

TUCOWS INC /PA/
Form 10-Q
August 08, 2016
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 June 30, 2016

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 (I.R.S. Employer
Incorporation or Organization) 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 August 5, there were 10,424,964 outstanding shares of common stock, no par value, of the registrant.

TUCOWS INC.

Form 10-Q Quarterly Report

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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)****(unaudited)**

	June 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$5,879,482	\$7,723,253
Accounts receivable, net of allowance for doubtful accounts of \$147,793 as of June 30, 2016 and \$122,095 as of December 31, 2015	9,982,919	7,171,388
Inventory	1,284,692	903,775
Prepaid expenses and deposits	6,427,664	5,067,790
Derivative instrument asset, current portion (note 4)	73,617	-
Prepaid domain name registry and ancillary services fees, current portion	48,350,997	44,708,041
Income taxes recoverable (note 7)	1,326,355	2,292,915
Total current assets	73,325,726	67,867,162
Prepaid domain name registry and ancillary services fees, long-term portion	11,296,936	11,040,929
Property and equipment	7,939,984	7,126,676
Deferred tax asset (note 7)	6,339,848	7,621,092
Other assets (note 6)	133,500	-
Intangible assets (note 5)	20,317,568	14,469,677
Goodwill (note 5)	21,005,143	21,005,143
Total assets	\$140,358,705	\$129,130,679
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$3,312,273	\$4,166,135
Accrued liabilities	5,008,112	5,855,686
Customer deposits	6,171,458	5,136,909
Derivative instrument liability, current portion (note 4)	294,170	2,027,086

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Deferred rent, current portion	20,854	19,463
Loan payable (note 6)	9,062,500	3,500,000
Deferred revenue, current portion	61,337,998	56,646,390
Accreditation fees payable, current portion	505,175	465,300
Income taxes payable (note 7)	667,773	444,053
Total current liabilities	86,380,313	78,261,022
Deferred revenue, long-term portion	15,362,403	14,947,639
Accreditation fees payable, long-term portion	115,761	118,480
Deferred rent, long-term portion	116,137	100,864
Other liabilities (note 12)	1,202,320	1,459,960
Deferred tax liability (note 7)	4,843,153	4,876,691
Redeemable non-controlling interest (note 8)	3,061,244	3,036,598
Stockholders' equity (note 13)		
Preferred stock - no par value, 1,250,000 shares authorized; none issued and outstanding	-	-
Common stock - no par value, 250,000,000 shares authorized; 10,422,453 shares issued and outstanding as of June 30, 2016 and 10,685,599 shares issued and outstanding as of December 31, 2015	14,295,907	14,530,633
Additional paid-in capital	2,234,541	8,526,395
Retained earnings	12,866,227	4,381,849
Accumulated other comprehensive income (loss)	(119,301)	(1,109,452)
Total stockholders' equity	29,277,374	26,329,425
Total liabilities and stockholders' equity	\$ 140,358,705	\$ 129,130,679

Commitments and contingencies (note 11)

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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net revenues (note 10)	\$47,466,381	\$42,889,220	\$93,076,794	\$83,357,053
Cost of revenues (note 10)				
Cost of revenues	29,849,661	28,250,672	58,700,134	55,072,046
Network expenses	1,404,826	1,494,838	2,637,757	2,716,934
Depreciation of property and equipment	350,920	279,929	697,673	479,571
Amortization of intangible assets (note 5)	11,532	11,532	23,064	15,456
Total cost of revenues	31,616,939	30,036,971	62,058,628	58,284,007
Gross profit	15,849,442	12,852,249	31,018,166	25,073,046
Expenses:				
Sales and marketing	5,435,033	4,847,963	10,720,657	8,647,138
Technical operations and development	998,651	1,189,276	2,175,011	2,303,471
General and administrative	2,926,608	2,750,466	5,331,535	5,218,488
Depreciation of property and equipment	76,922	62,022	150,190	121,284
Amortization of intangible assets (note 5)	276,918	56,997	333,915	110,212
Impairment of indefinite life intangible assets (note 5)	3,894	37,805	24,879	50,298
Loss (gain) on currency forward contracts (note 4)	(8,711)	25,227	(119,468)	329,251
Total expenses	9,709,315	8,969,756	18,616,719	16,780,142
Income from operations	6,140,127	3,882,493	12,401,447	8,292,904
Other income (expense):				
Interest expense, net	(120,528)	(57,402)	(166,700)	(82,177)
Other income, net (note 12)	128,820	-	257,640	-
Total other income (expense)	8,292	(57,402)	90,940	(82,177)
Income before provision for income taxes	6,148,419	3,825,091	12,492,387	8,210,727
Provision for income taxes (note 7)	2,077,633	1,540,096	3,983,363	3,091,789

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Net income before redeemable non-controlling interest	4,070,786	2,284,995	8,509,024	5,118,938
Redeemable non-controlling interest (note 8)	(273,690)	(49,985)	(444,482)	(71,467)
Net loss attributable to redeemable non-controlling interest	273,690	49,985	444,482	71,467
Net income	4,070,786	2,284,995	8,509,024	5,118,938
Other comprehensive income (loss), net of tax				
Unrealized income (loss) on hedging activities (note 4)	27,264	(38,046)	575,227	(998,912)
Net amount reclassified to earnings (note 4)	79,367	371,955	414,924	788,029
Other comprehensive income (loss) net of tax of \$60,659 and \$184,262 for the three months ended June 30, 2016 and June 30, 2015 and \$544,363 and \$135,616 for the six months ended June 30, 2016 and June 30, 2015	\$106,631	\$333,909	\$990,151	\$(210,883)
Comprehensive income for the year	\$4,177,417	\$2,618,904	\$9,499,175	\$4,908,055
Basic earnings per common share (note 9)	\$0.39	\$0.21	\$0.80	\$0.46
Shares used in computing basic earnings per common share (note 9)	10,541,659	11,047,136	10,607,843	11,094,618
Diluted earnings per common share (note 9)	\$0.38	\$0.20	\$0.79	\$0.44
Shares used in computing diluted earnings per common share (note 9)	10,733,860	11,456,670	10,797,458	11,518,105

See accompanying notes to unaudited consolidated financial statements

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Cash provided by:				
Operating activities:				
Net income for the period	\$4,070,786	\$2,284,995	\$8,509,024	\$5,118,938
Items not involving cash:				
Depreciation of property and equipment	427,842	341,951	847,863	600,855
Amortization of intangible assets	288,450	68,529	356,979	125,668
Impairment of indefinite life intangible asset	3,894	37,805	24,879	50,298
Deferred income taxes (recovery)	430,184	(801,919)	703,343	(966,169)
Amortization of deferred rent	4,749	13,039	16,664	10,547
Disposal of domain names	12,601	11,357	20,821	17,685
Other income	(128,820)	-	(257,640)	-
Loss (gain) on change in the fair value of forward contracts	(28,977)	(97,451)	(272,019)	61,342
Stock-based compensation	190,187	124,605	390,415	249,653
Change in non-cash operating working capital:				
Accounts receivable	(1,921,021)	(1,088,453)	(2,811,531)	(1,257,038)
Inventory	(141,830)	(45,294)	(380,917)	(158,444)
Prepaid expenses and deposits	(1,106,950)	(592,614)	(1,359,874)	(1,892,392)
Prepaid domain name registry and ancillary services fees	(3,101,043)	(755,932)	(3,898,963)	(2,218,776)
Income taxes recoverable	(36,174)	121,248	1,190,280	783,016
Accounts payable	(1,233,092)	(109,990)	(683,296)	7,576
Accrued liabilities	(396,328)	1,169,753	(847,574)	1,110,533
Customer deposits	1,214,472	589,361	1,034,549	452,918
Deferred revenue	3,597,790	983,586	5,106,372	3,045,096
Accreditation fees payable	26,537	(18,981)	37,156	32,046
Net cash provided by operating activities	2,173,257	2,235,595	7,726,531	5,173,352
Financing activities:				
Proceeds received on exercise of stock options	37,209	299,472	56,767	547,455
Payment of tax obligations resulting from net exercise of stock options	(203,019)	-	(239,704)	-
Excess tax benefits from share-based compensation expense	384,839	676,060	446,199	1,088,702
Repurchase of common stock	(4,999,978)	(489,536)	(7,180,257)	(8,201,681)
Proceeds received on loan payable	-	-	6,000,000	3,500,000
Repayment of loan payable	(218,750)	-	(437,500)	-

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Payment of credit facility renegotiation costs	(133,500)	-	(133,500)	-
Net cash provided by (used in) financing activities	(5,133,199)	485,996	(1,487,995)	(3,065,524)
Investing activities:				
Additions to property and equipment	(975,401)	(1,149,020)	(1,831,737)	(1,340,782)
Gross proceeds from the waiver of rights to .online registry	-	-	-	6,619,832
Remaining payment for the acquisition of Ting Virginia, LLC., net of cash of \$21,423 (note 8)	-	50,000	-	(357,493)
Acquisition of intangible assets (note 5)	(196,024)	-	(6,250,570)	-
Net cash provided by (used in) investing activities	(1,171,425)	(1,099,020)	(8,082,307)	4,921,557
Increase in cash and cash equivalents	(4,131,367)	1,622,571	(1,843,771)	7,029,385
Cash and cash equivalents, beginning of period	10,010,849	13,678,191	7,723,253	8,271,377
Cash and cash equivalents, end of period	\$5,879,482	\$15,300,762	\$5,879,482	\$15,300,762
Supplemental cash flow information:				
Interest paid	\$120,566	\$57,409	\$166,947	\$96,302
Income taxes paid, net	\$1,274,739	\$1,380,448	\$1,591,959	\$1,944,470
Supplementary disclosure of non-cash investing and financing activities:				
Property and equipment acquired during the period not yet paid for	\$46,632	\$70,577	\$46,632	\$70,577

See accompanying notes to unaudited consolidated financial statements

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization of the Company:

Tucows Inc., a Pennsylvania corporation (referred to throughout this report as the “Company”, “Tucows”, “we”, “us” or through similar expressions), together with our consolidated subsidiaries, is a provider of retail mobile phone service and fixed Internet access as well as a global distributor of Internet Services, such as domain name registration, digital certificates and email. The Company’s Internet Services are distributed through its global Internet-based distribution network of Internet service providers, web hosting companies and other companies that provide services to end-users.

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 office is located in Toronto, Ontario and we have other offices in the Netherlands, Germany and the United States. Our common stock is listed on NASDAQ under the symbol “TCX” and on the Toronto Stock Exchange under the symbol “TC”.

2. Basis of presentation:

The accompanying unaudited interim consolidated balance sheets, and the related consolidated statements of operations and comprehensive income 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, 2016 and the results of operations and cash flows for the interim periods ended June 30, 2016 and 2015. 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 unaudited interim consolidated financial statements have been prepared by Tucows 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 consolidated 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 Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2015 included in Tucows' 2015 Annual Report on Form 10-K filed with the SEC on March 9, 2016.

Prior to the third quarter of 2015, the Company recorded the effective portion of the gain or loss upon settlement of hedged currency forward contracts in “Loss on currency forward contracts” and reclassified the same amount from “General and administrative expense” to the income statement line item for the hedged item. The Company has determined that the reclassification of the effective portion of gain or loss upon settlement amounts are more appropriately reclassified from “Loss on currency forward contracts” to the income statement line item for the hedged item. As a result, a loss of \$0.6 million for the three months ended June 30, 2015 has been reclassified to “General and administrative expense” from “Loss on currency forward contracts”, and a loss of \$1.2 million for the six months ended June 30, 2015 has been reclassified to “General and administrative expense” from “Loss on currency forward contracts”. As a result of this reclassification, there was no change to previously reported net income, comprehensive income, income from operations, net revenues, gross profit, reported cash flows or the amounts recorded in the consolidated balance sheets.

There have been no material changes to our significant accounting policies and estimates during the six months ended June 30, 2016 as compared to the significant accounting policies and estimates described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, except for the adoption of Accounting Standard Update No. 2015-17, *Income Taxes (Topic 740)*.

The Company's most significant accounting policies are revenue recognition, property and equipment and derivative financial instruments and are included below:

(a) Revenue recognition

The Company's revenues are derived from domain name registration fees on both a wholesale and retail basis, the sale of domain names, the provisioning of other Internet services and advertising and other revenue. Amounts received in advance of meeting the revenue recognition criteria described below are recorded as deferred revenue.

The Company earns registration fees in connection with each new, renewed and transferred-in registration and from providing provisioning of other Internet services to resellers and registrars on a monthly basis. Service has been provided in connection with registration fees once the Company has confirmed that the requested domain name has been appropriately recorded in the registry under contractual performance standards.

Domain names are generally purchased for terms of one to ten years. Registration fees charged for domain name registration and provisioning services are recognized on a straight-line basis over the life of the contracted term. Other Internet services that are provisioned for annual periods or longer, are recognized on a straight-line basis over the life of the contracted term. Other Internet services that are provisioned on a monthly basis are recognized as services are provided.

For arrangements with multiple deliverables, the Company allocates revenue to each deliverable if the delivered item(s) has value to the customer on a standalone basis and, if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Company. The fair value of the selling price for a deliverable is determined using a hierarchy of (1) Company specific objective and reliable evidence, then (2) third-party evidence, then (3) best estimate of selling price. The Company allocates any arrangement fee to each of the elements based on their relative selling prices.

Revenue generated from the sale of domain names, earned from transferring the rights to domain names under the Company's control, are recognized once the rights have been transferred and payment has been received in full.

The Company derives revenues from the provisioning of mobile phone and fixed Internet access services primarily through its Ting website. These revenues are recognized once services have been provided. Revenues for wireless services are billed based on the actual amount of monthly services utilized by each customer during their billing cycle on a postpaid basis. The Company's billing cycle for each customer is computed based on the customer's activation date. As a result, the Company estimates the amount of revenues earned but not billed from the end of each billing cycle to the end of each reporting period. In addition, revenues associated with the sale of wireless devices and accessories to subscribers is recognized when title and risk of loss is transferred to the subscriber and shipment has occurred. Incentive marketing credits given to customers are recorded as a reduction of revenue.

The Company also generates advertising and other revenue through its online libraries of shareware, freeware and online services presented on its website. Advertising revenue includes revenue derived from cost per action advertising links we display on third party websites who provide syndicated pay-per-click advertising on OpenSRS Domain Expiry Stream domains and the Company's Portfolio Domains. In addition, the Company uses third party partners to derive pay-per-click advertising on the Tucows.com website. Advertising revenue is recognized on a monthly basis based on the number of cost-per-action services that were provided in the month.

Impression based advertising revenue and other revenues are recognized ratably over the period in which it is presented. To the extent that minimum guaranteed impressions are not met, the Company defers recognition of the corresponding revenues until the guaranteed impressions are achieved.

In those cases, where payment is not received at the time of sale, additional conditions for recognition of revenue are that the collection of the related accounts receivable is reasonably assured and the Company has no further performance obligations. The Company records costs that reflect expected refunds, rebates and credit card charge-backs as a reduction of revenues at the time of the sale based on historical experiences and current expectations.

The Company establishes provisions for possible uncollectible accounts receivable and other contingent liabilities which may arise in the normal course of business. Historically, credit losses have been within the Company's expectations and the provisions the Company has established have been appropriate. However, the Company has, on occasion, experienced issues which have led to accounts receivable not being fully collected. Should these issues occur more frequently, additional provisions may be required.

(b) Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is provided on a straight-line basis so as to depreciate the cost of depreciable assets over their estimated useful lives at the following rates:

Asset	Rate	
Computer equipment	30%	
Computer software	33 ¹ / ₃ %	100%
Furniture and equipment	20%	
Vehicles and tools	20%	
Fiber network (years)	15	
Customer equipment and installations (years)	3	
Leasehold improvements	Over term of lease	

The Company reviews the carrying values of its property and equipment for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the estimated undiscounted future cash flows expected to result from the use of the group of assets and their eventual disposition is less than their carrying amount, they are considered to be impaired. The amount of the impairment loss recognized is measured as the amount by which the carrying value of the asset exceeds the fair value of the asset, with fair value being determined based upon discounted cash flows or appraised values, depending on the nature of the assets.

Additions to the fiber network are recorded at cost, including all material, labor, vehicle and installation and construction costs and certain indirect costs associated with the construction of cable transmission and distribution facilities. While the Company's capitalization is based on specific activities, once capitalized, costs are tracked by fixed asset category at the fiber network level and not on a specific asset basis. For assets that are retired, the estimated historical cost and related accumulated depreciation is removed.

(c) Derivative Financial Instruments

During the three and six months ended June 30, 2016 and the year ended December 31, 2015 ("Fiscal 2015"), the Company used derivative financial instruments to manage foreign currency exchange risk. The Company accounts for these instruments in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 815, "Derivatives and Hedging" ("Topic 815"), which requires that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at its fair value as of the reporting date. Topic 815 also requires that changes in the derivative financial instruments' fair values be recognized in earnings, unless specific hedge accounting and documentation criteria are met (i.e. the instruments are accounted for as hedges).

The Company recorded the effective portions of the gain or loss on derivative financial instruments that were designated as cash flow hedges in accumulated other comprehensive income in the accompanying Consolidated Balance Sheets. Any ineffective or excluded portion of a designated cash flow hedge, if applicable, is recognized in net income.

For certain contracts, the Company has not complied with the documentation standards required for its forward foreign exchange contracts to be accounted for as hedges and has, therefore, accounted for such forward foreign exchange contracts at their fair values with the changes in fair value recorded in net income.

The fair value of the forward exchange contracts is determined using an estimated credit adjusted mark-to-market valuation which takes into consideration the Company's and the counterparty's credit risk. The valuation technique used to measure the fair values of the derivative instruments is a discounted cash flow technique, with all significant inputs derived from or corroborated by observable market data, as no quoted market prices exist for the derivative instruments. The discounted cash flow techniques use observable market inputs, such as foreign currency spot and forward rates.

3. Recent accounting pronouncements:

Recent Accounting Pronouncements Adopted

On January 1, 2016, the Company adopted Accounting Standards Updates ("ASU") No. 2015-16, *Business Combinations (Topic 805)*, No. 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement* and Nos. 2015-03 and 2015-15, *Interest - Imputation of Interest (Subtopic 835-30)*. The adoption of these Accounting Standards Updates did not have a significant impact on the consolidated financial statements.

On January 1, 2016, the Company elected to early adopt Accounting Standard Update No. 2015-17, *Income Taxes (Topic 740)*, which simplifies the presentation of deferred income taxes, such that deferred tax liabilities and assets be classified as non-current on a balance sheet. The impact of the change on the consolidated balance sheet at December 31, 2015 is the reclassification of \$3,243,718 from the deferred tax asset, current portion to deferred tax asset long-term portion.

Recent Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued FASB ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”), which changes the impairment model for most financial assets. The new model uses a forward-looking expected loss method, which will generally result in earlier recognition of allowances for losses. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019 and early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Company will apply ASU 2016-13 on January 1, 2020. The Company is currently in the process of evaluating the impact that the adoption of ASU 2016-13 will have on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718)* (“ASU 2016-09”). The areas for modification under ASU No. 2016-9 involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This guidance is effective for annual and interim reporting periods of public entities beginning after December 15, 2016 (January 1, 2017 for the Company). Early adoption of the standard is permitted as of the beginning of an interim or annual reporting period. Dependent upon the specific amendment, the implementation of the amendments in ASU 2016-09 are to be made on a prospective, retrospective or modified retrospective basis after the date of adoption. The Company is currently in the process of evaluating the impact that the adoption of ASU 2016-09 will have on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-05, *Derivatives and Hedging (Topic 815)* (“ASU 2016-05”). The amendments in ASU 2016-05 clarifies the effect of derivative contract novations on existing hedge accounting relationships whereby a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. This guidance is effective for annual and interim reporting periods of public entities beginning after December 15, 2016 (January 1, 2017 for the Company). Early adoption of the standard is permitted as of the beginning of an interim or annual reporting period. The implementation of the amendments in ASU 2016-05 are to be made on a prospective or modified retrospective basis after the date of adoption. The Company is currently in the process of evaluating the impact that the adoption of ASU 2016-05 will have on its consolidated financial statements.

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)*. The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. ASU 2016-02 requires the recognition on the balance sheet of a lease liability to make lease payments by lessees and a right-of-use asset representing its right to use the underlying asset for the lease term. The new guidance will also require significant additional disclosure about the amount, timing and uncertainty of cash flows from leases. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2018 (January 1, 2019 for the Company). The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period. The Company will adopt this guidance in the first quarter of fiscal 2019 and is in the process of evaluating the impact of the adoption of ASU 2016-02 will have on its consolidated financial statements.

In January 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-01, *Financial Instruments – Overall (Subtopic 825-10)* which relates to the recognition and measurement of financial assets and financial liabilities. ASU 2016-01 requires that all equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) be measured at fair value with changes in fair value recognized in net income. The new guidance requires the performance of a qualitative assessment for equity investments without readily determinable fair values. The update also requires an entity to present separately in other comprehensive income, the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The guidance is effective for annual and interim reporting periods beginning after December 15, 2017 (January 1, 2018 for the Company). Earlier adoption is not permitted. The Company is in the process of evaluating the impact that the adoption of ASU 2016-1 will have on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which is a comprehensive revenue recognition standard that will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The new standard provides a single principles-based, five-step model to be applied to all contracts with customers, which steps are to (1) identify the contract(s) with the customer, (2) identify the performance obligations in the contracts, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contracts and (5) recognize revenue when each performance obligation is satisfied. More specifically, revenue will be recognized when promised goods or services are transferred to the customer in an amount that reflects the consideration expected in exchange for those goods or services. ASU 2014-09 was set to be effective for interim and annual periods beginning after December 15, 2016. On July 9, 2015, the FASB vo