

Gogo Inc.
Form 10-Q
November 10, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One):

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

For the quarterly period ended September 30, 2014

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: 001-35975

Gogo Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
Incorporation or Organization)

27-1650905
(I.R.S. Employer
Identification No.)

1250 North Arlington Heights Rd.
Itasca, IL 60143
(Address of principal executive offices)

Telephone Number (630) 647-1400
(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.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if 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 November 3, 2014, 85,266,060 shares of \$0.0001 par value common stock were outstanding.

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Gogo Inc. and Subsidiaries****Unaudited Condensed Consolidated Balance Sheets***(in thousands, except share and per share data)*

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 243,206	\$ 266,342
Accounts receivable, net of allowances of \$233 and \$162, respectively	36,504	25,690
Inventories	17,246	13,646
Prepaid expenses and other current assets	12,367	16,287
Total current assets	309,323	321,965
Non-current assets:		
Property and equipment, net	327,707	265,634
Intangible assets, net	78,122	72,848
Goodwill	620	620
Long-term restricted cash	7,899	5,418
Debt issuance costs	12,017	12,969
Other non-current assets	9,298	9,546
Total non-current assets	435,663	367,035
Total assets	\$ 744,986	\$ 689,000
Liabilities and Stockholders equity		
Current liabilities:		
Accounts payable	\$ 28,425	\$ 22,251
Accrued liabilities	49,795	49,146
Accrued airline revenue share	11,571	9,958
Deferred revenue	19,064	11,718
Deferred airborne lease incentives	11,645	9,005
Current portion of long-term debt and capital leases	9,399	7,887
Total current liabilities	129,899	109,965
Non-current liabilities:		

Long-term debt	304,661	235,627
Deferred airborne lease incentives	66,995	53,012
Deferred tax liabilities	6,391	5,770
Other non-current liabilities	18,126	14,436
Total non-current liabilities	396,173	308,845
Total liabilities	526,072	418,810
Stockholders equity		
Common stock, par value \$0.0001 per share; 500,000,000 shares authorized at September 30, 2014 and December 31, 2013; 85,443,725 and 84,976,457 shares issued at September 30, 2014 and December 31, 2013, respectively; and 85,266,060 and 84,976,392 shares outstanding at September 30, 2014 and December 31, 2013, respectively	9	8
Additional paid-in-capital	880,828	871,325
Accumulated other comprehensive loss	(778)	(425)
Accumulated deficit	(661,145)	(600,718)
Total stockholders equity	218,914	270,190
Total liabilities and stockholders equity	\$ 744,986	\$ 689,000

See the Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents**Gogo Inc. and Subsidiaries****Unaudited Condensed Consolidated Statements of Operations***(in thousands, except per share amounts)*

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue:				
Service revenue	\$ 81,586	\$ 63,790	\$ 233,042	\$ 180,725
Equipment revenue	22,449	21,589	66,216	54,845
Total revenue	104,035	85,379	299,258	235,570
Operating expenses:				
Cost of service revenue (exclusive of items shown below)	42,747	35,191	123,942	92,296
Cost of equipment revenue (exclusive of items shown below)	11,906	9,614	30,519	25,391
Engineering, design and development	16,193	11,322	46,081	35,940
Sales and marketing	10,354	7,608	28,083	21,298
General and administrative	21,102	18,878	58,529	49,687
Depreciation and amortization	17,016	13,664	47,585	41,218
Total operating expenses	119,318	96,277	334,739	265,830
Operating loss	(15,283)	(10,898)	(35,481)	(30,260)
Other (income) expense:				
Interest income	(11)	(14)	(35)	(47)
Interest expense	9,370	7,490	23,999	21,780
Fair value derivative adjustment				36,305
Other expense (income)	(35)	(2)	28	(2)
Total other expense	9,324	7,474	23,992	58,036
Loss before incomes taxes	(24,607)	(18,372)	(59,473)	(88,296)
Income tax provision	292	346	954	888
Net loss	(24,899)	(18,718)	(60,427)	(89,184)
Class A and Class B senior convertible preferred stock return				(29,277)
Accretion of preferred stock				(5,285)
Net loss attributable to common stock	\$ (24,899)	\$ (18,718)	\$ (60,427)	\$ (123,746)
Net loss attributable to common stock per share basic and diluted	\$ (0.29)	\$ (0.22)	\$ (0.71)	\$ (3.48)

Weighted average number of shares basic and diluted	85,226	84,097	85,103	35,521
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See the Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents**Gogo Inc. and Subsidiaries****Unaudited Condensed Consolidated Statements of Comprehensive Loss***(in thousands)*

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Net loss	\$ (24,899)	\$ (18,718)	\$ (60,427)	\$ (89,184)
Currency translation adjustments, net of tax	(473)	81	(353)	(141)
Comprehensive loss	\$ (25,372)	\$ (18,637)	\$ (60,780)	\$ (89,325)

See the Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents**Gogo Inc. and Subsidiaries****Unaudited Condensed Consolidated Statements of Cash Flows***(in thousands)*

	For the Nine Months Ended September 30,	
	2014	2013
Operating activities:		
Net loss	\$ (60,427)	\$ (89,184)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	47,585	41,218
Fair value derivative adjustment		36,305
Loss on asset disposals/abandonments	1,489	79
Deferred income taxes	621	653
Stock compensation expense	6,732	3,168
Amortization of deferred financing costs	2,452	1,993
Changes in operating assets and liabilities:		
Accounts receivable	(10,820)	(2,705)
Inventories	(3,600)	(2,739)
Prepaid expenses and other current assets	2,919	(2,867)
Deposits on satellite services		(4,774)
Accounts payable	5,406	(1,670)
Accrued liabilities	1,421	6,398
Accrued airline revenue share	1,613	2,634
Deferred airborne lease incentives	13,384	8,118
Deferred revenue	6,129	5,380
Deferred rent	3,660	(48)
Other non-current assets and liabilities	296	613
Net cash provided by operating activities	18,860	2,572
Investing activities:		
Proceeds from the sale of property and equipment	32	220
Purchases of property and equipment	(94,941)	(82,981)
Acquisition of intangible assets capitalized software	(14,572)	(11,034)
Acquisition of Airfone, includes \$1.0 million in restricted cash at September 30, 2013		(9,344)
(Increase) decrease in restricted cash	(2,500)	323
Net cash used in investing activities	(111,981)	(102,816)
Financing activities:		
Proceeds from initial public offering, net of underwriter commissions		173,910
Proceeds from credit facility	75,000	113,000
Payment of debt, including capital leases	(6,263)	(4,479)

Payment of additional offering costs		(3,660)
Payment of debt issuance costs	(1,500)	(6,975)
Stock option exercises	2,772	580
Net cash provided by financing activities	70,009	272,376
Effect of exchange rate changes on cash	(24)	(17)
Increase (decrease) in cash and cash equivalents	(23,136)	172,115
Cash and cash equivalents at beginning of period	266,342	112,576
Cash and cash equivalents at end of period	\$ 243,206	\$ 284,691
Supplemental Cash Flow Information:		
Cash paid for interest	\$ 21,484	\$ 17,741
Cash paid for taxes	333	228&nbs