

BOINGO WIRELESS INC
Form 10-Q
November 09, 2015
[Table of Contents](#)

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 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 September 30, 2015

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: 001-35155

BOINGO WIRELESS, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: BOINGO WIRELESS INC - Form 10-Q

Delaware
(State or other jurisdiction of
incorporation or organization)

95-4856877
(I.R.S. Employer
Identification No.)

10960 Wilshire Blvd., 23rd Floor
Los Angeles, California
(Address of principal executive offices)

90024
(Zip Code)

(310) 586-5180

(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 the 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
(Do not check if a smaller reporting company)

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 October 30, 2015, there were 37,182,381 shares of the registrant's common stock outstanding.

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements (unaudited)</u> 3
	<u>Condensed Consolidated Balance Sheets</u> 3
	<u>Condensed Consolidated Statements of Operations</u> 4
	<u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u> 5
	<u>Condensed Consolidated Statement of Stockholders' Equity</u> 6
	<u>Condensed Consolidated Statements of Cash Flows</u> 7
	<u>Notes to the Condensed Consolidated Financial Statements</u> 8
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 18
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosure about Market Risk</u> 30
<u>Item 4.</u>	<u>Controls and Procedures</u> 30
<u>PART II OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u> 31
<u>Item 1A.</u>	<u>Risk Factors</u> 31
<u>Item 6.</u>	<u>Exhibits</u> 31
<u>SIGNATURES</u>	32

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****Boingo Wireless, Inc.****Condensed Consolidated Balance Sheets****(Unaudited)****(In thousands, except per share amounts)**

	September 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,556	\$ 8,849
Marketable securities		1,614
Accounts receivable, net	50,335	27,917
Prepaid expenses and other current assets	4,189	3,916
Deferred tax assets	787	787
Total current assets	63,867	43,083
Property and equipment, net	192,909	111,772
Goodwill	42,403	42,403
Intangible assets, net	16,927	19,676
Other assets	4,913	2,468
Total assets	\$ 321,019	\$ 219,402
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	\$ 33,253	\$ 4,004
Accrued expenses and other liabilities	42,337	26,109
Deferred revenue	19,447	25,488
Current portion of long-term debt	16,094	875
Current portion of capital leases	1,453	309
Total current liabilities	112,584	56,785
Deferred revenue, net of current portion	82,473	27,267
Long-term debt	1,969	2,625
Long-term portion of capital leases	1,984	381
Deferred tax liabilities	3,717	3,432
Other liabilities	5,701	1,482
Total liabilities	208,428	91,972
Commitments and contingencies (Note 9)		
Stockholders equity:		
Preferred stock, \$0.0001 par value; 5,000 shares authorized; no shares issued and outstanding		
Common stock, \$0.0001 par value; 100,000 shares authorized; 37,140 and 36,267 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	4	4

Edgar Filing: BOINGO WIRELESS INC - Form 10-Q

Additional paid-in capital	194,630	189,725
Accumulated deficit	(81,522)	(62,884)
Accumulated other comprehensive loss	(1,230)	(443)
Total common stockholders' equity	111,882	126,402
Non-controlling interests	709	1,028
Total stockholders' equity	112,591	127,430
Total liabilities and stockholders' equity	\$ 321,019	\$ 219,402

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**Boingo Wireless, Inc.****Condensed Consolidated Statements of Operations****(Unaudited)****(In thousands, except per share amounts)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue	\$ 37,186	\$ 30,822	\$ 100,855	\$ 85,670
Costs and operating expenses:				
Network access	17,517	15,058	47,151	41,230
Network operations	8,219	6,245	24,160	17,862
Development and technology	5,001	3,965	13,978	10,805
Selling and marketing	4,793	3,778	13,990	11,629
General and administrative	5,472	4,304	16,994	13,344
Amortization of intangible assets	943	959	2,709	2,812
Total costs and operating expenses	41,945	34,309	118,982	97,682
Loss from operations	(4,759)	(3,487)	(18,127)	(12,012)
Interest and other (expense) income, net	(49)	11	(50)	12
Loss before income taxes	(4,808)	(3,476)	(18,177)	(12,000)
Income tax expense	115	75	401	378
Net loss	(4,923)	(3,551)	(18,578)	(12,378)
Net (loss) income attributable to non-controlling interests	(104)	264	60	619
Net loss attributable to common stockholders	\$ (4,819)	\$ (3,815)	\$ (18,638)	\$ (12,997)
Net loss per share attributable to common stockholders:				
Basic	\$ (0.13)	\$ (0.11)	\$ (0.51)	\$ (0.36)
Diluted	\$ (0.13)	\$ (0.11)	\$ (0.51)	\$ (0.36)
Weighted average shares used in computing net loss per share attributable to common stockholders:				
Basic	37,041	35,881	36,722	35,619
Diluted	37,041	35,881	36,722	35,619

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

Boingo Wireless, Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net loss	\$ (4,923)	\$ (3,551)	\$ (18,578)	\$ (12,378)
Other comprehensive loss, net of tax				
Foreign currency translation adjustments	(371)	(197)	(666)	(197)
Comprehensive loss	(5,294)	(3,748)	(19,244)	(12,575)
Comprehensive (loss) income attributable to non-controlling interest	(28)	281	181	636
Comprehensive loss attributable to common stockholders	\$ (5,266)	\$ (4,029)	\$ (19,425)	\$ (13,211)

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**Boingo Wireless, Inc.****Condensed Consolidated Statement of Stockholders Equity****(Unaudited)****(In thousands)**

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Non- controlling Interests	Total Stockholders Equity
Balance at December 31, 2014	36,267	\$ 4	\$ 189,725	\$ (62,884)	\$ (443)	\$ 1,028	\$ 127,430
Issuance of common stock under stock incentive plans	873		1,247				1,247
Shares withheld for taxes			(1,984)				(1,984)
Stock-based compensation expense			6,792				6,792
Purchase of non-controlling interests			(1,150)				(1,150)
Non-controlling interest distributions						(500)	(500)
Net (loss) income				(18,638)		60	(18,578)
Other comprehensive (loss) income					(787)	121	(666)
Balance at September 30, 2015	37,140	\$ 4	\$ 194,630	\$ (81,522)	\$ (1,230)	\$ 709	\$ 112,591

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**Boingo Wireless, Inc.****Condensed Consolidated Statements of Cash Flows****(Unaudited)****(In thousands)**

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities		
Net loss	\$ (18,578)	\$ (12,378)
Adjustments to reconcile net loss including non-controlling interests to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	27,899	19,650
Amortization of intangible assets	2,709	2,812
Impairment loss	191	406
Stock-based compensation	6,190	5,210
Excess tax benefits from stock-based compensation		(60)
Change in fair value of contingent consideration	(114)	(358)
Change in deferred income taxes	285	277
Changes in operating assets and liabilities:		
Accounts receivable	(22,548)	(7,609)
Prepaid expenses and other assets	(2,810)	(1,246)
Accounts payable	2,422	1,234
Accrued expenses and other liabilities	5,039	(1,118)
Deferred revenue	49,165	11,818
Net cash provided by operating activities	49,850	18,638
Cash flows from investing activities		
Decrease in restricted cash		430
Purchases of marketable securities		(27,156)
Proceeds from sales of marketable securities	1,614	42,857
Purchases of property and equipment	(63,429)	(55,021)
Payments for business acquisition		(147)
Net cash used in investing activities	(61,815)	(39,037)
Cash flows from financing activities		
Proceeds from credit facility	20,000	
Principal payments on debt	(5,438)	
Excess tax benefits from stock-based compensation		60
Proceeds from exercise of stock options	1,247	860
Payments of capital leases and notes payable	(427)	(544)
Payment of other acquisition related consideration	(17)	(1,255)
Payments of withholding tax on net issuance of restricted stock units	(1,984)	(1,413)
Payments to non-controlling interests	(500)	(623)
Purchase of non-controlling interests	(1,150)	
Net cash provided by (used in) financing activities	11,731	(2,915)
Effect of exchange rates on cash	(59)	6
Net decrease in cash and cash equivalents	(293)	(23,308)
Cash and cash equivalents at beginning of period	8,849	27,338
Cash and cash equivalents at end of period	\$ 8,556	\$ 4,030
Supplemental disclosure of non-cash investing and financing activities		
Property and equipment costs in accounts payable, accrued expenses and other liabilities	\$ 54,079	\$ 13,272

Edgar Filing: BOINGO WIRELESS INC - Form 10-Q

Acquisition of equipment under capital lease	\$	3,099	\$	361
--	----	-------	----	-----

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

Boingo Wireless, Inc.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

(In thousands, except shares and per share amounts)

1. The business

Boingo Wireless, Inc. and its subsidiaries (collectively we, us, our or the Company) is a leading global provider of mobile Internet solutions for smartphones, tablet computers, laptops, and other wireless-enabled consumer devices. The Company has more than a million small cell networks for cellular distributed antenna system (DAS) and Wi-Fi access that reach more than one billion consumers annually. Boingo Wireless, Inc. was incorporated on April 16, 2001 in the State of Delaware. We have a diverse monetization model that enables us to generate revenues from wholesale partnerships, retail sales, and advertising across these small cell networks. Wholesale offerings include Wi-Fi roaming, private label Wi-Fi, location based services, and DAS, which are cellular extension networks. Retail products include Wi-Fi subscriptions and day passes that provide access to more than one million commercial hotspots worldwide, and Internet Protocol television (IPTV) services and broadband for military barracks. Advertising revenue is driven by Wi-Fi sponsorships at airports, hotels, cafes and restaurants, and public spaces. Our customers include some of the world's largest telecom operators, telecommunications service providers and global consumer brands, as well as Internet savvy consumers on the go and troops stationed at U.S. military bases.

2. Summary of significant accounting policies

Basis of presentation

The accompanying interim unaudited condensed consolidated financial statements and related notes for the three and nine months ended September 30, 2015 and 2014 are unaudited. The unaudited interim condensed consolidated financial information has been prepared in accordance with the rules and regulations of the SEC for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles (GAAP) in the United States of America (U.S.) for complete financial statements. These financial statements should be read in conjunction with the audited consolidated financial statements and the accompanying notes for the year ended December 31, 2014 contained in our annual report on Form 10-K filed with the SEC on March 16, 2015. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and in the opinion of management, reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of our results of operations for the three and nine months ended September 30, 2015 and 2014, our cash flows for the nine months ended September 30, 2015 and 2014, and our financial position as of September 30, 2015. The year-end balance sheet data was derived from audited consolidated financial statements, but does not include all disclosures required by GAAP. Interim results are not necessarily indicative of the results to be expected for an entire year or any other future year or interim period.

Principles of consolidation

Edgar Filing: BOINGO WIRELESS INC - Form 10-Q

The unaudited condensed consolidated financial statements include our accounts and the accounts of our majority owned subsidiaries. We consolidate our 70% ownership of Chicago Concourse Development Group, LLC and our 75% ownership of Boingo Holding Participacoes Ltda. in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810, *Consolidation*. Other parties' interests in consolidated entities are reported as non-controlling interests. All intercompany balances and transactions have been eliminated in consolidation.

Prior to August 4, 2015, we had a 70% ownership of Concourse Communications Detroit, LLC. On August 4, 2015, we purchased the remaining 30% ownership interest from the non-controlling interest owners for \$1,150. We accounted for this transaction as an acquisition of the remaining interest of an entity that had already been majority-owned by the Company. The purchase resulted in a reduction to additional paid-in capital of \$1,150 representing excess purchase price over the carrying amount of the non-controlling interests. Prior to this purchase, we had a controlling interest in this subsidiary, and therefore, this subsidiary had been and will continue to be consolidated with the Company's operations.

Segment and geographical information

We operate as one reportable segment; a service provider of mobile Internet solutions across our managed and operated network and aggregated network for mobile devices such as laptops, smartphones, tablet computers and other wireless-enabled consumer devices. This single segment is consistent with the internal organization structure and the manner in which operations are reviewed and managed by our Chief Executive Officer, the chief operating decision maker.

Table of Contents

All significant long-lived tangible assets are held in the U.S. We do not disclose sales by geographic area because to do so would be impracticable. In our annual report on Form 10-K filed with the SEC on March 16, 2015, we updated our presentation of retail and wholesale revenue sources to provide increased visibility into the revenue streams that are the focus of our current and future operational and development efforts. Our retail revenue sources were previously differentiated based on our retail plan types – subscription or single-use. We believe that it would be more relevant to differentiate our individual users based on the nature of the users – retail users who purchase Internet access at our managed and operated hotspots and select partner locations or military users who purchase Internet access and/or IPTV services for individual use on U.S. military bases. We also previously combined our wholesale DAS and Wi-Fi revenues and we believe that it would be better to disaggregate these wholesale product revenues going forward by DAS and Wi-Fi given the current development of these products. As a result, we have also reclassified our revenues by primary revenue source for the three and nine months ended September 30, 2014 for comparability purposes.

The following is a summary of our revenue by primary revenue source:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue:				
Retail	\$ 7,754	\$ 10,144	\$ 24,608	\$ 30,865
DAS	13,142	10,429	34,863	27,656
Wholesale Wi-Fi	5,454	4,709	15,096	11,477
Military	5,257	943	13,003	2,043
Advertising and other	5,579	4,597	13,285	13,629
Total revenue	\$ 37,186	\$ 30,822	\$ 100,855	\$ 85,670

Marketable securities

Our marketable securities consist of available-for-sale securities with original maturities exceeding three months. In accordance with FASB ASC 320, *Investments – Debt and Equity Securities*, we have classified securities, which have readily determinable fair values and are highly liquid, as short-term because such securities are expected to be realized within a one-year period. At September 30, 2015 and December 31, 2014, we had \$0 and \$1,614, respectively, in marketable securities.

Marketable securities are reported at fair value with the related unrealized gains and losses reported as other comprehensive income (loss) until realized or until a determination is made that an other-than-temporary decline in market value has occurred. No significant unrealized gains and losses have been reported during the periods presented. Factors considered by us in assessing whether an other-than-temporary impairment has occurred include the nature of the investment, whether the decline in fair value is attributable to specific adverse conditions affecting the investment, the financial condition of the investee, the severity and the duration of the impairment and whether we have the ability to hold the investment to maturity. When it is determined that an other-than-temporary impairment has occurred, the investment is written down to its market value at the end of the period in which it is determined that an other-than-temporary decline has occurred. The cost of marketable securities sold is based upon the specific identification method. Any realized gains or losses on the sale of investments are reflected as a component of interest and other (expense) income, net.

For the three and nine months ended September 30, 2015 and 2014, we had no significant realized or unrealized gains or losses from investments in marketable securities classified as available-for-sale. As of September 30, 2015 and December 31, 2014, we had no unrealized

gains or losses in accumulated other comprehensive loss.

Revenue recognition

We generate revenue from several sources including: (i) retail and military customers under subscription plans for month-to-month network access that automatically renew, and retail and military single-use access from sales of hourly, daily or other single-use access plans, (ii) DAS customers that are telecom operators under long-term contracts for access to our DAS at our managed and operated locations, (iii) arrangements with wholesale Wi-Fi customers that provide software licensing, network access, and/or professional services fees, and (iv) display advertisements and sponsorships on our walled garden sign-in pages. Software licensed by our wholesale platform services customers can only be used during the term of the service arrangements and has no utility to them upon termination of the service arrangement.

We recognize revenue when an arrangement exists, services have been rendered, fees are fixed or determinable, no significant obligations remain related to the earned fees and collection of the related receivable is reasonably assured.

Table of Contents

Subscription fees from retail and military customers are paid monthly in advance. Subscription fee revenue is recognized ratably over the subscription period and revenue is deferred for the portions of monthly recurring subscription fees collected in advance. Revenue generated from retail and military single-use access is recognized when access is provided. We provide refunds for our retail and military services on a case-by-case basis. These amounts are not significant and are recorded as contra-revenue in the period the refunds are made.

Revenue generated from access to our DAS networks consists of build-out fees and recurring access fees under certain long-term contracts with telecom operators. Build-out fees paid upfront are generally deferred and recognized ratably over the term of the estimated customer relationship period, once the build-out is complete. Periodically, we install and sell Wi-Fi and DAS networks to customers where we do not have service contracts or remaining obligations beyond the installation of those networks and we recognize build-out fees for such projects as revenue when the installation work is completed and the network has been accepted by the customer. Minimum monthly access fees for usage of the DAS networks are non-cancellable and generally escalate on an annual basis. These minimum monthly access fees are recognized ratably over the non-cancellable term of the telecom operator agreement. The initial term of our contracts with telecom operators generally range from five to twenty years and the agreements generally contain renewal clauses.

Services provided to wholesale Wi-Fi partners generally contain several elements including: (i) a term license to use our software to access our Wi-Fi network, (ii) access fees for Wi-Fi network usage, and/or (iii) professional services for software integration and customization and to maintain the Wi-Fi service. The term license, monthly minimum network access fees and professional services are billed on a monthly basis based upon predetermined fixed rates. Once the term license for integration and customization are delivered, the fees from the arrangement are recognized ratably over the remaining term of the service arrangement. The initial term of the license agreements is generally between one to five years and the agreements generally contain renewal clauses. Revenue for Wi-Fi network access fees in excess of the monthly minimum amounts is recognized when earned. All elements within existing service arrangements are generally delivered and earned concurrently throughout the term of the respective service arrangement.

In instances where the minimum monthly Wi-Fi and DAS network access fees escalate over the term of the wholesale service arrangement, an unbilled receivable is recognized when performance is within our control and when we have reasonable assurance that the unbilled receivable balance will be collected.

We adopted the provisions of Accounting Standards Update (ASU) 2009-13, *Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements* (ASU 2009-13), on a prospective basis on January 1, 2011. For multiple-deliverable arrangements entered into prior to January 1, 2011 that are accounted for under ASC 605-25, *Revenue Recognition Multiple-Deliverable Revenue Arrangements*, we defer recognition of revenue for the full arrangement and recognize all revenue ratably over the wholesale service period for Wi-Fi platform service arrangements and the term of the estimated customer relationship period for DAS arrangements, as we do not have evidence of fair value for the undelivered elements in the arrangement. For multiple-deliverable arrangements entered into or materially modified after January 1, 2011 that are accounted for under ASC 605-25, we evaluate whether or not separate units of accounting exist and then allocate the arrangement consideration to all units of accounting based on the relative selling price method using estimated selling prices if vendor specific objective evidence and third party evidence is not available. We recognize the revenue associated with the separate units of accounting upon completion of such services or ratably over the wholesale service period for Wi-Fi platform service arrangements and the term of the estimated customer relationship period for DAS arrangements.

Advertising revenue is generated from advertisements on our managed and operated or partner networks. In determining whether an arrangement exists, we ensure that a binding arrangement is in place, such as a standard insertion order or a fully executed customer-specific agreement. Obligations pursuant to our advertising revenue arrangements typically include a minimum number of units or the satisfaction of certain performance criteria. Advertising and other revenue is recognized when the services are performed.

Foreign currency translation

Our Brazilian subsidiary uses the Brazilian Real as its functional currency. Assets and liabilities of our Brazilian subsidiary are translated to U.S. dollars at period-end rates of exchange, and revenues and expenses are translated at average exchange rates prevailing for each month. The resulting translation adjustments are made directly to a separate component of other comprehensive loss, which is reflected in stockholders equity in our condensed consolidated balance sheets. As of September 30, 2015 and December 31, 2014, the Company had \$1,230 and \$443, respectively, of cumulative foreign currency translation adjustments, net of tax, which was \$0 as of September 30, 2015 and December 31, 2014 due to the full valuation allowance established against our deferred tax assets, in accumulated other comprehensive loss.

Table of Contents

Some of our subsidiaries also enter into transactions and have monetary assets and liabilities that are denominated in a currency other than the entities' respective functional currencies. Gains and losses from the remeasurement of these foreign currency transactions and monetary assets and liabilities using the exchange rate as of the end of the reporting period are included in interest and other (expense) income, net in the condensed consolidated statements of operations.

Fair value of financial instruments

Fair value is defined as the price that would be received from selling an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, we consider the principal or most advantageous market in which it would transact, and we consider assumptions that market participants would use when pricing the asset or liability.

The accounting guidance for fair value measurement also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is as follows:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The carrying amount reflected in the accompanying condensed consolidated balance sheets for cash and cash equivalents, marketable securities, accounts receivable, prepaid expenses and other current assets, accounts payable, accrued expenses and other liabilities approximates fair value due to the short-term nature of these financial instruments.

Recent accounting pronouncements

Edgar Filing: BOINGO WIRELESS INC - Form 10-Q

In September 2015, the FASB issued ASU 2015-16, *Simplifying the Accounting for Measurement Period Adjustments*, that eliminates the requirement to restate prior period financial statements for measurement period adjustments. The standard is effective for interim and annual periods beginning after December 15, 2015. The new standard must be applied prospectively to measurement period adjustments that occur after the effective date. We do not expect that this standard will have a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*, which provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the arrangement for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The standard is effective for annual periods beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for all entities. An entity may choose to adopt the new standard either retrospectively or prospectively. We are currently evaluating the expected impact of this new standard on our cloud computing arrangements in our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires entities to present debt issuance costs related to a note as a direct deduction from the face amount of that note, similar to the presentation of debt discounts. The costs will continue to be amortized to interest expense. In August 2015, the FASB issued ASU 2015-15, *Interest Imputation of Interest (Subtopic 835-30)*, which amends subtopic 835-30 to include that the SEC would not object to the deferral and presentation of debt issuance costs as an asset and subsequent amortization of the asset ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The standard will be effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. An entity must adopt the new standard retrospectively for all prior periods presented in the financial statements. We have not elected to early adopt this standard and we are currently evaluating the expected impact of this new standard. As of September 30, 2015 and December 31, 2014, we have classified debt issuance costs related to our revolving line of credit of \$197 and \$178, respectively, within prepaid expenses and other current assets, and \$421 and \$514, respectively, within other assets in the condensed consolidated balance sheets.

Table of Contents

In February 2015, the FASB issued ASU 2015-02, *Consolidation Amendments to the Consolidation Analysis*, which amends the current consolidation guidance and ends the deferral granted to investment companies from applying the variable interest entity guidance. The standard will be effective for fiscal years beginning after December 15, 2015. Early adoption is permitted. We do not expect that this standard will have a material impact on our consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which explicitly requires management to assess an entity's ability to continue as a going concern in connection with each annual and interim period. Management will assess if there is substantial doubt about an entity's ability to continue as a going concern within one year of the date the financial statements are issued. Disclosures will be required if conditions give rise to substantial doubt. The standard will be effective for the first annual period ending after December 15, 2016. Early adoption is permitted. We are currently evaluating the expected impact of this new standard.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which is intended to improve and converge the financial reporting requirements for revenue from contracts with customers between U.S. GAAP and International Accounting Standards. In accordance with this new standard, an entity would recognize revenue to depict the transfer of promised goods or services. The standard establishes a five-step model and related application guidance, which will replace most existing revenue recognition guidance in U.S. GAAP. The FASB has subsequently issued several proposals to clarify the guidance in ASU 2014-09 including identifying performance obligations, accounting for licenses of intellectual property, clarifying principal versus agent guidance to be applied for determining whether revenue should be presented gross (as a principal) or net (as an agent), and clarifying guidance about collectability, noncash consideration and what constitutes a completed contract at transition. In August 2015, the FASB issued ASU 2015-14, *Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date*, to defer the effective date of the new revenue standard by one year. The standard will be effective for annual and interim periods in fiscal years beginning after December 15, 2017. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. An entity may choose to adopt the new standard either retrospectively or through a cumulative effect adjustment as of the start of the first period for which it applies the new standard. We have not yet selected an effective date or a transition method and are currently evaluating the expected impact of this new standard, including proposed amendments, on our reporting of revenue contracts in our consolidated financial statements and related disclosures.

3. Cash and cash equivalents

Cash and cash equivalents consisted of the following:

	September 30, 2015	December 31, 2014
Cash and cash equivalents:		
Cash	\$ 6,326	\$ 3,247
Money market accounts	2,230	5,602
Total cash and cash equivalents	\$ 8,556	\$ 8,849
Short-term marketable securities:		
Marketable securities	\$	\$ 1,614
Total short-term marketable securities	\$	\$ 1,614

For the nine months ended September 30, 2015 and 2014, interest income was \$4 and \$105, respectively, which is included in interest and other (expense) income, net in the accompanying condensed consolidated statements of operations.

4. Property and equipment

The following is a summary of property and equipment, at cost less accumulated depreciation and amortization:

	September 30, 2015	December 31, 2014
Leasehold improvements	\$ 194,344	\$ 152,627
Construction in progress	76,574	20,104
Computer equipment	11,285	7,909
Software	22,210	17,827
Furniture, fixtures and office equipment	1,771	297
Total property and equipment	306,184	198,764
Less: accumulated depreciation and amortization	(113,275)	(86,992)
Total property and equipment, net	\$ 192,909	\$ 111,772

Table of Contents

Depreciation and amortization expense, which includes depreciation and amortization for property and equipment under capital leases, is allocated as follows in the accompanying condensed consolidated statements of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Network access	\$ 6,277	\$ 5,027	\$ 17,264	\$ 13,400
Network operations	2,087	1,370	5,916	3,739
Development and technology	1,377	852	3,887	2,331
General and administrative	292	86	832	180
Total depreciation and amortization of property and equipment	\$ 10,033	\$ 7,335	\$ 27,899	\$ 19,650

5. Fair value measurement

The following table sets forth our financial assets and liabilities that are measured at fair value on a recurring basis:

At September 30, 2015	Level 1	Level 2	Level 3	Total
Assets:				
Money market accounts	\$ 2,230	\$	\$	\$ 2,230
Total assets	\$ 2,230	\$	\$	\$ 2,230

At December 31, 2014	Level 1	Level 2	Level 3	Total
Assets:				
Money market accounts	\$ 5,602	\$	\$	\$ 5,602
Marketable securities		1,614		1,614
Total assets	\$ 5,602	\$ 1,614	\$	\$ 7,216
Liabilities:				
Contingent consideration	\$	\$	\$ 131	\$ 131
Total liabilities	\$	\$	\$ 131	\$ 131

Our marketable securities utilize Level 2 inputs and consist primarily of corporate securities which include commercial paper and corporate debt instruments including notes issued by foreign or domestic corporations which pay in U.S. dollars and carry a rating of A or better. We have evaluated the various types of securities in our investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs. Due to variations in trading volumes and the lack of quoted market prices in active markets, our fixed maturities are classified as Level 2 securities. The fair value of our fixed maturity marketable securities is derived through the use of a third party pricing source using recent reported trades for identical or similar securities, making adjustments through the reporting date based upon available market observable data.

The Company used the income approach to value the contingent consideration. The contingent consideration used a discounted cash flow method with probability weighted cash flows for Endeka Group, Inc., which we acquired in February 2013. The contingent consideration for Endeka was paid out during the nine months ended September 30, 2015. The following table presents a reconciliation of the beginning and ending amounts related to the fair value of contingent consideration categorized as Level 3:

Edgar Filing: BOINGO WIRELESS INC - Form 10-Q

Beginning balance, January 1, 2015	\$	131
Change in fair value		(114)
Payment of contingent consideration		(17)
Balance, September 30, 2015	\$	

Table of Contents**6. Accrued expenses and other liabilities**

Accrued expenses and other liabilities consisted of the following:

	September 30, 2015	December 31, 2014
Revenue share	\$ 4,320	\$ 5,683
Salaries and wages	3,284	2,389
Accrued for construction-in-progress	25,467	9,438
Accrued partner network	1,501	1,105
Settlement liabilities	338	1,850
Accrued professional fees	1,075	1,241
Accrued taxes	770	327
Deferred rent	20	18
Holdback liabilities	1,600	1,615
Contingent consideration		131
Other	3,962	2,312