

TUCOWS INC /PA/  
Form 10-Q  
November 12, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

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**FORM 10-Q**

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

**For the quarterly period ended September 30, 2010**

**OR**

**o 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.**

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(Exact Name of Registrant as Specified in Its Charter)

**Pennsylvania**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**23-2707366**  
(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 12, 2010, there were 53,448,491 outstanding shares of common stock, no par value, of the registrant.



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**TUCOWS INC.**

**Form 10-Q Quarterly Report**

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Table of Contents**PART I.****FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements****Tucows Inc.****Consolidated Balance Sheets****(Dollar amounts in U.S. dollars)**

	<b>September 30, 2010 (unaudited)</b>	<b>December 31, 2009</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 5,431,589	\$ 9,632,394
Accounts receivable, net of allowance for doubtful accounts of \$110,000 as of September 30, 2010 and December 31, 2009	3,332,277	2,822,045
Prepaid expenses and deposits	2,437,566	2,498,922
Derivative instrument asset, current portion (note 6)	576,581	2,107,825
Prepaid domain name registry and ancillary services fees, current portion	36,621,716	31,596,236
Income taxes recoverable	547,000	674,000
Total current assets	48,946,729	49,331,422
Derivative instrument asset, long-term portion (note 6)	5,436	112,553
Prepaid domain name registry and ancillary services fees, long-term portion	12,887,593	12,126,515
Property and equipment	1,410,195	1,986,768
Deferred financing charges	20,900	41,000
Deferred tax asset, long-term portion (note 7)	3,870,038	3,907,476
Intangible assets (note 4)	17,333,237	18,656,353
Goodwill	17,990,807	17,990,807
Total assets	\$ 102,464,935	\$ 104,152,894
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 1,156,803	\$ 1,547,863
Accrued liabilities	1,625,663	1,889,980
Customer deposits	3,702,464	3,624,317
Derivative instrument liability, current portion (note 6)	37,933	
Loan payable, current portion (note 5)	1,784,443	3,220,125
Deferred revenue, current portion	45,475,807	40,211,766
Accreditation fees payable, current portion	545,694	530,656
Deferred tax liability, current portion (note 7)	870,038	907,476
Total current liabilities	55,198,845	51,932,183

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Derivative instrument liability, long-term portion (note 6)	8,445	15,708
Deferred revenue, long-term portion	16,858,661	16,098,812
Accreditation fees payable, long-term portion	168,464	169,620
Deferred tax liability, long-term portion (note 7)	4,840,000	4,840,000
Stockholders' equity (note 11)		
Preferred stock - no par value, 1,250,000 shares authorized; none issued and outstanding		
Common stock - no par value, 250,000,000 shares authorized; 57,362,236 shares issued and outstanding as of September 30, 2010 and 67,080,353 shares issued and outstanding as of December 31, 2009		
	12,107,580	14,030,384
Additional paid-in capital	42,623,860	47,287,351
Deficit	(29,340,920)	(30,221,164)
Total stockholders' equity	25,390,520	31,096,571
Total liabilities and stockholders' equity	\$ 102,464,935	\$ 104,152,894

See accompanying notes to unaudited consolidated financial statements

Table of Contents**Tucows Inc.****Consolidated Statements of Operations****(Dollar amounts in U.S. dollars)**

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(unaudited)</b>		<b>(unaudited)</b>	
Net revenues (note 9)	\$ 21,209,468	\$ 20,496,129	\$ 62,501,219	\$ 60,609,673
Cost of revenues:				
Cost of revenues (*)	15,991,455	14,770,868	46,372,315	42,942,314
Depreciation of property and equipment	231,253	347,619	794,368	1,316,986
Amortization of intangible assets (note 4)	74,802	29,199	224,406	87,597
Total cost of revenues (note 9)	16,297,510	15,147,686	47,391,089	44,346,897
Gross profit	4,911,958	5,348,443	15,110,130	16,262,776
Operating expenses:				
Sales and marketing (*)	1,830,999	1,568,727	5,480,228	4,261,070
Technical operations and development (*)	1,053,768	1,142,331	3,486,718	3,421,825
General and administrative (*)	633,457	1,145,951	2,049,813	4,608,173
Depreciation of property and equipment	40,239	47,249	127,559	221,937
Loss on disposition of property and equipment		40,369		40,369
Amortization of intangible assets (note 4)	360,540	360,540	1,081,620	1,081,620
(Gain) loss on change in fair value of forward exchange contracts	(141,981)	(1,878,230)	1,669,031	(3,902,394)
Total expenses	3,777,022	2,426,937	13,894,969	9,732,600
Income from operations	1,134,936	2,921,506	1,215,161	6,530,176
Other (expenses) income :				
Interest (expense) income, net	(26,917)	(52,887)	(99,812)	(178,669)
Other income		1,880,000		4,493,190
Total other (expenses) income	(26,917)	1,827,113	(99,812)	4,314,521
Income before provision for income taxes	1,108,019	4,748,619	1,115,349	10,844,697
(Recovery of) provision for income taxes (note 7)	24,863	(447,455)	235,105	241,621
Net income for the period	\$ 1,083,156	\$ 5,196,074	\$ 880,244	\$ 10,603,076
Basic earnings per common share (note 8)	\$ 0.02	\$ 0.08	\$ 0.01	\$ 0.15
Shares used in computing basic earnings per common share (note 8)	57,351,161	68,008,871	59,255,739	69,841,981
Diluted earnings per common share (note 8)	\$ 0.02	\$ 0.08	\$ 0.01	\$ 0.15
Shares used in computing diluted earnings per common share (note 8)	59,185,793	68,874,517	61,223,369	70,156,521



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(\*) Stock-based compensation has been included in expenses as follows:

Cost of revenues	\$	6,557	\$	3,860	\$	15,759	\$	12,227
Sales and marketing		30,358		12,807		71,589		42,764
Technical operations and development		19,058		12,395		51,903		34,116
General and administrative		99,813		70,748		174,437		142,641

See accompanying notes to unaudited consolidated financial statements

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**Tucows Inc.**

**Consolidated Statements of Cash Flows**

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

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(unaudited)</b>		<b>(unaudited)</b>	
Cash provided by (used in):				
Operating activities:				
Net income for the period	\$	1,083,156	\$	5,196,074