SYNOPSYS INC
Form 4
December 19, 2016

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
CHAN CHI-FOON

(Last) (First) (Middle)

690 EAST MIDDLEFIELD ROAD

(Street)

MOUNTAIN VIEW, CA 94043

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SYNOPSYS INC [SNPS]

3. Date of Earliest Transaction (Month/Day/Year)
12/15/2016

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Co-CEO & President

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	12/15/2016		M		9,673	A	$ 0	216,534	D	
Common Stock	12/15/2016		F		5,048 (1)	D	$ 60.37	211,486	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title a Underlyi (Instr. 3 a
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title
Non-Qualified Stock Option (right to buy)	$ 60.37	12/15/2016		A (2)		160,899		03/15/2017 (3)	12/15/2023	Comm Stock
Restricted Stock Units	$ 0	12/15/2016		A (4)		38,691		12/15/2016 (5)	12/08/2019	Comm Stock
Restricted Stock Units	$ 0	12/15/2016		D			9,673	12/15/2016 (5)	12/08/2019	Comm Stock

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
CHAN CHI-FOON 690 EAST MIDDLEFIELD ROAD MOUNTAIN VIEW, CA 94043	X		Co-CEO & President	

Signatures

By: POA pursuant Christina Escalante-Dutra For: Chi-Foon Chan	12/19/2016
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) These shares were retained by the Company in order to meet the tax withholding obligations of the award holder in connection with the vesting of an installment of the performance restricted stock unit award. The Compensation Committee approved the disposition of shares by the award holder and the amount retained by the Company was not in excess of the amount of the tax liability.

(2) Grant to reporting person to buy shares of common stock under the Synopsys, Inc 2006 Employee Equity Incentive Plan. The Compensation Committee of the Board of Directors approved an option grant value of $1,850,000, with the number of shares subject to the option to be determined by dividing that amount by the fair value of an option to acquire a share of Synopsys common stock on the grant date using the Black-Scholes option pricing model.

(3) Option vests in 16 equal quarterly installments beginning on the date shown.

(4) On 12/15/15 the Compensation Committee of the Board of Directors approved a Restricted Stock Unit grant value of $1,750,000, with the number of granted Restricted Stock Units to be determined by dividing that amount by the closing price of Synopsys common stock on the grant date. The vesting of such Restricted Stock Units was based on satisfaction of certain performance criteria for the fiscal year ending 10/29/16. The performance criteria were met.

(5) 25% of the units vest on the date shown followed by three equal annual installments.

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Exercise of stock options

74,997 360,949 (112,966) - - 247,983

Repurchase and retirement of shares

(407,996) (516,003) (7,196,142) - - (7,712,145)

Stock-based compensation

- - 125,048 - - 125,048

Income tax effect related to stock options exercised

- - 412,642 - - 412,642

Net income for the period

- - - 2,833,943 - 2,833,943

Unrealized loss on foreign currency forward contracts treated as hedges

- - - - (960,866) (960,866)

Reclassification to net income due to settlement of foreign currency forward contracts treated as hedges

- - - - 416,074 416,074

Balance, March 31, 2015

10,996,733 $13,975,005 $22,318,640 $(4,121,340) $(1,167,233) $31,005,072

15

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 $70,000. The purchase price and all transaction costs were funded from available cash. All shares purchased in the tender offer received the same price and all shares repurchased were immediately retired. As a result of the completion of the tender offer, as of January 7, 2015, the Company had 11,135,825 shares issued and outstanding.

On February 11, 2015, the Company announced that its Board of Directors has approved a stock buyback program to repurchase up to $20 million of its common stock in the open market. Purchases will be made exclusively through the facilities of the NASDAQ Capital Market. The stock buyback program commenced on February 16, 2015 and will terminate on or before February 15, 2016. The Company repurchased 214,089 shares under this program during the three months ended March 31, 2015 for a total of $4,055,056.

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.

15. SHARE-BASED PAYMENTS

(a) Stock options

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model, consistent with the guidance on stock compensation. 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 our common shares at the date of grant.

Details of stock option transactions for the three months ended March 31, 2015 and March 31, 2014 are as follows:

	Three months ended March 31, 2015		Three months ended March 31, 2014	
	Number of Shares	Weighted Average exercise price per share	Number of Shares	Weighted Average exercise price per share
Outstanding, beginning of period	976,062	$ 5.41	1,407,639	$ 3.80
Granted	45,000	19.41	—	—
Exercised	(74,997)	3.31	(291,913)	3.12
Forfeited	(2,742)	12.15	(5,594)	5.56
Expired	—	—	(2,875)	3.40
Outstanding, end of period	943,323	$ 6.23	1,107,257	$ 3.97
Options exercisable, end of period	653,145	$ 4.11	753,506	$ 3.15

As of March 31, 2015, the exercise prices, weighted average remaining contractual life and intrinsic values of outstanding options were as follows:

			Options outstanding				Options exercisable		
Exercise price			Outstanding Number	Weighted average exercise price per share	Weighted Average remaining contractual life (years)	Aggregate intrinsic value	Number exercisable	Weighted average exercise price per share	Aggregate intrinsic value
$2.40	-	$2.92	467,410	$ 2.73	1.9	$7,605,899	443,444	$ 2.72	$7,220,526
$3.00	-	$5.76	213,312	$ 5.09	3.5	2,967,841	139,685	$ 4.85	1,976,136
$8.56	-	$10.16	119,126	$ 9.12	5.0	1,176,925	43,141	$ 9.06	428,645
$14.67	-	$19.41	143,475	$ 16.92	6.0	317,281	26,875	$ 15.37	97,469
			943,323	$ 6.23	3.2	$12,067,946	653,145	$ 4.11	$9,722,776

16

Total unrecognized compensation cost relating to unvested stock options at March 31, 2015, prior to the consideration of expected forfeitures, was approximately $1,228,825 and is expected to be recognized over a weighted average period of 2.4 years.

The Company recorded stock-based compensation of $125,048 and $100,977 for the three months ended March 31, 2015 and 2014, respectively.

The Company has not capitalized any stock-based compensation expense as part of the cost of an asset.

16. FAIR VALUE MEASUREMENT

ASC Topic 820, "*Fair Value Measurements and Disclosures"* establishes 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 instrument assets and liabilities measured at fair value on a recurring basis at March 31, 2015:

	March 31, 2015 Fair Value Measurements Using			Liabilities at
	Level 1	Level 2	Level 3	Fair Value
Derivative instrument liability	$—	$2,139,268	$ —	$2,139,268
Total Liabilities	$—	$2,139,268	$ —	$2,139,268

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

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

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

Changes in the nature of key strategic relationships with our Mobile Virtual Network Operator ("MVNO") partners;

The effects of vigorous competition on a highly penetrated mobile telephony market, including the impact of competition on the price we are able to charge subscribers for services and devices and on the geographic areas served by our MVNO partner wireless networks;

Our ability to manage any potential increase in subscriber churn or bad debt expense;

Our ability to continue to generate sufficient working capital to meet our operating requirements;

Our ability to maintain a good working relationship with our vendors and customers;

The ability of vendors to continue to supply our needs;

Actions by our competitors;

Our ability to 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;

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

Pending or new litigation; and

Factors set forth under the caption “Item 1A Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

This list of factors that may affect our future performance and financial and competitive position and also 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 to the extent of any obligations under the Securities Exchange Act of 1934 or the Securities Act of 1933. These statements are not guarantees of future performance.

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

OVERVIEW

Our mission is to provide simple useful services that help people unlock the power of the Internet. We accomplish this by reducing the complexity our customers' experience as they acquire, deliver or use the Internet or Internet services such as domain name registration, email 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 on a consolidated basis, principally to make decisions about how we utilize our resources and to measure our consolidated operating performance. To assist us in forecasting growth and to help us monitor the effectiveness of our operational strategies, our 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.

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. 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, as well as provides high speed Internet access, Internet hosting and network consulting to customers in Central Virginia through its acquisition of a 70% share in Ting Virginia on February 27, 2015. 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. Ting manages mobile telephony services for over 103,000 subscribers and has over 160,000 devices under management.

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

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

	Three months ended March 31,	
	2015 (1)	**2014 (1)**
	(in 000's)	
Total new, renewed and transferred-in domain name registrations	2,498	2,481

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

Domain names under management:

	March 31, 2015 (1)	2014 (1)
	(in 000's)	
Domain names under management:		
Registered using the Tucows Registrar Accreditation	10,203	10,550
Registered using our Resellers' Registrar Accreditations	3,345	3,622
Total domain names under management	13,548	14,182

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

Network Access Services

	March 31, 2015 (1)	2014 (1)
	(in 000's)	
Ting subscribers under management	103,000	61,000
Ting devices under management	163,000	94,000

(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.

20

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 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 new customer additions despite the impact of churn on a fast growing customer base. We expect price competition to grow more intense in the industry which could result in increased customer churn or reductions of customer acquisition rates either of which could result in slower growth rates or in certain cases, our ability to maintain growth.

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.

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

Wholesale – OpenSRS Value-Added Services

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

22

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

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

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. In addition, with the acquisition of a 70% share in Ting Virginia on February 27, 2015, we began providing high speed Internet access, Internet hosting and network consulting to customers in Central Virginia.

Critical Accounting Policies

Preparation of our consolidated financial statements in accordance with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues and expenses, as well as related disclosure of contingent assets and liabilities. There have been no material changes to the critical accounting policies and estimates as previously disclosed in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2014. For further information on our critical accounting policies and estimates, see Note 2 to the consolidated financial statements appearing in Part I, Item 1 in this Quarterly Report on Form 10-Q.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2015 AS COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2014

NET REVENUES

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

	Three months ended March 31, 2015	2014
Domain Services:		
Wholesale		
Domain Services	$21,175,131	$21,648,954
Value Added Services	2,241,998	2,603,605
Total Wholesale	23,417,129	24,252,559
Retail	2,875,728	2,384,063
Portfolio	1,247,962	1,053,640
Total Domain Services	27,540,819	27,690,262
Network Access Services:		
Ting	12,927,014	6,712,132
Total Network Access Services	12,927,014	6,712,132
	$40,467,833	$34,402,394
Increase over prior period	$6,065,439	
Increase - percentage	18 %	

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

	Three months ended March 31, 2015	2014
Domain Services:		
Wholesale		

Domain Services	52 %	62 %
Value Added Services	6 %	8 %
Total Wholesale	58 %	70 %
Retail	7 %	7 %
Portfolio	3 %	3 %
Total Domain Services	68 %	80 %
Network Access Services:		
Ting	32 %	20 %
Total Network Access Services	32 %	20 %
	100 %	100 %

Total net revenues for the three months ended March 31, 2015 increased by $6.1 million or 18% to $40.5 million when compared to the three months ended March 31, 2014.

Deferred revenue increased to $73.3 million at March 31, 2015 from $72.8 million at March 31, 2014 and increased by $2.2 million from $71.1 million at December 31, 2014.

No customer accounted for more than 10% of revenue during the three months ended March 31, 2015 and March 31, 2014. At March 31, 2015 and at March 31, 2014, no customer accounted for more than 10% of accounts receivable. Significant management judgment is required at the time revenue is recorded to assess whether the collection of the resulting receivables is reasonably assured. On an ongoing basis we assess the ability of our customers to make required payments. Based on this assessment, we expect the carrying amount of our outstanding receivables, net of allowance for doubtful accounts, to be fully collected.

Wholesale

During the three months ended March 31, 2015, domain services revenue decreased by $0.5 million to $21.2 million when compared to the three months ended March 31, 2014.

During the three months ended March 31, 2015, the number of transactions from all new, renewed and transferred-in domain name registrations that we processed remained relatively flat at 2.4 million when compared to the three months ended March 31, 2014.

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 March 31, 2015, total domains that we manage under our own accreditation decreased to 10.2 million when compared to 10.6 million at March 31, 2014. These decreases in domains under management primarily resulted from the same factors impacting domain transactions mentioned above. Also, as of March 31, 2015, total domains that we manage on behalf of other accredited registrars decreased to 3.3 million when compared to 3.6 million at the end of March 31, 2014, primarily the result of a single customer that transitioned the customer’s domain management platform to an in-house system in Fiscal 2014.

During the three months ended March 31, 2015, value added services revenue decreased by $0.4 million to $2.2 million when compared to the three months ended March 31, 2014. This decrease was primarily due to the 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 the three months ended March 31, 2015, as compared to the three months ended March 31, 2014, increased by $0.5 million, or 21%, to $2.9. 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 the three months ended March 31, 2015, as compared to the three months ended March 31, 2014, increased by $0.2 million to $1.2 million. This increase primarily related to gains we recognized on the sale of our minority interest in .store as a result of this contested domain being resolved through a confidential private auction in February 2015. This increase was partially offset by lower sales of big ticket domains. 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

Net revenues from Ting mobile phone and fixed Internet access services and equipment for the three months ended March 31, 2015, as compared to the three months ended March 31, 2014, increased by $6.2 million or 93% to $12.9 million. This increase primarily reflects the impact the larger subscriber base is having on service revenues. As of March 31, 2015, Ting had 103,000 subscribers and 163,000 mobile devices under its management compared to 61,000 subscribers and 94,000 devices under management as of March 31, 2014.

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 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 Portfolio represent the amortization of registry fees for domains added to our Portfolio over the renewal period, which is generally one year and the value attributed under intangible assets to any domain name sold. 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 ad-supported content site includes the fees paid to third-party service providers, primarily for digital certificates sold through our content sites and content license fees.

Network Access Services

The costs of revenue for Ting's mobile phone and fixed Internet access service include hardware (the cost of devices sold to our customers, order fulfillment related expenses and inventory write-downs) and network services (primarily our customers' voice, messaging and data usage) provided by our Mobile Network Operators.

Network costs

Network costs 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:

	Three months ended March 31, 2015	2014
Domain Services:		
Wholesale		
Domain Services	$17,548,027	$18,235,215
Value Added Services	536,132	540,722
Total Wholesale	18,084,159	18,775,937
Retail	1,220,500	1,015,416
Portfolio	171,558	243,855
Total Domain Services	19,476,217	20,035,208
Network Access Services:		
Ting	7,345,157	4,281,431
Total Network Access Services	7,345,157	4,281,431
Network Expenses:		
Network, other costs	1,222,096	1,143,644
Network, depreciation and amortization costs	203,566	182,974
Total Network Expenses	1,425,662	1,326,618
	$28,247,036	$25,643,257
Increase over prior period	$2,603,779	
Increase - percentage	10 %	

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

	Three months ended March 31, 2015	2014
Domain Services:		
Wholesale		
Domain Services	43%	53 %
Value Added Services	1 %	2 %
Total Wholesale	44%	55 %

Retail	3 %	3 %
Portfolio	1 %	1 %
Total Domain Services	48 %	59 %
Network Access Services:		
Ting	18 %	12 %
Total Network Access Services	18 %	12 %
Network Expenses:		
Network, other costs	3 %	3 %
Network, depreciation and amortization costs	1 %	1 %
Total Network Expenses	4 %	4 %
	70 %	75 %

Total cost of revenues for the three months ended March 31, 2015 increased by $2.6 million, or 10%, to $28.2 million when compared to the three months ended March 31, 2014. This increase was primarily the result of increased network access service expenses due to the impact Ting’s larger subscriber base is having on service costs.

Prepaid domain registration and other Internet services fees as of March 31, 2015 remained essentially flat at $57.8 million when compared to March 31, 2014.

27

Wholesale

Costs for Wholesale for the three months ended March 31, 2015 decreased by $0.7 million, or 4%, to $18.1 million and when compared to the three months ended March 31, 2014. This reduction in costs is primarily the result of an ongoing shift in product mix to higher margin domain services and with growth in the core wholesale domain services business being off-set with a handful of large clients migrating their business to their own accreditations.

Retail

Costs for Retail for the three months ended March 31, 2015 increased by $0.2 million, to $1.2 million when compared to the three months ended March 31, 2014. These increases resulted primarily from the increased cost of additional volume in Hover services.

Portfolio

Costs for Portfolio for the three months ended March 31, 2015 decreased by $0.1 million, to $0.2 million when compared to the three months ended March 31, 2014.

Network Access Services

Costs for Network Access Services for the three months ended March 31, 2015 increased by $3.1 million, to $7.3 million when compared to the three months ended March 31, 2014. This increase primarily reflects the impact the larger subscriber base is having on service costs.

Network Costs

Network costs before depreciation and amortization for the three months ended March 31, 2015 increased by $0.1 million, to $1.2 million when compared to the three months ended March 31, 2014.

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.

	Three months ended March 31, 2015	2014
Sales and marketing	$3,799,175	$4,021,774
Decrease over prior period	$(222,599)	
Decrease - percentage	(6)%	
Percentage of net revenues	9%	12%

Sales and marketing expenses for the three months ended March 31, 2015 decreased by $0.2 million, or 6%, to $3.8 million when compared to the three months ended March 31, 2014. This decrease related primarily to increased workforce related expenses of $0.2 million incurred in acquiring and servicing Ting subscribers being offset by a lower marketing spend, primarily the result of our decision last year to experiment with broader advertising initiatives as a means of accelerating our brand awareness and consideration.

TECHNICAL OPERATIONS AND DEVELOPMENT

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

	Three months ended March 31, 2015	2014
Technical operations and development	$1,114,195	$1,089,898
Increase over prior period	$24,297	
Increase - percentage	2%	
Percentage of net revenues	3%	3%

Technical operations and development expenses for the three months ended March 31, 2015 remained essentially flat at $1.1 million when compared to the three months ended March 31, 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.

	Three months ended March 31,	
	2015	**2014**
General and administrative	$1,815,188	$1,767,800
Increase over prior period	$47,388	
Increase - percentage	3 %	
Percentage of net revenues	4 %	5 %

General and administrative expenses for the three months ended March 31, 2015 increased slightly to $1.8 million when compared to the three months ended March 31, 2014. This increase was primarily the result of increased credit card processing fees and bad debts primarily related to the growth of Ting of $0.2 million when compared to the three months ended March 31, 2014. In addition, during the three months ended March 31, 2015, we recognized a gain on realized foreign exchange of $0.8 million compared to a gain of $0.5 million during the three months ended March 31, 2014. These gains were partially offset by our incurring a loss on foreign exchange revaluation of our foreign denominated assets and liabilities of $0.4 million during the three months ended March 31, 2015 compared to a loss of $0.2 million during the three months ended March 31, 2014.

DEPRECIATION OF PROPERTY AND EQUIPMENT

	Three months ended March 31,	
	2015	**2014**
Depreciation of property and equipment	$59,262	$56,304
Increase over prior period	$2,958	
Increase - percentage	5 %	
Percentage of net revenues	0 %	0 %

Depreciation costs remained relatively flat at $0.1 million for the three months ended March 31, 2015 and March 31, 2014, respectively.

AMORTIZATION OF INTANGIBLE ASSETS

	Three months ended March 31,	
	2015	**2014**
Amortization of intangible assets	$53,215	$219,030
(Decrease) increase over prior period	$(165,815)	
Decrease - percentage	(76)%	
Percentage of net revenues	0%	1%

Amortization of intangible assets consists of amounts arising in connection with the acquisition of ItsYourDomain.com ("IYD") in July 2007, the acquisition of EPAG Domainservices GmbH ("EPAG") in July 2011 and the acquisition of the BRI Group in February 2015.

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

IMPAIRMENT OF INDEFINITE LIFE INTANGIBLE ASSETS

	Three months ended March 31,	
	2015	**2014**
Impairment of indefinite life intangible assets	$12,493	$250,688
Decrease over prior period	$(238,195)	
Decrease - percentage	(95)%	
Percentage of net revenues	0%	1%

As part of our normal renewal process during the three months ended March 31, 2015, 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 $12,493, have been written off and recorded as impairment of indefinite life intangible assets. During the three months ended March 31, 2014 we assessed that domain names with a book value of $0.3 million should not be renewed and were allowed to expire.

29

LOSS ON CURRENCY FORWARD CONTRACTS

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

	Three months ended March 31,	
	2015	**2014**
Loss on currency forward contracts	$956,858	$551,371
Increase over prior period	$405,487	
Increase - percentage	74 %	
Percentage of net revenues	2 %	2 %

As of March 31, 2015, 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 the three months ended March 31, 2015 was a net loss of $0.2 million, compared to a net loss of $0.1 million for the three months ended March 31, 2014 In addition, the impact of the fair value adjustment on outstanding contracts was increased by a realized loss upon settlement of currency forward contracts of $0.8 million for the three months ended March 30, 2015, compared to a net loss of $0.5 million during the three months ended March 31, 2014.

At March 31, 2015, our balance sheet reflects a net derivative instrument liability of $2.1 million as a result of our existing foreign exchange contracts.

OTHER INCOME AND EXPENSES

	Three months ended March 31,	
	2015	**2014**
Other income (expense), net	$(24,775)	$(73,833)
Decrease over prior period	$49,058	
Decrease - percentage	(66)%	

Percentage of net revenues	0 %	0 %

Other expenses for the three months ended March 31, 2015 decreased to $24,775 when compared to the three months ended March 31, 2014 and primarily consist of interest we incur in connection with our credit facility with the Bank of Montreal (as discussed below).

INCOME TAXES

	Three months ended March 31,	
	2015	**2014**
Provision for income taxes	$1,551,693	$251,600
Increase in provision over prior period	$1,300,093	
Increase - percentage	517 %	
Percentage of net revenues	4 %	1 %

For the three months ended March 31, 2015, we recorded a provision for income taxes of $1.6 million on income before income taxes of $4.4 million, using an estimated effective tax rate for fiscal 2015 adjusted for certain minimum state taxes. Comparatively, for the three months ended March 31, 2014, we recorded a provision for income taxes of $0.3 million on income before taxes of $0.7 million, using an estimated effective tax rate for the fiscal 2014 fiscal year.

In assessing the realizability of deferred tax assets, we consider 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. We consider projected future taxable income, uncertainties related to the industry in which we operate, and tax planning strategies in making this assessment.

We follow the provisions of FASB ASC Topic 740, Income Taxes to account for income tax exposures. The application of this interpretation requires a two-step process that separates recognition of uncertain tax benefits from measurement thereof.

We had approximately $0.1 million of total gross unrecognized tax benefit as of March 31, 2015 and as of December 31, 2014, which if recognized would favorably affect our income tax rate in future periods. The unrecognized tax benefit relates primarily to prior year Pennsylvania state franchise taxes. We recognize accrued interest and penalties related to income taxes in income tax expense. We did not have significant interest and penalties accrued at March 31, 2015 and December 31, 2014, respectively.

OTHER COMPREHENSIVE INCOME (LOSS)

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

The impact of the fair value adjustment on outstanding hedged contracts for the three months ended March 31, 2015 was a net loss in other comprehensive income of $0.5 million. The impact of the fair value adjustment on outstanding hedged contracts for the three months ended March 31, 2104 was a net loss in other comprehensive income of $0.2 million.

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

	Three months ended March 31,	
	2015	**2014**
Comprehensive income (loss)	$(544,792)	$(215,467)
Decrease in provision over prior period	$(329,325)	
Decrease - percentage	153 %	
Percentage of net revenues	(1)%	(1)%

31

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2015, our cash and cash equivalents balance increased by $5.4 million to $13.7 million when compared to December 31, 2014. Our principal sources of liquidity during the three months ended March 31, 2015 resulted from cash provided by operating activities of $2.9 million, the proceeds of $6.6 million we received on our previously announced agreement to amend our .online joint venture relationship to a marketing agreement, the proceeds of $3.5 million we received under our Amended Credit Facility to fund the previously announced acquisition of a controlling interest in Ting Virginia, LLC and the exercise of stock options of $0.7 million. The resulting proceeds from the exercise of stock options of $0.7 million includes an excess tax benefit from share based compensation expenses of $0.4 million. These sources of funds were partly offset by our repurchasing 214,089 of our shares for $4.1 million during the quarter through our open market stock buyback that commenced on February 16, 2015, our repurchasing 193,907 shares for $3.6 million through our modified “Dutch auction tender offer” that closed on January 7, 2015 and our investing $0.2 million in additions to property and equipment.

We have credit agreements (collectively the “Amended Credit Facility”) with the Bank of Montreal which provide us with access to a demand loan revolving facility (the “2012 DLR Loan”) and a demand loan revolving reducing facility (the “2012 DLRR Loan”) that provide for a $14 million, five-year revolving credit facility, a $3.5 million treasury risk management facility and a $1.0 million operating demand loan. At March 31, 2015 the balance under the 2012 DLRR Loan was $3.5 million and the 2012 DLR Loan was fully repaid. Both of these financing arrangements remain available to fund future operations of the Company, with no set expiration date.

In accordance with the terms of the demand loan facilities, repayment of advances under the 2012 DLR Loan consist of interest only payments at U.S. Base Rate plus 1.25%, made monthly in arrears, and prepayment is permitted without penalty.

The Amended Credit Facility also provides for a $3.5 million settlement risk line to assist us with hedging Canadian dollar exposure through foreign exchange forward contracts and/or currency options. Under the terms of the Amended Credit Facility, we may enter into such agreements at market rates with terms not to exceed 18 months. As of March 31, 2015, we 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 March 31, 2015, we were in compliance with all our covenants.

Cash Flow from Operating Activities

Net cash provided by operating activities during the three months ended March 31, 2015 was $2.9 million, as compared to our using $39,000 during the three months ended March 31, 2014.

Net income, after adjusting for non-cash charges, during the three months ended March 31, 2015 was $3.3 million. Net income included non-cash charges and recoveries of $0.5 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 used $0.3 million. Positive contributions of $2.9 million from movements in deferred revenue, income taxes, accounts payable and accreditation fees payable were offset by our utilizing $3.2 million to fund a reduction in customer deposits and increases in deferred registration costs, prepaid expenses and deposits, accounts receivable, inventory and accrued liabilities.

Cash Flow from Financing Activities

Net cash outflows from financing activities during the three months ended March 30, 2015 totaled $3.6 million as compared to our generating $1.2 million during the three months ended March 31, 2014. Net cash outflows amounting to $7.7 million resulted from $4.1 million used to fund our repurchasing 214,089 of our shares during the quarter through our open market stock buyback that commenced on February 16, 2015 and our repurchasing of 193,907 shares for $3.6 million through our modified “Dutch auction tender offer” that closed on January 7, 2015. These cash outflows were partially offset by cash inflows of $3.5 million we received under our Amended Credit Facility to fund the previously announced acquisition of a controlling interest in Ting Virginia, LLC and the exercise of stock options of $0.7 million. The resulting proceeds from the exercise of stock options of $0.7 million includes an excess tax benefit from share based compensation expenses of $0.4 million.

Cash Flow from Investing Activities

Investing activities during the three months ended March 31, 2015 generated net cash of $6.0 million.

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

On February 27, 2015, Ting Fiber, Inc., one of our wholly owned subsidiaries, acquired a controlling ownership interest in the newly formed Ting Virginia, LLC and its acquired subsidiaries, Blue Ridge Websoft, LLC (doing business as Blue Ridge InternetWorks), Fiber Roads, LLC and Navigator Network Services, LLC (the BRI Group) for a consideration of approximately $3.6 million. The purchase price was satisfied through our releasing $3.1 million from the escrow accounts established during Fiscal 2014 and an additional payment of $0.4 million made at closing. In addition, we used $0.2 million to acquire additional property and equipment.

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

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

If additional financing is required, we may not be able to raise it on acceptable terms, or at all, and additional financing may be dilutive to existing investors. We may also evaluate potential acquisitions of other businesses, products and technologies. To complete potential acquisitions, we may issue additional securities or need additional equity or debt financing and any additional financing may be dilutive to existing investors. There are currently no material understandings, commitments or agreements regarding the acquisition of other businesses.

Off-Balance Sheet Arrangements

As of March 31, 2015, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Contractual Obligations

In our Annual Report on Form 10-K for the year ended December 31, 2014, we disclosed our contractual obligations. As of March 31, 2015, there have been no material changes to those contractual obligations outside the ordinary course of business.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We develop products in Canada and sell these services in North America and Europe. Our sales are primarily made in U.S. dollars, while a major portion of expenses are incurred in Canadian dollars. Our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. Our interest income is sensitive to changes in the general level of Canadian and U.S. interest rates, particularly since the majority of our investments are in short-term instruments. Based on the nature of our short-term investments, we have concluded that there is no material interest rate risk exposure as of March 31, 2015. We are also subject to market risk exposure related to changes in interest rates under our Amended Credit Facility. We do not expect that any changes in interest rates will be material; however, fluctuations in interest rates are beyond our control. We will continue to monitor and assess the risks associated with interest expense exposure and may take additional actions in the future to mitigate these risks.

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

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

Maturity date	Notional amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Fair value
April – June, 2015	$ 6,500,000	1.1042	$ (833,264)
July – September, 2015	6,500,000	1.1282	(716,111)
October – December, 2015	6,500,000	1.1536	(589,893)
Total	$ 19,500,000	1.1287	$ (2,139,268)

As of March 31, 2015, we had $19.5 million of outstanding foreign exchange forward contracts which will convert to CDN $22.0 million. Of these contracts, $16.5 million met the requirements for hedge accounting (March 31, 2014 - $20.1 million of which $15.6 million were designated as hedges).

We have performed a sensitivity analysis model for foreign exchange exposure over the three months ended March 31, 2015. The analysis used a modeling technique that compares the U.S. dollar equivalent of all expenses incurred in Canadian dollars, at the actual exchange rate, to a hypothetical 10% adverse movement in the foreign currency exchange rates against the U.S. dollar, with all other variables held constant. Foreign currency exchange rates used were based on the market rates in effect during the three months ended March 31, 2015. The sensitivity analysis indicated that a hypothetical 10% adverse movement in foreign currency exchange rates would result in a decrease in net income for the three months ended March 31, 2015 of approximately $0.7 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. 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 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, performed an evaluation of our disclosure controls and procedures as required by Rule 13a-15(e) and 15d-15(e) under the Exchange Act. Based on the evaluation as of March 31, 2015, management has concluded that our disclosure controls and procedures were not effective as a result of a material weakness in our internal control over financial reporting as described in our Annual Report on Form 10-K for the year ended December 31, 2014 (“material weakness”).

We have made progress remediating the material weaknesses identified in our Annual Report on Form 10-K for the year ended December 31, 2014 which is described in the next section. Notwithstanding the material weaknesses described in Item 9A of the 2014 Annual Report on Form 10-K, we believe our consolidated statements presented in this Form 10-Q fairly represent, in all material respects, our financial position, results of operations and cash flows for all periods presented herein.

(b) Changes in Internal Control over Financial Reporting

Except as set forth below, during the three months ended March 31, 2015, there have not been any changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

(c) Plan for Remediation of Material Weakness in Internal Control over Financial Reporting

As previously discussed in our Annual Report on Form 10-K for the year ended December 31, 2014, we are in the process of remediating the material weakness in our internal control over financial reporting. Our remediation plan includes our 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.

Management, with the oversight of the Audit Committee of the Board of Directors, has made substantial progress toward remediation of the material weakness through the following actions:

- redesign and implementation of enhanced policies and procedures for preparation and review of account reconciliations;
- development of policies and standard procedures for the documentation and review of manual journal entries; and
- hiring of temporary resources to provide capacity to fully implement and sustain adherence to redesigned policies and procedures while recruitment of permanent resources are underway.

When fully implemented and operating effectively, we expect these enhancements will remediate the material weakness described above. We have incurred and expect to incur additional costs associated with our remediation efforts. We plan to remediate the material weakness during our fiscal year ending December 31, 2015. However, we cannot determine how long it will take to fully and effectively execute our remediation plan, and we cannot provide any assurance that these remediation efforts will be successful or that our internal control over financial reporting will be effective as a result of these efforts.

PART II.

OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in various investigations, claims and lawsuits arising in the normal conduct of our business, none of which, individually or in the aggregate, 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 our attention.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should also carefully consider the risk factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014, all of which could materially affect our business, financial condition or operating results and should be considered before making an investment decision regarding our securities. There have been no material changes to these risk factors. The risks described in our Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may adversely affect our business, financial condition or operating results.

Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

(a) Exhibits.

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, as filed with the SEC on August 14, 2012).
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 *

* Filed herewith.

† Furnished herewith.

SIGNATURES

Pursuant to the requirements 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.

Date: May 8, 2015 TUCOWS INC.

By: /s/ Elliot Noss
Elliot Noss
President and Chief Executive Officer

By: /s/ Michael Cooperman
Michael Cooperman Chief Financial Officer
(Principal Financial and Accounting Officer)

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39