

TUCOWS INC /PA/
Form 10-Q/A
September 10, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q/A

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

For the quarterly period ended June 30, 2007

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)

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 **x** No **o**

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 August 13, 2007, there were 73,754,691 outstanding shares of common stock, no par value, of the registrant.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (Amendment) to the Tucows Inc. (the Issuer) Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, filed with the Securities and Exchange Commission on August 14, 2007 (the Form 10-Q), is being filed solely to correct an inadvertent error in the pro forma net revenues, net loss and basic loss per common share reported for the three and six months ended June 30, 2006 table (b) included in footnote 3 to the Notes to Unaudited Consolidated Financial Statements.

Except for correcting the error noted above, no information included in the Form 10-Q is amended by this Amendment. This Amendment speaks only as of the date of the Form 10-Q and, except as noted above, we have not undertaken to amend, supplement or update any information contained in the Form 10-Q to give effect to subsequent events. This Amendment amends and restates the Form 10-Q in its entirety.

2

TUCOWS INC.
Form 10-Q Quarterly Report
INDEX

PART I
FINANCIAL INFORMATION

<u>Item 1</u>	<u>Financial Statements</u>	4
	<u>Consolidated Balance Sheets as of June 30, 2007 (unaudited) and December 31, 2006</u>	4
	<u>Consolidated Statements of Operations (unaudited) for the three and six months ended June 30, 2007 and 2006</u>	5
	<u>Consolidated Statements of Cash Flows (unaudited) for the three and six months ended June 30, 2007 and 2006</u>	6
	<u>Notes to Consolidated Financial Statements</u>	7
<u>Item 2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	29
<u>Item 4</u>	<u>Controls and Procedures</u>	30

PART II
OTHER INFORMATION

<u>Item 1</u>	<u>Legal Proceedings</u>	31
<u>Item 1A</u>	<u>Risk Factors</u>	31
<u>Item 4</u>	<u>Submission of Matters to Vote of Security Holders</u>	31
<u>Item 6</u>	<u>Exhibits</u>	32
<u>Signatures</u>		32

PART I.
FINANCIAL INFORMATION

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

(Dollar amounts in U.S. dollars)

	June 30, 2007 (unaudited)	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,717,412	\$ 6,256,392
Restricted cash	510,000	1,019,423
Accounts receivable, net of allowance for doubtful accounts of \$131,500 as of June 30, 2007 and \$147,500 as of December 31, 2006	4,033,648	2,969,997
Prepaid expenses and deposits	4,037,325	2,394,627
Prepaid domain name registry and other Internet services fees, current portion	24,321,679	22,168,558
Deferred tax asset, current portion	1,000,000	1,000,000
Total current assets	39,620,064	35,808,997
Prepaid domain name registry and other Internet services fees, long-term portion	10,110,771	9,511,341
Property and equipment	6,394,697	5,647,532
Deferred tax asset, long-term portion	2,000,000	2,000,000
Intangible assets (note 4)	17,989,747	18,554,436
Goodwill (note 3)	12,189,767	12,094,817
Investment	353,737	353,737
Cash held in escrow (note 3(a))		694,579
Total assets	\$ 88,658,783	\$ 84,665,439
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 1,901,126	\$ 2,867,814
Accrued liabilities	2,502,580	2,567,012
Customer deposits	2,773,653	3,144,119
Deferred revenue, current portion	34,527,977	31,658,081
Accreditation fees payable, current portion	521,844	847,325
Promissory note payable, current portion	6,000,000	
Total current liabilities	48,227,180	41,084,351
Deferred revenue, long-term portion	14,485,149	13,478,525
Accreditation fees payable, long-term portion	173,441	163,988
Promissory note payable, long-term portion		6,000,000
Deferred tax liability	5,396,000	5,396,000
Stockholders equity (note 8)		
Preferred stock - no par value, 1,250,000 shares authorized; none issued and outstanding		
Common stock - no par value, 250,000,000 shares authorized; 73,735,782 shares issued and outstanding as of June 30, 2007 and 75,978,502 shares issued and outstanding as of December 31, 2006	15,217,279	15,395,381
Additional paid-in capital	48,451,596	50,359,906

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Deficit	(43,291,862)	(47,212,712)
Total stockholders' equity	20,377,013		18,542,575	
Total liabilities and stockholders' equity	\$ 88,658,783		\$ 84,665,439	

Subsequent events (note 10)

See accompanying notes to unaudited consolidated financial statements

4

Tu cows Inc.

Consolidated Statements of Operations

(Dollar amounts in U.S. dollars)

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Net revenues	\$ 20,814,881	\$ 15,678,856	38,586,098	\$ 30,965,976
Cost of revenues:				
Cost of revenues (*)	12,198,808	10,066,262	23,431,597	19,994,116
Depreciation of property and equipment	985,430	669,256	1,795,096	1,194,175
Amortization of intangible assets	63,540	38,538	127,072	77,078
Total cost of revenues	13,247,778	10,774,056	25,353,765	21,265,369
Gross profit	7,567,103	4,904,800	13,232,333	9,700,607
Expenses:				
Sales and marketing (*)	1,480,078	1,572,290	2,824,522	3,031,446
Technical operations and development (*)	1,752,693	2,090,723	3,564,972	4,411,439
General and administrative (*)	810,872	948,464	2,309,641	2,567,517
Depreciation of property and equipment	68,267	45,041	129,791	82,091
Amortization of intangible assets	222,741	112,591	456,042	205,884
Total expenses	4,334,651	4,769,109	9,284,968	10,298,377
Income (loss) from operations	3,232,452	135,691	3,947,365	(597,770)
Other income (expenses):				
Interest income (expense), net	(49,297)	102,662	(90,946)	205,553
Other income, net			88,431	473,606
Total other income (expense)	(49,297)	102,662	(2,515)	679,159
Income before provision for income taxes	3,183,155	238,353	3,944,850	81,389
Provision for income taxes	12,000	12,000	24,000	12,000
Net income for the period	\$ 3,171,155	\$ 226,353	3,920,850	\$ 69,389
Basic earnings per common share	\$ 0.04	\$ 0.00	0.05	\$ 0.00
Shares used in computing basic earnings per common share	74,447,018	72,527,662	74,950,621	72,255,539
Diluted earnings per common share	\$ 0.04	\$ 0.00	0.05	\$ 0.00
Shares used in computing diluted earnings per common share	77,375,096	74,704,791	77,633,136	74,540,626

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

Cost of revenues	\$ 4,400	\$ 3,200	6,900	\$ 5,500
Sales and marketing	\$ 25,500	\$ 18,900	39,700	\$ 36,000
Technical operations and development	\$ 23,300	\$ 27,500	43,400	\$ 51,000

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General and administrative	\$ 58,300	\$ 29,500	84,200	\$ 56,000
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See accompanying notes to unaudited consolidated financial statements

5

TuCows Inc.

Consolidated Statements of Cash Flows

(Dollar amounts in U.S. dollars)

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Cash provided by (used in):				
Operating activities:				
Net income for the period	\$ 3,171,155	\$ 226,353	\$ 3,920,850	\$ 69,389
Items not involving cash:				
Depreciation of property and equipment	1,053,697	714,297	1,924,887	1,276,266
Amortization of intangible assets	286,281	151,129	583,114	282,962
Unrealized change in the fair value of forward contracts	(885,652)	(378,846)	(1,102,441)	(195,902)
Stock-based compensation	111,500	78,300	174,200	148,500
Change in non-cash operating working capital:				
Interest receivable		(3,047)		34,547
Accounts receivable	(211,028)	(335,071)	(1,063,651)	(2,162,713)
Prepaid expenses and deposits	(310,274)	(24,292)	(1,037,510)	(20,879)
Prepaid domain name registry and other Internet services fees	(771,898)	(1,858,622)	(2,752,551)	(4,171,670)
Accounts payable	(337,450)	2,577,875	(745,587)	3,070,542
Accrued liabilities	(216,318)	(259,966)	432,821	1,067,114
Customer deposits	(195,342)	420,423	(370,466)	568,257
Deferred revenue	979,595	2,151,830	3,876,520	5,196,350
Accreditation fees payable	(315,320)	(240,100)	(316,028)	(108,836)
Cash provided by operating activities	2,358,946	3,220,263	3,524,158	5,053,927
Financing activities:				
Proceeds received on exercise of stock options	85,272	27,401	186,343	55,410
Repurchase of shares	(1,119,455)		(2,446,955)	
Cash (used in) provided by financing activities	(1,034,183)	27,401	(2,260,612)	55,410
Investing activities:				
Cost of domain names acquired	10,303		(18,425)	
Additions to property and equipment	(1,690,523)	(2,405,146)	(2,893,153)	(3,291,425)
Decrease in investment in short-term investments		72,000		1,771,569
Decrease (increase) in restricted cash - being margin security against forward exchange contracts	257,785	190,042	509,423	(362,458)
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	(90,050)	(6,419,485)
Acquisition of Boardtown Corporation, net of cash acquired	(4,900)		(4,900)	
Decrease (increase) in cash held in escrow		(18,507)	694,579	(1,785,011)
Cash used in investing activities	(1,427,335)	(7,828,544)	(1,802,526)	(15,917,712)
Decrease in cash and cash equivalents	(102,572)	(4,580,880)	(538,980)	(10,808,375)
Cash and cash equivalents, beginning of period	5,819,984	11,120,593	6,256,392	17,348,088
Cash and cash equivalents, end of period	\$ 5,717,412	\$ 6,539,713	\$ 5,717,412	\$ 6,539,713
Supplemental cash flow information:				
Interest paid	\$ 105,000	\$	\$ 210,000	\$

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Supplementary disclosure of non-cash investing and financing activity:

Capital assets acquired during during the period not yet paid for	\$ 163,169	\$	\$ 163,169	\$
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

6

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), together with its consolidated subsidiaries, seeks to make the Internet easier and more effective for Internet users and to reduce complexity for its customers as they acquire, deliver or use Internet services.

Our principle source for distributing Internet services is our global network of over 7,000 hosting companies, Internet Service Providers, or ISPs, and other providers of Internet services, collectively referred to as Service Providers. Service Providers play a critical role in connecting users to the Internet as they interact with individuals and businesses ranging from small business to large corporations. Our wholesale product offerings and our outsourced service management capability allows us to offer Service Providers innovative value-added services that allow these Service Providers to focus their time and resources on customer acquisition and retention while still being able to enhance per customer revenue by offering additional services along with their core services.

In addition to other Internet services, we provision millions of email boxes and manage over 7 million domains. We also have one of the most popular download sites on the Internet, where we connect advertisers to a global audience of Internet users.

We were among the first group of 34 registrars to be accredited by the Internet Corporation for Assigned Names and Numbers (ICANN) in 1999. ICANN maintains a list of accredited registrars at www.icann.org/registrars/accredited-list.html.

We were incorporated under the laws of the Commonwealth of Pennsylvania in November 1992 under the name Infonautics, Inc. In August 2001, we completed our acquisition of Tucows Inc., a Delaware corporation, and we changed our name from Infonautics, Inc. to Tucows Inc. Our principal executive offices are located in Toronto, Ontario and we have offices in Europe and the United States.

2. NEW ACCOUNTING POLICIES:

The accompanying unaudited interim consolidated balance sheet, and the related consolidated 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, 2007 and the results of operations and cash flows for the interim periods ended June 30, 2007 and 2006. The results of operations presented in this Quarterly Report on Form 10-Q are not necessarily indicative of the results of operations that may be expected for future periods.

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). Certain information and footnote disclosure normally included in the Company's annual audited consolidated financial statements and accompanying notes have been condensed or omitted. These interim financial statements and accompanying notes 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, 2006 included in Tucows 2006 Annual Report on Form 10-K filed with the SEC on March 29, 2007.

Other than the adoption of FIN 48 described below, there have been no material changes in our significant accounting policies during the six months ended June 30, 2007 as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

Reclassification

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

Recent Accounting Pronouncements Adopted

In June 2006, the FASB ratified the consensus reached on Emerging Issues Task Force (EITF) Issue No. 06-03, How Sales Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (that is, Gross Versus Net Presentation) (EITF 06-03). The EITF reached a consensus that the presentation of taxes on either a gross or net basis is an accounting policy decision that requires disclosure. EITF 06-03 is effective for the first interim or annual reporting period beginning after December 15, 2006. Tucows adopted EITF 06-03 on January 1, 2007. Any amounts we collect, which under common trade practices are referred to as sales taxes, are and have been recorded on a net basis. The Company has no intention of modifying this accounting policy; therefore, the adoption of EITF 06-03 does not have any effect on the Company's financial position or results of operations.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in an income tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for the first interim or annual reporting period beginning after December 15, 2006. The implementation of FIN 48 had no impact on Tucows opening deficit.

Tucows had approximately \$180,000 of total gross unrecognized benefits as of the adoption of FIN 48 on January 1, 2007 which if recognized would favorably affect the income tax rate in future periods. At June 30, 2007 Tucows' unrecognized tax benefits remain substantially unchanged. Tucows recognizes accrued interest and penalties related to unrecognized tax benefit in tax expense. Tucows does not have any interest and penalties accrued as of January 1, 2007 and June 30, 2007 as the tax benefit relates entirely to refundable research and development tax credits. Tucows believes it is reasonably possible that all of the unrecognized tax benefit will decrease in the next twelve months as it is anticipated that the Canadian tax authorities will review the Company's research and development claim for the credits within that period. Generally, all tax years are open for examination by the major taxing jurisdictions to which the Company is subject including federal, state and foreign jurisdictions.

Recent Accounting Pronouncements Not Yet Adopted

In September 2006, FASB issued SFAS No. 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement is effective for all fiscal year beginning after November 15, 2007 and interim periods within those fiscal years. Earlier application is encouraged. The Company is currently evaluating the impact of this statement on its financial statements.

In February 2007, FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). This statement permits entities to choose to measure many financial instruments and certain other items at fair value. This statement expands the use of fair value measurement and applies to entities that elect the fair value option. The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is currently evaluating the impact of this statement on its financial statements.

3. ACQUISITIONS

a. Acquisition of the Hosted Messaging Assets from Critical Path Inc. :

To expand our presence in the email market, on January 3, 2006, Tucows.com Co., one of the Company's wholly owned subsidiaries, completed the purchase of all of the Hosted Messaging Assets from Critical Path, Inc.

In January 2007, an amount of \$90,050 was released from escrow and paid to Critical Path. This amount was reflected as additional goodwill. Critical Path's portion of the \$50,019 interest earned on the escrow account to date amounted to \$36,433 and was paid to them in January 2007.

b. Acquisition of Mailbank.com Inc. :

The results of Mailbank.com Inc. acquired on June 19, 2006 have been included in the consolidated statements of operations since its date of acquisition. Unaudited pro forma results of operations for the three and six months ended June 30, 2006 are included below. Such pro forma information assumes that the above acquisition had occurred as of January 1, 2006 and is presented in accordance with our accounting policies. This summary is not necessarily indicative of what our results of operations would have been had Mailbank.com Inc. been a combined entity during such period, nor does it purport to represent results of operations for any future periods.

	Three months ended June 30, 2006 (in thousands)	Six months ended June 30, 2006
Net revenues	\$ 16,576	\$ 32,690
Net loss for the period	\$ (362)	\$ (751)
Basic loss per common share	\$ (0.00)	\$ (0.01)

c. Acquisition of Boardtown Corporation:

On April 27, 2004, the Company finalized the acquisition of 100% of the outstanding capital stock of Boardtown Corporation (Boardtown).

In March 2007, the former shareholders of Boardtown agreed to an early release of the remaining \$554,510 contingent consideration, inclusive of accrued interest, from the Boardtown escrow account to Tucows. During the three months ended June 30, 2007, goodwill was increased by an amount of \$4,900, as certain customers renewed their support contracts in accordance with the escrow agreement established upon the closing of the Boardtown acquisition. Due to the early release of the escrow account as described above, this amount was paid to the former shareholders of Boardtown Corporation directly by Tucows.

4. INTANGIBLE ASSETS:

Intangible assets consist of acquired technology, brand, customer relationships, non-competition agreements, surname domain names and direct navigation domain names. These balances, with the exception of the surname and direct navigation domain names that have been determined to have an indefinite life, are being amortized on a straight-line basis over the term of the intangible assets, as reflected in the table below.

A summary of acquired intangible assets for the three months ended June 30, 2007, is as follows:

Amortization period	Technology	Brand	Customer relationships	Non-compete agreements	Surname domain names	Direct navigation domain names	Total
	2 - 7 years	7 years	4 - 7 years	3 years	indefinite life	indefinite life	
Net book value, March 31, 2007	\$ 494,820	\$ 98,980	\$ 3,458,523	\$ 5,280	\$ 12,128,728	\$ 2,100,000	\$ 18,286,331
Purchase of domain names					1,000		1,000
Disposition of domain names					(325)	(10,978)	(11,303)
Amortization expense	(63,540)	(6,060)	(211,401)	(5,280)			(286,281)
Net book value, June 30, 2007	\$ 431,280	\$ 92,920	\$ 3,247,122	\$	\$ 12,129,403	\$ 2,089,022	\$ 17,989,747

A summary of acquired intangible assets for the six months ended June 30, 2007, is as follows:

Amortization period	Technology	Brand	Customer relationships	Non-compete agreements	Surname domain names	Direct navigation domain names	Total
	2 - 7 years	7 years	4 - 7 years	3 years	indefinite life	indefinite life	
Net book value, December 31, 2006	\$ 558,352	\$ 105,040	\$ 3,669,924	\$ 21,120	\$ 12,100,000	\$ 2,100,000	\$ 18,554,436
Purchase of domain names					30,048		30,048
Disposition of domain names					(645)	(10,978)	(11,623)
Amortization expense	(127,072)	(12,120)	(422,802)	(21,120)			(583,114)
Net book value, June 30, 2007	\$ 431,280	\$ 92,920	\$ 3,247,122	\$	\$ 12,129,403	\$ 2,089,022	\$ 17,989,747

5. BASIC AND DILUTED EARNINGS PER COMMON SHARE:

The Company's basic earnings per common share have been calculated by dividing net income by the weighted average number of common shares outstanding.

The diluted earnings per common share have been calculated using the weighted average number of common shares outstanding and potentially dilutive common shares outstanding during the periods. Options to purchase 3,931,238 shares of common stock were outstanding during the three months ended June 30, 2007 (during the three months ended June 30, 2006, options to purchase 3,161,318 shares of common stock were outstanding) but were not included in the computation of diluted income per common share because the options' exercise price was greater than the average market price of the common shares. Options to purchase 255,999 shares of common stock were outstanding during the six months ended June 30, 2007 (during the six months ended June 30, 2006, options to purchase 749,676 shares of common stock were outstanding) but were not included in the computation of diluted income per common share because the options' exercise price was greater than the average market price of the common shares.

6. SUPPLEMENTAL INFORMATION:

(a) The following is a summary of the Company's revenue earned from each significant revenue stream:

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Domain names and other Internet services:				
Domain names, excluding Domain Direct	\$ 12,273,996	\$ 10,559,464	\$ 24,174,690	\$ 21,226,253
Other Internet services, including Domain Direct	4,228,727	4,044,704	8,628,690	7,821,027
Sale of domain names	3,067,980		3,150,480	
Total domain names and other Internet services	19,570,703	14,604,168	35,953,860	29,047,280
Advertising and other revenue	1,244,178	1,074,688	2,632,238	1,918,696
	\$ 20,814,881	\$ 15,678,856	\$ 38,586,098	\$ 30,965,976

(b) The following is a summary of the Company's cost of revenues from each significant revenue stream:

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Domain names and other Internet services:				
Domain names, excluding Domain Direct	\$ 9,146,139	\$ 7,508,908	\$ 17,928,038	\$ 15,183,708
Other Internet services, including Domain Direct	1,037,984	1,011,569	2,052,689	1,943,719
Sale of domain names	11,303		11,623	
Total domain names and other Internet services	10,195,426	8,520,477	19,992,350	17,127,427
Advertising and other revenue	111,651		163,985	
Network, other costs	1,891,731	1,545,785	3,275,262	2,866,689
Network, depreciation and amortization costs	1,048,970	707,794	1,922,168	1,271,253
	\$ 13,247,778	\$ 10,774,056	\$ 25,353,765	\$ 21,265,369

(c) The following is a summary of the Company's property and equipment by geographic region:

	June 30, 2007	December 31, 2006
Canada	\$ 2,596,729	\$ 2,521,328
United States	3,736,025	3,045,236
United Kingdom	61,943	80,968
	\$ 6,394,697	\$ 5,647,532

7. COMMITMENTS AND CONTINGENCIES:

As of June 30, 2007, we had outstanding foreign currency forward contracts with a notional value of \$10.2 million, whereby \$850,000 is converted into Canadian dollars on a semi-monthly basis from July 2007 to December 2007 at foreign exchange rates varying from U.S.\$1:Cdn\$1.1250 to U.S.\$1:Cdn\$1.1299. During the three months ended June 30, 2007, Tucows recorded a gain in fair value in respect of its foreign exchange forward contracts in the amount of \$886,000, and during the six months ended June 30, 2006 the Company recorded a gain in fair value in respect of its foreign exchange forward contracts, in the amount of \$1.1 million. These amounts have been recorded in the general and administrative expense.

8. STOCKHOLDERS EQUITY:

The following unaudited table summarizes stockholders' equity transactions for the period ended June 30, 2007:

	Common stock Number	Amount	Additional paid in capital	Deficit	Total stockholders equity (deficiency)
Balances, December 31, 2006	75,978,502	\$ 15,395,381	\$ 50,359,906	\$ (47,212,712)	\$ 18,542,575
Exercise of stock options	234,732	187,089	(86,018)		101,071
Repurchase of shares	(1,500,000)	(300,000)	(1,027,500)		(1,327,500)
Stock-based compensation (note 10)			62,700		62,700
Net income for the period				749,695	749,695
Balances, March 31, 2007	74,713,234	15,282,470	49,309,088	(46,463,017)	18,128,541
Exercise of stock options	139,148	158,129	(72,857)		85,272
Repurchase of shares	(1,116,600)	(223,320)	(896,135)		(1,119,455)
Stock-based compensation (note 10)			111,500		111,500
Net income for the period				3,171,155	3,171,155
Balances, June 30, 2007	73,735,782	\$ 15,217,279	\$ 48,451,596	\$ (43,291,862)	\$ 20,377,013

The following unaudited table summarizes stockholders' equity transactions for the period ended June 30, 2006:

	Common stock Number	Amount	Additional paid in capital	Deficit	Total stockholders equity (deficiency)
Balances, December 31, 2005	71,945,303	\$ 12,403,422	\$ 50,061,866	\$ (49,373,146)	\$ 13,092,142
Exercise of stock options	65,301	28,009			28,009
Acquisition of Boardtown Corporation	3,569	3,281			3,281
Stock-based compensation			70,200		70,200
Net loss for the period				(156,964)	(156,964)
Balances, March 31, 2006	72,014,173	12,434,712	50,132,066	(49,530,110)	13,036,668
Exercise of stock options	56,710	27,400			27,400
Acquisition of Mailbank.com	3,596,337	2,803,070			2,803,070
Stock-based compensation			78,300		78,300
Net loss for the period				226,353	226,353
Balances, June 30, 2006	75,667,220	\$ 15,265,182	\$ 50,210,366	\$ (49,303,757)	\$ 16,171,791

9. SHARE-BASED PAYMENTS

Valuation method:

The Company estimates the fair value of stock options using the Black-Scholes option pricing model, consistent with the provisions of SFAS 123R and SEC Staff Accounting Bulletin No. 107. The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable, while the options issued by the Company are subject to both vesting and restrictions on transfer. In addition, option-pricing models require input of subjective assumptions including the estimated life of the option and the expected volatility of the underlying stock over the estimated life of the option. The Company uses historical volatility as a basis for projecting the expected volatility of the underlying stock and estimates the expected life of its stock options based upon historical data.

The Company believes that the valuation technique and the approach utilized to develop the underlying assumptions are appropriate in calculating the fair value of the Company's stock option grants. Estimates of fair value are not intended, however, to predict actual future events or the value ultimately realized by employees who receive equity awards.

No cash is used by the Company to settle equity instruments granted under share-based compensation arrangements.

Summary of Outstanding Stock Options:

(a) 1996 Stock Options Plan

As of June 30, 2007, options to purchase an aggregate of 5,273,729 shares of common stock are outstanding under the Company's 1996 Stock Option Plan. No further shares of common stock may be issued under this option plan. Stock options that have been issued under the 1996 Stock Option Plan generally vest over four years and expire ten years from the date of the grant. The exercise price of options granted is equivalent to the fair market value of the stock on the day prior to date of grant.

A summary of unaudited option activity under the Company's 1996 Stock Option Plan for the three months ended June 30, 2007 is as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (\$ 000s)
Outstanding at March 31, 2007	5,515,982	\$ 0.50		
Granted				
Exercised	(139,148)	0.61		
Forfeited	(103,105)	0.88		
Expired				
Outstanding at June 30, 2007	5,273,729	\$ 0.49	5.81	\$ 3,756
Exercisable at June 30, 2007	4,961,656	\$ 0.48	5.72	\$ 3,586

A summary of unaudited option activity under the Company's 1996 Stock Option Plan for the six months ended June 30, 2007 is as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (\$ 000s)
Outstanding at December 31, 2006	5,910,192	\$ 0.52		
Granted				
Exercised	(373,880)	0.50		
Forfeited	(262,583)	1.17		
Expired				
Outstanding at June 30, 2007	5,273,729	\$ 0.49	5.81	\$ 3,756
Exercisable at June 30, 2007	4,961,656	\$ 0.48	5.72	\$ 3,586

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Total unrecognized compensation cost relating to unvested stock options at June 30, 2007, prior to the consideration of expected forfeitures, is approximately \$198,000 and is expected to be recognized over a weighted average period of 2.1 years

For the six months ended June 30, 2006, the weighted-average fair value of options granted, as of the grant date, during the period was \$0.83, using the following assumptions: expected volatility of 121%; risk-free interest rate of 4.5%, expected dividend yield of 0%; and expected life of six years. 233,000 options were granted during the three months ended June 30, 2006.

(b) 2006 Equity Compensation Plan

As of June 30, 2007, options to purchase an aggregate of 1,398,500 shares of common stock are outstanding under the Company's 2006 Equity Compensation Plan. Stock options that have been issued under the 2006 Equity Compensation Plan vest over four years and expire seven years from the date of the grant. The exercise price of options granted is equivalent to the fair market value of the stock on the day of grant.

A summary of unaudited option activity under the Company's 2006 Equity Compensation Plan for the three months ended June 30, 2007 is as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (\$ '000s)
Outstanding at March 31, 2007	1,451,500	\$ 0.83		
Granted	70,000	0.98		
Exercised				
Forfeited	(123,000)	0.85		
Expired				
Outstanding at June 30, 2007	1,398,500	\$ 0.85	6.55	\$ 469
Exercisable at June 30, 2007	120,000	\$ 0.90	4.67	\$ 35

A summary of unaudited option activity under the Company's 2006 Equity Compensation Plan for the six months ended June 30, 2007 is as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (\$ '000s)
Outstanding at December 31, 2006	60,000	\$ 0.83		
Granted	1,472,500	0.86		
Exercised				
Forfeited	(134,000)	0.85		
Expired				
Outstanding at June 30, 2007	1,398,500	\$ 0.85	6.55	\$ 469
Exercisable at June 30, 2007	120,000	\$ 0.90	4.67	\$ 35

Total unrecognized compensation cost relating to unvested stock options at June 30, 2007, prior to the consideration of expected forfeitures, is approximately \$681,000 and is expected to be recognized over a weighted average period of 4.5 years

For the three months ended June 30, 2007, the weighted-average fair value of options granted, as of the grant date, during the period was \$0.35, using the following assumptions: expected volatility of 51%; risk-free interest rate of 4.3%, expected dividend yield of 0%; and expected life of 4.75 years. A total of 70,000 options were granted during the three months ended June 30, 2007.

For the six months ended June 30, 2007, the weighted-average fair value of options granted, as of the grant date, during the period was \$0.57, using the following assumptions: expected volatility of 83%; risk-free interest rate of 4.5%,

expected dividend yield of 0%; and expected life of 4.75 years. A total of 1,472,500 options were granted during the six months ended June 30, 2007.

No options were granted during the six months ended June 30, 2006.

(c) Share-based compensation expense.