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

	September 30, 2006	December 31, 2005
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,546,933	\$ 17,348,088
Short-term investments	-	1,771,569
Restricted cash	262,834	60,000
Interest receivable	-	39,574
Accounts receivable	5,757,226	1,439,329
Prepaid expenses and deposits	2,297,150	1,999,820
Prepaid domain name registry and other Internet services fees, current portion	21,777,022	18,175,988
Cash held in escrow	-	-
Deferred tax asset, current portion	1,000,000	1,000,000
Total current assets	34,641,165	41,834,368
Prepaid domain name registry and other Internet services fees, long-term portion	9,330,713	7,701,939
Deferred acquisition costs	-	46,034
Property and equipment	5,698,689	1,542,671
Deferred tax asset, long-term portion	2,000,000	2,000,000
Intangible assets	18,851,277	1,006,080
Goodwill	11,977,086	1,951,067
Investment	353,737	353,737
Cash held in escrow	801,725	621,412

Total assets	\$ 83,654,392	\$ 57,057,308
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 2,595,011	\$ 1,655,195
Accrued liabilities	3,227,884	1,417,035
Customer deposits	2,851,428	2,276,637
Deferred revenue, current portion	31,522,474	26,790,166
Accreditation fees payable, current portion	504,966	651,811
Total current liabilities	40,701,763	32,790,844
Deferred revenue, long-term portion	13,213,970	11,079,537
Accreditation fees payable, long-term portion	152,197	94,785
Promissory note payable	6,000,000	-
Deferred tax liability	5,396,000	-
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; 75,732,220 shares issued and outstanding at September 30, 2006 and 71,945,303 shares issued and outstanding at December 31, 2005	15,287,732	12,403,422
Additional paid-in capital	50,271,866	50,061,866
Deficit	(47,369,136)	(49,373,146)
Total stockholders' equity	18,190,462	13,092,142
Total liabilities and stockholders' equity	\$ 83,654,392	\$ 57,057,308

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

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Net revenues	\$ 16,864,320	\$ 12,054,796	\$ 47,830,296	\$ 35,858,640
Cost of revenues:				
Cost of revenues (*)	10,464,829	7,676,713	30,458,945	22,484,530
Depreciation of property and equipment	695,624	113,539	1,889,799	319,619
Amortization of intangible assets	66,550	19,290	143,628	57,870
Total cost of revenues	11,227,003	7,809,542	32,492,372	22,862,019
Gross profit	5,637,317	4,245,254	15,337,924	12,996,621
Operating expenses:				
Sales and marketing (*)	1,706,951	1,150,674	4,738,397	3,669,185
Technical operations and development (*)	1,924,435	1,468,624	6,335,874	4,147,467
General and administrative (*)	1,698,012	820,860	4,265,529	3,358,347
Depreciation of property and equipment	43,025	99,883	125,116	412,546
Amortization of intangible assets	230,291	39,750	436,175	119,250
Total operating expenses	5,602,714	3,579,791	15,901,091	11,706,795
Income (loss) from operations	34,603	665,463	(563,167)	1,289,826
Other income (expenses):				
Interest income (expenses), net	(70,297)	122,755	135,256	296,859
Other income	1,873,420	-	2,347,026	-
Total other income	1,803,123	122,755	2,482,282	296,859
Income before provision for income taxes	1,837,726	788,218	1,919,115	1,586,685

Recovery of income taxes	(96,895)	-	(84,895)	(151,975)
Net income for the period	\$ <u>1,934,621</u>	\$ <u>788,218</u>	\$ <u>2,004,010</u>	\$ <u>1,738,660</u>
Basic earnings per share	\$ <u>0.03</u>	\$ <u>0.01</u>	\$ <u>0.03</u>	\$ <u>0.03</u>
Shares used in computing basic earnings per common share	<u>75,706,078</u>	<u>69,602,723</u>	<u>73,418,358</u>	<u>68,126,691</u>
Diluted earnings per share	\$ <u>0.02</u>	\$ <u>0.01</u>	\$ <u>0.03</u>	\$ <u>0.02</u>
Shares used in computing diluted earnings per common share	<u>78,214,560</u>	<u>73,145,627</u>	<u>75,852,576</u>	<u>72,243,523</u>

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

Cost of revenues	\$ 2,200	\$ -	\$ 7,700	\$ -
Sales and marketing	\$ 23,200	\$ -	\$ 79,200	\$ -
Technical operations and development	\$ 14,800	\$ -	\$ 50,800	\$ -
General and administrative	\$ 21,300	\$ -	\$ 72,300	\$ -

Tucows Inc.
Reconciliation of EBITDA and Adjusted EBITDA
(Dollar amounts in U.S. dollars)
(unaudited)

Three months ended September 30,	Nine months ended September 30,
2006	2006
2005	2005

Net income for the period	\$ 1,934,621	\$ 788,218	\$ 2,004,010	\$ 1,738,660
Depreciation of property and equipment	738,649	213,422	2,014,915	732,165
Amortization of intangible assets	296,841	59,040	579,803	177,120
Interest income, net	70,297	(122,755)	(135,256)	(296,859)
Provision for (recovery of) income taxes	(96,895)	-	(84,895)	(151,975)
EBITDA	2,943,513	937,925	4,378,577	2,199,111
Adjustments to EBITDA (1)				
Change in prepaid fees for domain name registry and other Internet services fees	(1,058,139)	(535,643)	(5,229,809)	(3,373,252)
Change in deferred revenue	1,506,423	674,016	6,702,773	4,068,481
Transitional costs	-	-	1,278,842	-
Other income	(1,873,420)	-	(2,347,026)	-
Subtotal Adjustments to EBITDA	(1,425,136)	138,373	404,780	695,229
Adjusted EBITDA	\$ <u>1,518,377</u>	\$ <u>1,076,298</u>	\$ <u>4,783,357</u>	\$ <u>2,894,340</u>

(1) Adjustments to EBITDA

We define Adjusted EBITDA as net income adjusted for depreciation, amortization, interest, taxes and further adjusted for certain cash and non-cash charges. For the nine months ended September 30, 2006, we incurred \$1,278,842 of transitional costs in connection with our acquisition of the Hosted Messaging assets of Critical Path. In addition, during the nine months ended September 30, 2006, we received \$2,347,026 in connection with settlements related to patents we acquired in the merger with Infonautics in 2001. The net amount of cash we collected for domain registrations and other Internet services paid for the full term at the time of activation and deferred, amounted to \$1,472,964 for the nine months ended September 30, 2006 compared to \$695,229 for the nine months ended September 30, 2005.

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Three months ended September 30,		Nine months ended September 30,	
2006	2005	2006	2005

Cash provided by (used in):

Operating activities:

Net income for the period	\$ 1,934,621	\$ 788,218	\$ 2,004,010	\$ 1,738,660
Items not involving cash:				
Depreciation of property and equipment	738,649	213,422	2,014,915	732,165
Amortization of intangible assets	296,841	59,040	579,803	177,120
Unrealized change in the fair value of forward exchange contracts	145,177	(290,177)	(50,725)	(182,549)
Stock-based compensation	61,500	-	210,000	-
Change in non-cash operating working capital:				
Interest receivable	5,027	(115,739)	39,574	(115,739)
Accounts receivable	(2,100,231)	(91,828)	(4,262,944)	(251,805)
Prepaid expenses and deposits	388,487	240,682	367,608	651,485
Prepaid fees for domain name registry and other Internet services fees	(1,058,139)	(535,643)	(5,229,809)	(3,373,252)
Accounts payable	(2,213,494)	292,579	857,048	231,866
Accrued liabilities	135,838	(269,556)	1,202,952	(944,895)
Customer deposits	6,534	31,497	574,791	(77,372)
Deferred revenue	1,506,423	674,016	6,702,773	4,068,481
Accreditation fees payable	19,402	(204,296)	(89,434)	268,056
Cash (used in) provided by operating activities	(133,365)	792,215	4,920,562	2,922,221

Financing activities:

Proceeds received on exercise of stock options	43,550	65,177	98,960	251,616
Net proceeds received on issuance of common stock, net of issue costs	-	2,024,025	-	1,574,675
Repayment of promissory note payable	(2,122,930)	-	(2,122,930)	-
Cash (used in) provided by financing activities	(2,079,380)	2,089,202	(2,023,970)	1,826,291

Investing activities:

Additions to property and equipment	(787,824)	(301,604)	(4,079,249)	(1,127,681)
Decrease (increase) in investment in short-term investments	-	-	1,771,569	(7,771,453)
Decrease (increase) in restricted cash - being margin security against forward exchange contracts	159,623	(300,000)	(202,835)	160,398

Acquisition of Mailbank.com Inc., net of cash acquired	(655,830)	-	(6,486,732)	-
Acquisition of Hosted Messaging Assets, net of cash acquired	(1,037,303)	-	(7,456,788)	-
Acquisition of Boardtown Corporation, net of cash acquired	(22,700)	-	(22,700)	-
(Decrease) increase in cash held in escrow	1,563,999	(2,320)	(221,012)	390,568
Cash (used in) investing activities	(780,035)	(603,924)	(16,697,747)	(8,348,168)
(Decrease) in cash and cash equivalents	(2,992,780)	2,277,493	(13,801,155)	(3,599,656)
Cash and cash equivalents, beginning of period	6,539,713	8,037,839	17,348,088	13,914,988
Cash and cash equivalents, end of period	\$ <u>3,546,933</u>	\$ <u>10,315,332</u>	\$ <u>3,546,933</u>	\$ <u>10,315,332</u>

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