

TUCOWS INC /PA/
Form 10-Q
November 13, 2009
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

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, 2009

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.

(Exact Name of Registrant as Specified in Its Charter)

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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 13, 2009, there were 67,080,353 outstanding shares of common stock, no par value, of the registrant.

Table of Contents

TUCOWS INC.

Form 10-Q Quarterly Report

INDEX

PART I
FINANCIAL INFORMATION

<u>Item 1.</u>	<u>Consolidated Financial Statements</u>	3
	<u>Consolidated Balance Sheets as of September 30, 2009 (unaudited) and December 31, 2008</u>	3
	<u>Consolidated Statements of Operations (unaudited) for the three and nine months ended September 30, 2009 and 2008</u>	4
	<u>Consolidated Statements of Cash Flows (unaudited) for the three and nine months ended September 30, 2009 and 2008</u>	5
	<u>Notes to Consolidated Financial Statements (unaudited)</u>	6
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	34
<u>Item 4T.</u>	<u>Controls and Procedures</u>	35

PART II
OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings</u>	36
<u>Item 1A.</u>	<u>Risk Factors</u>	36
<u>Item 6.</u>	<u>Exhibits</u>	37
<u>Signatures.</u>		38

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

	September 30, 2009 (unaudited)	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,154,455	\$ 5,427,467
Accounts receivable, net of allowance for doubtful accounts of \$125,000 as of September 30, 2009 and \$125,000 as of December 31, 2008	3,929,882	3,200,362
Prepaid expenses and deposits	2,743,505	2,274,043
Derivative instrument assets (note 6)	1,927,475	
Prepaid domain name registry and ancillary services fees, current portion	31,513,882	29,212,610
Deferred tax asset, current portion	590,000	590,000
Total current assets	48,859,199	40,704,482
Prepaid domain name registry and ancillary services fees, long-term portion	12,143,175	11,855,971
Property and equipment	2,148,509	3,072,958
Deferred financing charges	49,300	78,500
Deferred tax asset, long-term portion	2,410,000	2,410,000
Intangible assets (note 4)	19,041,083	20,206,996
Goodwill	17,990,807	17,990,807
Investment		200,000
Total assets	\$ 102,642,073	\$ 96,519,714
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 1,373,068	\$ 1,633,830
Accrued liabilities	1,888,427	2,000,146
Customer deposits	3,764,320	3,319,241
Derivative instrument liabilities (note 6)		1,974,919
Loan payable, current portion (note 5)	3,698,685	2,624,242
Deferred revenue, current portion	40,303,458	37,985,821
Accreditation fees payable, current portion	508,180	510,548
Total current liabilities	51,536,138	50,048,747
Deferred revenue, long-term portion	16,198,501	16,201,804

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Accreditation fees payable, long-term portion	187,285	187,374
Loan payable, long-term portion (note 5)		3,235,125
Deferred tax liability, long-term portion	4,899,000	5,396,000
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; 67,865,096 shares issued and outstanding as of September 30, 2009 and 73,073,782 shares issued and outstanding as of December 31, 2008		
	14,187,313	15,198,358
Additional paid-in capital	47,601,377	48,714,676
Deficit	(31,967,541)	(42,462,370)
Total stockholders' equity	29,821,149	21,450,664
Total liabilities and stockholders' equity	\$ 102,642,073	\$ 96,519,714

See accompanying notes to unaudited consolidated financial statements

Subsequent events (note 14).

Table of Contents

Tucows Inc.

Consolidated Statements of Operations

(Dollar amounts in U.S. dollars)

(unaudited)

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	Three months ended September 30, 2009 (unaudited)		2008		Nine months ended September 30, 2009 (unaudited)		2008	
Net revenues	\$	20,496,129	\$	20,147,195	\$	60,609,673	\$	59,308,731
Cost of revenues:								
Cost of revenues (*)		14,770,868		13,981,247		42,942,314		40,794,276
Depreciation of property and equipment		475,445		795,445		1,416,834		2,437,542
Amortization of intangible assets		29,199		29,199		87,597		134,597
Total cost of revenues		15,275,512		14,805,891		44,446,745		43,366,415
Gross profit		5,220,617		5,341,304		16,162,928		15,942,316
Expenses:								
Sales and marketing (*)		1,568,727		1,705,512		4,261,070		5,132,380
Technical operations and development (*)		1,142,331		1,527,237		3,421,825		4,666,832
General and administrative (*)		1,145,951		1,714,563		4,608,173		4,805,853
Depreciation of property and equipment		64,704		57,386		230,336		177,317
Loss on disposition of property and equipment		40,369		498,529		40,369		498,529
Amortization of intangible assets		360,540		360,540		1,081,620		1,122,655
(Gain) / loss in fair value of forward exchange contracts		(1,878,230)		525,571		(3,902,394)		555,364
Total expenses		2,444,392		6,389,338		9,740,999		16,958,930
Income (loss) from operations		2,776,225		(1,048,034)		6,421,929		(1,016,614)
Other income (expenses):								
Interest income (expense), net		(52,887)		(90,859)		(178,669)		(467,264)
Other income		1,880,000		1,098,245		4,493,190		2,631,010
Total other income (expenses)		1,827,113		1,007,386		4,314,521		2,163,746
Income (loss) before provision for income taxes		4,603,338		(40,648)		10,736,450		1,147,132
Income tax (recovery) expense (note 7)		(447,455)		30,000		241,621		91,134
Net income (loss) for the period	\$	5,050,793	\$	(70,648)	\$	10,494,829	\$	1,055,998
Basic earnings (loss) per common share (note 8)								
	\$	0.07	\$	(0.00)	\$	0.15	\$	0.01
Shares used in computing basic earnings (loss) per common share (note 8)								
		68,008,871		73,923,542		69,841,981		73,903,998
Diluted earnings (loss) per common share (note 8)								
	\$	0.07	\$	(0.00)	\$	0.15	\$	0.01
Shares used in computing diluted earnings (loss) per common share (note 8)								
		68,874,517		74,817,244		70,156,521		75,245,047

See accompanying notes to consolidated financial statements

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

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Cost of revenues	\$	3,860	\$	5,500	\$	12,227	\$	14,600
Sales and marketing	\$	12,807	\$	17,200	\$	42,764	\$	48,500
Technical operations and development	\$	12,395	\$	13,100	\$	34,116	\$	41,800
General and administrative	\$	70,748	\$	52,500	\$	142,641	\$	128,600

See accompanying notes to unaudited consolidated financial statements

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
	(unaudited)		(unaudited)	
Cash provided by (used in):				
Operating activities:				
Net income (loss) for the period	\$ 5,050,793	\$ (70,648)	\$ 10,494,829	\$ 1,055,998
Items not involving cash:				
Depreciation of property and equipment	540,149	852,831	1,647,170	2,614,859
Loss on disposition of property and equipment	40,369	498,529	40,369	498,529
Amortization of deferred financing charges	9,100	12,200	29,200	38,400
Amortization of intangible assets	389,739	389,739	1,169,217	1,257,252
Gain on disposal of investment in Afiliis	(1,880,000)		(3,890,395)	
Gain on sale of customer relationships		(921,384)		(2,042,449)
Reduction of deferred tax liability	(497,000)		(497,000)	
Disposal of domain names	649	4,705	2,596	4,705
Unrealized (gain)/loss in the fair value of forward exchange contracts	(1,878,230)	525,571	(3,902,394)	555,364
Stock-based compensation	99,810	88,300	231,748	233,500
Change in non-cash operating working capital:				
Accounts receivable	(465,454)	(518,310)	(729,520)	(234,387)
Prepaid expenses and deposits	419,761	641,629	(469,462)	536,392
Prepaid fees for domain name registry and ancillary services fees	33,425	(775,955)	(2,588,476)	(4,482,752)
Accounts payable	(977,967)	(480,839)	(597,560)	(231,770)
Accrued liabilities	(115,362)	(177,701)	(111,719)	(868,765)
Customer deposits	592,612	(167,691)	445,079	(148,692)
Deferred revenue	(398,657)	(9,699)	2,314,334	3,767,955
Accreditation fees payable	(46,762)	6,245	(2,457)	40,365
Income taxes payable	(835,398)			
Net cash provided by (used in) operating activities	81,577	(102,478)	3,585,559	2,594,504
Financing activities:				
Proceeds received on exercise of stock options			25,422	9,450
Repurchase of common stock	(570,335)		(2,381,514)	
Repayment of loan payable	(478,561)	(478,561)	(2,160,682)	(8,435,681)
Net cash used in financing activities	(1,048,896)	(478,561)	(4,516,774)	(8,426,231)

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Investing activities:

Cost of domain names acquired			(5,900)	(8,944)
Additions to property and equipment	(281,282)	(627,024)	(426,292)	(1,922,764)
Sale of customer relationships		921,384		2,343,114
Proceeds on disposition of property and equipment		66,039		66,039
Proceeds on disposal of investment in Afilias	1,980,000		4,090,395	
Decrease in cash held in escrow		(5,396)		(18,161)
Net cash provided by investing activities	1,698,718	355,003	3,658,203	459,284
Increase (decrease) in cash and cash equivalents	731,399	(226,036)	2,726,988	(5,372,443)
Cash and cash equivalents, beginning of period	7,423,056	2,947,069	5,427,467	8,093,476
Cash and cash equivalents, end of period	\$ 8,154,455	\$ 2,721,033	\$ 8,154,455	\$ 2,721,033
Supplemental cash flow information:				
Interest paid	\$ 52,983	\$ 100,060	\$ 181,012	\$ 552,298

Supplementary disclosure of non-cash investing activity: