

TUCOWS INC /PA/  
Form 10-Q  
November 14, 2006

**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, 2006**

**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**  
(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act:

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Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

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 8, 2006, there were 75,822,106 outstanding shares of common stock, no par value, of the registrant.

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**PART I.**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements****Tucows Inc.****Consolidated Balance Sheets**

(Dollar amounts in U.S. dollars)

	September 30, 2006 (unaudited)	December 31, 2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,546,933	\$ 17,348,088
Short-term investments		1,771,569
Restricted cash	262,834	60,000
Interest receivable		39,574
Accounts receivable, net of allowance for doubtful accounts of \$70,000 as of September 30, 2006 and \$51,250 as of December 31, 2005	5,757,226	1,439,329
Prepaid expenses and deposits	2,297,150	1,999,820
Prepaid domain name registry and other Internet services fees, current portion	21,777,022	18,175,988
Deferred tax asset, current portion	1,000,000	1,000,000
Total current assets	34,641,165	41,834,368
Prepaid domain name registry and other Internet services fees, long-term portion	9,330,713	7,701,939
Deferred acquisition costs		46,034
Property and equipment	5,698,689	1,542,671
Deferred tax asset, long-term portion	2,000,000	2,000,000
Intangible assets	18,851,277	1,006,080
Goodwill (note 3)	11,977,086	1,951,067
Investment	353,737	353,737
Cash held in escrow (note 3(a))	801,725	621,412
Total assets	\$ 83,654,392	\$ 57,057,308
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 2,595,011	\$ 1,655,195
Accrued liabilities	3,227,884	1,417,035
Customer deposits	2,851,428	2,276,637
Deferred revenue, current portion	31,522,474	26,790,166
Accreditation fees payable, current portion	504,966	651,811
Total current liabilities	40,701,763	32,790,844
Deferred revenue, long-term portion	13,213,970	11,079,537
Accreditation fees payable, long-term portion	152,197	94,785
Promissory note payable (note 3)	6,000,000	
Deferred tax liability	5,396,000	
Stockholders' equity		
Preferred stock - no par value, 1,250,000 shares authorized; none issued and outstanding		

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Common stock - no par value, 250,000,000 shares authorized; 75,732,220 shares issued and outstanding as of September 30, 2006 and 71,945,303 shares issued and outstanding as of December 31, 2005	15,287,732	12,403,422
Additional paid-in capital	50,271,866	50,061,866
Deficit	(47,369,136 )	(49,373,146 )
Total stockholders' equity	18,190,462	13,092,142
Total liabilities and stockholders' equity	\$ 83,654,392	\$ 57,057,308

See accompanying notes to unaudited consolidated financial statements

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## Tu cows Inc.

## Consolidated Statements of Operations

(Dollar amounts in U.S. dollars)

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Net revenues	\$ 16,864,320	\$ 12,054,796	\$ 47,830,296	\$ 35,858,640
Cost of revenues:				
Cost of revenues (*)	10,464,829	7,676,713	30,458,945	22,484,530
Depreciation of property and equipment	695,624	113,539	1,889,799	319,619
Amortization of intangible assets	66,550	19,290	143,628	57,870
Total cost of revenues	11,227,003	7,809,542	32,492,372	22,862,019
Gross profit	5,637,317	4,245,254	15,337,924	12,996,621
Operating expenses:				
Sales and marketing (*)	1,706,951	1,150,674	4,738,397	3,669,185
Technical operations and development (*)	1,924,435	1,468,624	6,335,874	4,147,467
General and administrative (*)	1,698,012	820,860	4,265,529	3,358,347
Depreciation of property and equipment	43,025	99,883	125,116	412,546
Amortization of intangible assets	230,291	39,750	436,175	119,250
Total operating expenses	5,602,714	3,579,791	15,901,091	11,706,795
Income (loss) from operations	34,603	665,463	(563,167 )	1,289,826
Other income (expenses):				
Interest income (expenses), net	(70,297 )	122,755	135,256	296,859
Other income	1,873,420		2,347,026	
Total other income	1,803,123	122,755	2,482,282	296,859
Income before provision for income taxes	1,837,726	788,218	1,919,115	1,586,685
Recovery of income taxes	(96,895 )		(84,895 )	(151,975 )
Net income for the period	\$ 1,934,621	\$ 788,218	\$ 2,004,010	\$ 1,738,660
Basic earnings per common share	\$ 0.03	\$ 0.01	\$ 0.03	\$ 0.03
Shares used in computing basic earnings per common share	75,706,078	69,602,723	73,418,358	68,126,691
Diluted earnings per common share	\$ 0.02	\$ 0.01	\$ 0.03	\$ 0.02
Shares used in computing diluted earnings per common share	78,214,560	73,145,627	75,852,576	72,243,523
(*) Stock-based compensation has been included in expenses as follows:				
Cost of revenues	\$ 2,200	\$	\$ 7,700	\$
Sales and marketing	\$ 23,200	\$	\$ 79,200	\$
Technical operations and development	\$ 14,800	\$	\$ 50,800	\$

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General and administrative	\$	21,300	\$	\$	72,300	\$
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See accompanying notes to unaudited consolidated financial statements

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**Tucows Inc.**

**Consolidated Statements of Cash Flows**

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

**(unaudited)**

**Three months ended September 30,  
2006**

**2005**

**Nine months ended September 30,  
2006**

**2005**

Cash provided by (used in):