

Gogo Inc.
Form 10-Q
August 11, 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 June 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 August 4, 2014, 85,203,552 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)*

	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 196,163	\$ 266,342
Accounts receivable, net of allowances of \$94 and \$162, respectively	31,775	25,690
Inventories	12,606	13,646
Prepaid expenses and other current assets	15,549	16,287
Total current assets	256,093	321,965
Non-current assets:		
Property and equipment, net	304,693	265,634
Intangible assets, net	76,637	72,848
Goodwill	620	620
Long-term restricted cash	7,899	5,418
Debt issuance costs	11,272	12,969
Other non-current assets	10,643	9,546
Total non-current assets	411,764	367,035
Total assets	\$ 667,857	\$ 689,000
Liabilities and Stockholders equity		
Current liabilities:		
Accounts payable	\$ 21,382	\$ 22,251
Accrued liabilities	46,280	49,146
Accrued airline revenue share	10,630	9,958
Deferred revenue	13,702	11,718
Deferred airborne lease incentives	10,635	9,005
Current portion of long-term debt and capital leases	8,447	7,887
Total current liabilities	111,076	109,965
Non-current liabilities:		

Long-term debt	232,275	235,627
Deferred airborne lease incentives	61,544	53,012
Deferred tax liabilities	6,184	5,770
Other non-current liabilities	16,153	14,436
Total non-current liabilities	316,156	308,845
Total liabilities	427,232	418,810
Stockholders equity		
Common stock, par value \$0.0001 per share; 500,000,000 shares authorized at June 30, 2014 and December 31, 2013; 85,372,607 and 84,976,457 shares issued at June 30, 2014 and December 31, 2013, respectively; and 85,194,942 and 84,976,392 shares outstanding at June 30, 2014 and December 31, 2013, respectively	9	8
Additional paid-in-capital	877,167	871,325
Accumulated other comprehensive loss	(305)	(425)
Accumulated deficit	(636,246)	(600,718)
Total stockholders equity	240,625	270,190
Total liabilities and stockholders equity	\$ 667,857	\$ 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 June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue:				
Service revenue	\$ 79,165	\$ 62,000	\$ 151,456	\$ 116,935
Equipment revenue	20,364	17,437	43,767	33,256
Total revenue	99,529	79,437	195,223	150,191
Operating expenses:				
Cost of service revenue (exclusive of items shown below)	41,567	31,135	81,195	57,105
Cost of equipment revenue (exclusive of items shown below)	8,627	8,048	18,613	15,777
Engineering, design and development	15,789	12,333	29,888	24,618
Sales and marketing	9,687	7,060	17,729	13,690
General and administrative	19,855	16,214	37,427	30,809
Depreciation and amortization	14,882	13,709	30,569	27,554
Total operating expenses	110,407	88,499	215,421	169,553
Operating loss	(10,878)	(9,062)	(20,198)	(19,362)
Other (income) expense:				
Interest income	(9)	(14)	(24)	(33)
Interest expense	7,381	10,370	14,629	14,290
Fair value derivative adjustment		36,305		36,305
Other expense (income)	23	(1)	63	
Total other expense	7,395	46,660	14,668	50,562
Loss before incomes taxes	(18,273)	(55,722)	(34,866)	(69,924)
Income tax provision	389	267	662	542
Net loss	(18,662)	(55,989)	(35,528)	(70,466)
Class A and Class B senior convertible preferred stock return		(13,994)		(29,277)
Accretion of preferred stock		(2,595)		(5,285)
Net loss attributable to common stock	\$ (18,662)	\$ (72,578)	\$ (35,528)	\$ (105,028)
Net loss attributable to common stock per share basic and diluted	\$ (0.22)	\$ (4.98)	\$ (0.42)	\$ (9.82)

Weighted average number of shares basic and diluted	85,085	14,585	85,040	10,694
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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 June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Net loss	\$ (18,662)	\$ (55,989)	\$ (35,528)	\$ (70,466)
Currency translation adjustments, net of tax	362	(133)	120	(222)
Comprehensive loss	\$ (18,300)	\$ (56,122)	\$ (35,408)	\$ (70,688)

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 Six Months Ended June 30,	
	2014	2013
Operating activities:		
Net loss	\$ (35,528)	\$ (70,466)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:		
Depreciation and amortization	30,569	27,554
Fair value derivative adjustment		36,305
Loss on asset disposals/abandonments	486	49
Deferred income taxes	414	402
Stock compensation expense	3,818	1,783
Amortization of deferred financing costs	1,697	1,171
Changes in operating assets and liabilities:		
Accounts receivable	(6,085)	(791)
Inventories	1,040	(4,294)
Prepaid expenses and other current assets	(253)	(216)
Deposits on satellite services		(4,774)
Accounts payable	(2,624)	(801)
Accrued liabilities	(1,332)	318
Accrued airline revenue share	672	1,922
Deferred airborne lease incentives	8,527	6,795
Deferred revenue	1,142	1,914
Other non-current assets and liabilities	695	450
Net cash provided by (used in) operating activities	3,238	(2,679)
Investing activities:		
Proceeds from the sale of property and equipment	32	220
Purchases of property and equipment	(59,668)	(58,712)
Acquisition of intangible assets capitalized software	(9,318)	(7,397)
Acquisition of Airfone, includes \$1.0 million in restricted cash at June 30, 2013		(9,344)
(Increase) decrease in restricted cash	(2,500)	273
Net cash used in investing activities	(71,454)	(74,960)
Financing activities:		
Proceeds from initial public offering, net of underwriter commissions		173,387
Proceeds from credit facility		113,000
Payment of debt, including capital leases	(4,052)	(2,750)
Payment of debt issuance costs		(6,975)

Stock option exercises	2,025	580
Net cash provided by (used in) financing activities	(2,027)	277,242
Effect of exchange rate changes on cash	64	(25)
Increase (decrease) in cash and cash equivalents	(70,179)	199,578
Cash and cash equivalents at beginning of period	266,342	112,576
Cash and cash equivalents at end of period	\$ 196,163	\$ 312,154
Supplemental Cash Flow Information:		
Cash paid for interest	\$ 13,649	\$ 10,531
Cash paid for taxes	311	217
Noncash Investing and Financing Activities:		
Purchases of property and equipment in current liabilities	\$ 16,719	\$ 20,190
Purchases of property and equipment paid by commercial airlines	1,635	3,490
Purchases of property and equipment under capital leases	2,127	