 10.5 filed with Tucows' Annual Report on Form 10-K for the year ended December 31, 2003, as filed with the SEC on March 28, 2004).
- 10.3\* Employment Agreement dated March 11, 2003 between Tucows.com Co. and Michael Cooperman (Incorporated by reference to Exhibit 10.5 filed with Tucows' annual Report on Form 10-K for the year ended December 31, 2003, as filed with the SEC on March 28, 2004).
- 10.4 Lease between 707932 Ontario Limited and Tucows International Corporation, dated December 10, 1999 (Incorporated by reference to exhibit number 10.9 filed with Tucows' Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the SEC on April 1, 2002).
- 10.5 Lease extension between 707932 Ontario Limited and Tucows Inc. and Tucows.com Co., dated September 4, 2004 (Incorporated by reference to Exhibit 10.5 filed with Tucows' Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the SEC on March 24, 2005).
- 10.6\* Description of Tucows Fiscal 2004 At Risk Compensation Plan (Incorporated by reference to Exhibit 10.9 filed with Tucows' Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the SEC on March 24, 2005).

Exhibit No.	Description
10.11	Loan Agreement, dated as of June 25, 2007, by and among Tucows.com Co., Tucows (Delaware) Inc., Tucows Inc., Mailbank Nova Scotia Co., Tucows Domain Holdings Co., Innerwise, Inc. and Bank of Montreal (Incorporated by reference to Exhibit 10.1 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on July 31, 2007).
10.12	Guaranty, dated July 25, 2007, by Tucows Inc. in favor of Bank of Montreal (Incorporated by reference to Exhibit 10.2 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on July 31, 2007).
10.13	Security Agreement, dated July 25, 2007, by Tucows Inc. in favor of Bank of Montreal (Incorporated by reference to Exhibit 10.3 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on July 31, 2007).
10.14	Financing Commitment, dated July 19, 2007, by and between Tucows.com Co. and Bank of Montreal (Incorporated by reference to Exhibit 10.3 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on July 31, 2007).
10.15	Operating Loan Agreement, dated September 10, 2010, between Tucows.com Co. and the Bank of Montreal. (Incorporated by reference to Exhibit 10.1 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on September 13, 2010).
10.16	Offer Letter, dated August 30, 2010, between Tucows Inc. and the Bank of Montreal. (Incorporated by reference to Exhibit 10.2 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on September 13, 2010).
10.17	Offer Letter, dated July 27, 2011, between Tucows.com Co and the Bank of Montreal (incorporated herein by reference to Exhibit 10.1 to Tucows Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 3, 2011).
10.18	Letter of Acknowledgment, dated December 13, 2011, between Tucows.com Co and the Bank of Montreal. (Incorporated by reference to Exhibit 10.1 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on December 13, 2011).
10.19	Offer Letter, dated November 19, 2012, between Tucows.com Co. and the Bank of Montreal (Incorporated by reference to Exhibit 10.1 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on November 21, 2012).
10.20	Amended and Restated Supplemental Agreement, dated December 14, 2012, between Tucows.com Co., Tucows (Delaware), Inc. and the Bank of Montreal (Incorporated by reference to Exhibit 10.1 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on December 20, 2012).
10.21	Guaranty, dated December 14, 2012, by Ting Inc. in favor of the Bank of Montreal (Incorporated by reference to Exhibit 10.2 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on December 20, 2012).
10.22	

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Security Agreement, dated December 14, 2012, by Ting Inc. in favor of the Bank of Montreal (Incorporated by reference to Exhibit 10.3 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on December 20, 2012).

- 21.1# Subsidiaries of Tucows Inc.
- 23.1# Consent of KPMG LLP, Independent Registered Public Accounting Firm.
- 31.1# Chief Executive Officer's Rule 13a-14(a)/15d-14(a) Certification.
- 31.2# Chief Financial Officer's Rule 13a-14(a)/15d-14(a) Certification.
- 32.1† Chief Executive Officer's Section 1350 Certification.
- 32.2† Chief Financial Officer's Section 1350 Certification.
- 101.INS\*\* XBRL Instance
- 101.SCH\*\* XBRL Taxonomy Extension Schema

101.CAL\*\* XBRL Taxonomy Extension Calculation

101.DEF\*\* XBRL Taxonomy Extension Definition

101.LAB\*\* XBRL Taxonomy Extension Labels

101.PRE\*\* XBRL Taxonomy Extension Presentation

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\* Management or compensatory contract required to be filed pursuant to Item 15(c) of the requirements for Form 10-K reports.

\*\*XBRL Information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

# Filed herewith.

† Furnished herewith.



**INDEX TO FINANCIAL STATEMENTS**

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## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934 as amended. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America;
- Provide reasonable assurance that our receipts and expenditures are being made only in accordance with authorization of our management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, such as resource constraints, human error, lack of knowledge or awareness and the possibility of intentional circumvention of these controls, internal control over financial reporting may not prevent or detect misstatements. Furthermore, the design of any control system is based, in part, upon assumptions about the likelihood of future events, for which assumptions may ultimately prove to be incorrect. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of its internal control over financial reporting as of December 31, 2014. In making this assessment, management used the criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its assessment, management has concluded that the Company's internal control over financial reporting was not effective as of December 31, 2014.

In evaluating our internal controls for 2014 we continued to rely on the Internal control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations for the Treadway Commission. We plan to adopt the Internal Control – Integrated Framework (2013) issues by the Committee of Sponsoring Organizations of the Treadway

Commission in 2015.

KPMG LLP, our independent registered public accounting firm, has issued a report under Public Company Accounting Oversight Board Auditing Standard No. 5 on the effectiveness of our internal control over financial reporting, following below in this Annual Report in Form 10-K.

/s/ Elliot Noss  
Elliot Noss  
*President and Chief Executive Officer*  
*(Principal Executive Officer)*

/s/ Michael Cooperman  
Michael Cooperman  
*Chief Financial Officer*  
*(Principal Financial Officer)*

March 11, 2015

March 11, 2015

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**Report of the Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of Tucows Inc.

We have audited the accompanying consolidated balance sheets of Tucows Inc. as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tucows Inc. as of December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Tucows Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 11, 2015 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP  
Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

March 11, 2015

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## Report of the Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Tucows Inc.

We have audited Tucows Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Tucows Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting in Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Material weaknesses related to manual journal entries and account analysis and support have been identified and included in management's assessment. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the financial statements of Tucows Inc. These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2014 consolidated financial statements, and this report does not affect our report dated March 11, 2015, which expressed an unqualified opinion on those consolidated financial statements.

In our opinion, because of the effect of the aforementioned material weaknesses on the achievement of the objectives of the control criteria, Tucows Inc. has not maintained effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ KPMG LLP  
Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

March 11, 2015

**Tucows Inc.****Consolidated Balance Sheets****(Dollar amounts in U.S. dollars)**

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$8,271,377	\$12,418,888
Accounts receivable, net of allowance for doubtful accounts of \$125,766 as of December 31, 2014 and \$91,226 as of December 31, 2013	6,789,685	5,305,403
Inventory	393,774	309,686
Prepaid expenses and deposits	3,697,292	4,309,039
Prepaid domain name registry and ancillary services fees, current portion	44,614,858	44,209,591
Other assets (note 3)	8,199,000	-
Deferred tax asset, current portion (note 9)	2,498,196	1,081,526
Income taxes recoverable	997	475,889
Total current assets	74,465,179	68,110,022
Prepaid domain name registry and ancillary services fees, long-term portion	11,764,765	11,838,579
Property and equipment (note 4)	1,609,787	1,757,836
Deferred tax asset, long-term portion (note 9)	4,880,423	5,370,037
Intangible assets (note 5)	14,202,585	15,403,228
Goodwill (note 5)	18,873,127	18,873,127
Total assets	\$125,795,866	\$121,352,829
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$3,579,920	\$2,361,481
Accrued liabilities	3,941,549	3,913,034
Customer deposits	4,461,727	4,500,946
Derivative instrument liability, current portion (note 7)	1,115,805	491,098
Loan payable (note 8)	-	6,300,000
Deferred revenue, current portion	55,495,566	54,379,719
Accreditation fees payable, current portion	466,201	473,811
Income taxes payable (note 9)	473,480	1,024,004



Total current liabilities	69,534,248	73,444,093
Deferred revenue, long-term portion	15,610,753	15,638,517
Accreditation fees payable, long-term portion	128,243	135,522
Deferred rent, long-term portion	92,878	75,979
Deferred tax liability, long-term portion (note 9)	4,787,351	5,141,500
Stockholders' equity (note 10)		
Preferred stock - no par value, 1,250,000 shares authorized; none issued and outstanding	-	-
Common stock - no par value, 250,000,000 shares authorized; 11,329,732 shares issued and outstanding as of December 31, 2014 and 10,907,063 shares issued and outstanding as of December 31, 2013	14,130,059	11,859,267
Additional paid-in capital	29,090,058	28,632,311
Deficit	(6,955,283 )	(13,329,379 )
Accumulated other comprehensive income (loss)	(622,441 )	(244,981 )
Total stockholders' equity	35,642,393	26,917,218
Total liabilities and stockholders' equity	\$ 125,795,866	\$ 121,352,829

Commitments and contingencies (note 15)

Subsequent events (note 16)

See accompanying notes to consolidated financial statements

**Tucows Inc.****Consolidated Statements of Comprehensive Income****(Dollar amounts in U.S. dollars)**

	<b>Year ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Net revenues (note 17)	\$ 147,667,107	\$ 129,934,904	\$ 114,726,901
Cost of revenues (note 17):			
Cost of revenues	101,861,002	92,960,321	82,837,395
Network expenses	4,554,635	4,835,939	4,925,058
Depreciation of property and equipment	699,670	627,973	611,640
Amortization of intangible assets	-	83,790	143,640
Total cost of revenues	107,115,307	98,508,023	88,517,733
Gross profit	40,551,800	31,426,881	26,209,168
Expenses:			
Sales and marketing	15,394,065	12,141,036	8,701,446
Technical operations and development	4,305,715	4,158,603	4,302,820
General and administrative (note 12)	8,505,920	7,204,895	6,610,819
Depreciation of property and equipment	226,432	215,447	190,420
Loss on disposition of property and equipment	-	-	118,944
Amortization of intangible assets	596,620	876,120	876,120
Impairment of indefinite life intangible assets	577,145	-	-
Loss (gain) on currency forward contracts	1,310,848	676,120	(682,851 )
Total expenses	30,916,745	25,272,221	20,117,718
Income from operations	9,635,055	6,154,660	6,091,450
Other income (expense):			
Interest expense, net	(206,730 )	(354,857 )	(192,863 )
Other income, net (note 13)	-	-	529,711
Total other income (expense)	(206,730 )	(354,857 )	336,848
Income before provision for income taxes	9,428,325	5,799,803	6,428,298
Provision for (recovery of) income taxes (note 9)	3,054,229	1,619,339	2,004,156

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Net income	6,374,096	4,180,464	4,424,142
Other comprehensive income (loss), net of tax			
Unrealized income (loss) on hedging activities (note 7)	(1,004,115 )	(470,779 )	44,104
Net amount reclassified to earnings (note 7)	626,655	181,694	-
Other comprehensive income (loss), net of tax of \$196,623 (2013 : \$150,587)	(377,460 )	(289,085 )	44,104
Comprehensive income for the year	\$5,996,636	\$3,891,379	\$4,468,246
Basic earnings per common share (note 14)	\$0.57	\$0.40	\$0.39
Shares used in computing basic earnings per common share (note 14)	11,220,874	10,468,250	11,458,216
Diluted earnings per common share (note 14)	\$0.54	\$0.37	\$0.36
Shares used in computing diluted earnings per common share (note 14)	11,730,398	11,281,409	12,283,736

See accompanying notes to consolidated financial statements

**Tucows Inc.****Consolidated Statements of Stockholders' Equity****(Dollar amounts in U.S. dollars)**

	<b>Common stock Number</b>	<b>Amount</b>	<b>Additional paid in capital</b>	<b>Deficit</b>	<b>Accumulated Other Comprehensive Income (loss)</b>	<b>Total stockholders' equity</b>
Balances, December 31, 2011	13,375,196	\$11,358,959	\$40,994,013	\$(21,933,985)	\$ -	\$ 30,418,987
Exercise of stock options	191,585	713,746	(295,638 )	-	-	418,108
Repurchase and retirement of shares (note 10)	(2,485,360 )	(1,988,288 )	(7,127,545 )	-	-	(9,115,833 )
Cancellation of restricted stock	(81 )	-	-	-	-	-
Stock-based compensation (note 11)	-	-	360,699	-	-	360,699
Net income	-	-	-	4,424,142	-	4,424,142
Other comprehensive income	-	-	-	-	44,104	44,104
Balances, December 31, 2012	11,081,340	10,084,417	33,931,529	(17,509,843)	44,104	26,550,207
Exercise of stock options	890,034	2,626,352	(1,134,178 )	-	-	1,492,174
Repurchase and retirement of shares (note 10)	(1,064,299 )	(851,502 )	(5,686,114 )	-	-	(6,537,616 )
Cancellation of restricted stock	(12 )	-	-	-	-	-
Income tax effect related to stock options exercised	-	-	1,090,171	-	-	1,090,171
Stock-based compensation (note 11)	-	-	430,903	-	-	430,903
Net income	-	-	-	4,180,464	-	4,180,464
	-	-	-	-	(289,085 )	(289,085 )

Other comprehensive  
income

Balances, December 31, 2013	10,907,063	11,859,267	28,632,311	(13,329,379)	(244,981 )	26,917,218
Exercise of stock options	502,061	2,365,825	(886,900 )	-	-	1,478,925
Repurchase and retirement of shares (note 10)	(79,392 )	(95,033 )	(1,086,825 )	-	-	(1,181,858 )
Income tax effect related to stock options exercised	-	-	1,888,734	-	-	1,888,734
Stock-based compensation (note 11)	-	-	542,738	-	-	542,738
Net income	-	-	-	6,374,096	-	6,374,096
Other comprehensive loss	-	-	-	-	(377,460 )	(377,460 )
Balances, December 31, 2014	11,329,732	\$14,130,059	\$29,090,058	\$(6,955,283 )	\$(622,441 )	\$35,642,393

See accompanying notes to consolidated financial statements

**Tucows Inc.****Consolidated Statements of Cash Flows****(Dollar amounts in U.S. dollars)**

	<b>Year ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Cash provided by:			
Operating activities:			
Net income for the year	\$6,374,096	\$4,180,464	\$4,424,142
Items not involving cash:			
Depreciation of property and equipment	926,102	843,420	802,060
Loss on disposition of property and equipment	-	-	118,944
Amortization of deferred financing charges	-	-	2,300
Amortization of intangible assets	596,620	959,910	1,019,760
Impairment of indefinite life intangible asset	577,145	-	-
Deferred income taxes (recovery)	(1,084,470 )	(247,371 )	832,736
Excess tax benefits from share-based compensation expense	-	(1,090,171 )	-
Amortization of deferred rent	16,899	21,829	27,663
Acquisition of domain names	-	-	(3,664 )
Disposal of domain names	26,878	52,513	50,843
Gain on disposition of intangible assets	-	-	(508,800 )
(Gain) loss on change in the fair value of forward contracts	50,624	496,207	(1,100,161)
Stock-based compensation	542,738	430,903	360,699
Change in non-cash operating working capital:			
Accounts receivable	(1,484,282 )	(892,138 )	(533,081 )
Inventory	(84,088 )	277,418	(381,507 )
Prepaid expenses and deposits	611,747	772,369	(1,325,100)
Prepaid domain name registry and ancillary services fees	(331,453 )	1,440,720	(1,679,703)
Income taxes recoverable	(75,744 )	1,023,638	233,312
Accounts payable	1,152,042	529,537	931,467
Accrued liabilities	28,515	1,390,805	547,590
Customer deposits	(39,219 )	(454,725 )	752,772
Deferred revenue	1,088,083	(982,115 )	1,824,650
Accreditation fees payable	(14,889 )	(49,106 )	(53,491 )
Net cash provided by operating activities	8,877,344	8,704,107	6,343,431
Financing activities:			
Proceeds received on exercise of stock options	1,478,924	1,492,174	418,108
Excess tax benefits from share-based compensation expense	1,888,734	1,090,171	-
Repurchase of common stock	(1,181,857 )	(6,537,616 )	(9,115,833)

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Proceeds received on loan payable	-	5,200,000	4,000,000
Repayment of loan payable	(6,300,000 )	(2,600,000 )	(1,150,000)
Net cash used in financing activities	(4,114,199 )	(1,355,271 )	(5,847,725)
Investing activities:			
Additions to property and equipment	(711,656 )	(1,345,627 )	(997,036 )
Acquisition of other assets	(8,199,000 )	-	-
Proceeds on disposal of intangible assets	-	-	508,800
Net cash used in investing activities	(8,910,656 )	(1,345,627 )	(488,236 )
Increase in cash and cash equivalents	(4,147,511 )	6,003,209	7,470
Cash and cash equivalents, beginning of year	12,418,888	6,415,679	6,408,209
Cash and cash equivalents, end of year	\$8,271,377	\$12,418,888	\$6,415,679
Supplemental cash flow information:			
Interest paid	\$207,777	\$372,853	\$195,509
Income taxes paid, net	\$2,172,047	\$793,000	\$1,025,000
Supplementary disclosure of non-cash investing and financing activities:			
Property and equipment acquired during the period not yet paid for	\$66,397	\$-	\$96,515

See accompanying notes to consolidated financial statements

**Tucows Inc.**

**Notes to Consolidated Financial Statements**

**(Dollar Amounts in U.S. dollars)**

**1. Organization of the Company:**

Tucows Inc. (the “Company”) is a global distributor of Internet services, including domain name registration, security and identity products through digital certificates, email and mobile telephony services. The Company’s Internet Services are distributed through its global Internet-based distribution network of Internet Service Providers, web hosting companies and other providers of Internet services to end-users. In addition, the Company derives Network Access Services devices revenue from the sale of retail mobile phones and services to individuals and small businesses through the Ting website using a Mobile Virtual Network Operator model.

**2. Significant accounting policies:**

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and are stated in U.S. dollars, except where otherwise noted. Certain of the prior year comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year. In December 2013, our Board of Directors authorized a one-for-four share consolidation of our common stock, in the form of a reverse stock split, as further described in note 10. All share information related to shares outstanding and earnings per share have been retroactively adjusted to reflect this share consolidation.

*(a) Basis of presentation*

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated on consolidation.



Investments over which the Company is unable to exercise significant influence are recorded at cost and written down only when there is evidence that a decline in value that is other than temporary has occurred.

*(b) Use of estimates*

The preparation of the consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, management evaluates its estimates, including those related to amounts recognized for or carrying values of revenues, bad debts, goodwill and intangible assets which require estimates of future cash flows and discount rates, income taxes, contingencies and litigation, and estimates of credit spreads for determination of the fair value of derivative instruments. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances at the time they are made. Under different assumptions or conditions, the actual results will differ, potentially materially, from those previously estimated. Many of the conditions impacting these assumptions and estimates are outside of the Company's control.

*(c) Cash and cash equivalents*

All highly liquid investments, with an original term to maturity of three months or less are classified as cash and cash equivalents. Cash and cash equivalents are stated at cost which approximates fair value.

*(d) Inventory*

Inventory primarily consists of mobile devices and other accessories, and is stated at the lower of cost or net realizable value. Cost is determined based on actual cost of the mobile device or accessory shipped.

The net realizable value of inventory is analyzed on a regular basis. This analysis includes assessing obsolescence, sales forecasts, product life cycle, marketplace and other considerations. If assessments regarding the above factors adversely change, the Company would be required to write down the value of inventory.

*(e) Property and equipment*

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is provided on a straight-line basis so as to depreciate the cost of depreciable assets over their estimated useful lives at the following rates:

<b>Asset</b>	<b>Rate</b>
Computer equipment	30 %
Computer software	100 %
Furniture and equipment	20 %
Leasehold improvements	Over term of lease

The Company reviews the carrying values of its property and equipment for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the estimated undiscounted future cash flows expected to result from the use of the group of assets and its eventual disposition is less than its carrying amount, it is considered to be impaired. The amount of the impairment loss recognized is measured as the amount by which the carrying value of the asset exceeds the fair value of the asset, with fair value being determined based upon discounted cash flows or appraised values, depending on the nature of the assets.

*(f) Goodwill and Other Intangible assets***Goodwill**

Goodwill represents the excess of purchase price over the fair values assigned to the net assets acquired in business combinations. The Company does not amortize goodwill. Impairment testing for goodwill is performed annually in the fourth quarter of each year or more frequently if impairment indicators are present. Impairment testing is performed at the operating segment level. The Company has determined that it has two operating segments, Domain Services and Network Access Services.

The Company performs a qualitative assessment to determine whether there are events or circumstances which would lead to a determination that it is more likely than not that goodwill has been impaired. If, after this qualitative assessment, the Company determines that it is not more likely than not that goodwill has been impaired, then no further quantitative testing is necessary. In performance of the qualitative test, an evaluation is made of the impact of

various factors to the expected future cash flows attributable to its operating segments and to the assumed discount rate which would be used to present value those cash flows. Consideration is given to factors such as, macro-economic and industry and market conditions including the capital markets and the competitive environment amongst others. In the event that the qualitative tests indicate that there may be impairment, quantitative impairment testing is required.

In performance of the quantitative test, the Company uses a discounted cash flow or income approach in which future expected cash flows at the operating segment level are converted to present value using factors that consider the timing and risk of the future cash flows. The estimate of cash flows used is prepared on an unleveraged debt-free basis. The discount rate reflects a market-derived weighted average cost of capital. The Company believes that this approach is appropriate because it provides a fair value estimate based upon the Company's expected long-term operating and cash flow performance for its operating segment. The projections are based upon the Company's best estimates of projected economic and market conditions over the related period including growth rates, estimates of future expected changes in operating margins and cash expenditures.

Other significant estimates and assumptions include terminal value growth rates, terminal value margin rates, future capital expenditures and changes in future working capital. If assumptions and estimates used to allocate the purchase price or used to assess impairment prove to be inaccurate, future asset impairment charges could be required.

#### **Intangibles Assets not subject to amortization**

Intangible assets not subject to amortization consist of surname domain names and direct navigation domain names. While the domain names are renewed annually, through payment of a renewal fee to the applicable registry, the Company has the exclusive right to renew these names at its option. Renewals occur routinely and at a nominal cost. Moreover, the Company has determined that there are currently no legal, regulatory, contractual, economic or other factors that limit the useful life of these domain names on an aggregate basis and accordingly treat the portfolio of domain names as indefinite life intangible assets. The Company reevaluates the useful life determination for domain names in the portfolio each year to determine whether events and circumstances continue to support an indefinite useful life.

The Company reviews individual domain names in the portfolio for potential impairment throughout the fiscal year in determining whether a particular name should be renewed. Impairment is recognized for names that are not renewed. The Company performs a qualitative assessment of the portfolio of domain names on an aggregate basis in the fourth quarter of each year, to determine whether it is more likely than not that the fair market value of the portfolio of domain names was less than the carrying amount. As part of the assessment, certain qualitative factors are considered, including macro-economic conditions, industry and market conditions, levels of advertising revenue generated by the names in the portfolio, non-renewal of names, as well as other factors. If there are indications of impairment following the qualitative impairment testing, further quantitative impairment testing would be necessary. The fair value of the intangibles in the operating segment is determined using an income approach consistent with that utilized for goodwill impairment testing outlined above. Where the fair value of the aggregated portfolio of domain names is less than the aggregated carrying amount of the portfolio, impairment is recognized.

**Intangible Assets subject to amortization**

Intangible assets subject to amortization, consist of technology, brand and customer relationships and are amortized on a straight line basis over their estimated useful lives as follows:

Technology (years)	2 – 7
Brand (years)	7
Customer relationships (years)	4 – 7

The Company continually evaluates whether events or circumstances have occurred that indicate the remaining estimated useful lives of its intangible assets subject to amortization may warrant revision or that the remaining balance of such assets may not be recoverable. The Company uses 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 other long-lived assets during 2014 and 2013.

*(g) Revenue recognition*

The Company’s revenues are derived from domain name registration fees on both a wholesale and retail basis, the sale of domain names, the provisioning of other Internet services and advertising and other revenue. Amounts received in advance of meeting the revenue recognition criteria described below are recorded as deferred revenue.

The Company earns registration fees in connection with each new, renewed and transferred-in registration and from providing provisioning of other Internet services to resellers and registrars on a monthly basis. Service has been provided in connection with registration fees once the Company has confirmed that the requested domain name has been appropriately recorded in the registry under contractual performance standards.

Domain names are generally purchased for terms of one to ten years. Registration fees charged for domain name registration and provisioning services are recognized on a straight-line basis over the life of the contracted term. Other Internet services that are provisioned for annual periods or longer, are recognized on a straight-line basis over the life of the contracted term. Other Internet services that are provisioned on a monthly basis are recognized as services are provided.

For arrangements with multiple deliverables, the Company allocates revenue to each deliverable if the delivered item(s) has value to the customer on a standalone basis. The fair value of the selling price for a deliverable is determined using a hierarchy of (1) Company specific objective and reliable evidence, then (2) third-party evidence, then (3) best estimate of selling price. The Company allocates any arrangement fee to each of the elements based on their relative selling prices.

Revenue generated from the sale of domain names, earned from transferring the rights to domain names under the Company's control, are recognized once the rights have been transferred and payment has been received in full.

The Company derives revenues from the provisioning of mobile phone services through its Ting website. These revenues are recognized once services have been provided. 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. The Company's billing cycle for each customer is based on the customer's activation date. As a result, the Company estimates 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 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.

The Company also generates advertising and other revenue through its online libraries of shareware, freeware and online services presented on its website. Advertising revenue includes revenue derived from cost-per action advertising links the Company displays on third party websites who provide syndicated pay-per-click advertising on OpenSRS Domain Expiry Stream domains and the Company's Portfolio Domains. In addition, the Company uses third party partners to derive pay-per-click advertising on the Tucow.com website. Advertising revenue is recognized on a monthly basis based on the number of cost-per-action services that were provided in the month.

Impression based advertising revenue and other revenues are recognized ratably over the period in which it is presented. To the extent that minimum guaranteed impressions are not met, the Company defers recognition of the corresponding revenues until the guaranteed impressions are achieved.

In those cases where payment is not received at the time of sale, additional conditions for recognition of revenue are that the collection of the related accounts receivable is reasonably assured and the Company has no further performance obligations. 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.

The Company establishes provisions for possible uncollectible accounts receivable and other contingent liabilities which may arise in the normal course of business. Historically, credit losses have been within the Company's expectations and the provisions the Company has established have been appropriate. However, the Company has, 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.

*(h) Deferred revenue*

Deferred revenue primarily relates to the unearned portion of revenues received in advance related to the unexpired term of registration fees from domain name registrations and other Internet services, on both a wholesale and retail

basis, net of external commissions.

*(i) Accreditation fees payable*

In accordance with ICANN rules, the Company has elected to pay ICANN fees incurred on the registration of Generic Top-Level Domains on an annual basis. Accordingly, accreditation fees that relate to registrations completed prior to ICANN rendering a bill are accrued and reflected as accreditation fees payable.

*(j) Prepaid domain name registry fees*

Prepaid domain name registry and other Internet services fees represent amounts paid to registries, and country code domain name operators for updating and maintaining the registries, as well as to suppliers of other Internet services. Domain name registry and other Internet services fees are recognized on a straight-line basis over the life of the contracted registration term.

*(k) Translation of foreign currency transactions*

The Company's functional currency is the United States dollar. Monetary assets and liabilities of the Company and of its wholly owned subsidiaries that are denominated in foreign currencies are translated into United States dollars at the exchange rates prevailing at the balance sheet dates. Non-monetary assets and liabilities are translated at the historical exchange rates. Transactions included in operations are translated at the average rate for the year.

*(l) Derivative Financial Instruments*

During Fiscal 2014 and Fiscal 2013, the Company used derivative financial instruments to manage foreign currency exchange risk. The Company accounts for these instruments in accordance with ASC Topic 815, "Derivatives and Hedging" (ASC Topic 815), which requires that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at its fair value as of the reporting date. ASC Topic 815 also requires that changes in our derivative financial instruments' fair values be recognized in earnings, unless specific hedge accounting and documentation criteria are met (i.e. the instruments are accounted for as hedges). The Company recorded the effective portions of the gain or loss on derivative financial instruments that were designated as cash flow hedges in accumulated other comprehensive income in our accompanying Consolidated Balance Sheets. Any ineffective or excluded portion of a designated cash flow hedge, if applicable, is recognized in net income.

For certain contracts, the Company has not complied with the documentation standards required for its forward foreign exchange contracts to be accounted for as hedges and has, therefore, accounted for such forward foreign exchange contracts at their fair values with the changes in fair value recorded in net income.

The fair value of the forward exchange contracts are determined using an estimated credit adjusted mark-to-market valuation which takes into consideration the Company and the counterparty credit risk. The valuation technique used to measure the fair values of the derivative instruments is a discounted cash flow technique, with all significant inputs derived from or corroborated by observable market data, as no quoted market prices exist for the derivative instruments. This discounted cash flow technique uses observable market inputs, such as foreign currency spot and forward rates.

*(m) Product development costs*

Product development costs are expensed as incurred. The Company accounts for the costs of computer software developed or obtained for internal use as follows: costs that are incurred in the preliminary stage of software development are expensed as incurred. Costs incurred during the application and development stage are capitalized and generally include external direct costs of materials and services consumed in the development and payroll and payroll-related costs for employees who are directly associated with the development project. Costs incurred in the post implementation and operation stage are expensed as incurred. During the years ended December 31, 2014, 2013 and 2012, the Company did not capitalize any amounts of such costs relating to the development of internal use software. The capitalized costs of computer software developed for internal use are amortized on a straight-line basis over one year from the date the software is put into use.

*(n) Income taxes*



Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in net income in the year that includes the enactment date. A valuation allowance is recorded if it is not “more likely than not” that some portion of or all of a deferred tax asset will be realized.

The Company recognizes the impact of an uncertain income tax position at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority and includes consideration of interest and penalties. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. The liability for unrecognized tax benefits is classified as non-current unless the liability is expected to be settled in cash within 12 months of the reporting date.

The Company is entitled to earn investment tax credits (“ITCs”), which are credits related to specific qualifying expenditures as prescribed by Canadian Income Tax legislation. These ITCs relate primarily to research and development expenses. The ITCs are recognized as a reduction in income tax expense once the Company has reasonable assurance that the amounts will be realized.

*(o) Stock-based compensation*

Stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest, reduced for estimated forfeitures.

*(p) Earnings per common share*

Basic earnings per common share has been calculated on the basis of net income for the year 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.

*(q) Concentration of credit risk*

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents, accounts receivable and forward foreign exchange contracts. Cash equivalents consist of deposits with major commercial banks, the maturities of which are three months or less from the date of purchase. With respect to accounts receivable, the Company performs periodic credit evaluations of the financial condition of its customers and typically does not require collateral from them. The counterparty to any forward foreign exchange contracts is a major commercial bank which management believes does not represent a significant credit risk. Management assesses the need for allowances for potential credit losses by considering the credit risk of specific customers, historical trends and other information.

*(r) Fair value measurement*

Fair value of financial assets and liabilities is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs used in the methodologies of measuring fair value for assets and liabilities, is as follows:

Level 1—Quoted prices in active markets for identical assets or liabilities

Level 2—Observable inputs other than quoted prices in active markets for identical assets and liabilities

Level 3—No observable pricing inputs in the market

Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. Our assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

The fair value of cash and cash equivalents, accounts receivable, accounts payable, accreditation fees payable, customer deposits and accrued liabilities (level 2 measurements) approximate their carrying values due to the relatively short periods to maturity of the instruments.

The fair value of the derivative financial instruments are determined using an estimated credit-adjusted mark-to-market valuation (a level 2 measurement) which takes into consideration the Company and the counterparty credit risk.

*(s) Segment reporting*

The Company operates in two business segments, Domain Services and Network Access Services.

The Company's revenues are attributed to the country in which the contract originates, primarily Canada. Revenues from domain names issued from the Toronto, Canada location are attributed to Canada because it is impracticable to determine the country of the customer.

The Company's assets are located in Canada, the United States, Germany and the Netherlands. All of the Company's goodwill and intangible assets are allocated to the Domain Services business segment.

*Recent Accounting Pronouncements Adopted*

On January 1, 2014, the Company adopted the Accounting Standards Update No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists ("ASU 2013-11"). The adoption of ASU 2013-11 was made on a prospective basis and did not have a significant impact on our consolidated financial statements.



*Recent Accounting Pronouncements Not Yet Adopted*

In April 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU 2014-08”), Presentation of Financial Statements and Property, Plant and Equipment: Discontinued Operations and Disclosures of Disposals of components of an Entity. ASU 2014-08, which is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2014, changes the criteria for reporting a discontinued operation. Under the new guidance a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on an entity’s operations and financial results. For disposals of individually significant components that do not qualify for discontinued operations presentation, an entity must disclose pre-tax profit or loss of the disposed component.

The Company will adopt ASU 2014-8 on January 1, 2015. The adoption of the accounting standard update is not expected to have a material impact on the consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). This standard update clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP and International Financial Reporting Standards. The standard update intends to provide a more robust framework for addressing revenue issues; improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; and provide more useful information to users of financial statements through improved disclosure requirements. The effective date of ASU 2014-09 is fiscal years beginning after December 15, 2016, and interim periods within those years, with earlier adoption prohibited. Companies can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. The Company has not yet selected a transition method nor has it determined the effect of ASU 2014-09 to its consolidated financial statements.

**3. Other assets:**

Other assets are comprised of the following:

	<b>Year ended December 31, 2014</b>	<b>Year ended December 31, 2013</b>
Amounts in escrow advanced to acquire a controlling ownership interest in	\$ 3,125,000	\$ —

Ting Virginia, LLC (see note 16) Amounts advanced to the joint venture with Radix FZC and NameCheap Inc. which was terminated in February 2015 (see note 16)	5,074,000	—
\$	8,199,000	\$ —

#### 4. Property and equipment:

Property and equipment consist of the following:

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Computer equipment	\$5,902,905	\$6,937,495
Computer software	1,170,866	1,175,664
Furniture and equipment	757,118	711,346
	7,830,889	8,824,505
Less:		
Accumulated depreciation	6,221,102	7,066,669
	\$1,609,787	\$1,757,836

Depreciation of property and equipment:

	<b>Year ended December 31, 2014</b>	<b>Year ended December 31, 2013</b>	<b>Year ended December 31, 2012</b>
Depreciation of property and equipment	\$ 926,102	\$ 843,420	\$ 802,060

## 5. Goodwill and Other Intangible Assets

### Goodwill

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

Goodwill consists of the following:

	<b>Boardtown Corporation</b>	<b>Hosted Messaging Assets of Critical Path</b>	<b>Innerwise Inc.</b>	<b>Mailbank.com Inc.</b>	<b>EPAG Domainservices GmbH</b>	<b>Total</b>
Balances, December 31, 2014	\$ 2,044,847	\$ 4,072,297	\$ 5,801,040	\$ 6,072,623	\$ 882,320	\$ 18,873,127
Balances, December 31, 2013	\$ 2,044,847	\$ 4,072,297	\$ 5,801,040	\$ 6,072,623	\$ 882,320	\$ 18,873,127

The Company's goodwill relates entirely to its Domain Services operating segment. Goodwill is not amortized, but is subject to an annual impairment test. The Company performed an impairment analysis as outlined in note 2(f) and there were no indications of impairment in the 2014 and 2013 impairment tests.

### Other Intangible Assets:

All of the Company's intangible assets relate to its Domain Services operating segment. Intangible assets consist of acquired technology, brand, customer relationships, surname domain names and direct navigation domain names. The Company treats 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 tests performed throughout the year. During 2014, the Company assessed that certain of the domain names that were originally acquired in the June 2006

acquisition of Mailbank.com Inc. that were up for renewal, should not be renewed. During the year ended December 31, 2014, domain names, with a book value of \$ 577,145, were not renewed and were recorded as an impairment of indefinite life intangible assets. No impairment was recorded on indefinite-life intangible assets during the years ended December 31, 2013 and 2012.

Intangible assets, comprising technology, brand and customer relationships related to the acquisition of Boardtown Corporation in April 2004, the acquisition of the Hosted Messaging Business of Critical Path, Inc. in January 2006, the acquisition of Mailbank.com Inc. in June 2006, the acquisition of Innerwise, Inc. in July 2007 and the acquisition of EPAG Domainservices GmbH in August 2011, are being amortized on a straight-line basis over periods of two to seven years.



Acquired intangible assets consist of the following:

Amortization period	Surname	Direct				Total
	domain names	navigation domain names	Technology	Brand	Customer relationships	
	indefinite life	indefinite life	2 - 7 years	7 years	4 - 7 years	
Balances, December 31, 2012	\$ 12,110,017	\$ 2,013,374	\$ 83,790	\$ 398,290	\$ 1,810,180	\$ 16,415,651
Additions to/(disposals from) domain portfolio, net	(13,305 )	(39,208 )	—	—	—	(52,513 )
Amortization expense	—	—	(83,790 )	(173,640)	(702,480 )	(959,910 )
Balances, December 31, 2013	12,096,712	1,974,166	—	224,650	1,107,700	15,403,228
Additions to/(disposals from) domain portfolio, net	(6,490 )	(20,388 )	—	—	—	(26,878 )
Impairment of indefinite life intangible assets	(564,598 )	(12,547 )	—	—	—	(577,145 )
Amortization expense	—	—	—	(114,140)	(482,480 )	(596,620 )
Balances, December 31, 2014	\$ 11,525,624	\$ 1,941,231	\$ —	\$ 110,510	\$ 625,220	\$ 14,202,585

The following table shows the estimated amortization expense for each of the next 4 years, assuming no further additions to acquired intangible assets are made:

Year ending	December 31,
2015	205,320
2016	205,320
2017	205,320
2018	119,770
Total	\$ 735,730

## 6. Fair value measurement:

For financial assets and liabilities recorded in our financial statements at fair value the Company utilizes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company’s own assumptions used to measure assets and liabilities at fair value. A financial asset or liability’s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following table provides a summary of the fair values of the Company’s derivative instruments measured at fair value on a recurring basis as at December 31, 2014:

	December 31, 2014			
	Fair Value			Liabilities
	Measurement Using			at
	Level	Level		Fair Value
	1	2	3	
Derivative instrument liability	\$—	\$1,115,805	\$	—\$1,115,805
Total Liabilities	\$—	\$1,115,805	\$	—\$1,115,805

The following table provides a summary of the fair values of the Company's derivative instruments measured at fair value on a recurring basis as at December 31, 2013:

	December 31, 2013			Liabilities at Fair Value
	Fair Value Measurement Using		Level	
	Level 1	Level 2	Level 3	
Derivative instrument liability	\$—\$491,098	\$	—\$ 491,098	
Total Liabilities	\$—\$491,098	\$	—\$ 491,098	

## 7. 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 these transactions as cash flow hedges of forecasted transactions under ASC Topic 815. As the critical terms of the hedging instrument, and of 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 or 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 December 31, 2014 and 2013, is recorded as derivative instrument liabilities.

As of December 31, 2014, the notional amount of forward contracts that the Company held to sell U.S. dollars in exchange for Canadian dollars was \$26.2 million, of which \$22.3 million met the requirements of ASC Topic 815 and were designated as hedges (December 31, 2013 - \$26.5 million of which \$20.6 million were designated as hedges).

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

The effect of these derivative instruments on our consolidated financial statements as of, and for the year ended December 31, 2014, were as follows (amounts presented do not include any income tax effects).

*Fair value of derivative instruments in the consolidated balance sheets (see note 6)*

<b>Derivatives</b>	<b>Balance Sheet  Location</b>	<b>Year ended December 31, 2014 Fair Value Asset (Liability)</b>	<b>Year ended December 31, 2013 Fair Value Asset (Liability)</b>
Foreign currency forward contracts designated as cash flow hedges	Derivative instruments	\$(946,676 )	\$(372,593 )
Foreign currency forward contracts not designated as cash flow hedges	Derivative instruments	\$(169,129 )	\$(118,505 )
Total foreign currency forward contracts	Derivative instruments	\$(1,115,805)	\$(491,098 )

*Movement in AOCI balance for the year ended December 31, 2014*

	Gains and losses on cash flow hedges	Tax impact	Total AOCI
Opening AOCI balance – December 31, 2013	\$(372,593 )	\$127,612	\$(244,981 )
Other comprehensive income (loss) before reclassifications	(1,527,171)	523,056	(1,004,115)
Amount reclassified from accumulated other comprehensive income	953,088	(326,433)	626,655
Other comprehensive income (loss) for the year ended December 31, 2014	(574,083 )	196,623	(377,460 )
Ending AOCI balance – December 31, 2014	\$(946,676 )	\$324,235	\$(622,441 )

*Movement in AOCI balance for the year ended December 31, 2013*

	Gains and losses on cash flow hedges	Tax impact	Total AOCI
Opening AOCI balance – December 31, 2012	\$67,079	\$(22,975 )	\$44,104
Other comprehensive income (loss) before reclassifications	(758,683)	287,904	(470,779)
Amount reclassified from accumulated other comprehensive income	319,011	(137,317)	181,694
Other comprehensive income (loss) for the year ended December 31, 2013	(439,672)	150,587	(289,085)
Ending AOCI balance – December 31, 2013	\$(372,593)	\$127,612	\$(244,981)

*Movement in AOCI balance for the year ended December 31, 2012*

	Gains and losses on cash flow hedges	Tax impact	Total AOCI
Opening AOCI balance – December 31, 2011	\$—	\$—	\$—

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Other comprehensive income (loss) before reclassifications	67,079	(22,975)	44,104
Amount reclassified from accumulated other comprehensive income	—	—	—
Other comprehensive income (loss) for the year ended December 31, 2012	67,079	(22,975)	44,104
Ending AOCI balance – December 31, 2012	\$67,079	\$(22,975)	\$44,104

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*Effects of derivative instruments on income and other comprehensive income (OCI)*

	Amount of Gain or (Loss) Recognized in OCI, net of tax, on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income, net of tax, (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)
<b>Derivatives in Cash Flow Hedging Relationship</b>					
Foreign currency forward contracts – year ended December 31, 2014	\$ (377,460 )	Operating expenses Cost of revenues	\$ (463,160 ) (163,495 )	Cost of revenues	(13,535 )
Foreign currency forward contracts – year ended December 31, 2013	(289,085 )	Operating expenses Cost of revenues	(151,551 ) (30,143 )	—	—

In addition to the above, for those foreign currency forward contracts not designated as hedges, the Company has recorded a loss of \$0.3 million upon settlement and a loss of \$50,000 for the change in fair value of outstanding contracts for the year ended December 31, 2014, in the consolidated statement of operations and comprehensive income. The Company has recorded a gain of \$0.1 million upon settlement and a loss of \$0.5 million for the change in fair value of outstanding contracts for the year ended December 31, 2013, in the consolidated statement of operations and comprehensive income.

**8. Loan payable:**

The Company has credit agreements (collectively the “Amended Credit Facility”) with the Bank of Montreal (the “Bank” or “BMO”) that were amended on November 19, 2012, and which provide it with access to two revolving demand loan facilities (the “2012 Demand Loan Facilities”), a treasury risk management facility and an operating demand loan.

*Two Revolving Demand Loan Facilities.*

The 2012 Demand Loan Facilities are governed by the terms of the Offer Letter, dated as of November 19, 2012, by and between the Company and the Bank and filed with the SEC on November 21, 2012.

Under the terms of the Amended Credit Facility, our prior demand loan facilities have been amended to provide an aggregate of \$14 million in funds available through the 2012 Demand Loan Facilities, which consist of a demand loan revolving facility (the “2012 DLR Loan”) and a demand loan revolving reducing facility (the “2012 DLRR Loan”). The 2012 DLR Loan accrues interest at the Bank’s U.S. Base Rate plus 1.25%. The Company may elect to pay interest on the 2012 DLRR Loan either at the Bank’s U.S. Base Rate plus 1.25% or LIBOR plus 2.50%. Aggregate advances under the 2012 Demand Loan Facilities may not exceed \$14 million and no more than \$2 million of such advances may be used to finance repurchases of Company common stock. The 2012 Demand Loan Facilities are subject to an undrawn aggregate standby fee of 0.20% following the first draw, which such fee is payable quarterly in arrears.



Repayment of advances under the 2012 DLR Loan consist of interest only payments made monthly in arrears and prepayment is permitted without penalty. The outstanding balance under the 2012 DLR Loan as of December 31st of each year is to be fully repaid within 30 days of December 31st through an equivalent advance made under the 2012 DLRR Loan. Advances under the 2012 DLRR Loan will be made annually and solely for such purpose. Each advance under the 2012 DLRR Loan is to be repaid in equal monthly principal payments plus interest, over a period of four years from the date of such advance. At December 31, 2014, the 2012 DLR Loan and the DLRR Loan were fully repaid. Both of these financing arrangements remain available to fund future operations of the Company, with no set expiry date.

#### *Treasury Risk Management Facility*

The Amended Credit Facility also 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 December 31, 2014, the Company held contracts in the amount of \$26.2 million to trade U.S. dollars in exchange for Canadian dollars.

#### *Operating Demand Loan*

The Amended Credit Facility also provides the Company with a \$1.0 million operating demand loan facility to assist in meeting its operational needs (the "Operating Demand Loan"). The Operating Demand Loan accrues interest at the Bank's U.S. Base Rate plus 1.25%. Interest is payable monthly in arrears with any borrowing under the Operating Demand Loan fluctuating widely with periodic clean-up, at a minimum on an annual basis. The Company has also agreed to pay to the Bank a monthly monitoring fee of US\$500 with respect to this loan. The Operating Demand Loan is payable on demand at any time, at the sole discretion of the Bank, with or without cause, and the Bank may terminate the Operating Demand Loan at any time. As of December 31, 2014, the Company had no amounts outstanding under its Operating Demand Loan.

#### *General Terms*

The Company's Amended Credit Facility contains customary representations and warranties, affirmative and negative covenants, and events of default. The Company's obligations under the Amended Credit Facility are guaranteed and secured by a security interest in substantially all of its assets. The Amended Credit Facility also requires that the Company comply with certain customary non-financial covenants and restrictions. In addition, the Company has agreed 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 of 2.00:1; and (ii) Minimum Fixed Charge Coverage of

1.20:1. Further, its Maximum Annual Capital Expenditures cannot exceed \$3.6 million per year, which limit will be reviewed on an annual basis. As of and for the year ended, December 31, 2014, the Company was in compliance with these covenants. As of, and for the year ended, December 31, 2013, the Company was in compliance with these covenants.

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**9. Income taxes:**

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate of 34% to income before provision for income taxes as a result of the following (deferred tax liabilities have been netted against deferred tax assets when there is a right to offset):

	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>December 31,</b>	<b>December 31,</b>	<b>December 31,</b>
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Income for the year before provision for income taxes	\$9,428,325	\$5,799,803	\$6,428,298
Computed expected tax expense	\$3,205,631	\$1,971,933	\$2,185,621
Increase (reduction) in income tax expense resulting from:			
State income taxes	64,056	14,500	16,071
Permanent differences, including foreign exchange	192,260	13,700	21,728
Investment tax credits recovered	—	(115,455 )	(106,941 )
Other, including alternative minimum tax and adjustments to opening deferred tax assets	(407,718 )	(265,339 )	(112,323 )
Provision for (recovery of) income taxes	\$3,054,229	\$1,619,339	\$2,004,156

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2014 and 2013 are presented below:

	<b>December 31,</b>	<b>December 31,</b>
	<b>2014</b>	<b>2013</b>
Deferred tax assets:		
Deferred revenue	\$5,294,767	\$5,300,868
Losses	—	290,714
Foreign tax credit	3,200,961	1,914,090
Amortization	(414,345 )	69,169
Accruals, including foreign exchange and other	(702,764 )	(1,123,278)
Deferred tax assets	\$7,378,619	\$6,451,563
Deferred income tax asset, current portion	\$2,498,196	\$1,081,526

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Deferred income tax asset, long-term portion	4,880,423	5,370,037
	\$7,378,619	\$6,451,563
Deferred tax liabilities:		
Limited life intangible assets	\$(208,620 )	\$(301,500 )
Indefinite life intangible assets	(4,578,731)	(4,840,000)
Total deferred tax liability, long-term portion	\$(4,787,351)	\$(5,141,500)

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.

The Company 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 its 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.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in tax expense. The Company did not have any significant interest and penalties accrued as of December 31, 2014 and December 31, 2013.

Management believes that it is reasonably possible that \$0.1 million of the unrecognized tax benefit will decrease in the next twelve months as it is anticipated that the foreign tax authorities will finalize their review of prior years' taxes owing in Pennsylvania within that period.

The following is a reconciliation of Tucows' change in uncertain tax position:

	December 31, 2014	December 31, 2013
Total Gross Unrecognized Tax Benefits		
Balance, beginning of year	\$ 117,000	\$ 382,000
Decrease in uncertain tax benefits of prior years	—	(265,000)
Balance, end of year	\$ 117,000	\$ 117,000

## 10. Common shares:

The Company's authorized common share capital is 250 million shares of common stock without nominal or par value. On December 31, 2014, there were 11,329,732 shares of common stock outstanding.

### (a) Share consolidation

On December 30, 2013, the Company ceased trading on the NYSE Amex Exchange and began trading on the NASDAQ Exchange under the symbol "TCX". In December 2013, our Board of Directors authorized a one-for-four share consolidation of our common stock, in the form of a reverse stock split. This consolidation was effective at the opening of trading on December 31, 2013. As a result of the share consolidation, every four shares of our common stock outstanding were automatically combined into one share of our common stock. Each shareholder continues to hold the same percentage of our outstanding common shares. The shares were rounded up to the next whole share for those holders who would have otherwise received fractional shares. The share consolidation was intended to make our common stock available to a broader range of investors and reposition the company's trading metrics. All share information related to shares outstanding and earnings per share have been retroactively adjusted to reflect this stock

consolidation.

Repurchase of common shares:

(a) Modified Dutch Tender Offers:

On December 8, 2014 the Company announced that it would enter into a modified Dutch Auction Tender offer. Subsequent to December 31, 2014 the auction was successfully concluded (see note 16).

On January 7, 2013, the Company announced that it successfully concluded a modified “Dutch auction tender offer” that was previously announced on November 21, 2012. Under the terms of the offer, the Company repurchased an aggregate of 1,028,531 shares of its common stock at a purchase price of \$6.00 per share, for a total of \$6,171,656, excluding transaction costs of approximately \$106,000. The purchase price and all transaction costs were funded from available cash and an additional advance under our Amended Credit Facility from the Bank in the amount of \$5.2 million. 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, 2013, the Company had 10,056,719 shares issued and outstanding.

(b) Normal Course Issuer Bids:

On March 5, 2014, the Company announced a stock buyback program. Under this buyback program, the Company may repurchase up to \$20 million of the Company's common stock over the 12-month period that commenced on March 4, 2014. The Company repurchased 6,092 shares under this program during the three months ended March 31, 2014 for a total of \$82,286. The Company repurchased 73,300 shares under this program during the three months ended September 30, 2014 for a total of \$1.1 million. The Company repurchased 79,392 shares under this program during the year ended December 31, 2014 for a total of \$1.2 million.

On March 1, 2013, the Company announced a stock buyback program. Under this buyback program, the Company may repurchase up to \$2.5 million of the Company's common stock over the 12-month period that commenced on March 1, 2013. The Company repurchased 35,769 shares under this program during the three and six month periods ended June 30, 2013 for a total of \$259,875.

**11. Stock option plans:**

The Company's 1996 Stock Option Plan (the "1996 Plan") was established for the benefit of the employees, officers, directors and certain consultants of the Company. The maximum number of common shares which may be set aside for issuance under the 1996 Plan was 2,787,500 shares, provided that the Board of Directors of the Company has the right, from time to time, to increase such number subject to the approval of the shareholders of the Company when required by law or regulatory authority. Generally, options issued under the 1996 Plan vest over a four-year period. The 1996 Plan expired on February 25, 2006; no options were issued from this plan after that date.

On November 22, 2006, the shareholders of the Company approved the Company's 2006 Equity Compensation Plan (the "2006 Plan"), which was amended and restated effective July 29, 2010 and which serves as a successor to the 1996 Plan. The 2006 Plan has been established for the benefit of the employees, officers, directors and certain consultants of the Company. The maximum number of common shares which have been set aside for issuance under the 2006 Plan is 1.25 million shares. On October 8, 2010, the 2006 Plan was amended to increase the number of shares which have been set aside for issuance by an additional 0.475 million shares to 1.725 million shares. Generally, options issued under the 2006 Plan vest over a four-year period and have a term not exceeding seven years, except for automatic formula grants of non-qualified stock options, which are immediately exercisable and have a five year term.

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.

The fair value of stock options granted during the years ended December 31, 2014, 2013 and 2012 was estimated using the following weighted average assumptions:

	<b>Year ended December</b>		
	<b>31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Volatility	56.1 %	69.4 %	52.1 %
Risk-free interest rate	1.3 %	1.1 %	0.5 %
Expected life (in years)	4.0	4.0	4.0

Dividend yield	—	%	—	%	—	%
The weighted average grant date fair value for options issued, with the exercise price equal to market value on the date of grant	\$7.02		\$4.52		\$2.24	

Details of stock option transactions are as follows:

	Year ended December 31, 2014		Year ended December 31, 2013		Year ended December 31, 2012	
	Number of shares	Weighted average exercise price per share	Number of shares	Weighted average exercise price per share	Number of shares	Weighted average exercise price per share
Outstanding, beginning of year	1,407,639	\$ 3.80	2,148,170	\$ 2.56	2,186,511	\$ 2.28
Granted	102,475	15.78	180,375	8.36	194,750	5.44
Exercised	(502,061 )	2.95	(890,034 )	1.80	(191,585 )	2.20
Forfeited	(28,366 )	6.60	(29,684 )	4.88	(40,751 )	3.20
Expired	(3,625 )	3.36	(1,188 )	1.44	(755 )	1.76
Outstanding, end of year	976,062	\$ 5.41	1,407,639	\$ 3.80	2,148,170	\$ 2.56
Options exercisable, end of year	725,392	\$ 4.03	1,045,475	\$ 3.14	1,772,723	\$ 2.28

The stock options expire at various dates through 2021.



As of December 31, 2014, the exercise prices, weighted average remaining contractual life of outstanding options and intrinsic values were as follows:

Exercise price	Options outstanding			Options exercisable		
	Number outstanding	Weighted average exercise price per share	Weighted average remaining contractual life (years)	Number exercisable	Weighted average exercise price per share	Aggregate intrinsic value
\$ 2.40 - \$ 2.40	113,250	\$ 2.40	0.4	113,250	\$ 2.40	\$ 1,926,383
\$ 2.48 - \$ 2.80	318,451	\$ 2.76	2.1	318,451	\$ 2.76	5,301,971
\$ 2.92 - \$ 3.76	136,973	\$ 3.01	2.9	112,866	\$ 3.03	1,849,080
\$ 4.20 - \$ 15.93	407,388	\$ 9.13	4.9	180,825	\$ 7.91	2,078,742
	976,062	\$ 5.41		725,392	\$ 4.03	\$ 11,156,176

Total unrecognized compensation cost relating to unvested stock options at December 31, 2014, prior to the consideration of expected forfeitures, is approximately \$1.0 million and is expected to be recognized over a weighted average period of 2.4 years.

The total intrinsic value of options exercised during the years ended December 31, 2014, 2013 and 2012 was \$0.9 million, \$1.1 million and \$0.3 million, respectively. Cash received from the exercise of stock options during the years ended December 31, 2014, 2013 and 2012 was \$1.5 million, \$1.5 million and \$0.4 million respectively.

The Company recorded stock-based compensation amounting to \$0.5 million, \$0.4 million and \$0.4 million for the years ended December 31, 2014, 2013 and 2012 respectively. Stock-based compensation has been included in operating expenses as follows:

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Network expenses	\$ 30,938	\$ 31,664	\$ 24,480
Sales and marketing	143,514	129,302	92,168
Technical operations and development	85,904	78,800	59,141
General and administrative	282,382	191,137	184,910
	\$ 542,738	\$ 430,903	\$ 360,699

**12. Foreign exchange gain:**

A foreign exchange gain amounting to \$0.7 million has been recorded in general and administrative expenses during the year ended December 31, 2014 ("Fiscal 2014"). A foreign exchange gain amounting to \$0.3 million has been recorded in general and administrative expenses during the year ended December 31, 2013 ("Fiscal 2013"). A foreign exchange loss amounting to \$8,000 has been recorded in general and administrative expenses during the year ended December 31, 2012 ("Fiscal 2012").

**13. Other income, net:**

In March 2012, the Company received an amount of \$0.5 million on the sale of certain intangible assets with no book value.

**14. Earnings per common share:**

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

	<b>Year ended December 31, 2014</b>	<b>Year ended December 31, 2013</b>	<b>Year ended December 31, 2012</b>
Numerator for basic and diluted earnings per common share:			
Net income for the year	\$6,374,096	\$4,180,464	\$4,424,142
Denominator for basic and diluted earnings per common share:			
Basic weighted average number of common shares outstanding	11,220,874	10,468,250	11,458,216
Effect of stock options	509,524	813,159	825,520
Diluted weighted average number of shares outstanding	11,730,398	11,281,409	12,283,736
Basic earnings per common share	\$0.57	\$0.40	\$0.39
Diluted earnings per common share	\$0.54	\$0.37	\$0.36

Options to purchase 95,762 common shares were outstanding during 2014 (2013: 136,812; 2012: 188,797) but were not included in the computation of diluted income per common share because the options' exercise price was greater than the average market price of the common shares. The options which expire in years 2018 to 2020 were still outstanding at the end of 2014.

**15. Commitments and contingencies:**

(a) The Company has several non-cancelable lease and purchase obligations primarily for general office facilities, service contracts for mobile telephone services and equipment that expire over the next ten years. Future minimum payments under these agreements are as follows:

<b><u>Contractual Obligations for the year ending December 31,</u></b>	<b>Contractual Lease Obligations</b>	<b>Purchase Obligations (1)</b>	<b>Total Obligations</b>
2015	\$ 659,000	\$3,951,000	\$4,610,000
2016	608,000	8,051,000	8,659,000

2017	642,000	12,688,000	13,330,000
2018	642,000	—	642,000
2019	642,000	—	642,000
Thereafter	1,731,000	—	1,731,000
	\$ 4,924,000	\$ 24,690,000	\$ 29,614,000

Rental expense under operating lease agreements was \$0.9 million, \$0.8 million and \$0.9 million for the years ended December 31, 2014, 2013 and 2012, respectively.

(b) In the normal course of its operations, the Company becomes involved in various legal claims and lawsuits. The Company intends to vigorously defend these claims. While the final outcome with respect to any actions outstanding or pending as of December 31, 2014 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material effect on the Company's financial position.

#### **16. Subsequent events:**

(a) On January 8, 2015, the Company announced that it successfully concluded a modified "Dutch auction tender offer" that was previously announced on December 8, 2014. Under the terms of the offer, the Company repurchased an aggregate of 193,907 shares of its common stock at a purchase price of \$18.50 per share, for a total of \$3,587,280, excluding transaction costs of approximately \$60,000. 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 7, 2015, the Company had 11,135,825 shares issued and outstanding.

(b) In January 2015, the Company borrowed \$3.5 million under its Amended Credit Facility in order to fund the acquisition of a controlling ownership in Ting Virginia, LLC (see note 16(d)). This borrowing is subject to the terms and conditions described in note 8 to the Consolidated Financial Statements. See item (d) below.

(c) On February 11, 2015, the Board of Directors approved a stock buyback program to repurchase up to \$20 million of its common stock in the open market and privately negotiated transactions. Purchases will be made exclusively through the facilities of the NASDAQ Capital Market. The stock buyback program commenced on February 16, 2015 and will terminate on or before February 15, 2016. As of March 6, 2015, the Company has spent a total of \$2.0 million to repurchase 108,605 shares under this stock buyback program, and therefore, the remaining repurchase authorization is \$18.0 million.

All shares purchased by Tucows under the stock buyback program will be retired and returned to treasury.

(d) On February 24, 2015, Ting Fiber, Inc., one of the Company's 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. Ting Virginia, LLC is an independent Internet service provider in Charlottesville, Virginia, doing business primarily as Blue Ridge InternetWorks. The BRI Group provides high speed internet access, Internet hosting and network consulting services to over 3,000 customers in central Virginia. Tucows will satisfy the purchase price through an advance under its 2012 DLR Loan facility.

(e) In February 2015, the Company waived our rights under the proposed joint venture to operate the .online registry and instead entered into a Joint Marketing agreement with our venture partners under which our original capital contributions have been returned and a set of go-forward marketing arrangements have been created instead. These marketing arrangements have resulted in a positive financial contribution for us, which will be recognized once all the terms of the contract have been satisfied, commencing in the three months ending March 31, 2015.

## **17. Segment Reporting:**

(a) The Company is organized and managed based on two segments, which are differentiated primarily by their services, the markets they serve and the regulatory environments in which they operate. The two segments are Domain Services and Network Access Services and are described as follows:

1.

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.

2. Network Access Services - This segment derives revenue from the sale of retail mobile phones and services to individuals and small businesses through the Ting website. Revenues are generated in the United States.

The Chief Executive Officer is the chief operating decision maker and regularly reviews the operations and performance by segment. The chief operating decision maker reviews gross profit as a key measure of performance for each segment and 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, loss on disposition of property and equipment, amortization of intangibles, impairment of indefinite life intangible assets, loss (gain) on currency forward contracts, other income (expense), and provision for income taxes, 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 chief operating decision maker. The Company follows the same accounting policies for the segments as those described in note 2 to these consolidated financial statements.

Information by reportable segments, which is regularly reported to the chief operating decision maker is as follows:

<b>Year Ended December 31, 2014</b>	<b>Domain</b>	<b>Network</b>	<b>Consolidated</b>
	<b>Name</b>	<b>Access</b>	<b>Totals</b>
	<b>Services</b>	<b>Services</b>	
Net Revenues	\$ 111,780,102	35,887,005	147,667,107
Cost of Revenues	85,244,527	21,870,780	107,115,307
Gross Profit	26,535,575	14,016,225	40,551,800
Expenses:			
Sales and marketing			15,394,065
Technical operations and development			4,305,715
General and administrative			8,505,920
Depreciation of property and equipment			226,432
Amortization of intangibles			596,620
Impairment of indefinite life intangible assets			577,145
Loss on currency forward contracts			1,310,848
Income from operations			9,635,055
Other expenses, net			(206,730 )
Income before provision for income taxes			9,428,325

<b>Year Ended December 31, 2013</b>	<b>Domain</b>	<b>Network</b>	<b>Consolidated</b>
	<b>Name</b>	<b>Access</b>	<b>Totals</b>
	<b>Services</b>	<b>Services</b>	
Net Revenues	\$ 113,404,667	16,530,237	129,934,904
Cost of Revenues	85,886,930	12,621,093	98,508,023
Gross Profit	27,517,737	3,909,144	31,426,881
Expenses:			
Sales and marketing			12,141,036
Technical operations and development			4,158,603
General and administrative			7,204,895
Depreciation of property and equipment			215,447
Amortization of intangibles			876,120
Loss on currency forward contracts			676,120
Income from operations			6,154,660
Other expenses, net			(354,857 )
Income before provision for income taxes			5,799,803

**Year Ended December 31, 2012**                      **Domain**

	<b>Name</b>	<b>Network Access Services</b>	<b>Consolidated Totals</b>
Net Revenues	\$110,761,217	3,965,684	114,726,901
Cost of Revenues	84,388,713	4,129,020	88,517,733
Gross Profit	26,372,504	(163,336 )	26,209,168
Expenses:			
Sales and marketing			8,701,446
Technical operations and development			4,302,820
General and administrative			6,610,819
Depreciation of property and equipment			190,420
Loss on disposition of property and equipment			118,944
Amortization of intangibles			876,120
Gain on currency forward contracts			(682,851 )
Income from operations			6,091,450
Other income, net			336,848
Income before provision for income taxes			6,428,298

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

	<b>Year ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Wholesale			
Domain Services	\$86,640,949	\$87,294,173	\$87,434,450
Value Added Services	9,654,734	10,271,219	10,586,460
Total Wholesale	96,295,683	97,565,392	98,020,910
Retail	10,417,746	8,360,035	6,775,160
Portfolio	5,066,673	7,479,240	5,965,147
	111,780,102	113,404,667	110,761,217
Access	35,887,005	16,530,237	3,965,684
	\$147,667,107	\$129,934,904	\$114,726,901

During the years ended December 31, 2014, 2013 and 2012, no customer accounted for more than 10% of total revenue. As at December 31, 2014, 2013 and 2012, no customers accounted for more than 10% of accounts receivable.

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

	<b>Year ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Wholesale			
Domain Services	\$72,353,061	\$73,468,824	\$73,168,196
Value Added Services	2,211,085	2,115,167	2,032,328
Total Wholesale	74,564,146	75,583,991	75,200,524
Retail	4,539,439	3,521,023	2,675,843
Portfolio	886,637	1,234,214	832,008
	79,990,222	80,339,228	78,708,375
Access	21,870,780	12,621,093	4,129,020
	101,861,002	92,960,321	82,837,395
Network, other costs	4,554,635	4,835,939	4,925,058
Network, depreciation and amortization costs	699,670	711,763	755,280

\$107,115,307 \$98,508,023 \$88,517,733

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

	<b>Year ended December</b>	
	<b>31,</b>	
	<b>2014</b>	<b>2013</b>
Canada	\$1,131,883	\$1,292,425
United States	379,891	453,223
Germany	98,013	12,188
	\$1,609,787	\$1,757,836

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

	<b>Year ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
Canada	\$—	\$271,300
Germany	735,730	1,061,050
	<b>\$735,730</b>	<b>\$1,332,350</b>

(f) The following is a summary of the Company's deferred tax asset, net of valuation allowance, by geographic region:

	<b>Year ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
Canada	\$7,378,619	\$6,451,563
	<b>\$7,378,619</b>	<b>\$6,451,563</b>

#### 18. Valuation and qualifying accounts:

	<b>Balance at beginning year</b>	<b>Charged to (recovered) costs and expenses</b>	<b>Write-offs during year</b>	<b>Balance at end of year</b>
Allowance for doubtful accounts, excluding provision for credit notes				
2014	\$ 91,226	\$ 34,540	\$ —	\$125,766
2013	\$ 73,970	\$ 17,256	\$ —	\$91,226
2012	\$ 57,415	\$ 16,555	\$ —	\$73,970

## EXHIBIT INDEX

Exhibit No.	Description
3.1.1	Fourth Amended and Restated Articles of Incorporation of Tucows Inc. (Incorporated by reference to Exhibit 3.1 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on November 29, 2007).
3.1.2	Articles of Amendment to Fourth Amended and Restated Articles of Incorporation of Tucows Inc. (Incorporated by reference to Exhibit 3.1 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on January 3, 2014).
3.2	Second Amended and Restated Bylaws of Tucows Inc. (Incorporated by reference to Exhibit 3.2 filed with Tucows' Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the SEC on March 29, 2007).
3.3	Amendment No. 1 to Second Amended and Restated Bylaws of Tucows Inc. (Incorporated by Reference to Exhibit 3.3 filed with Tucows' Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).
10.1*	2006 Equity Compensation Plan, as amended and restated effective as of July 29, 2010 (Incorporated by reference to Exhibit 99(d)(1) filed with Tucows' Schedule TO, as filed with the SEC on September 17, 2010).
10.2*	Employment Agreement dated January 22, 2003 between Tucows.com Co. and Elliot Noss (Incorporated by reference to Exhibit 10.5 filed with Tucows' Annual Report on Form 10-K for the year ended December 31, 2003, as filed with the SEC on March 28, 2004).
10.3*	Employment Agreement dated March 11, 2003 between Tucows.com Co. and Michael Cooperman (Incorporated by reference to Exhibit 10.5 filed with Tucows' annual Report on Form 10-K for the year ended December 31, 2003, as filed with the SEC on March 28, 2004).
10.4	Lease between 707932 Ontario Limited and Tucows International Corporation, dated December 10, 1999 (Incorporated by reference to exhibit number 10.9 filed with Tucows' Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the SEC on April 1, 2002).
10.5	Lease extension between 707932 Ontario Limited and Tucows Inc. and Tucows.com Co., dated September 4, 2004 (Incorporated by reference to Exhibit 10.5 filed with Tucows' Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the SEC on March 24, 2005).
10.6*	Description of Tucows Fiscal 2004 At Risk Compensation Plan (Incorporated by reference to Exhibit 10.9 filed with Tucows' Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the SEC on March 24, 2005).



Exhibit No.	Description
10.11	Loan Agreement, dated as of June 25, 2007, by and among Tucows.com Co., Tucows (Delaware) Inc., Tucows Inc., Mailbank Nova Scotia Co., Tucows Domain Holdings Co., Innerwise, Inc. and Bank of Montreal (Incorporated by reference to Exhibit 10.1 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on July 31, 2007).
10.12	Guaranty, dated July 25, 2007, by Tucows Inc. in favor of Bank of Montreal (Incorporated by reference to Exhibit 10.2 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on July 31, 2007).
10.13	Security Agreement, dated July 25, 2007, by Tucows Inc. in favor of Bank of Montreal (Incorporated by reference to Exhibit 10.3 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on July 31, 2007).
10.14	Financing Commitment, dated July 19, 2007, by and between Tucows.com Co. and Bank of Montreal (Incorporated by reference to Exhibit 10.3 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on July 31, 2007).
10.15	Operating Loan Agreement, dated September 10, 2010, between Tucows.com Co. and the Bank of Montreal. (Incorporated by reference to Exhibit 10.1 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on September 13, 2010).
10.16	Offer Letter, dated August 30, 2010, between Tucows Inc. and the Bank of Montreal. (Incorporated by reference to Exhibit 10.2 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on September 13, 2010).
10.17	Offer Letter, dated July 27, 2011, between Tucows.com Co and the Bank of Montreal (incorporated herein by reference to Exhibit 10.1 to Tucows Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 3, 2011).
10.18	Letter of Acknowledgment, dated December 13, 2011, between Tucows.com Co and the Bank of Montreal. (Incorporated by reference to Exhibit 10.1 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on December 13, 2011).
10.19	Offer Letter, dated November 19, 2012, between Tucows.com Co. and the Bank of Montreal (Incorporated by reference to Exhibit 10.1 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on November 21, 2012).
10.20	Amended and Restated Supplemental Agreement, dated December 14, 2012, between Tucows.com Co., Tucows (Delaware), Inc. and the Bank of Montreal (Incorporated by reference to Exhibit 10.1 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on December 20, 2012).
10.21	Guaranty, dated December 14, 2012, by Ting Inc. in favor of the Bank of Montreal (Incorporated by reference to Exhibit 10.2 filed with Tucows' Current Report on Form 8-K, as filed with the SEC on December 20, 2012).

- 10.22 Security Agreement, dated December 14, 2012, by Ting Inc. in favor of the Bank of Montreal (Incorporated by reference to Exhibit 10.3 filed with Tu cows' Current Report on Form 8-K, as filed with the SEC on December 20, 2012).
- 21.1# Subsidiaries of Tu cows Inc.
- 23.1# Consent of KPMG LLP, Independent Registered Public Accounting Firm.
- 31.1# Chief Executive Officer's Rule 13a-14(a)/15d-14(a) Certification.
- 31.2# Chief Financial Officer's Rule 13a-14(a)/15d-14(a) Certification.
- 32.1† Chief Executive Officer's Section 1350 Certification.
- 32.2† Chief Financial Officer's Section 1350 Certification.
- 101.INS\*\* XBRL Instance
- 101.SCH\*\* XBRL Taxonomy Extension Schema
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101.CAL\*\* XBRL Taxonomy Extension Calculation

101.DEF\*\* XBRL Taxonomy Extension Definition

101.LAB\*\* XBRL Taxonomy Extension Labels

101.PRE\*\* XBRL Taxonomy Extension Presentation

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\* Management or compensatory contract required to be filed pursuant to Item 15(c) of the requirements for Form 10-K reports.

\*\*XBRL Information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

# Filed herewith.

† Furnished herewith.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Tucows Inc.**

By: /s/ Elliot Noss

Name: Elliot Noss

Title: *Chief Executive Officer and President*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons of behalf of the registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ Elliot Noss Elliot Noss	President, Chief Executive Officer (Principal Executive Officer) and Director	March 11, 2015
/s/ Michael Cooperman Michael Cooperman	Chief Financial Officer (Principal Financial and Accounting Officer)	March 11, 2015
/s/ Allen Karp Allen Karp	Director	March 11, 2015
/s/ Rawleigh Ralls Rawleigh Ralls	Director	March 11, 2015
/s/ Robin Chase Robin Chase	Director	March 11, 2015
/s/ Erez Gissin Erez Gissin	Director	March 11, 2015
/s/ Joichi Ito Joichi Ito	Director	March 11, 2015

/s/ Jeffrey Schwartz      Director  
Jeffrey Schwartz

March 11, 2015