BOINGO WIRELESS INC
Form 10-Q
November 14, 2012
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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 September 30, 2012

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 (State or other jurisdiction of incorporation or organization)	**95-4856877** (I.R.S. Employer Identification No.)
10960 Wilshire Blvd., Suite 800 **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 o
Non-accelerated filer x (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 November 9, 2012, there were 35,168,029 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)

		September 30, 2012		December 31, 2011
Assets				
Current assets:				
Cash and cash equivalents	$	57,350	$	93,933
Restricted cash		465		465
Marketable securities		37,219		
Accounts receivable, net		12,019		7,382
Prepaid expenses and other current assets		2,152		1,103
Deferred tax assets		2,088		2,366
Total current assets		111,293		105,249
Property and equipment, net		45,971		39,717
Goodwill		26,744		25,512
Other intangible assets, net		10,547		9,511
Deferred tax assets		4,781		4,083
Other assets		4,946		4,848
Total assets	$	204,282	$	188,920
Liabilities and stockholders equity				
Current liabilities:				
Accounts payable		5,293	$	4,573
Accrued expenses and other liabilities		10,949		12,759
Deferred revenue		17,817		13,575
Current portion of capital leases		42		205
Total current liabilities		34,101		31,112
Deferred revenue, net of current portion		27,108		27,754
Long-term portion of capital leases		140		197
Other liabilities		307		778
Total liabilities		61,656		59,841
Commitments and contingencies (Note 8)				
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, 35,162 and 33,584 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively		4		3

Additional paid-in capital		178,372		170,721
Accumulated deficit		(35,947)		(41,842)
Total common stockholders equity		142,429		128,882
Non-controlling interests		197		197
Total stockholders equity		142,626		129,079
Total liabilities and stockholders equity	$	204,282	$	188,920

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 September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Revenue	$ 26,017	$ 24,688	74,506	$ 68,659
Costs and operating expenses:				
Network access	10,061	9,647	29,577	27,153
Network operations	3,693	4,097	10,895	11,765
Development and technology	2,300	2,449	7,792	7,192
Selling and marketing	2,567	1,955	7,237	5,410
General and administrative	2,971	3,236	9,455	8,610
Amortization of intangible assets	296	323	778	1,392
Total costs and operating expenses	21,888	21,707	65,734	61,522
Income from operations	4,129	2,981	8,772	7,137
Interest and other income (expense), net	33	13	170	(292)
Income before income taxes	4,162	2,994	8,942	6,845
Income taxes	1,101	1,194	2,468	1,985
Net income	3,061	1,800	6,474	4,860
Net income attributable to non-controlling interests	284	138	579	420
Net income attributable to Boingo Wireless, Inc.	2,777	1,662	5,895	4,440
Accretion of convertible preferred stock				(1,633)
Net income attributable to common stockholders	$ 2,777	$ 1,662	$ 5,895	$ 2,807
Net income per share attributable to common stockholders:				
Basic	$ 0.08	$ 0.05	$ 0.17	$ 0.13
Diluted	$ 0.07	$ 0.05	$ 0.16	$ 0.11
Weighted average shares used in computing net income per share attributable to common stockholders:				
Basic	35,080	33,139	34,618	20,865
Diluted	37,337	36,678	37,324	24,453

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	Non-Controlling Interests	Total Stockholders Equity
Balance at December 31, 2011	33,584	$ 3	$ 170,721	$ (41,842)	$ 197	$ 129,079
Issuance of common stock upon exercise of stock options	1,578	1	2,124			2,125
Stock-based compensation expense			2,163			2,163
Excess tax benefits from stock-based compensation			3,364			3,364
Non-controlling interests distributions					(579)	(579)
Net income				5,895	579	6,474
Balance at September 30, 2012	35,162	$ 4	$ 178,372	$ (35,947)	$ 197	$ 142,626

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)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Cash flows from operating activities		
Net income	$ 6,474	$ 4,860
Adjustments to reconcile net income including non-controlling interests to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	11,672	8,894
Amortization of intangible assets	778	1,392
Stock-based compensation	2,163	2,275
Forgiveness of note receivable from stockholder		103
Excess tax benefits from stock-based compensation	(1,041)	
Change in fair value of preferred stock warrants		140
Change in deferred income taxes	(420)	(857)
Changes in operating assets and liabilities:		
Accounts receivable	(4,053)	2,054
Unbilled receivables	671	(304)
Prepaid expenses and other assets	1,767	54
Accounts payable	(821)	55
Accrued expenses and other liabilities	(3,552)	419
Deferred revenue	3,596	901
Net cash provided by operating activities	17,234	19,986
Cash flows from investing activities		
Increase in restricted cash		(65)
Purchases of marketable securities available-for-sale	(52,232)	
Sales of marketable securities	15,013	1,000
Acquisition, net of cash acquired	(3,185)	
Purchases of property and equipment	(15,755)	(13,154)
Contractual payments related to business acquisition	(14)	(127)
Net cash used in investing activities	(56,173)	(12,346)
Cash flows from financing activities		
Excess tax benefits from stock-based compensation	1,041	
Proceeds from exercise of stock options	2,125	602
Payments of capital leases	(190)	(330)
Payments to non-controlling interests	(620)	(547)
Proceeds from issuance of common stock upon initial public offering		48,297
Offering costs		(2,529)
Net cash provided by financing activities	2,356	45,493
Net decrease in cash and cash equivalents	(36,583)	53,133
Cash and cash equivalents at beginning of year	93,933	25,721
Cash and cash equivalents at end of year	$ 57,350	$ 78,854
Supplemental disclosure of cash flow information		
Cash paid for taxes	$ 650	$ 1,194
Supplemental disclosure of non-cash investing and financing activities		
Property and equipment and software maintenance costs in accounts payable, accrued expenses and other liabilities	4,129	2,247

Accretion of convertible preferred stock	1,633
Conversion of convertible preferred stock into common stock	124,602
Exercise and conversion of preferred stock warrants into common stock	272

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 or our) is a leading global provider of mobile Wi-Fi Internet solutions. Our solutions enable individuals to access our extensive global Wi-Fi network with devices such as smartphones, laptops and tablet computers. Boingo Wireless, Inc. was incorporated on April 16, 2001 in the State of Delaware. We have direct customer relationships with users who have purchased our mobile Internet services, and we provide solutions to our partners which include telecom operators, cable companies, technology companies, enterprise software and services companies, and communications companies to allow their millions of users to connect to the mobile Internet through hotspots in our network.

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, 2012 and 2011 are unaudited. The unaudited interim condensed consolidated financial information has been prepared 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, 2011 contained in our annual report on Form 10-K filed with the SEC on April 13, 2012. 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 presentation of our results of operations for the three and nine months ended September 30, 2012 and 2011, our cash flows for the nine months ended September 30, 2012 and 2011, and our financial position as of September 30, 2012. 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 our majority owned subsidiaries. We consolidate our 70% ownership of Concourse Communications Detroit, LLC and our 70% ownership of Chicago Concourse Development Group, LLC 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. The results of operations for the acquisition of companies accounted for under the purchase method of accounting have been included in the consolidated statements of operations beginning on the closing date of the acquisition. All intercompany balances and transactions have been eliminated in consolidation.

Segment information

We operate as one reportable segment; a service provider of mobile Wi-Fi solutions across our managed and operated network and aggregated network for mobile devices such as laptops, smartphones and tablets. 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.

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 our normal operating cycle. At September 30, 2012 and December 31, 2011, we had $37,219 and $0 in short-term marketable securities, respectively, and no long-term marketable securities.

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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 nine months ended September 30, 2012, we had no significant realized or unrealized gains or losses from investments in marketable securities classified as available-for-sale.

Revenue recognition

We generate revenue from several sources including: (i) retail customers under subscription plans for month-to-month network access that automatically renew, and retail single-use access from sales of hourly, daily or other single-use access plans, (ii) platform service arrangements with wholesale customers that provide software licensing, network access, and professional services fees and (iii) wholesale customers that are telecom operators under long-term contracts for access to our distributed antenna system (DAS) at our managed and operated locations. 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 customers are paid monthly in advance by charge card and revenue is deferred for the portions of monthly recurring subscription fees collected in advance. Our charge card processor withheld three percent of our sales for future refunds for a period of six months from the month of activity, which was recognized as revenue at the time of sale because the reserve balance was not used to provide refunds to customers. The reserve amount was subject to credit evaluations and biannual reviews. Based on the contract terms with the charge card processor as of November 2011, we are no longer required to withhold sales, and as a result, at September 30, 2012, we had no charge card reserve. We do not have a stated or published refund policy for our Wi-Fi service, although our customer service representatives will provide a refund on a case-by-case basis. These amounts are not significant and are recorded as contra revenue in the period the refunds are made. Subscription fee revenue is recognized ratably over the subscription period. Revenue generated from retail single-use access is recognized when earned.

Services provided to wholesale partners under platform service arrangements generally contain several elements including: (i) a term license to use our software to access our Wi-Fi network, (ii) access fees for network usage, and (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 platform service arrangement, which is generally between two to five years. Revenue for network access fees in excess of the monthly minimum amounts is recognized when earned. All elements within existing platform service arrangements are generally delivered and earned concurrently throughout the term of the respective service arrangement.

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 deferred and recognized ratably over the term of the estimated customer relationship period, once the build-out is complete. 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 term of the wholesale partner arrangement which generally range from five to ten years. Revenue from network access fees in excess of the monthly minimums is recognized when earned.

In instances where the minimum monthly 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.

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We may provide professional services for initial implementation services for certain platform and DAS arrangements. For our existing arrangements that are accounted for under ASC 605-25, *Revenue Recognition - Multiple-Deliverable Revenue Arrangements*, we defer recognition of the full arrangement consideration including the initial implementation activities, and recognize all revenue ratably over the wholesale service period, as we do not have evidence of fair value for the undelivered elements in the arrangement. Upon the adoption of ASU 2009-13, *Revenue Recognition (Topic 605) Multiple Deliverable Revenue Arrangements* on January 1, 2011, certain of our platform service or DAS arrangements may require the initial implementation services to be accounted for as a separate unit of accounting. For such arrangements entered into or materially modified after January 1, 2011, we allocate arrangement consideration at the inception of the arrangement to all units of accounting based on the relative selling price method. We recognize the revenue associated with any implementation services that qualify for separate units of accounting upon completion of such services and all other revenue will be recognized ratably over the remaining term of the wholesale service agreement.

Advertising and other revenue is recognized when the services are performed.

Revision of prior period financial statements

During the three months ended December 31, 2011, prior period errors were identified relating to accounting for income taxes that primarily resulted from the Company s improper recording of the following: deferred income taxes on the 2006 acquisition of Concourse Communications Group, LLC, the valuation allowance release, and tax benefits related to stock-based compensation. These errors impacted periods beginning in the year ended December 31, 2006 and subsequent periods through September 30, 2011.

In evaluating whether our previously issued consolidated financial statements were materially misstated, the Company considered the guidance in ASC Topic 250, *Accounting Changes and Error Corrections*, ASC Topic 250-10-S99-1, *Assessing Materiality*, and ASC Topic 250-10-S99-2, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. We concluded these errors were not material individually or in the aggregate to any of the prior reporting periods, and therefore, amendments of previously filed reports were not required. However, the cumulative error would have been material in the year ended December 31, 2011, if the entire correction was recorded in the fourth quarter of 2011. As such, the revisions for these corrections to the applicable prior periods, including for the three and nine months ended September 30, 2011, are reflected in the financial information herein and will be reflected in future filings containing such financial information.

The prior period unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2011 included in this filing have been revised to reflect the corrections of these tax related errors, the effects of which have been provided in summarized format below.

Revised unaudited condensed consolidated balance sheet amounts

	September 30, 2011		
	As Previously Reported	**Adjustment**	**As Revised**
Deferred tax assets	$ 3,572	$ (1,978)	$ 1,594

Total current assets	$	99,309	$	(1,978)	$	97,331
Deferred tax assets, non-current	$	6,697	$	1,843	$	8,540
Total assets	$	185,432	$	(135)	$	185,297
Accrued expenses and other liabilities	$	12,017	$	1,128	$	13,145
Total current liabilities	$	32,059	$	1,128	$	33,187
Total liabilities	$	58,752	$	1,128	$	59,880
Accumulated deficit	$	(42,434)	$	(1,263)	$	(43,697)
Total common stockholders equity	$	126,504	$	(1,263)	$	125,241
Total stockholders equity	$	126,680	$	(1,263)	$	125,417
Total liabilities and stockholders equity	$	185,432	$	(135)	$	185,297

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Revised unaudited condensed consolidated statements of operations amounts

	For the Nine Months Ended September 30, 2011		
	As Previously Reported	Adjustment	As Revised
Income tax expense	$ 2,067	$ (82)	$ 1,985
Net income	$ 4,778	$ 82	$ 4,860
Net income attributable to Boingo Wireless, Inc.	$ 4,358	$ 82	$ 4,440
Net income attributable to common stockholders	$ 2,725	$ 82	$ 2,807
Net income per share attributable to common stockholders Basic	$ 0.13	$	$ 0.13
Net income per share attributable to common stockholders Diluted	$ 0.12	$ (0.01)	$ 0.11

Revised unaudited condensed consolidated statements of cash flow amounts

	For the Nine Months Ended September 30, 2011		
	As Previously Reported	Adjustment	As Revised
Net income	$ 4,778	$ 82	$ 4,860
Adjustments to reconcile net income including non-controlling interests to net cash provided by operating activities:			
Change in deferred income taxes	$	$ (857)	$ (857)
Change in accrued expenses and other liabilities	$ (356)	$ 775	$ 419

The revisions did not change the net cash flows provided by or used in operating, investing or financing activities for the nine months ended September 30, 2011.

Recent accounting pronouncements

In September 2011, the FASB issued ASU 2011-08, *Intangibles Goodwill and Other: Testing Goodwill for Impairment* (ASU 2011-08). This ASU is intended to simplify how entities test goodwill for impairment. It permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. ASU 2011-08 will be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity s financial statements for the most recent annual or interim period have not yet been issued. We perform our impairment tests on December 31st of each year. We do not expect the adoption of this update to have a material impact on our financial position, results of operations or cash flows.

In July 2012, the Intangibles topic was amended to permit an entity to consider qualitative factors to determine whether it is more likely than not that indefinite-lived intangible assets are impaired. If it is determined to be more likely than not that indefinite-lived intangible assets are impaired, then the entity is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The amendments are not expected to have a material effect on the Company s financial statements.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income: Presentation of Comprehensive Income*, which amends current comprehensive income guidance. This ASU eliminates the option to present the components of other comprehensive income (OCI) as part of the statement of stockholders equity. Instead, it requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. Under the two-statement approach, the first statement would include components of net income, which is consistent with the income statement format used today, and the second statement would include components of OCI. The ASU does not change the items that must be reported in OCI. Subsequently, the FASB issued ASU 2011-12, *Comprehensive Income Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* (ASU 2011-12). ASU 2011-12 defers indefinitely the provision within ASU 2011-05 requiring entities to present reclassification adjustments out of accumulated OCI by component in both the income statement and the statement in which OCI is presented. ASU 2011-12 does not change the other provisions instituted within ASU 2011-05. The Company adopted this standard effective January 1, 2012. The adoption of this standard had no material impact on our financial position, results of operations or cash flows as the Company s comprehensive income currently equals net income.

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S.GAAP and IFRS,* which amends the wording used to describe many of the requirements in GAAP for measuring fair value and disclosing information about fair value measurements. The amendments in this ASU achieve the objectives of developing common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards (IFRS) and improving their understandability. Some of the requirements clarify the FASB s intent about the application of existing fair value measurement requirements while other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements.

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The amendments in this ASU are effective prospectively for interim and annual periods beginning after December 15, 2011, with no early adoption permitted. The adoption of this standard had no material impact on our financial position, results of operations or cash flows.

3. Acquisition

On August 6, 2012, we acquired the assets of Cloud 9 Wireless, Inc. (Cloud 9), for $3,500 plus the assumption of certain liabilities. Cloud 9 provides Wi-Fi sponsorship and location-based advertising at hotels, bars and restaurants, and recreational areas at over 6,000 locations in the U.S. and Canada. In accordance with FASB ASC 805 *Business Combinations*, we accounted for the acquisition as a business combination and the assets and liabilities of Cloud 9 we acquired are included in our unaudited condensed consolidated financial statements from the date of acquisition.

The following table summarizes the allocation of the purchase price to the acquired tangible and identifiable intangible assets and liabilities assumed based on their fair values at the date of acquisition:

Current assets	$	899
Property, plant and equipment		65
Intangible and other assets		1,758
Goodwill		1,232
Current liabilities		(454)
Total purchase price	$	3,500

The fair value of the acquired assets and liabilities at the time of the acquisition was estimated at $3,185, net of cash acquired. As the acquired entity is a private company, the fair value was based on significant inputs that are not observable in the market and thus represents a Level 3 measurement as defined in FASB ASC 820, *Fair Value Measurements and Disclosures*.

The following table summarizes the acquired intangible assets at September 30, 2012:

	Weighted-average Remaining Life		**Gross Carrying Amount**		**Accumulated Amortization**		**Net Book Value**
					(unaudited, in thousands)		
Technology	5 yrs	$	1,110	$	36	$	1,074
Other	5 to 10 yrs		640		12		628
Total		$	1,750	$	48	$	1,702

The intangibles assets are all definite-lived intangibles and are recognized on a straight-line basis over their weighted average lives of approximately 6.4 years.

The excess of the purchase price over the net tangible and intangible assets acquired resulted in goodwill of $1,232. Goodwill is not deductible for income tax purposes. The acquisition increased goodwill from $25,512 million at December 31, 2011 to $26,744 million at September 30, 2012.

4. Cash and cash equivalents and marketable securities

Cash and cash equivalents, and marketable securities consisted of the following:

	September 30, 2012	December 31, 2011
Cash and cash equivalents:		
Cash	$ 11,587	$ 12,851
Money market accounts	45,763	81,082
Total cash and cash equivalents	$ 57,350	$ 93,933
Short-term marketable securities available-for-sale:		
Marketable securities	$ 37,219	$
Total short-term marketable securities	$ 37,219	$

All contractual maturities of marketable securities were less than one year at September 30, 2012. These 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.

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For the nine months ended September 30, 2012, and 2011, interest income was $128 and $29, respectively, which is included in interest and other income (expense), net in the accompanying condensed consolidated statements of operations.

5. Property and equipment

Property and equipment consisted of the following:

	September 30, 2012	December 31, 2011
Leasehold improvements	$ 75,671	$ 60,030
Construction in progress	7,264	7,059
Computer equipment	7,347	6,674
Software	7,213	5,818
Office equipment	411	400
Total property and equipment	97,906	79,981
Less: accumulated depreciation and amortization	(51,936)	(40,264)
Total property and equipment, net	$ 45,971	$ 39,717

Depreciation and amortization of property and equipment is allocated as follows on the accompanying unaudited condensed consolidated statements of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Network access	$ 2,704	$ 2,637	$ 8,848	$ 6,295
Network operations	687	664	2,077	1,842
Development and technology	375	234	656	674
General and administrative	32	20	91	83
Total depreciation and amortization of property and equipment	$ 3,798	$ 3,555	$ 11,672	$ 8,894

6. Fair value measurement

ASC 820, *Fair Value Measurements and Disclosures*, establishes a three-tiered hierarchy that draws a distinction between market participant assumptions based on (i) quoted prices (unadjusted) in active markets for identical assets and liabilities (Level 1); (ii) inputs other than quoted prices in active markets that are observable either directly or indirectly (Level 2); and (iii) unobservable inputs that require us to use present value and other valuation techniques in the determination of fair value (Level 3). The following table sets forth our financial assets that are measured at fair value on a recurring basis:

At September 30, 2012	Level 1	Level 2	Total
Assets:			
Cash equivalents	$ 45,763	$	$ 45,763
Marketable securities available-for-sale		37,219	37,219
Total assets	$ 45,763	$ 37,219	$ 82,982

At December 31, 2011	Level 1	Level 2	Total
Assets:			
Cash equivalents	$ 81,082	$	$ 81,082
Marketable securities available-for-sale			
Total assets	$ 81,082	$	$ 81,082

Our marketable securities available-for-sale 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.

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The fair value of our fixed maturity marketable securities available-for-sale is derived through the use of a third party pricing source or recent reported trades for identical or similar securities, making adjustments through the reporting date based upon available market observable data.

7. Accrued expenses and other liabilities

Accrued expenses and other liabilities consisted of the following:

	September 30, 2012	December 31, 2011
Revenue share	3,982	$ 3,915
Salaries and wages	2,760	3,934
Accrued for construction-in-progress	1,410	688
Accrued partner network	857	1,274
Deferred service usage credits		634
Deferred rent	806	223
Accrued taxes	42	682
Amounts due to non-controlling interests	515	557
Other	577	852
Total accrued expenses and other liabilities	$ 10,949	$ 12,759

8. 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 for the year, projections of the proportion of income 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.

During the nine months ended September 30, 2012, we recognized excess windfall tax benefits of $3,364 from stock option exercises. These benefits will decrease income taxes payable for the year ended December 31, 2012, and were recorded as an increase to additional paid-in capital in the accompanying unaudited condensed consolidated balance sheet as of September 30, 2012.

Income tax expense of $2,468 and $1,985 reflects an effective tax rate of 27.6% and 29.0% for the nine months ended September 30, 2012 and 2011, respectively. For the nine months ended September 30, 2012, our effective tax rate differs from the statutory rate primarily due to benefits from disqualifying dispositions of incentive stock options and adjustments relating to our 2011 tax returns. For the nine months ended September 30, 2011, our effective tax rate differs from the statutory rate primarily due to incentive stock options that were recharacterized as nonqualified stock options. Under current tax regulations, we do not receive a tax deduction for the issuance, exercise or disposition of incentive stock options if the employee meets certain holding requirements. If the employee does not meet the holding requirements, a disqualifying disposition occurs, at which time we may receive a tax deduction. We do not record tax benefits related to incentive stock options unless and until a disqualifying disposition is reported. At September 30, 2012, we have net deferred tax assets of $6,869, which includes net operating loss carry-forwards and other losses. As of September 30, 2012, we have recorded no liability for income taxes associated with uncertain tax positions.

We are subject to taxation in the United States and in various states. Our tax years 2007 and forward are subject to examination by the IRS and our tax years 2006 and forward are subject to examination by material state jurisdictions. However, due to prior year loss carryovers, the IRS and state tax authorities may examine any tax years for which the carryovers are used to offset future taxable income.

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9. Commitments and contingencies

Litigation

From time to time, we may be subject to claims arising out of the operations in the normal course of business. We are not a party to any such other litigation that we believe could have a material adverse effect on our business, financial position, results of operations or cash flows.

10. Stock incentive plans

In March 2011, our board of directors approved the 2011 Equity Incentive Plan (2011 Plan) under which 5,511,288 shares of common stock are reserved for issuance. The 2011 Plan provides for the grant of incentive and nonstatuatory stock options, stock appreciation rights, restricted shares of our common stock, stock units, and performance cash awards. As of January 1 of each year, the number of shares of common stock reserved for issuance under our stock incentive plan shall automatically be increased by a number equal to the lesser of (a) 4.5% of the total number of shares of common stock then outstanding, (b) 3,000,000 shares of common stock and (c) as determined by our board of directors.

No further awards will be made under our Amended and Restated 2001Stock Incentive Plan (2001 Plan), which terminated pursuant to its term. Options outstanding under the 2001 Plan will continue to be governed by their existing terms.

The weighted average assumptions used for newly issued stock option grants for the nine months ended September 30, 2012 were an expected term of 6.2 years, an expected volatility of 50%, a risk free rate of return of 0.95% and no expected dividends.

We recognized stock-based compensation expense as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Network operations	$ 117	$ 186	$ 227	$ 297
Development and technology	(253)	228	168	388
Selling and marketing	(36)	264	366	438
General and administrative	390	694	1,402	1,152
Total stock-based compensation	$ 218	1,372	$ 2,163	$ 2,275

The $1,154 decrease in stock-based compensation expense for the three months ended September 30, 2012 as compared to the three months ended September 30, 2011, is primarily a result of the reversal of $650 in stock-based compensation expense for unvested options for two senior executives who left the Company.

A summary of the stock option activity under the Plan is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted-Average Remaining Contract Life (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2011	6,601	$ 5.50	7.0	$ 30,996
Granted	1,104	$ 8.30		
Exercised	(1,578)	$ 1.35		
Cancelled/forfeited	(743)	$ 11.59		
Outstanding at September 30, 2012	5,384	$ 6.45	6.82	$ 17,891
Vested and expected to vest at September 30, 2012	5,273	$ 6.31	6.78	$ 17,871
Exercisable at September 30, 2012	2,881	$ 2.69	5.09	$ 16,666

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11. Net income per share attributable to common stockholders:

The following table sets forth the computation of basic and diluted net income per share attributable to common stockholders:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2012		2011		2012		2011	
Numerator:								
Net income attributable to common stockholders, basic and diluted	$	2,777	$	1,662	$	5,895	$	2,807
Denominator:								
Weighted average common stock, basic		35,080		33,139		34,618		20,865
Effect of dilutive stock options		2,257		3,539		2,706		3,567
Effect of dilutive common stock warrants								21
Weighted average common stock, dilutive		37,337		36,678		37,324		24,453
Net income per share attributable to common stockholders:								
Basic	$	0.08	$	0.05	$	0.17	$	0.13
Diluted	$	0.07	$	0.05	$	0.16	$	0.11

The following outstanding securities were not included in the computation of diluted net income per share as the inclusion would have been anti-dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Convertible preferred stocks				10,293
Options to purchase common stock	2,478	2,174	2,442	2,174
Warrants to purchase preferred stock				17
Total	2,478	2,174	2,442	12,484

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and notes thereto included in Item 1. Financial Statements of this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes thereto and the section titled Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2011, filed with the Securities Exchange Commission on April 13, 2012.

Forward-Looking Statements

We revised previously issued financial statements to correct errors identified related to accounting for income taxes. The revisions were immaterial to the periods impacted, as disclosed in Note 2 of the condensed consolidated financial statements included in this report on Form 10-Q. All amounts in Item 2 of this filing are provided as revised.

This Quarterly Report on Form 10-Q and the documents incorporated herein by reference contain forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, as amended, based on our current expectations, estimates and projections about our operations, industry, financial condition, performance, results of operations, and liquidity. Statements containing words such as may, believe, anticipate, expect, intend, plan, project, projections, business outlook, estimate, or similar expressions constitute forward-looking statements. These forward-looking statements include, but are not limited to, statements about future financial performance; revenues; metrics; operating expenses; market trends, including those in the markets in which we compete; operating and marketing efficiencies; liquidity; cash flows and uses of cash; dividends; capital expenditures; depreciation and amortization; tax payments; foreign currency exchange rates; hedging arrangements; our ability to repay indebtedness, pay dividends and invest in initiatives; our products and services; pricing; competition; strategies; and new business initiatives, products, services, and features. Potential factors that could affect the matters about which the forward-looking statements are made include, among others, the factors disclosed in the section entitled Risk Factors in this Quarterly Report on Form 10-Q and additional factors that accompany the related forward-looking statements in this Quarterly Report on Form 10-Q and our other filings with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management s analysis only as the date hereof. Any such forward-looking statements are not guarantees of future performance or results and involve risks and uncertainties that may cause actual performance and results to differ materially from those predicted. Reported results should not be considered an indication of future performance. Except as required by law, we undertake no obligation to publicly release the results of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Overview

Boingo makes it simple to connect to the mobile Internet.

We make it easy, convenient and cost effective for individuals to find and gain access to the mobile Internet through high-speed, high-bandwidth Wi-Fi networks globally. We also manage and operate a distributed antenna system infrastructure, or DAS which is a cellular extension network. Our solution includes easy-to-use software for Wi-Fi enabled devices such as smartphones, laptops and tablet computers, and our sophisticated back-end system infrastructure that detects and enables one-click access to our extensive global Wi-Fi network. Individuals use our solutions to access what we believe is the world s largest commercial Wi-Fi network, consisting of over 550,000 Wi-Fi locations, or hotspots, in over 100 countries at venues such as airports, hotels, coffee shops, shopping malls, arenas, stadiums and quick service restaurants.

We have direct customer relationships with users who have purchased our mobile Internet services, and we provide solutions to our partners, which include telecom operators, cable companies, technology companies, enterprise software and services companies, and communications companies to allow their millions of users to connect to the mobile Internet through hotspots in our network. As of September 30, 2012, we have grown our subscriber base to 292,000, an increase of 19.7% over the prior year period.

Individuals who are accustomed to the benefits of broadband performance at home and work are seeking the same applications, performance and availability on-the-go, through smartphones, laptops, tablet computers and other devices. We believe that this consumer demand has created a significant market opportunity that we are uniquely positioned to capture.

We generate revenue from individual users, partners and advertisers. Individual users provide approximately half of our revenue by purchasing month-to-month subscription plans that automatically renew, or hotspot specific single-use access to our network. In addition, our partners pay us usage-based network access and software licensing fees to allow their customers access to our network. We also generate revenue from telecom operators that pay us build-out fees and access fees so that their cellular customers may use our distributed antenna system or DAS in locations where we also manage and operate the Wi-Fi network. We also generate revenue from advertisers that seek to reach our users with sponsored access, display advertising, and other promotional programs.

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We install, manage and operate wireless network infrastructure to provide Wi-Fi services at our managed and operated hotspots, where we generally have exclusive multi-year agreements.

The mobile Internet is a complex and constantly evolving ecosystem, comprised of over a billion mobile Internet-enabled devices from dozens of manufacturers, which are powered by many different operating systems. Devices use different network technologies and must be configured with the appropriate software to detect and optimize a connection to the mobile Internet. This complexity is amplified as new device models and operating systems are released, new categories of devices become Internet-enabled, and new network technologies emerge. The increasing number of mobile Internet-enabled devices in this ecosystem is causing an even more rapid increase in data consumption. Despite spending billions of dollars every year to expand their networks, network and telecom operators still face capacity-strained networks. Innovations in broadband technologies such as 3G and 4G will not be sufficient to relieve the strain on networks. We believe we are the leading global provider of commercial mobile Wi-Fi Internet solutions. Key elements of our strategy to extend that lead are to:

- extend our network footprint via our neutral-host business model;
- expand our partner relationships;
- increase the installed base of our software;
- grow our business internationally and
- drive new revenue sources.

Reconciliation of Non-GAAP Financial Measures

We define Adjusted EBITDA as net income (loss) attributable to common stockholders plus depreciation and amortization of property and equipment, accretion of convertible preferred stock, income taxes, amortization of other intangible assets, stock-based compensation expense, non-controlling interests expense and interest and other (expense) income, net.

We believe that Adjusted EBITDA is useful to investors and other users of our financial statements in evaluating our operating performance because it provides them with an additional tool to compare business performance across companies and across periods. We believe that:

- Adjusted EBITDA provides investors and other users of our financial information consistency and comparability with our past financial performance, facilitates period-to-period comparisons of operations and facilitates comparisons with other companies, many of which use similar non-GAAP financial measures to supplement their GAAP results; and

- it is useful to exclude non-cash charges, such as accretion of convertible preferred stock, depreciation and amortization of property and equipment and asset impairment, amortization of other intangible assets and stock-based compensation, and non-core operational charges such as acquisition-related expense, from Adjusted EBITDA because the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations, and these expenses can vary significantly between periods as a result of acquisitions, full amortization of previously acquired tangible and intangible assets or the timing of new stock-based awards.

We use Adjusted EBITDA in conjunction with traditional GAAP measures as part of our overall assessment of our performance, for planning purposes, including the preparation of our annual operating budget and quarterly forecasts, to evaluate the effectiveness of our business strategies and to communicate with our board of directors concerning our financial performance.

We do not place undue reliance on Adjusted EBITDA as our only measure of operating performance. Adjusted EBITDA should not be considered as a substitute for other measures of financial performance reported in accordance with GAAP. There are limitations to using non-GAAP financial measures, including that other companies may calculate these measures differently than we do.

We compensate for the inherent limitations associated with using Adjusted EBITDA through disclosure of these limitations, presentation of our financial statements in accordance with GAAP and reconciliation of Adjusted EBITDA to the most directly comparable GAAP measure, net income attributable to common stockholders.

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The following provides a reconciliation of net income attributable to common stockholders to Adjusted EBITDA:

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(unaudited) (in thousands)			
Net income attributable to common stockholders	$ 2,777	$ 1,662	$ 5,895	$ 2,807
Depreciation and amortization of property and equipment	3,798	3,555	11,672	8,894
Accretion of convertible preferred stock				1,633
Income tax expense	1,101	1,194	2,468	1,985
Amortization of other intangible assets	296	323	778	1,392
Stock-based compensation expense	218	1,374	2,163	2,275
Non-controlling interests	284	138	579	420
Interest expense (income), net	(33)	(13)	(170)	292
Adjusted EBITDA	$ 8,441	$ 8,233	$ 23,385	$ 19,698

Results of Operations

The following tables set forth our results of operations for the specified periods.

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(unaudited) (in thousands)			
Consolidated Statement of Operations Data:				
Revenue	$ 26,017	$ 24,688	$ 74,506	$ 68,659
Costs and operating expenses:				
Network access	10,061	9,647	29,577	27,153
Network operations	3,693	4,097	10,895	11,765
Development and technology	2,300	2,449	7,792	7,192
Selling and marketing	2,567	1,955	7,237	5,410
General and administrative	2,971	3,236	9,455	8,610
Amortization of intangible assets	296	323	778	1,392
Total costs and operating expenses	21,888	21,707	65,734	61,522
Income from operations	4,129	2,981	8,772	7,137
Interest and other (expense) income, net	33	13	170	(292)
Income before income taxes	4,162	2,994	8,942	6,845
Income taxes	1,101	1,194	2,468	1,985
Net income	3,061	1,800	6,474	4,860
Net income attributable to non-controlling interests	284	138	579	420
Net income attributable to Boingo Wireless, Inc.	2,777	1,662	5,895	4,440
Accretion of convertible preferred stock				(1,633)

Net income attributable to common stockholders	$ 2,777	$ 1,662	$ 5,895	$ 2,807

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Depreciation and amortization expense included in the above line items:

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(unaudited) (in thousands)			
Network access	$ 2,704	$ 2,637	$ 8,848	$ 6,295
Network operations	687	664	2,077	1,842
Development and technology	375	234	656	674
General and administrative	32	20	91	83
Total	$ 3,798	$ 3,555	$	