TUCOWS INC /PA/
Form 10-Q
November 06, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from to

Commission file number 1-32600

TUCOWS INC.

(Exact Name of Registrant as Specified in Its Charter)

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

96 Mowat Avenue,

Toronto, Ontario M6K 3M1, Canada

(Address of Principal Executive Offices) (Zip Code)

(416) 535-0123

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

As of November 2, 2015, there were 10,727,380 outstanding shares of common stock, no par value, of the registrant.

TUCOWS INC.

Form 10-Q Quarterly Report

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TRADEMARKS, TRADE NAMES AND SERVICE MARKS

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PART I.

FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Tucows Inc.

Consolidated Balance Sheets

(Dollar amounts in U.S. dollars)

(unaudited)

	September 30, 2015 (unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$11,898,360	$8,271,377
Accounts receivable, net of allowance for doubtful accounts of $123,032 as of September 30, 2015 and $125,766 as of December 31, 2014	7,946,089	6,789,685
Inventory	742,460	393,774
Prepaid expenses and deposits	4,677,841	3,697,292
Prepaid domain name registry and ancillary services fees, current portion	47,060,627	44,614,858
Other assets (note 5)	-	8,199,000
Deferred tax asset, current portion (note 9)	3,767,702	2,498,196
Income taxes recoverable	15,611	997
Total current assets	76,108,690	74,465,179
Prepaid domain name registry and ancillary services fees, long-term portion	11,387,867	11,764,765
Property and equipment	6,472,226	1,609,787
Deferred tax asset, long-term portion (note 9)	5,151,914	4,880,423
Intangible assets (note 7)	14,678,989	14,202,585
Goodwill (note 7)	21,005,143	18,873,127
Total assets	$134,804,829	$125,795,866
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$3,965,083	$3,579,920
Accrued liabilities	5,681,783	3,941,549
Customer deposits	4,714,950	4,461,727

Derivative instrument liability, current portion (note 6)	2,005,634	1,115,805
Deferred rent, current portion	15,139	-
Loan payable (note 8)	3,500,000	-
Deferred revenue, current portion	59,077,575	55,495,566
Accreditation fees payable, current portion	485,491	466,201
Income taxes payable (note 9)	2,423,520	473,480
Total current liabilities	81,869,175	69,534,248
Derivative instrument liability, long-term portion (note 6)	175,734	-
Deferred revenue, long-term portion	15,336,127	15,610,753
Accreditation fees payable, long-term portion	120,378	128,243
Deferred rent, long-term portion	95,656	92,878
Other liabilities (note 10)	1,545,832	-
Deferred tax liability, long-term portion (note 9)	4,974,814	4,787,351
Redeemable non-controlling interest (note 4)	3,024,349	-
Stockholders' equity (note 14)		
Preferred stock - no par value, 1,250,000 shares authorized; none issued and outstanding	-	-
Common stock - no par value, 250,000,000 shares authorized;10,727,380 shares issued and outstanding as of September 30, 2015 and 11,329,732 shares issued and outstanding as of December 31, 2014	14,160,189	14,130,059
Additional paid-in capital	13,397,142	29,090,058
Deficit	1,298,763	(6,955,283)
Accumulated other comprehensive loss	(1,193,330)	(622,441)
Total stockholders' equity	27,662,764	35,642,393
Total liabilities and stockholders' equity	$134,804,829	$125,795,866

Commitments and contingencies (note 13)

See accompanying notes to unaudited consolidated financial statements

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Tucows Inc.

Consolidated Statements of Operations and Comprehensive Income

(Dollar amounts in U.S. dollars)

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2015	**2014**	**2015**	**2014**
Net revenues (note 12)	$44,551,909	$38,874,183	$127,908,962	$108,864,578
Cost of revenues (note 12):				
Cost of revenues	28,779,882	25,985,875	83,851,928	75,038,518
Network expenses	1,421,279	1,139,515	4,138,213	3,427,856
Depreciation of property and equipment	324,166	172,019	803,737	528,956
Amortization of intangible assets (note 7)	11,532	-	26,988	-
Total cost of revenues	30,536,859	27,297,409	88,820,866	78,995,330
Gross profit	14,015,050	11,576,774	39,088,096	29,869,248
Expenses:				
Sales and marketing	4,740,662	3,593,486	13,387,800	11,377,701
Technical operations and development	1,101,581	1,041,136	3,405,052	3,238,566
General and administrative	2,607,916	2,727,626	7,826,405	6,959,984
Depreciation of property and equipment	63,790	58,685	185,074	167,527
Amortization of intangible assets (note 7)	56,997	107,230	167,209	545,290
Impairment of indefinite life intangible assets (note 7)	18,550	-	68,848	577,145
Loss on currency forward contracts (note 6)	352,738	150,227	681,988	219,904
Total expenses	8,942,234	7,678,390	25,722,376	23,086,117
Income from operations	5,072,816	3,898,384	13,365,720	6,783,131
Other income (expense):				
Interest expense, net	(78,959)	(63,498)	(161,136)	(206,679)
Total other income (expense)	(78,959)	(63,498)	(161,136)	(206,679)
Income before provision for income taxes	4,993,857	3,834,886	13,204,584	6,576,452
Provision for income taxes (note 9)	1,834,400	1,143,981	4,926,189	2,061,526
Net income before redeemable non-controlling interest	3,159,457	2,690,905	8,278,395	4,514,926

Redeemable non-controlling interest	(91,283)	-	(162,750)	-
Net (earnings) loss attributable to redeemable non-controlling interest	91,283	-	162,750	-
Net income	3,159,457	2,690,905	8,278,395	4,514,926
Other comprehensive income (loss), net of tax				
Loss on hedging activities	(724,336)	(437,519)	(1,723,248)	(602,901)
Net amount reclassified to earnings	364,330	57,701	1,152,359	437,893
Other comprehensive income (loss) net of tax of $198,664 and $197,852 for the three months ended September 30, 2015 and September 30, 2014 and $334,280 and $85,955 for the nine months ended September 30, 2015 and September 30, 2014	(360,006)	(379,818)	(570,889)	(165,008)
Comprehensive income for the period	$2,799,451	$2,311,087	$7,707,506	$4,349,918
Basic earnings per common share (note 11)	$0.29	$0.24	$0.75	$0.40
Shares used in computing basic earnings per common share (note 11)	10,984,869	11,321,175	11,057,634	11,190,684
Diluted earnings per common share (note 11)	$0.28	$0.23	$0.72	$0.39
Shares used in computing diluted earnings per common share (note 11)	11,372,682	11,787,749	11,469,657	11,718,910

See accompanying notes to unaudited consolidated financial statements

Tucows Inc.

Consolidated Statements of Cash Flows

(Dollar amounts in U.S. dollars)

(unaudited)

	Three months ended September 30,		**Nine months ended September 30,**	
	2015	**2014**	**2015**	**2014**
Cash provided by:				
Operating activities:				
Net income for the period	$3,159,457	$2,690,905	$8,278,395	$4,514,926
Items not involving cash:				
Depreciation of property and equipment	387,956	230,704	988,811	696,483
Amortization of intangible assets	68,529	107,230	194,197	545,290
Impairment of indefinite life intangible asset	18,550	-	68,848	577,145
Deferred income taxes recovery	(53,085)	(49,214)	(1,019,254)	(807,691)
Excess tax benefits from share-based compensation expense	-	168,346	-	(250,555)
Amortization of deferred rent	7,370	1,832	17,917	14,212
Disposal of domain names	2,866	10,708	20,551	19,577
Loss on change in the fair value of forward contracts	99,052	125,305	160,394	19,991
Stock-based compensation	128,575	230,712	378,228	417,046
Change in non-cash operating working capital:				
Accounts receivable	262,149	4,440	(994,889)	(1,609,287)
Inventory	(123,047)	90,114	(281,491)	(81,340)
Prepaid expenses and deposits	1,000,287	613,342	(892,105)	(13,192)
Prepaid domain name registry and ancillary services fees	149,905	573,727	(2,068,871)	(1,848,171)
Income taxes recoverable	1,152,410	(227,558)	1,935,426	(794,101)
Accounts payable	195,002	326,610	202,578	1,130,552
Accrued liabilities	406,920	1,214,237	1,517,453	1,044,866
Customer deposits	(199,695)	(418,539)	253,223	(431,614)
Deferred revenue	140,850	(656,430)	3,185,946	2,959,948
Accreditation fees payable	(20,621)	(22,510)	11,425	5,822
Net cash provided by operating activities	6,783,430	5,013,961	11,956,782	6,109,907
Financing activities:				
Proceeds received on exercise of stock options	189,914	343,953	737,369	1,385,816
Excess tax benefits from share-based compensation expense	312,091	741,512	1,400,793	1,755,312
Repurchase of common stock	(9,977,495)	(1,099,571)	(18,179,176)	(1,181,857)
Proceeds received on loan payable	-	-	3,500,000	-
Repayment of loan payable	-	(5,358,333)	-	(6,300,000)
Net cash used in financing activities	(9,475,490)	(5,372,439)	(12,541,014)	(4,340,729)

Investing activities:				
Additions to property and equipment	(710,342)	(216,794)	(2,051,124)	(598,820)
Gross proceeds from the waiver of rights to .online registry	-	-	6,619,832	-
Additional cost of acquisition of Ting Virginia, LLC., net of cash of $21,423	-	-	(357,493)	-
Net cash provided by (used in) investing activities	(710,342)	(216,794)	4,211,215	(598,820)
Increase (decrease) in cash and cash equivalents	(3,402,402)	(575,272)	3,626,983	1,170,358
Cash and cash equivalents, beginning of period	15,300,762	14,164,518	8,271,377	12,418,888
Cash and cash equivalents, end of period	$11,898,360	$13,589,246	$11,898,360	$13,589,246
Supplemental cash flow information:				
Interest paid	$78,988	$64,248	$175,290	$207,634
Income taxes paid, net	$512,954	$469,248	$2,457,225	$1,724,976
Supplementary disclosure of non-cash investing and financing activities:				
Property and equipment acquired during the period not yet paid for	$63,499	$82,132	$63,499	$82,132

See accompanying notes to unaudited consolidated financial statements

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION OF THE COMPANY:

Tucows Inc., a Pennsylvania corporation (referred to throughout this report as the “Company”, “Tucows”, “we”, “us” or through similar expressions), together with our consolidated subsidiaries, is a provider of retail mobile phone service and fixed Internet access as well as a global distributor of Internet Services, such as domain name registration, digital certificates and email. The Company’s Internet Services are distributed through its global Internet-based distribution network of Internet service providers, web hosting companies and other companies that provide services to end-users.

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 office is located in Toronto, Ontario and we have other offices in the Netherlands, Germany and the United States. Our common stock is listed on NASDAQ under the symbol “TCX” and on the Toronto Stock Exchange under the symbol “TC”.

2. BASIS OF PRESENTATION:

The accompanying unaudited interim consolidated balance sheets, and the related consolidated statements of operations and comprehensive income and cash flows reflect all adjustments, consisting of normal recurring adjustments, that are, in the opinion of management, necessary for a fair presentation of the financial position of Tucows and its subsidiaries as at September 30, 2015 and the results of operations and cash flows for the interim periods ended September 30, 2015 and 2014. The results of operations presented in this Quarterly Report on Form 10-Q are not necessarily indicative of the results of operations that may be expected for future periods.

The accompanying unaudited interim consolidated financial statements have been prepared by Tucows in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosure normally included in the Company's annual audited consolidated financial statements and accompanying notes have been condensed or omitted. These interim consolidated financial statements and accompanying notes follow the same accounting policies and methods of application used in the annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2014 included in Tucows' 2014 Annual Report on Form 10-K filed with the SEC on March 11, 2015.

In the prior period, the Company recorded the effective portion of the gain or loss upon settlement of hedged currency forward contracts in “Loss on currency forward contracts” and reclassified the same amount from “General and administrative expense” to the income statement line item for the hedged item. The Company has determined that the reclassification of the effective portion of gain or loss upon settlement amounts are more appropriately reclassified from “Loss on currency forward contracts” to the income statement line item for the hedged item. As a result a loss of $0.1 million for the three months ended September 30, 2014 has been reclassified to “General and administrative expense” from “Loss on currency forward contracts”, and a loss of $0.7 million for the nine months ended September 30, 2014 has been reclassified to “General and administrative expense” from “Loss on currency forward contracts”. As a result of this reclassification, there was no change to previously reported net income, income from operations, net revenues, gross profit, reported cash flows or the amounts recorded in the consolidated balance sheets.

There have been no material changes to our significant accounting policies during the three months ended September 30, 2015 as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

For purposes of clarification, significant accounting policies regarding revenue recognition, property and equipment and derivative financial instruments are included below:

(a) Revenue recognition

The Company derives revenues from the provisioning of mobile phone and fixed Internet access 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 computed 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's revenues are also derived from domain name registration fees on both a wholesale and retail basis, the sale of domain names, the provisioning of other Internet services, 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 domain name registration and from provisioning 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.

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.

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 and, if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Company. 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.

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.

(b) 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:

Asset	**Rate**	
Computer equipment	30	%
Computer software	100	%
Furniture and equipment	20	%
Vehicles and tools	20	%
Fiber network (years)	15	
Customer equipment and installations (years)	3	
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.

Additions to the fiber network are recorded at cost, including all material, labor, vehicle and installation and construction costs and certain indirect costs associated with the construction of cable transmission and distribution facilities. While the Company’s capitalization is based on specific activities, once capitalized, costs are tracked by fixed asset category at the fiber network level and not on a specific asset basis. For assets that are retired, the estimated historical cost and related accumulated depreciation is removed.

(c) Derivative Financial Instruments

During the three and nine months ended September 30, 2015 and the year ended December 31, 2014 ("Fiscal 2014"), we used derivative financial instruments to manage foreign currency exchange risk. We account for these instruments in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 815, “Derivatives and Hedging” ("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. 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). We 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's and the counterparty's 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. Our discounted cash flow techniques use observable market inputs, such as foreign currency spot and forward rates.

3. RECENT ACCOUNTING PRONOUNCEMENTS:

In September 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-16, *Business Combinations (Topic 805)* ("ASU 2015-16"), which relates to the simplification of the accounting for measurement-period adjustments in business combinations. This standard update eliminates the requirement to account for measurement-period adjustments retrospectively. This standard update instead requires an acquirer to recognize the measurement-period adjustments in the reporting period in which the adjustments are determined. This standard update also requires that an acquirer record the effects on earnings of any changes resulting from the change in provisional amounts, calculated as if the accounting had been completed at the acquisition date. We will adopt this standard update during the first quarter of 2016. The adoption of this standard update is not expected to have a significant impact on our condensed consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), which is a comprehensive revenue recognition standard that will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The new standard provides a single principles-based, five-step model to be applied to all contracts with customers, which steps are to (1) identify the contract(s) with the customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when each performance obligation is satisfied. More specifically, revenue will be recognized when promised goods or services are transferred to the customer in an amount that reflects the consideration expected in exchange for those goods or services. ASU 2014-09 was set to be effective for interim and annual periods beginning after December 15, 2016. On July 9, 2015, the FASB voted to defer the effective date by one year, such that the new standard will be effective for the Company for annual reporting periods beginning after December 15, 2017 (January 1, 2018 for the Company) and for interim reporting periods beginning after December 15, 2017 (January 1, 2018 for the Company). Early adoption of the standard is permitted but not before the original effective date. Companies can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. The Company does not intend to adopt the standard early and is currently in the process of evaluating the impact that the adoption of ASU 2014-09 will have on its consolidated financial statements and the selected method of transition to the new standard.

In April 2015, the FASB issued ASU No. 2015-03, *Interest - Imputation of Interest* (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). The amendments in ASU 2015-03 require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This guidance is effective for annual and interim reporting periods of public entities beginning after December 15, 2015, and early adoption is permitted. In August 2015, the accounting standard update related to the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements was issued. This standard adds SEC paragraphs pursuant to an SEC Staff Announcement that the SEC staff would not object to an entity deferring and presenting debt issuance costs associated with a line-of-credit arrangement as an asset and subsequently amortizing the costs ratably over the term of the arrangement. We do not expect the adoption of ASU 2015-03 to materially impact our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement* ("ASU 2015-05"), which provides guidance in determining whether fees for purchasing cloud computing services (or hosted software solutions) are considered internal-use software or should be considered a service contract. The cloud computing agreement that includes a software license should be accounted for in the same manner as internal-use software if the customer has the contractual right to take possession of the software during the hosting period without significant penalty and it is feasible to either run the software on customer's hardware or contract with another vendor to host the software. Arrangements that don't meet the requirements for internal-use software should be accounted for as a service contract. ASU 2015-05 will be effective for interim and annual periods beginning after December 15, 2015 (January 1, 2016 for the Company). Early adoption of the standard is permitted. The Company is currently in the process of evaluating the impact that the adoption of ASU 2015-05 will have on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory* (Topic 330) ("ASU 2015-11"). The amendments in ASU 2015-11 require that inventory should be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable cost of completion, disposal and transportation. This guidance is effective for annual and interim reporting periods of public entities beginning after December 15, 2016 (January 1, 2017 for the Company) and early adoption is permitted as of the beginning of an interim or annual reporting period. The implementation of the amendments in ASU 2015-11 are to be made on a prospective basis after the date of adoption. The Company is currently in the process of evaluating the impact that the adoption of ASU 2015-11 will have on its consolidated financial statements.

4. Acquisitions:

On February 27, 2015, Ting Fiber, Inc., one of our wholly owned subsidiaries, acquired a 70% ownership interest in the newly formed Ting Virginia, LLC and its acquired subsidiaries, Blue Ridge Websoft, LLC (doing business as Blue Ridge Internet Works), Fiber Roads, LLC and Navigator Network Services, LLC (the "BRI Group") for consideration of approximately $3.5 million. Ting Virginia, LLC is an independent Internet service provider in Charlottesville, Virginia, doing business primarily as Blue Ridge Internet Works. The BRI Group provides high speed internet access, Internet hosting and network consulting services to over 3,000 customers in central Virginia. The purchase price was primarily satisfied through an advance under our 2012 DLR Loan facility.

Ting Fiber Inc. and the selling shareholders (the "Minority Shareholders") also agreed to certain put and call options with regard to the remaining 30% interest in Ting Virginia, LLC retained by the Minority Shareholders. On the second anniversary of the closing date, Ting Fiber, Inc. may exercise a call option to purchase an additional 20% ownership interest in Ting Virginia, LLC. Contingent upon the exercise of the call option by Ting Fiber, Inc. the Minority Shareholders may exercise a put option within 7 days following the exercise of the call option by Ting Fiber, Inc., to sell their remaining 10% ownership interest in Ting Virginia, LLC. The consideration to be exchanged for the shares acquired or sold under the options shall be $100,000 per percentage point of the additional equity interest acquired.

In addition, on the fourth anniversary of the closing date, the Minority Shareholders may exercise a put option under which Ting Fiber, Inc. shall be obligated to purchase the Minority Shareholders' remaining interest for $120,000 per percentage point of the additional equity interest acquired.

The Company has determined that the put options described above are embedded within the non-controlling interest shares that are subject to the put options. The redemption feature requires classification of the Minority Shareholders' Interest in the Consolidated Balance Sheets outside of equity under the caption "Redeemable non-controlling interest". The present value of the liability at the acquisition date was $3,000,000 and is being accreted to the estimated liability amount using a discount rate of 5% over the periods of up to four years from the acquisition date. Subsequently, this amount was increased by $12,199 and by $24,349 during the three and nine months ended September 30, 2015, respectively, to $3,024,349 to reflect the present value of this Redeemable non-controlling interest as at September 30, 2015.

The purchase consideration is comprised as follows:

Cash	$3,135,140
Less refund from working capital adjustment	(50,000)
Repayment of debt	418,775
Redeemable non-controlling interest	3,000,000
	$6,503,915

The following table represents the purchase price allocation based on the estimated fair values of the assets

Current assets (including cash of $21,423)	$338,577
Current liabilities	(529,702)
Property and equipment, including:	
Fiber network	3,456,024
Computer equipment	200,000
Furniture and equipment	5,000
Vehicles	92,000
Leasehold improvements	50,000
Intangible assets, including:x	
Network rights	692,000
Customer relationships	68,000
Goodwill	2,132,016
Net assets acquired	$6,503,915

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The goodwill recorded on the acquisition is expected to be deductible for tax purposes.

The fair value of current assets acquired includes accounts receivable with a fair value of $0.2 million. All accounts receivable acquired at acquisition are expected to be collectable.

During the three and nine months ended September 30, 2015 this acquisition resulted in additional revenues of $0.9 million and $2.4 million respectively. The acquisition had no significant impact on net income for the three and nine months ended September 30, 2015.

The Company acquired new classes of assets in this acquisition, namely fiber network and vehicles. The Company has accordingly, in connection with its depreciation policies, added additional disclosure in note 2 (b) above.

5. Other assets:

Other assets are comprised of the following:

	September 30, 2015	**December 31, 2014**
Amounts in escrow advanced to acquire a controlling ownership interest in Ting Virginia, LLC (see note 4)	$ —	$3,125,000
Amounts advanced to the joint venture with Radix FZC and NameCheap Inc. which was terminated in February 2015 (note 10)	—	5,074,000
	$ —	$8,199,000

6. Derivative instruments and hedging activities:

Foreign currency forward contracts

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

The Company has designated certain of these transactions as cash flow hedges of forecasted transactions under 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 September 30, 2015, is recorded as derivative instrument liabilities.

As of September 30, 2015, the notional amount of forward contracts that the Company held to sell U.S. dollars in exchange for Canadian dollars was $31.0 million, of which $26.4 million met the requirements of ASC Topic 815 and were designated as hedges (September 30, 2014 - $22.8 million of which $19.0 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 nine months ended September 30, 2015, were as follows (amounts presented do not include any income tax effects).

Fair value of derivative instruments in the consolidated balance sheets

Derivatives	**Balance Sheet Location**	**As of September 30, 2015** Fair Value **Asset (Liability)**	**As of December 31, 2014** Fair Value **Asset (Liability)**
Foreign currency forward contracts not designated as cash flow hedges	Derivative instruments	$ (329,523)	$ (169,129)
Foreign currency forward contracts designated as cash flow hedges	Derivative instruments	$ (1,851,845)	$ (946,676)
Total foreign currency forward contracts	Derivative instruments	$ (2,181,368)	$ (1,115,805)

Movement in Accumulated Other Comprehensive Income ("AOCI") balance for the three months ended September 30, 2015:

	Gains and losses on cash flow hedges	Tax impact	Total AOCI
Opening AOCI balance – June 30, 2015	$(1,293,175)	$459,851	$(833,324)

Other comprehensive income (loss) before reclassifications	(1,124,049)	399,713	(724,336)
Amount reclassified from accumulated other comprehensive income	565,379	(201,049)	364,330
Other comprehensive income (loss) for the three months ended September 30, 2015	(558,670)	198,664	(360,006)
Ending AOCI balance – September 30, 2015	$(1,851,845)	$658,515	$(1,193,330)

Movement in Accumulated Other Comprehensive Income ("AOCI") balance for the nine months ended September 30, 2015:

	Gains and losses on cash flow hedges	Tax impact	Total AOCI
Opening AOCI balance – December 31, 2014	$(946,676)	$324,235	$(622,441)
Other comprehensive income (loss) before reclassifications	(2,693,436)	970,188	(1,723,248)
Amount reclassified from accumulated other comprehensive income	1,788,267	(635,908)	1,152,359
Other comprehensive income (loss) for the nine months ended September 30, 2015	(905,169)	334,280	(570,889)
Ending AOCI balance – September 30, 2015	$(1,851,845)	$658,515	$(1,193,330)

Effects of derivative instruments on income and other comprehensive income (OCI) for the three months ended September 30, 2015 and September 30, 2014 are as follows:

Derivatives in Cash Flow Hedging Relationship	**Amount of Gain or (Loss) Recognized in OCI 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 (Effective Portion)**	**Location of Gain or (Loss) Recognized in Income on Derivative (ineffective Portion and Amount Excluded from Effectiveness Testing)**	**Amount of Gain or (Loss) Recognized in Income on Derivative (ineffective Portion and Amount Excluded from Effectiveness Testing)**
		Operating expenses	$ (314,841)	Operating expenses	(84,312)
Foreign currency forward contracts for the three months ended September 30, 2015	$ (360,006)	Cost of revenues	(49,489)	Cost of revenues	$ —
		Operating expenses	$ (40,112)	Operating expenses	—
Foreign currency forward contracts for the three months ended September 30, 2014	$ (437,519)	Cost of revenues	(17,589)	Cost of revenues	$ —

Effects of derivative instruments on income and other comprehensive income (OCI) for the nine months ended September 30, 2015 and September 30, 2014 are as follows:

Derivatives in Cash Flow Hedging Relationship	**Amount of Gain or (Loss) Recognized in OCI 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 (Effective Portion)**	**Location of Gain or (Loss) Recognized in Income on Derivative (ineffective Portion and Amount Excluded from**	**Amount of Gain or (Loss) Recognized in Income on Derivative (ineffective Portion and Amount Excluded from**

				Effectiveness Testing)	Effectiveness Testing)
		Operating expenses	$ (886,076)	Operating expenses	(115,635)
Foreign currency forward contracts for the nine months ended September 30, 2015	$ (570,889)	Cost of revenues	(266,284)	Cost of revenues	$ —
		Operating expenses	$ (321,136)	Operating expenses	—
Foreign currency forward contracts for the nine months ended September 30, 2014	$ (602,901)	Cost of revenues	(116,757)	Cost of revenues	$ —

In addition to the above, for those foreign currency forward contracts not designated as hedges, the Company has recorded a loss of $0.1 million upon settlement and a loss of $0.1 million for the change in fair value of outstanding contracts for the three months ended September 30, 2015, in the consolidated statement of operations and comprehensive income. The Company has recorded a loss of $25,000 upon settlement and a loss of $0.1 million for the change in fair value of outstanding contracts for the three months ended September 30, 2014, in the consolidated statement of operations and comprehensive income.

The Company has recorded a loss of $0.3 million upon settlement and a loss of $0.2 million for the change in fair value of outstanding contracts for the nine months ended September 30, 2015, in the consolidated statement of operations and comprehensive income. The Company has recorded a loss of $0.2 million upon settlement and a loss of $20,000 for the change in fair value of outstanding contracts for the nine months ended September 30, 2014, in the consolidated statement of operations and comprehensive income.

7. 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:

	Boardtown Corporation	Hosted Messaging Assets of Critical Path	Innerwise Inc.	Mailbank.com Inc.	EPAG Domainservices GmbH	BRI Group	Total
Balances, December 31, 2014	$ 2,044,847	$ 4,072,297	$ 5,801,040	$ 6,072,623	$ 882,320	$ -	$ 18,873,127
Acquisition of Ting Virginia, February 2015	-	-	-	-	-	2,182,016	2,182,016
Balances, March 31, 2015	2,044,847	4,072,297	5,801,040	6,072,623	882,320	2,182,016	21,055,143
Less refund on finalization of working capital adjustment	-	-	-	-	-	(50,000)	(50,000)

Balances, June 30, 2015 and September 30, 2015	$2,044,847	$4,072,297	$5,801,040	$6,072,623	$882,320	$2,132,016	$21,005,143

The Company’s goodwill relates 90% to its Domain Services operating segment and 10% to its Network Access Services operating segment.

On February 27, 2015, Ting Fiber, Inc., one of our wholly owned subsidiaries, acquired a 70% ownership interest in the BRI Group. Goodwill is not amortized, but is subject to an annual impairment test.

Other Intangible Assets:

Intangible assets consist of network rights, brand, customer relationships, surname domain names, non-competition agreements and our portfolio of domain names. As reflected in the table below, these balances are being amortized on a straight-line basis over the life of the intangible assets, except for the surname domain names and portfolio domain names, which have been determined to have an indefinite life and which are tested annually for impairment.

A summary of acquired intangible assets for the three months ended September 30, 2015 is as follows:

	Brand 7 years	**Customer relationships** 4 - 7 years	**Network rights** 15 years	**Surname domain names indefinite life**	**Direct navigation domain names indefinite life**	**Total**
Net book value, June 30, 2015	$95,090	$ 598,428	$676,544	$11,481,166	$1,917,706	$14,768,934
Sales of domain names	-	-	-	(1,298)	(1,568)	(2,866)
Impairment of domain names	-	-	-	(1,298)	(17,252)	(18,550)
Amortization expense	(7,710)	(49,287)	(11,532)	-	-	(68,529)
Net book value,September 30, 2015	$87,380	$ 549,141	$665,012	$11,478,570	$1,898,886	$14,678,989

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A summary of acquired intangible assets for the nine months ended September 30, 2015 is as follows:

	Brand **7 years**	**Customer relationships** **4 - 7 years**	**Network rights** **15 years**	**Surname domain names indefinite life**	**Direct navigation domain names indefinite life**	**Total**
Net book value, December 31, 2014	$110,510	$ 625,220	$-	$11,525,624	$1,941,231	$14,202,585
Acquisition of BRI Group, February 2015	-	68,000	692,000	-	-	760,000
Sales of domain names	-	-	-	(4,868)	(15,683)	(20,551)
Impairment of domain names	-	-	-	(42,186)	(26,662)	(68,848)
Amortization expense	(23,130)	(144,079)	(26,988)	-	-	(194,197)
Net book value,September 30, 2015	$87,380	$ 549,141	$665,012	$11,478,570	$1,898,886	$14,678,989

As of September 30, 2015, the accumulated amortization for the definite life intangibles was $5.9 million.

With regard to indefinite life intangible assets, as part of our normal renewal process we assessed that certain domain names that were acquired in the June 2006 acquisition of Mailbank.com Inc. that were up for renewal should not be renewed. Accordingly, for the three months ended September 30, 2015, domain names, with a book value of $18,550 were not renewed and were recorded as an impairment of indefinite life intangible assets. For the three months ended September 30, 2014, no impairment on indefinite life assets was recorded. For the nine months ended September 30, 2015, domain names, with a book value of $68,848 (nine months ended September 30, 2014 - $0.6 million), were not renewed and were recorded as an impairment of indefinite life intangible assets.

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 September 30, 2015, the outstanding balance under the 2012 DLR Loan was $3.5 million (December 31, 2014 - Nil).

During the three months ended September 30, 2015 no amounts were drawn down on the 2012 DLRR Loan. At September 30, 2015, the 2012 DLRR Loan was fully repaid. This financing arrangement 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 September 30, 2015, the Company held contracts in the amount of $31.0 million to trade U.S. dollars in exchange for Canadian dollars.

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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 September 30, 2015, 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 at and for the period ended, September 30, 2015, the Company was in compliance with these covenants.

9. INCOME TAXES

For the three months ended September 30, 2015, the Company recorded a provision for income taxes of $1.8 million on income before income taxes of $5.0 million, using an estimated effective tax rate for the fiscal year ending December 31, 2015 ("Fiscal 2015") adjusted for certain minimum state taxes. Comparatively, for the three months ended September 30, 2014, the Company recorded a provision for income taxes of $1.1 million on income before taxes of $3.8 million, using an estimated effective tax rate for the 2014 fiscal year.

For the nine months ended September 30, 2015, the Company recorded a provision for income taxes of $4.9 million on income before income taxes of $13.2 million, using an estimated effective tax rate for Fiscal 2015 adjusted for certain minimum state taxes. Comparatively, for the nine months ended September 30, 2014, the Company recorded a provision for income taxes of $2.1 million on income before taxes of $6.6 million, using an estimated effective tax rate for its fiscal year ending December 31, 2014.

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

The Company follows 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.

The Company had approximately $0.1 million of total gross unrecognized tax benefit as of September 30, 2015 and as of December 31, 2014, 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. The Company recognizes accrued interest and penalties related to income taxes in income tax expense. The Company did not have significant interest and penalties accrued at September 30, 2015 and December 31, 2014, respectively.

10. OTHER LIABILITIES:

In February 2015, the Company waived its rights under the formerly proposed joint venture to operate the .online registry and instead entered into a Joint Marketing agreement with its venture partners under which its original capital contributions have been returned and a set of go-forward marketing arrangements have been created instead. These marketing arrangements have resulted in the Company recognizing a gain of $1.5 million, which will be recognized evenly over the three-year term of the marketing agreement commencing in November 2015.

11. BASIC AND DILUTED EARNINGS PER COMMON SHARE:

Basic earnings per common share has been calculated by dividing net income for the period by the weighted average number of common shares outstanding during each period. Diluted earnings per share has been calculated by dividing net income for the period by the weighted average number of common shares and potentially dilutive common shares outstanding during the period. 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 shares equivalents or the proceeds of option exercises.

The following table is a summary of the basic and diluted earnings per common share:

	Three months ended September 30,		**Nine months ended September 30,**	
	2015	**2014**	**2015**	**2014**
Numerator for basic and diluted earnings per common share:				
Net income for the period	$3,159,457	$2,690,905	$8,278,395	$4,514,926
Denominator for basic and diluted earnings per common share:				
Basic weighted average number of common shares outstanding	10,984,869	11,321,175	11,057,634	11,190,684
Effect of outstanding stock options	387,813	466,574	412,023	528,226
Diluted weighted average number of shares outstanding	$11,372,682	$11,787,749	$11,469,657	$11,718,910
Basic earnings per common share	$0.29	$0.24	$0.75	$0.40
Diluted earnings per common share	$0.28	$0.23	$0.72	$0.39

For the three months ended September 30, 2015, outstanding options to purchase 23,000 common shares were not included in the computation of diluted income per common share because all such options had exercise prices greater than the average market price of the common shares.

For the nine months ended September 30, 2015, outstanding options to purchase 69,000 common shares were not included in the computation of diluted income per common share because all such options had exercise prices greater than the average market price of the common shares.

During the nine months ended September 30, 2015, 193,907 common shares were repurchased and cancelled under the terms of the Tender Offer announced in December 2014.

During the three and nine months ended September 30, 2015, 398,000 and 637,502 common shares respectively were repurchased and cancelled under the terms of our stock repurchase program announced in February 2015.

During the nine months ended September 30, 2014, 79,392 common shares were repurchased and cancelled under the terms of our stock repurchase program announced in March 2014, 73,300 of which occurred during the quarter ended September 30, 2014.

The computation of earnings per share and diluted earnings per share for the three and nine months ended September 30, 2015 and 2014 include reductions in the number of shares outstanding due to these repurchases.

12. SEGMENT REPORTING:

(a) We are 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 Network Access Services and Domain Services are described as follows:

1. 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, 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, LLC. Revenues are generated in the United States.

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

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 margin 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, 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.

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

	Domain Name Services	**Network Access Services**	**Consolidated Totals**
Three months ended September 30, 2015			
Net Revenue	$28,011,427	$16,540,482	$44,551,909
Cost of Revenues	19,568,741	9,211,141	28,779,882
Gross Profit before network expenses	8,442,686	7,329,341	15,772,027
Network expenses			1,756,977
Gross Profit			14,015,050
Expenses:			