

# TUCOWS FINANCIAL STATEMENTS, Q2 2005

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## Tucows Inc. Consolidated Balance Sheets (Dollar amounts in U.S. dollars)

	June 30, 2005	December 31, 2004
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 8,037,839	\$ 13,914,988
Short-term investments	7,771,453	-
Restricted cash (note 1)	-	460,398
Accounts receivable	1,271,059	1,111,082
Prepaid expenses and deposits	1,638,271	2,156,702
Prepaid domain name registry and ancillary services fees, current portion	17,674,869	15,601,786
Deferred tax asset, current portion	1,000,000	1,000,000
Total current assets	37,393,491	34,244,956
Prepaid domain name registry and ancillary services fees, long-term portion	7,236,442	6,471,916
Deferred charges	449,350	-
Property and equipment	1,324,571	1,017,237
Deferred tax asset, long-term portion	2,000,000	2,000,000
Intangible assets	1,124,160	1,242,240
Goodwill	1,665,829	964,467
Investment	353,737	353,737
Cash held in escrow	616,762	1,009,650
Total assets	\$ 52,164,342	\$ 47,304,203

## Liabilities and Stockholders' Equity

Current liabilities:			
Accounts payable	\$	1,422,830	\$ 1,483,543
Accrued liabilities		2,013,399	2,688,738
Customer deposits		2,138,393	2,247,262
Deferred revenue, current portion		26,104,725	23,648,381
Accreditation fees payable, current portion		589,056	144,483
Total current liabilities		32,268,403	30,212,407
Deferred revenue, long term portion		10,540,720	9,602,599
Accreditation fees payable, long term portion		59,595	31,816
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; 68,092,665 shares issued and outstanding at June 30, 2005 and 66,817,250 shares issued and outstanding at December 31, 2004		10,429,078	9,541,277
Additional Paid-in Capital		50,061,866	50,061,866
Deficit		(51,195,320)	(52,145,762)
Total stockholders' equity		9,295,624	7,457,381
Total liabilities and stockholders' equity	\$	52,164,342	\$ 47,304,203

Note 1:

Of the restricted cash, \$310,000 represents margin security against a series of forward exchange contracts, and \$150,398 represents security against 2 letters of credit.

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

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Net revenues	\$ 12,002,138	\$ 10,638,965	\$ 23,803,844	\$ 20,813,874
Cost of revenues	7,586,612	6,558,400	14,807,817	13,003,815
Gross profit	4,415,526	4,080,565	8,996,027	7,810,059

Operating expenses:				
Sales and marketing (*)	1,166,057	1,124,726	2,518,511	2,345,260
Technical operations and development	1,356,058	1,140,870	2,678,843	2,152,292
General and administrative(*)	1,146,725	834,503	2,537,487	1,907,575
Depreciation of property and equipment	276,870	317,331	518,743	630,317
Amortization of intangible assets	59,040	39,680	118,080	39,680
 Total operating expenses	 4,004,750	 3,457,110	 8,371,664	 7,075,124
 Income from operations	 410,776	 623,455	 624,363	 734,935
Other income				
Interest income, net	96,856	42,103	174,104	79,736
Total other income	96,856	42,103	174,104	79,736
 Income before provision for income taxes	 507,632	 665,558	 798,467	 814,671
Provision for (recovery of) income taxes	-	-	(151,975)	-
 Net income for the period	 \$ 507,632	 \$ 665,558	 \$ 950,442	 \$ 814,671
 Basic and diluted earnings per common share	 \$ 0.01	 \$ 0.01	 \$ 0.01	 \$ 0.01
 Shares used in computing basic earnings per common share	 67,863,978	 65,991,867	 67,376,440	 65,341,377
Shares used in computing diluted earnings per common share	71,664,882	68,744,679	71,763,526	67,917,001

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

Sales and marketing	\$ -	\$ -	\$ -	\$ 16,834
General and administrative	\$ -	\$ -	\$ -	\$ 3,759

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

Three months ended

Six months ended

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	June 30,		June 30,	
	2005	2004	2005	2004
Cash provided by (used in):				
Operating activities:				
Net income for the period	\$ 507,632	\$ 665,558	\$ 950,442	\$ 814,671
Items not involving cash:				
Depreciation of property and equipment	276,870	317,331	518,743	630,317
Amortization of intangible assets	59,040	39,680	118,080	39,680
Unrealized change in the fair value of forward contracts	-	(110,148)	107,628	(91,263)
Stock-based compensation	-	-	-	20,593
Change in non-cash operating working capital:				
Accounts receivable	(8,380)	(11,616)	(159,977)	(74,284)
Prepaid expenses and deposits	83,467	75,495	410,803	110,615
Prepaid domain name registry and ancillary services fees	(835,394)	(1,259,188)	(2,837,609)	(3,296,200)
Accounts payable	(103,675)	26,192	(60,713)	(349,257)
Accrued liabilities	335,452	32,939	(675,339)	(222,482)
Customer deposits	(30,742)	50,481	(108,869)	3,600
Deferred revenue	888,976	1,569,497	3,394,465	4,376,960
Accreditation fees payable	301,495	-	472,352	-
Cash provided by operating activities	1,474,741	1,396,221	2,130,006	1,962,950
Financing activities:				
Proceeds received on exercise of stock options	5,416	491,407	186,439	644,469
Deferred charges	(449,350)	-	(449,350)	-
Cash (used in) provided by financing activities	(443,934)	491,407	(262,911)	644,469
Investing activities:				
Additions to property and equipment	(625,169)	(245,106)	(826,077)	(353,250)
Investment in short-term investments	(7,771,453)	-	(7,771,453)	-
(Decrease) increase in restricted cash - being margin security against forward exchange contracts	-	(361,250)	460,398	(228,750)
Acquisition of Boardtown Corporation				

Acquisition of Boardtown Corporation, net of cash acquired	-	(2,019,510)	-	(2,019,510)
Decrease (increase) in cash held in escrow	396,604	(1,000,000)	392,888	(1,000,000)
Cash used in investing activities	(8,000,018)	(3,625,866)	(7,744,244)	(3,601,510)
Decrease in cash and cash equivalents	(6,969,211)	(1,738,238)	(5,877,149)	(994,091)
Cash and cash equivalents, beginning of period	15,007,050	13,656,958	13,914,988	12,912,811
Cash and cash equivalents, end of period	\$ 8,037,839	\$ 11,918,720	\$ 8,037,839	\$ 11,918,720
Supplemental cash flow information:				
Interest paid	\$ -	\$ 53	\$ 300	\$ 53
Supplemental disclosure of non-cash investing and financing activities:				
Common stock issued on the acquisition of Boardtown Corporation	\$ 701,363	\$ 274,540	\$ 701,363	\$ 274,540