BOINGO WIRELESS INC
Form 10-Q
August 10, 2015
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

OR

o **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)

Delaware	**95-4856877**
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization)	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 x No o

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 x No o

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 o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of July 31, 2015, there were 36,993,845 shares of the registrant s common stock outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Boingo Wireless, Inc.

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except per share amounts)

	June 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 20,518	$ 8,849
Marketable securities		1,614
Accounts receivable, net	40,465	27,917
Prepaid expenses and other current assets	3,749	3,916
Deferred tax assets	787	787
Total current assets	65,519	43,083
Property and equipment, net	152,006	111,772
Goodwill	42,403	42,403
Intangible assets, net	17,872	19,676
Other assets	3,811	2,468
Total assets	$ 281,611	$ 219,402
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 15,467	$ 4,004
Accrued expenses and other liabilities	36,836	26,109
Deferred revenue	35,365	25,488
Current portion of long-term debt	10,875	875
Current portion of capital leases	1,312	309
Total current liabilities	99,855	56,785
Deferred revenue, net of current portion	52,785	27,267
Long-term debt	2,188	2,625
Long-term portion of capital leases	2,325	381
Deferred tax liabilities	3,639	3,432
Other liabilities	3,806	1,482
Total liabilities	164,598	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; 36,949 and 36,267 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	4	4

Additional paid-in capital		193,758		189,725
Accumulated deficit		(76,703)		(62,884)
Accumulated other comprehensive loss		(783)		(443)
Total common stockholders equity		116,276		126,402
Non-controlling interests		737		1,028
Total stockholders equity		117,013		127,430
Total liabilities and stockholders equity	$	281,611	$	219,402

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

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Boingo Wireless, Inc.

Condensed Consolidated Statements of Operations

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Revenue	$ 34,277	$ 28,396	$ 63,669	$ 54,848
Costs and operating expenses:				
Network access	16,011	13,247	29,634	26,172
Network operations	7,902	5,793	15,941	11,617
Development and technology	4,786	3,169	8,977	6,840
Selling and marketing	4,781	3,966	9,197	7,851
General and administrative	5,689	4,645	11,522	9,040
Amortization of intangible assets	873	928	1,766	1,853
Total costs and operating expenses	40,042	31,748	77,037	63,373
Loss from operations	(5,765)	(3,352)	(13,368)	(8,525)
Interest and other income (expense), net	19	(18)	(1)	1
Loss before income taxes	(5,746)	(3,370)	(13,369)	(8,524)
Income tax expense	82	155	286	303
Net loss	(5,828)	(3,525)	(13,655)	(8,827)
Net income attributable to non-controlling interests	109	209	164	355
Net loss attributable to common stockholders	$ (5,937)	$ (3,734)	$ (13,819)	$ (9,182)
Net loss per share attributable to common stockholders:				
Basic	$ (0.16)	$ (0.10)	$ (0.38)	$ (0.26)
Diluted	$ (0.16)	$ (0.10)	$ (0.38)	$ (0.26)
Weighted average shares used in computing net loss per share attributable to common stockholders:				
Basic	36,724	35,621	36,558	35,486
Diluted	36,724	35,621	36,558	35,486

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

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Boingo Wireless, Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

(In thousands)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Net loss	$ (5,828)	$ (3,525)	$ (13,655)	$ (8,827)
Other comprehensive loss, net of tax				
Foreign currency translation adjustments	52		(295)	
Comprehensive loss	(5,776)	(3,525)	(13,950)	(8,827)
Comprehensive income attributable to non-controlling interest	102	209	209	355
Comprehensive loss attributable to common stockholders	$ (5,878)	$ (3,734)	$ (14,159)	$ (9,182)

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

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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	682		1,028				1,028
Shares withheld for taxes			(1,354)				(1,354)
Stock-based compensation expense			4,359				4,359
Non-controlling interest distributions						(500)	(500)
Net (loss) income				(13,819)		164	(13,655)
Other comprehensive (loss) income					(340)	45	(295)
Balance at June 30, 2015	36,949	$ 4	$ 193,758	$ (76,703)	$ (783)	$ 737	$ 117,013

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

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Boingo Wireless, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Cash flows from operating activities		
Net loss	$ (13,655)	$ (8,827)
Adjustments to reconcile net loss including non-controlling interests to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	17,866	12,315
Amortization of intangible assets	1,766	1,853
Impairment loss	160	
Loss on disposal of fixed assets	5	
Stock-based compensation	3,934	3,368
Change in fair value of contingent consideration	(114)	(358)
Change in deferred income taxes	207	230
Changes in operating assets and liabilities:		
Accounts receivable	(12,600)	(10,271)
Prepaid expenses and other assets	(1,275)	(718)
Accounts payable	2,237	5,531
Accrued expenses and other liabilities	911	(845)
Deferred revenue	35,395	13,230
Net cash provided by operating activities	34,837	15,508
Cash flows from investing activities		
Purchases of marketable securities		(27,137)
Proceeds from sales of marketable securities	1,614	30,190
Purchases of property and equipment	(33,306)	(35,886)
Proceeds from sale of property and equipment	8	
Net cash used in investing activities	(31,684)	(32,833)
Cash flows from financing activities		
Proceeds from credit facility	15,000	
Principal payments on debt	(5,438)	
Proceeds from exercise of stock options	1,028	179
Payments of capital leases and notes payable	(188)	(348)
Payment of other acquisition related consideration	(17)	(275)
Payments of withholding tax on net issuance of restricted stock units	(1,354)	(992)
Payments to non-controlling interests	(500)	(623)
Net cash provided by (used in) financing activities	8,531	(2,059)
Effect of exchange rates on cash	(15)	
Net increase (decrease) in cash and cash equivalents	11,669	(19,384)
Cash and cash equivalents at beginning of period	8,849	27,338
Cash and cash equivalents at end of period	$ 20,518	$ 7,954
Supplemental disclosure of non-cash investing and financing activities		
Property and equipment costs in accounts payable, accrued expenses and other liabilities	33,202	12,075
Acquisition of equipment under capital lease	3,099	

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

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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 six months ended June 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 and cash flows for the three and six months ended June 30, 2015 and 2014, and our financial position as of June 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

The unaudited condensed consolidated financial statements include our accounts and the accounts of our majority owned subsidiaries. We consolidate our 70% ownership of Concourse Communications Detroit, LLC, 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.

On August 4, 2015, we purchased the remaining 30% ownership interest in Concourse Communications Detroit, LLC from the noncontrolling interest owners for $1,150.

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.

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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 six months ended June 30, 2014 for comparability purposes.

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

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Revenue:				
Retail	$ 8,145	$ 10,367	$ 16,854	$ 20,721
DAS	12,125	9,409	21,721	17,227
Wholesale Wi-Fi	5,472	3,463	9,642	6,768
Military	4,232	624	7,746	1,100
Advertising and other	4,303	4,533	7,706	9,032
Total revenue	$ 34,277	$ 28,396	$ 63,669	$ 54,848

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 June 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 income (expense), net.

For the three and six months ended June 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 June 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.

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.

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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 ten 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 June 30, 2015 and December 31, 2014, the Company had $783 and $443, respectively, of cumulative foreign currency translation adjustments, net of tax, which was $0 as of June 30, 2015 and December 31, 2014 due to the full valuation allowance established against our deferred tax assets, in accumulated other comprehensive loss.

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 income (expense), net in the condensed consolidated statements of operations.

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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

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 a June 2015 EITF meeting, the SEC observer clarified that ASU 2015-03 does not address debt issuance costs related to revolving debt arrangements and stated the SEC staff would not object to the use of current authoritative guidance to defer and present such costs as an asset and amortize the asset ratably over the term of the revolving debt 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 June 30, 2015 and December 31, 2014, we have classified debt issuance costs related to our revolving line of credit of $178 and $178, respectively, within prepaid expenses and other current assets, and $425 and $514, respectively, within other assets in the condensed consolidated balance sheets.

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 (VIE) 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.

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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. In May 2015, the FASB issued a proposal to clarify the guidance on identifying performance obligations and accounting for licenses of intellectual property. In June 2015, the FASB issued a proposal to clarify how the principal versus agent guidance should be applied for determining whether revenue should be presented gross (as a principal) or net (as an agent). In July 2015, the FASB decided to delay 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:

		June 30, 2015		December 31, 2014
Cash and cash equivalents:				
Cash	$	18,288	$	3,247
Money market accounts		2,230		5,602
Total cash and cash equivalents	$	20,518	$	8,849
Short-term marketable securities:				
Marketable securities	$		$	1,614
Total short-term marketable securities	$		$	1,614

For the six months ended June 30, 2015 and 2014, interest income was $4 and $86, respectively, which is included in interest and other income (expense), 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:

	June 30, 2015	December 31, 2014
Leasehold improvements	$ 179,401	$ 152,627
Construction in progress	42,814	20,104
Computer equipment	10,698	7,909
Software	20,840	17,827
Office equipment	1,739	297
Total property and equipment	255,492	198,764
Less: accumulated depreciation and amortization	(103,486)	(86,992)
Total property and equipment, net	$ 152,006	$ 111,772

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Network access	$ 6,155	$ 4,511	$ 10,987	$ 8,373
Network operations	1,843	1,182	3,829	2,369
Development and technology	1,336	782	2,510	1,479
General and administrative	478	56	540	94
Total depreciation and amortization of property and equipment	$ 9,812	$ 6,531	$ 17,866	$ 12,315

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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 June 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 period ended June 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:

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

6. Accrued expenses and other liabilities

Accrued expenses and other liabilities consisted of the following:

	June 30, 2015	December 31, 2014
Revenue share	$ 3,599	$ 5,683
Salaries and wages	2,846	2,389
Accrued for construction-in-progress	21,796	9,438
Accrued partner network	1,313	1,105
Settlement liabilities	675	1,850
Accrued professional fees	916	1,241
Accrued taxes	630	327
Deferred rent	19	18
Holdback liabilities	1,600	1,615
Contingent consideration		131
Other	3,442	2,312
Total accrued expenses and other liabilities	$ 36,836	$ 26,109

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7. Income taxes

We calculate our interim income tax provision in accordance with ASC 270, *Interim Reporting*, and ASC 740, *Accounting for Income Taxes*. At the end of each interim period, we estimate the annual effective tax rate and apply that rate to our ordinary quarterly earnings. The tax expense or benefit related to significant, unusual, or extraordinary items is recognized in the interim period in which those items occur. In addition, the effect of changes in enacted tax laws, rates, or tax status is recognized in the interim period in which the change occurs.

The computation of the annual estimated effective tax rate at each interim period requires certain estimates and significant judgment, including the expected operating income (loss) for the year, projections of the proportion of income (loss) earned and taxed in various states, permanent and temporary differences as a result of differences between amounts measured and recognized in accordance with tax laws and financial accounting standards, and the likelihood of recovering deferred tax assets generated in the current year. The accounting estimates used to compute the provision for income taxes may change as new events occur, additional information is obtained, or as the tax environment changes.

Income tax expense of $82 and $155 reflects an effective tax rate of 1.4% and 4.6% for the three months ended June 30, 2015 and 2014, respectively. Income tax expense of $286 and $303 reflects an effective tax rate of 2.1% and 3.6% for the six months ended June 30, 2015 and 2014, respectively. Our effective tax rate differs from the statutory rate primarily due to our valuation allowance for the three and six months ended June 30, 2015 and 2014. At June 30, 2015, we have net deferred tax liabilities of $2,852. As of June 30, 2015 and December 31, 2014, we had $355 and $459, respectively, of uncertain tax positions, $84 and $106, respectively, of which is a reduction to deferred tax assets, which is presented net of uncertain tax positions, in the accompanying condensed consolidated balance sheets. We accrue interest and penalties related to unrecognized tax benefits as a component of income taxes. As of June 30, 2015 and December 31, 2014, we have accrued $42 and $67, respectively, for related interest, net of federal income tax benefits, and penalties. The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of June 30, 2015 was $229.

A reconciliation of our unrecognized tax benefits, excluding interest and penalties, is as follows:

Beginning balance, January 1, 2015	$	392
Additions for current period tax positions		