

TUCOWS INC /PA/
Form 10-Q
November 12, 2014

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, 2014

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

Smaller reporting company

(Do not check if a 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, 2014, there were 11,302,843 outstanding shares of common stock, no par value, of the registrant.

TUCOWS INC.

Form 10-Q Quarterly Report

INDEX

PART I

FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements	1
Consolidated Balance Sheets (unaudited) as of September 30, 2014 and December 31, 2013	1
Consolidated Statements of Operations and Comprehensive Income (unaudited) for the three and nine months ended September 30, 2014 and 2013	2
Consolidated Statements of Cash Flows (unaudited) for the three and nine months ended September 30, 2014 and 2013	3
Notes to Consolidated Financial Statements (unaudited)	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3. Quantitative and Qualitative Disclosures About Market Risk	38
Item 4. Controls and Procedures	39

PART II

OTHER INFORMATION

Item 1. Legal Proceedings	40
Item 1A. Risk Factors	40
Item 4. Mine Safety Disclosures	40
Item 6. Exhibits	41
Signatures	42

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)**

	September 30, 2014 (unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,589,246	\$ 12,418,888
Accounts receivable, net of allowance for doubtful accounts of \$127,330 as of September 30, 2014 and \$91,226 as of December 31, 2013	6,914,690	5,305,403
Inventory	391,026	309,686
Prepaid expenses and deposits	4,322,231	4,309,039
Prepaid domain name registry and ancillary services fees, current portion	45,985,103	44,209,591
Deferred tax asset, current portion (note 7)	1,874,824	1,081,526
Income taxes recoverable	526,534	475,889
Total current assets	73,603,654	68,110,022
Prepaid domain name registry and ancillary services fees, long-term portion	11,911,238	11,838,579
Property and equipment	1,742,305	1,757,836
Deferred tax asset, long-term portion (note 7)	5,569,900	5,370,037
Intangible assets (note 5)	14,261,216	15,403,228
Goodwill	18,873,127	18,873,127
Total assets	\$ 125,961,440	\$ 121,352,829
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 3,574,165	\$ 2,361,481
Accrued liabilities	4,957,900	3,913,034
Customer deposits	4,069,332	4,500,946
Derivative instrument liability, (note 4)	762,053	491,098
Loan payable (note 6)	-	6,300,000
Deferred revenue, current portion	57,182,978	54,379,719

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Accreditation fees payable, current portion	484,989	473,811
Income taxes payable (note 7)	179,007	1,024,004
Total current liabilities	71,210,424	73,444,093
Deferred revenue, long-term portion	15,795,206	15,638,517
Accreditation fees payable, long-term portion	130,166	135,522
Deferred rent, long-term portion	90,191	75,979
Deferred tax liability, long-term portion (note 7)	5,092,000	5,141,500
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; 11,301,891 shares issued and outstanding as of September 30, 2014 and 10,907,063 shares issued and outstanding as of December 31, 2013	13,984,072	11,859,267
Additional paid-in capital	28,883,823	28,632,311
Deficit	(8,814,453)	(13,329,379)
Accumulated other comprehensive income (loss)	(409,989)	(244,981)
Total stockholders' equity	33,643,453	26,917,218
Total liabilities and stockholders' equity	\$ 125,961,440	\$ 121,352,829
Commitments and contingencies (note 10)		
Subsequent events (note 14)		

See accompanying notes to unaudited consolidated financial statements

Tucows Inc.**Consolidated Statements of Operations and Comprehensive Income****(Dollar amounts in U.S. dollars)****(unaudited)**

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net revenues (note 9)	\$38,874,183	\$35,637,085	\$108,864,578	\$96,795,464
Cost of revenues (note 9):				
Cost of revenues	25,985,875	24,268,961	75,038,518	69,354,366
Network expenses (*)	1,139,515	1,192,450	3,427,856	3,716,471
Depreciation of property and equipment	172,019	164,283	528,956	452,711
Amortization of intangible assets (note 5)	-	11,970	-	83,790
Total cost of revenues	27,297,409	25,637,664	78,995,330	73,607,338
Gross profit	11,576,774	9,999,421	29,869,248	23,188,126
Expenses:				
Sales and marketing (*)	3,593,486	2,998,419	11,377,701	8,792,091
Technical operations and development (*)	1,041,136	1,215,327	3,238,566	3,097,294
General and administrative (*)	2,639,868	1,869,668	6,293,987	5,266,997
Depreciation of property and equipment	58,685	52,972	167,527	158,833
Amortization of intangible assets (note 5)	107,230	219,030	545,290	657,090
Impairment of indefinite life intangible assets (note 5)	-	-	577,145	-
Loss on currency forward contracts (note 4)	237,985	(28,068)	885,901	353,209
Total expenses	7,678,390	6,327,348	23,086,117	18,325,514
Income from operations	3,898,384	3,672,073	6,783,131	4,862,612
Other income (expense):				
Interest expense, net	(63,498)	(78,966)	(206,679)	(271,756)
Total other income (expense)	(63,498)	(78,966)	(206,679)	(271,756)
Income before provision for income taxes	3,834,886	3,593,107	6,576,452	4,590,856
Provision for income taxes (note 7)	1,143,981	999,747	2,061,526	1,333,287

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Net income	2,690,905	2,593,360	4,514,926	3,257,569
Other comprehensive income (loss), net of tax				
Gain (loss) on hedging activities	(437,519)	402,026	(602,901)	(71,629)
Net amount reclassified to earnings	57,701	92,308	437,893	119,237
Other comprehensive income (loss) net of tax of \$(197,852) and \$257,505 for the three months ended September 30, 2014 and September 30, 2013, and \$(85,955) and \$24,800 for the nine months ended September 30, 2014 and September 30, 2013	(379,818)	494,334	(165,008)	47,608
Comprehensive income for the period	\$2,311,087	\$3,087,694	\$4,349,918	\$3,305,177
Basic earnings per common share (note 8)	\$0.24	\$0.24	\$0.40	\$0.32
Shares used in computing basic earnings per common share (note 8)	11,321,175	10,795,896	11,190,684	10,322,469
Diluted earnings per common share (note 8)	\$0.23	\$0.23	\$0.39	\$0.29
Shares used in computing diluted earnings per common share (note 8)	11,787,749	11,409,975	11,718,910	11,187,308
(*) Stock-based compensation has been included in operating expenses as follows:				
Network expenses	\$6,600	\$8,755	\$22,397	\$22,813
Sales and marketing	\$37,637	\$32,681	\$104,440	\$93,000
Technical operations and development	\$22,716	\$21,549	\$59,368	\$57,166
General and administrative	\$163,759	\$99,801	\$230,841	\$155,904

See accompanying notes to consolidated financial statements

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Cash provided by:				
Operating activities:				
Net income for the period	\$2,690,905	\$2,593,360	\$4,514,926	\$3,257,569
Items not involving cash:				
Depreciation of property and equipment	230,704	217,255	696,483	611,544
Amortization of intangible assets	107,230	231,000	545,290	740,880
Impairment of indefinite life intangible asset	-	-	577,145	-
Deferred income taxes recovery	(49,214)	(99,786)	(807,691)	(78,103)
Excess tax benefits from share-based compensation expense	168,346	(1,056,014)	(250,555)	(1,056,014)
Amortization of deferred rent	1,832	7,872	14,212	17,748
Disposal of domain names	10,708	8,923	19,577	44,292
Loss (gain) on change in the fair value of forward contracts	125,305	(204,341)	19,991	361,646
Stock-based compensation	230,712	162,786	417,046	328,883
Change in non-cash operating working capital:				
Accounts receivable	4,440	758,089	(1,609,287)	(456,201)
Inventory	90,114	(150,686)	(81,340)	248,994
Prepaid expenses and deposits	613,342	543,111	(13,192)	840,006
Prepaid domain name registry and ancillary services fees	573,727	1,038,268	(1,848,171)	(344,719)
Income taxes recoverable	(227,558)	980,969	(794,101)	1,087,333
Accounts payable	326,610	92,473	1,130,552	700,194
Accrued liabilities	1,214,237	163,300	1,044,866	664,984
Customer deposits	(418,539)	(595,776)	(431,614)	(883,346)
Deferred revenue	(656,430)	(986,779)	2,959,948	989,957
Accreditation fees payable	(22,510)	(39,835)	5,822	(23,918)
Net cash (used in) / provided by operating activities	5,013,961	3,664,189	6,109,907	7,051,729
Financing activities:				
Proceeds received on exercise of stock options	343,953	1,136,061	1,385,816	