Gogo Inc.
Form 10-Q
November 03, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One):

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from __________ to __________

Commission File Number: 001-35975

Gogo Inc.

(Exact name of registrant as specified in its charter)

Delaware	**27-1650905**
(State or other jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

111 North Canal St., Suite 1500

Chicago, IL 60606

(Address of principal executive offices)

Telephone Number (312) 517-5000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if smaller reporting company)	Smaller reporting company

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

As of October 31, 2016, 86,240,531 shares of $0.0001 par value common stock were outstanding.

Gogo Inc.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Gogo Inc. and Subsidiaries

Unaudited Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 146,830	$ 147,342
Short-term investments	338,725	219,491
Total cash, cash equivalents and short-term investments	485,555	366,833
Accounts receivable, net of allowances of $587 and $417, respectively	62,687	69,317
Inventories	35,590	20,937
Prepaid expenses and other current assets	28,923	10,920
Total current assets	612,755	468,007
Non-current assets:		
Property and equipment, net	493,225	434,490
Intangible assets, net	84,170	78,823
Goodwill	620	620
Long-term restricted cash	7,535	7,535
Other non-current assets	25,919	14,878
Total non-current assets	611,469	536,346
Total assets	$ 1,224,224	$ 1,004,353
Liabilities and Stockholders equity (deficit)		
Current liabilities:		
Accounts payable	$ 30,952	$ 28,189
Accrued liabilities	108,581	88,690
Accrued airline revenue share	15,236	13,708
Deferred revenue	28,913	24,055
Deferred airborne lease incentives	27,888	21,659
Current portion of long-term debt and capital leases	2,775	21,277
Total current liabilities	214,345	197,578

Non-current liabilities:		
Long-term debt	796,201	542,573
Deferred airborne lease incentives	135,719	121,732
Deferred tax liabilities	8,055	7,425
Other non-current liabilities	87,877	68,850
Total non-current liabilities	1,027,852	740,580
Total liabilities	1,242,197	938,158
Commitments and contingencies (Note 11)		
Stockholders equity (deficit)		
Common stock, par value $0.0001 per share; 500,000,000 shares authorized at September 30, 2016 and December 31, 2015; 86,474,568 and 86,137,856 shares issued at September 30, 2016 and December 31, 2015, respectively; and 86,240,531 and 85,913,206 shares outstanding at September 30, 2016 and December 31, 2015, respectively	9	9
Additional paid-in-capital	874,272	861,243
Accumulated other comprehensive loss	(1,812)	(2,188)
Accumulated deficit	(890,442)	(792,869)
Total stockholders equity (deficit)	(17,973)	66,195
Total liabilities and stockholders equity (deficit)	$ 1,224,224	$ 1,004,353

See the Notes to Unaudited Condensed Consolidated Financial Statements

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Gogo Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Operations

(in thousands, except per share amounts)

	For the Three Months Ended September 30, 2016	For the Three Months Ended September 30, 2015	For the Nine Months Ended September 30, 2016	For the Nine Months Ended September 30, 2015
Revenue:				
Service revenue	$ 129,099	$ 107,243	$ 375,406	$ 304,044
Equipment revenue	18,168	19,164	61,146	59,065
Total revenue	147,267	126,407	436,552	363,109
Operating expenses:				
Cost of service revenue (exclusive of items shown below)	56,365	46,470	164,615	138,030
Cost of equipment revenue (exclusive of items shown below)	10,527	9,813	36,752	29,605
Engineering, design and development	25,835	23,375	72,201	60,807
Sales and marketing	14,874	14,601	46,366	39,678
General and administrative	21,661	21,487	65,038	63,096
Depreciation and amortization	26,779	22,224	76,042	61,814
Total operating expenses	156,041	137,970	461,014	393,030
Operating loss	(8,774)	(11,563)	(24,462)	(29,921)
Other (income) expense:				
Interest income	(852)	(49)	(1,064)	(65)
Interest expense	24,848	16,734	58,701	42,630
Loss on extinguishment of debt			15,406	
Adjustment of deferred financing costs			(792)	
Other (income) expense	34	377	(137)	287
Total other expense	24,030	17,062	72,114	42,852
Loss before income taxes	(32,804)	(28,625)	(96,576)	(72,773)
Income tax provision	469	245	997	961
Net loss	$ (33,273)	$ (28,870)	$ (97,573)	$ (73,734)
Net loss attributable to common stock per share basic and diluted	$ (0.42)	$ (0.37)	$ (1.24)	$ (0.92)

Weighted average number of shares basic and diluted	79,003	78,633	78,864	80,047

See the Notes to Unaudited Condensed Consolidated Financial Statements

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Gogo Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Comprehensive Loss

(in thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Net loss	$ (33,273)	$ (28,870)	$ (97,573)	$ (73,734)
Currency translation adjustments	(100)	(412)	376	(901)
Comprehensive loss	$ (33,373)	$ (29,282)	$ (97,197)	$ (74,635)

See the Notes to Unaudited Condensed Consolidated Financial Statements

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Gogo Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

	For the Nine Months Ended September 30, 2016	2015
Operating activities:		
Net loss	$ (97,573)	$ (73,734)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	76,042	61,814
Loss on asset disposals/abandonments	1,619	2,075
Deferred income taxes	630	620
Stock-based compensation expense	12,986	10,843
Loss on extinguishment of debt	15,406	
Amortization of deferred financing costs	2,981	3,016
Accretion of Convertible Notes	12,940	8,472
Adjustment of deferred financing costs	(792)	
Changes in operating assets and liabilities:		
Accounts receivable	6,874	(3,685)
Inventories	(14,653)	2
Prepaid expenses and other current assets	(18,106)	3,848
Accounts payable	2,174	(5,146)
Accrued liabilities	2,750	15,633
Deferred airborne lease incentives	8,635	22,525
Deferred revenue	19,690	19,755
Deferred rent	317	19,927
Accrued airline revenue share	1,525	(30)
Accrued interest	16,025	1,116
Other non-current assets and liabilities	(4,322)	286
Net cash provided by operating activities	45,148	87,337
Investing activities:		
Proceeds from the sale of property and equipment	84	75
Purchases of property and equipment	(107,108)	(105,105)
Acquisition of intangible assets capitalized software	(21,586)	(12,678)
Purchases of short-term investments	(278,961)	(249,688)
Redemptions of short-term investments	159,727	99,953
Decrease in restricted cash	136	20
Net cash used in investing activities	(247,708)	(267,423)

Financing activities:		
Proceeds from the issuance of senior secured notes	525,000	
Payments on amended and restated credit agreement	(310,132)	(7,016)
Proceeds from the issuance of convertible notes		361,940
Forward transactions		(140,000)
Payment of issuance costs	(10,610)	(10,669)
Payments on capital leases	(1,875)	(1,868)
Stock-based compensation activity	43	4,113
Net cash provided by financing activities	202,426	206,500
Effect of exchange rate changes on cash	(378)	570
Increase (decrease) in cash and cash equivalents	(512)	26,984
Cash and cash equivalents at beginning of period	147,342	131,295
Cash and cash equivalents at end of period	$ 146,830	$ 158,279
Supplemental Cash Flow Information:		
Cash paid for interest	$ 27,535	$ 30,666
Cash paid for taxes	291	409
Noncash Investing and Financing Activities:		
Purchases of property and equipment in current liabilities	$ 31,062	$ 24,611
Purchases of property and equipment paid by commercial airlines	10,993	7,295
Purchases of property and equipment under capital leases	1,531	3,178
Acquisition of intangible assets in current liabilities	1,390	1,654
Asset retirement obligation incurred and adjustments	(36)	769

See the Notes to Unaudited Condensed Consolidated Financial Statements

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Gogo Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

1. Basis of Presentation

The Business - Gogo Inc. (we , us , our) is a holding company, which through its operating subsidiaries is a provider of in-flight connectivity and wireless in-cabin digital entertainment solutions. We operate through the following three segments: Commercial Aviation North America or CA-NA , Commercial Aviation Rest of World or CA-ROW and Business Aviation or BA . Services provided by our CA-NA and CA-ROW businesses include Passenger Connectivity, which allows passengers to connect to the Internet from their personal Wi-Fi-enabled devices; Passenger Entertainment, which offers passengers the opportunity to enjoy a broad selection of in-flight entertainment options on their personal Wi-Fi enabled devices; and Connected Aircraft Services (CAS), which offers airlines connectivity for various operations and currently includes, among other things, real-time credit card transaction processing, electronic flight bags and real-time weather information. Services are provided by the CA-NA business on commercial aircraft flying routes that generally begin and end within North America, which for this purpose includes the United States, Canada and Mexico. Our CA-ROW business provides service on commercial aircraft operated by foreign-based commercial airlines and flights outside of North America for North American-based commercial airlines. The routes included in our CA-ROW segment are those that begin and/or end outside of North America (as defined above) for which our international service is provided. Our BA business provides in-flight Internet connectivity and other voice and data communications products and services and sells equipment for in-flight telecommunications to the business aviation market. BA services include Gogo Biz, our in-flight broadband service, Passenger Entertainment, our in-flight entertainment service, and satellite-based voice and data services through our strategic alliances with satellite companies.

Basis of Presentation - The accompanying unaudited condensed consolidated financial statements and notes have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and in conformity with Article 10 of Regulation S-X promulgated under the Securities Act of 1933, as amended (the Securities Act). Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements and should be read in conjunction with our annual audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015 as filed with the Securities and Exchange Commission (SEC) on February 25, 2016 (the 2015 10-K). These unaudited condensed consolidated financial statements reflect, in the opinion of management, all material adjustments (which include normal recurring adjustments) necessary to fairly state, in all material respects, our financial position, results of operations and cash flows for the periods presented.

The results of operations and cash flows for the three and nine month periods ended September 30, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2016.

We have one class of common stock outstanding as of September 30, 2016 and December 31, 2015.

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, management evaluates the significant estimates and bases such estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances. However, actual results could differ materially from those estimates.

Revisions - Previously reported operating expenses for the three and nine month periods ended September 30, 2015 have been revised to reflect the classification of incentive compensation expense and stock-based compensation expense in the same operating expense line items as the related base cash compensation. There was no change in total operating expenses, net loss or net loss per share, or the consolidated balance sheets or statements of comprehensive loss, cash flows or stockholders equity resulting from these revisions. See Note 2, Summary of Significant Accounting Policies in our 2015 10-K for additional information on these revisions.

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Gogo Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Below are the line items from our unaudited condensed consolidated statements of operations illustrating the effect of these immaterial revisions (*in thousands*):

	Three Months Ended September 30, 2015			
		Revisions		
	As Reported	Incentive Compensation Expense	Stock-Based Compensation Expense	As Revised
Operating expenses:				
Cost of service revenue (exclusive of items shown below)	$ 45,477	$ 677	$ 316	$ 46,470
Cost of equipment revenue (exclusive of items shown below)	9,744	40	29	9,813
Engineering, design and development	21,367	1,162	846	23,375
Sales and marketing	12,345	1,036	1,220	14,601
General and administrative	26,813	(2,915)	(2,411)	21,487
Depreciation and amortization	22,224			22,224
Total operating expenses	$ 137,970	$	$	$ 137,970

	Nine Months Ended September 30, 2015			
		Revisions		
	As Reported	Incentive Compensation Expense	Stock-Based Compensation Expense	As Revised
Operating expenses:				
Cost of service revenue (exclusive of items shown below)	$ 135,406	$ 1,795	$ 829	$ 138,030
Cost of equipment revenue (exclusive of items shown below)	29,375	165	65	29,605
Engineering, design and development	55,732	3,291	1,784	60,807
Sales and marketing	34,051	2,733	2,894	39,678
General and administrative	76,652	(7,984)	(5,572)	63,096
Depreciation and amortization	61,814			61,814
Total operating expenses	$ 393,030	$	$	$ 393,030

During the three months ended September 30, 2016, we determined that it was necessary to revise the presentation of our investments in U.S. Treasury bills as short-term investments, rather than as cash and cash equivalents, in the unaudited condensed consolidated balance sheets. As such, changes in our short-term investments are included in cash flows from investing activities in our unaudited condensed consolidated statements of cash flows.

Our short-term investments are comprised of investments in U.S. Treasury bills with remaining maturities at the date of purchase of more than three months but less than twelve months. We have the intent and ability to hold our short-term investments to maturity at the time of purchase and we reevaluate such determination each reporting period. Therefore, we classify our short-term investments as held-to-maturity.

We assessed the materiality of these classification changes, taking into account quantitative and qualitative factors, and determined them to be immaterial to the unaudited condensed consolidated balance sheet as of December 31, 2015 and to the unaudited condensed consolidated statement of cash flows for the nine months ended September 30, 2015. There is no impact to the unaudited condensed consolidated statements of operations for any period reported.

While these immaterial classification changes could have been reflected prospectively, we elected to revise the previously reported unaudited condensed consolidated balance sheet and unaudited condensed consolidated statement of cash flows in order to provide greater comparability for the periods presented. Therefore, we have revised the previously reported cash and cash equivalents to reflect the classification of our investments in U.S. Treasury bills as short-term investments in the unaudited condensed consolidated balance sheet as of December 31, 2015. Additionally, we have revised previously reported net cash used in investing activities in the unaudited condensed consolidated statement of cash flows for the nine months ended September 30, 2015 to include changes in our short-term investments.

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Gogo Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Below are the line items from our unaudited condensed consolidated balance sheet as of December 31, 2015 illustrating the effect of these immaterial revisions (*in thousands*):

	As Reported	Revisions	As Revised
Current assets:			
Cash and cash equivalents	$ 366,833	$ (219,491)	$ 147,342
Short-term investments		219,491	219,491
Total cash, cash equivalents and short-term investments	366,833		366,833
Accounts receivable, net of allowances	69,317		69,317
Inventories	20,937		20,937
Prepaid expenses and other current assets	10,920		10,920
Total current assets	$ 468,007	$	$ 468,007

Below are the line items from our unaudited condensed consolidated statement of cash flows for the nine month period ended September 30, 2015 illustrating the effect of these immaterial revisions (*in thousands*):

	As Reported	Revisions	As Revised
Net cash provided by operating activities	$ 87,337	$	$ 87,337
Investing activities:			
Proceeds from the sale of property and equipment	75		75
Purchases of property and equipment	(105,105)		(105,105)
Acquisition of intangible assets capitalized software	(12,678)		(12,678)
Purchases of short-term investments		(249,688)	(249,688)
Redemptions of short-term investments		99,953	99,953
Decrease in restricted cash	20		20
Net cash used in investing activities	(117,688)	(149,735)	(267,423)
Net cash provided by financing activities	206,500		206,500

Effect of exchange rate changes on cash	570		570
Increase (decrease) in cash and cash equivalents	176,719	(149,735)	26,984
Cash and cash equivalents at beginning of period	211,236	(79,941)	131,295
Cash and cash equivalents at end of period	$ 387,955	$ (229,676)	$ 158,279

2. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). This pronouncement outlines a single comprehensive model to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The core principle of ASU 2014-09 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within the annual reporting periods. Early adoption of the guidance is permitted for annual reporting periods beginning after December 15, 2016, including interim reporting periods within the annual reporting periods. We will adopt this guidance as of January 1, 2018 and we expect to apply this standard using the full retrospective method. We are currently evaluating the impact of the adoption of this guidance on our financial position, results of operations and cash flows.

In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern* (ASU 2014-15). This pronouncement provides additional guidance surrounding the disclosure of going concern uncertainties in the financial statements and requires that management perform interim and annual assessments of an entity s ability to continue as a going concern within one year of the date the financial statements are issued. We will adopt this guidance as of December 31, 2016. We do not anticipate the adoption of this guidance to result in additional disclosures.

In March 2016, the FASB issued ASU 2016-02, *Leases* (ASU 2016-02), which introduces a lessee model that records most leases on the balance sheet. ASU 2016-02 also aligns certain underlying principles of the new lessor model with those in Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers* (ASC 606), the FASB s new revenue recognition standard. Furthermore, ASU 2016-02 eliminates the required use

Gogo Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

of bright-line tests used in current GAAP for determining lease classification. It also requires lessors to provide additional transparency into the exposure to the changes in value of their residual assets and how they manage that exposure. ASU 2016-02 is effective January 1, 2019. We are currently evaluating the impact of the adoption of this guidance on our financial position, results of operations and cash flows.

In March 2016, the FASB issued ASU 2016-04, *Recognition of Breakage for Certain Prepaid Stored-Value Products* (ASU 2016-04), which amends the guidance on extinguishing financial liabilities for certain prepaid stored-value products by requiring that entities that sell prepaid stored-value products recognize breakage proportionally as the prepaid stored-value product is being redeemed rather than immediately upon sale of the product. If an entity is unable to estimate breakage, the amount would be recognized when the likelihood becomes remote that the holder will exercise the remaining rights. Entities are required to reassess their estimates of breakage each reporting period. Any change in this estimate would be accounted for as a change in an accounting estimate. An entity that recognizes breakage is required to disclose the methodology used to recognize breakage and significant judgments made in applying the breakage methodology. ASU 2016-04 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years and early adoption is permitted. We can apply ASU 2016-04 by using either a modified retrospective transition approach or a full retrospective transition approach. We are currently evaluating the impact of the adoption of this guidance on our financial position, results of operations and cash flows.

In March 2016, the FASB issued ASU 2016-08, *Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)* (ASU 2016-08), which amends the principal-versus-agent implementation guidance and illustrations in ASC 606. The FASB issued ASU 2016-08 in response to concerns identified by stakeholders, including those related to determining the appropriate unit of account under the revenue standard s principal-versus-agent guidance and applying the indicators of whether an entity is a principal or an agent in accordance with the revenue standard s control principle. ASU 2016-08 has the same effective date as ASU 2014-09 and requires adopting ASU 2016-08 by using the same transition method used to adopt ASU 2014-09. We will adopt this guidance as of January 1, 2018 and we expect to apply this standard using the full retrospective method. We are currently evaluating the impact of the adoption of this guidance on our financial position, results of operations and cash flows.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09), which simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods. We do not expect a material impact of the adoption of this guidance on our financial position, results of operations and cash flows.

In April 2016, the FASB issued ASU 2016-10, *Identifying Performance Obligations and Licensing* (ASU 2016-10) which amends certain aspects of ASU 2014-09, specifically aspects related to identifying performance obligations and implementation guidance for licensing. ASU 2016-10 has the same effective date as ASU 2014-09 and requires adopting ASU 2016-10 by using the same transition method used to adopt ASU 2014-09. We will adopt this guidance as of January 1, 2018 and we expect to apply this standard using the full retrospective method. We are currently evaluating the impact of the adoption of this guidance on our financial position, results of operations and cash flows.

In May 2016, the FASB issued ASU 2016-12, *Narrow-Scope improvements and Practical Expedients* (ASU 2016-12), which amends certain aspects of ASU 2014-09. The amendments address certain implementation issues and clarify, rather than change, the standard s core revenue recognition principles which include clarity on collectability, presentation of sales tax and other similar taxes collected from customers, noncash consideration, contract modifications and completed contracts at transition and transition technical corrections. ASU 2016-12 has the same effective date as ASU 2014-09 and requires adopting ASU 2016-12 by using the same transition method used to adopt ASU 2014-09. We will adopt this guidance as of January 1, 2018 and we expect to apply this standard using the full retrospective method. We are currently evaluating the impact of the adoption of this guidance on our financial position, results of operations and cash flows.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15), which amends ASC 230, *Statement of Cash Flows*, the FASB s standards for reporting cash flows in general-purpose financial statements. The amendments address the diversity in practice related to the

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Gogo Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

classification of certain cash receipts and payments including debt prepayment or debt extinguishment costs. We will adopt this guidance as of January 1, 2018 and we expect to apply this standard using the full retrospective method. We do not believe adoption of this guidance will have a material effect on our cash flows as we have historically reported debt prepayment and debt extinguishment costs in a manner consistent with ASU 2016-15.

3. Net Loss Per Share

Basic and diluted net loss per share have been calculated using the weighted average number of common shares outstanding for the period. The shares of common stock effectively repurchased in connection with the Forward Transactions (as defined and described in Note 8, Long-Term Debt and Other Liabilities) are considered participating securities requiring the two-class method to calculate basic and diluted earnings per share. Net earnings in future periods will be allocated between common shares and participating securities. In periods of a net loss, the shares associated with the Forward Transactions will not receive an allocation of losses, as the counterparties to the Forward Transactions are not required to fund losses. Accordingly, the calculation of weighted average shares outstanding as of September 30, 2016 and 2015 excludes approximately 7.2 million shares that will be repurchased as a result of the Forward Transactions.

As a result of the net loss for the three and nine month periods ended September 30, 2016 and 2015, all of the outstanding shares of common stock underlying stock options, deferred stock units and restricted stock units were excluded from the computation of diluted shares outstanding because they were anti-dilutive.

The following table sets forth the computation of basic and diluted earnings per share for the three and nine month periods ended September 30, 2016 and 2015; however, because of the undistributed losses, the shares of common stock associated with the Forward Transactions are excluded from the computation of basic earnings per share in 2016 and 2015 as undistributed losses are not allocated to these shares (*in thousands, except per share amounts*):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Net loss	$ (33,273)	$ (28,870)	$ (97,573)	$ (73,734)
Less: Participation rights of the Forward Transactions				
Undistributed losses	$ (33,273)	$ (28,870)	$ (97,573)	$ (73,734)
Weighted-average common shares outstanding-basic and diluted	79,003	78,633	78,864	80,047

Net loss attributable to common stock per share-basic and diluted	$ (0.42)	$ (0.37)	$ (1.24)	$ (0.92)

4. Inventories

Inventories consist primarily of telecommunications systems and parts, and are recorded at the lower of cost (average cost) or market. We evaluate the need for write-downs associated with obsolete, slow-moving, and nonsalable inventory by reviewing net realizable inventory values on a periodic basis.

Inventories as of September 30, 2016 and December 31, 2015, all of which were included within the BA segment, were as follows (*in thousands*):

	September 30, 2016	December 31, 2015
Work-in-process component parts	$ 28,159	$ 13,866
Finished goods	7,431	7,071
Total inventory	$ 35,590	$ 20,937

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Gogo Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

5. Composition of Certain Balance Sheet Accounts

Property and equipment as of September 30, 2016 and December 31, 2015 were as follows (*in thousands*):

	September 30, 2016	December 31, 2015
Office equipment, furniture, fixtures and other	$ 47,601	$ 43,447
Leasehold improvements	42,118	42,318
Airborne equipment	512,262	414,381
Network equipment	166,511	156,890
	768,492	657,036
Accumulated depreciation	(275,267)	(222,546)
Property and equipment, net	$ 493,225	$ 434,490

Accrued liabilities as of September 30, 2016 and December 31, 2015 were as follows (*in thousands*):

	September 30, 2016	December 31, 2015
Employee compensation and benefits	$ 24,863	$ 23,668
Airborne equipment and installation costs	19,938	17,503
Airborne partner related accrued liabilities	16,199	11,387
Accrued interest	20,636	4,611
Other	26,945	31,521
Total accrued liabilities	$ 108,581	$ 88,690

Other non-current liabilities as of September 30, 2016 and December 31, 2015 were as follows (*in thousands*):

	September 30, 2016	December 31, 2015
Deferred rent	$ 36,899	$ 36,656
Deferred revenue	35,596	20,758
Asset retirement obligations	8,346	7,847

Other		7,036		3,589
Total other non-current liabilities	$	87,877	$	68,850

6. Intangible Assets

Our intangible assets are comprised of both indefinite-lived and finite-lived intangible assets. Intangible assets with indefinite lives and goodwill are not amortized, but are reviewed for impairment at least annually or whenever events or circumstances indicate the carrying value of the asset may not be recoverable. We perform our annual impairment tests of our indefinite-lived intangible assets and goodwill during the fourth quarter of each fiscal year. We also reevaluate the useful life of the indefinite-lived intangible assets each reporting period to determine whether events and circumstances continue to support an indefinite useful life. The results of our annual indefinite-lived intangible assets and goodwill impairment assessments in the fourth quarter of 2015 indicated no impairment.

As of September 30, 2016 and December 31, 2015, our goodwill balance, all of which related to our BA segment, was $0.6 million.