

TUCOWS INC /PA/
Form 10-Q/A
August 17, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q/A

(Amendment No. 1)

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

For the quarterly period ended June 30, 2006

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 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:

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 August 8, 2006, there were 75,697,220 outstanding shares of common stock, no par value, of the registrant.

EXPLANATORY NOTE

This Amendment No. 1 to the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006 (Amendment No. 1) filed by Tucows Inc. (the Company) is being filed to: (a) correct an inadvertent mistake in Note 3(b) to the Company Financial Statements, whereby the net revenue for the six months ended June 30, 2005 included in the supplemental pro-forma information illustrating the effects of the acquisition of Mailbank.com, Inc. on the historical operating results of the Company was incorrectly stated as \$31,063 instead of \$25,353; (b) correct an inadvertent mistake in the headings to, and eliminate an inadvertent duplicate number contained in, the table summarizing stockholders' equity transactions in Note 7 to the Company Financial Statements and (c) include a new Note 10 to the Company Financial Statements and an update to the Other Income discussion in the Management's Discussion and Analysis of Financial Condition and Results of Operation for the Three and Six Months Ended June 30, 2006 as Compared to the Three and Six Months Ended June 30, 2005, each relating to the Company's right to receive approximately \$1.8 million in contingent consideration from the sale by a third-party of certain patents that were previously owned by the Company. Each of the Company's Chief Executive Officer and Chief Financial Officer has executed new certifications in connection with the filing of Amendment No. 1 and copies of these new certifications have been filed as exhibits to this Amendment No. 1.

TUCOWS INC.

Form 10-Q Quarterly Report

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PART I.
FINANCIAL INFORMATION

Item 1. Financial Statements**Tucows Inc.****Consolidated Balance Sheets****(Dollar amounts in U.S. dollars)**

	June 30 2006 (unaudited)	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,539,713	\$ 17,348,088
Short-term investments		1,771,569
Restricted cash	422,458	60,000
Interest receivable	5,027	39,574
Accounts receivable, net of allowance for doubtful accounts of \$86,250 as of June 30, 2006 and \$51,250 as of December 31, 2005	3,658,609	1,439,329
Prepaid expenses and deposits	2,830,814	1,999,820
Prepaid domain name registry and other Internet services fees, current portion	21,142,361	18,175,988
Cash held in escrow	584,382	
Deferred tax asset, current portion	1,000,000	1,000,000
Total current assets	36,183,364	41,834,368
Prepaid domain name registry and other Internet services fees, long-term portion	8,907,236	7,701,939
Deferred acquisition costs		46,034
Property and equipment	5,654,796	1,542,671
Deferred tax asset, long-term portion	2,000,000	2,000,000
Intangible assets	18,848,118	1,006,080
Goodwill (note 3)	5,694,046	1,951,067
Investment	353,737	353,737
Cash held in escrow (note 3(a))	1,781,342	621,412
Total assets	\$ 79,422,639	\$ 57,057,308
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 5,405,505	\$ 1,655,195
Accrued liabilities	3,009,736	1,417,035
Customer deposits	2,844,894	2,276,637
Deferred revenue, current portion	30,608,344	26,790,166
Accreditation fees payable, current portion	505,539	651,811
Note payable (note 3)	2,122,930	
Total current liabilities	44,496,948	32,790,844

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Deferred revenue, long-term portion	12,621,678	11,079,537
Accreditation fees payable, long-term portion	132,222	94,785
Note payable (note 3)	6,000,000	
Stockholders' equity		
Preferred stock - no par value, 1,250,000 shares authorized; none issued and outstanding		
Common stock - no par value, 250,000,000 shares authorized; 75,667,220 shares issued and outstanding as of June 30, 2006 and 71,945,303 shares issued and outstanding as of December 31, 2005		
	15,265,182	12,403,422
Additional paid-in capital	50,210,366	50,061,866
Deficit	(49,303,757)	(49,373,146)
Total stockholders' equity	16,171,791	13,092,142
Total liabilities and stockholders' equity	\$ 79,422,639	\$ 57,057,308

See accompanying notes to unaudited consolidated financial statements

Turows Inc.

Consolidated Statements of Operations

(Dollar amounts in U.S. dollars)

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Net revenues	\$ 15,678,856	\$ 12,002,138	\$ 30,965,976	\$ 23,803,844
Cost of revenues:				
Cost of revenues	10,066,262	7,586,612	19,994,116	14,807,817
Depreciation of property and equipment	669,256	124,143	1,194,175	206,080
Amortization of intangible assets	38,538		77,078	
Total cost of revenues	10,774,056	7,710,755	21,265,369	15,013,897
Gross profit	4,904,800	4,291,383	9,700,607	8,789,947
Operating expenses:				
Sales and marketing (*)	1,572,290	1,166,058	3,031,446	2,518,511
Technical operations and development (*)	2,090,723	1,356,058	4,411,439	2,678,843
General and administrative (*)	948,464	1,146,725	2,567,517	2,537,487
Depreciation of property and equipment	45,041	152,726	82,091	312,663
Amortization of intangible assets	112,591	59,040	205,884	118,080
Total operating expenses	4,769,109	3,880,607	10,298,377	8,165,584
Income (loss) from operations	135,691	410,776	(597,770)	624,363
Other income:				
Interest income, net	102,662	96,856	205,553	174,104
Other income			473,606	
Total other income	102,662	96,856	679,159	174,104
Income before provision for income taxes	238,353	507,632	81,389	798,467
Provision for (recovery of) income taxes	12,000		12,000	(151,975)
Net income for the period	\$ 226,353	\$ 507,632	\$ 69,389	\$ 950,442
Basic earnings per common share	\$ 0.00	\$ 0.01	\$ 0.00	\$ 0.01
Shares used in computing basic earnings per common share	72,527,662	65,991,867	72,255,539	67,376,440
Diluted earnings per common share	\$ 0.00	\$ 0.01	\$ 0.00	\$ 0.01
Shares used in computing diluted earnings per common share	74,704,791	68,744,679	74,540,626	71,763,526

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

Cost of revenues	\$ 3,200	\$ 5,500	\$	\$
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Sales and marketing	\$	18,900	\$	\$	36,000	\$
Technical operations and development	\$	27,500	\$	\$	51,000	\$
General and administrative	\$	29,500	\$	\$	56,000	\$

See accompanying notes to unaudited consolidated financial statements

Turows Inc.

Consolidated Statements of Cash Flows

(Dollar amounts in U.S. dollars)

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Cash provided by (used in):				
Operating activities:				
Net income for the period	\$ 226,353	\$ 507,632	\$ 69,389	\$ 950,442
Items not involving cash:				
Depreciation of property and equipment	714,297	276,870	1,276,266	518,743
Amortization of intangible assets	151,129	59,040	282,962	118,080
Unrealized change in the fair value of forward contracts	(378,846)		(195,902)	107,628
Stock-based compensation	78,300		148,500	
Change in non-cash operating working capital:				
Interest receivable	(3,047)		34,547	
Accounts receivable	(335,071)	(8,380)	(2,162,713)	(159,977)
Prepaid expenses and deposits	(24,292)	83,467	(20,879)	410,803
Prepaid domain name registry and other Internet services fees	(1,858,622)	(835,394)	(4,171,670)	(2,837,609)
Accounts payable	2,577,875	(103,675)	3,070,542	(60,713)
Accrued liabilities	(259,966)	335,452	1,067,114	(675,339)
Customer deposits	420,423	(30,742)	568,257	(108,869)
Deferred revenue	2,151,830	888,976	5,196,350	3,394,465
Accreditation fees payable	(240,100)	301,495	(108,836)	472,352
Cash provided by operating activities	3,220,263	1,474,741	5,053,927	2,130,006
Financing activities:				
Proceeds received on exercise of stock options	27,401	5,416	55,410	186,439
Cash (used in) provided by financing activities	27,401	5,416	55,410	186,439
Investing activities:				
Additions to property and equipment	(2,405,146)	(625,169)	(3,291,425)	(826,077)
Decrease (increase) in investment in short-term investments	72,000	(7,771,453)	1,771,569	(7,771,453)
Decrease (increase) in restricted cash - being margin security against forward exchange contracts	190,042		(362,458)	460,398
Acquisition of Mailbank.com Inc., net of cash acquired	(5,830,902)		(5,830,902)	
Acquisition of Hosted Messaging Assets, net of cash acquired	163,969		(6,419,485)	
Decrease (increase) in cash held in escrow	(18,507)	396,604	(1,785,011)	392,888
Cash used in investing activities	(7,828,544)	(8,000,018)	(15,917,712)	(7,744,244)
Decrease in cash and cash equivalents	(4,580,880)	(6,519,861)	(10,808,375)	(5,427,799)
Cash and cash equivalents, beginning of period	11,120,593	15,007,050	17,348,088	13,914,988
Cash and cash equivalents, end of period	\$ 6,539,713	\$ 8,487,189	6,539,713	8,487,189

Supplemental cash flow information:

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Interest paid	\$		\$		\$		\$	300
Supplementary disclosure of non-cash investing and financing activities:								
Common stock issued on the acquisition of Mailbank.com Inc.	\$	2,877,070	\$		\$	2,877,070	\$	
Promissory notes issued on the acquisition of Mailbank.com Inc.	\$	8,122,930	\$		\$	8,122,930	\$	

See accompanying notes to unaudited consolidated financial statements

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND BASIS OF PRESENTATION:

Tucows Inc., a Pennsylvania corporation (referred to throughout this report as the Company, Tucows, we, us or through similar expressions), provides Internet services and downloadable software through a global network of service providers, including web hosting companies and other providers of services over the Internet. Tucows' services include domain registration services, digital certificates, billing, provisioning and customer care software solutions, email and anti-spam services, blogware and website building tools.

The accompanying unaudited interim consolidated balance sheet, and the related statements of operations 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 June 30, 2006 and the results of operations and cash flows for the interim periods ended June 30, 2006 and 2005.

The accompanying interim consolidated financial statements have been prepared by Tucows without audit, in accordance with the rules and regulations of the Securities and Exchange Commission (the SEC) and do not include all information and notes normally provided in annual financial statements. Except as outlined in note 2, these interim financial statements follow the same accounting policies and methods of application used in the annual financial statements and should be read in conjunction with the audited financial statements and notes thereto of Tucows for the year ended December 31, 2005 included in Tucows 2005 Annual Report on Form 10-K filed with the SEC on March 17, 2006.

Tucows considers investments in highly liquid instruments purchased with an original maturity of 90 days or less to be cash equivalents. Tucows maintains its cash balances in highly rated financial institutions. At times, such cash balances exceed the Federal Deposit Insurance Corporation limit.

Tucows' short-term investments are invested in United States Treasury Bonds, Certificates of Deposit and Commercial Papers. These short-term investments are reported at amortized cost, while any accrued interest on these investments is included in interest income within Tucows Consolidated Statements of Operations, and in Accounts Receivable, on Tucows' Consolidated Balance Sheets.

Certain comparatives have been reclassified to conform with the current period's presentation.

2. NEW ACCOUNTING POLICIES:

The following new accounting policy was adopted by Tucows in the six months ended June 30, 2006:

Share-based payment:

On January 1, 2006, Tucows adopted the fair value-based method for measurement and cost recognition of employee share-based compensation arrangements under the provisions of Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (Revised 2004), Share-Based Payment (SFAS 123R), using the modified prospective application transitional approach. Previously, Tucows had elected to account for employee share-based compensation using the intrinsic value method based upon Accounting Principles Board Opinion No. 25,

Accounting for Stock Issued to Employees (APB 25) and related interpretations. The intrinsic value method generally did not result in any compensation cost being recorded for employee stock options since the exercise price was equal to the market price of the underlying shares on the date of grant.

Under the modified prospective transitional approach, share-based compensation is recognized for awards granted, modified, repurchased or cancelled subsequent to the date of adoption of SFAS 123R. In addition, share-based compensation is recognized, subsequent to the date of adoption of SFAS 123R, for the remaining portion of unvested outstanding awards granted prior to the date of adoption. Prior periods have not been adjusted and Tucows continues to provide pro forma disclosure as if it had accounted for employee share-based payments in all periods prior to the adoption of SFAS 123R in accordance with the fair value provisions of SFAS No. 123, Accounting for Stock-based Compensation , which is presented below.

Tucows measures share-based compensation costs on the grant date, based on the calculated fair value of the award. Tucows has elected to treat awards with graded vesting as a single award when estimating fair value. Compensation cost is recognized on a straight-line basis over the employee requisite service period, which in Tucows' circumstances is the stated vesting period of the award, provided that total compensation cost recognized at least equals the pro rata value of the award that has vested. Compensation cost is initially based on the estimated number of options for which the requisite service is expected to be rendered. This estimate is adjusted to the vesting date once actual forfeitures are known.

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Had Tucows adopted the fair value-based method for accounting for share-based compensation in all prior periods presented, the pro-forma impact on net income and net income per share would be as follows:

Three months **Six months**