Gogo Inc.
Form 10-Q
August 07, 2017
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One):

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended June 30, 2017

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	**(I.R.S. Employer**
Incorporation or Organization)	**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, a smaller reporting company or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth 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
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act.

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 July 31, 2017, 86,714,196 shares of $0.0001 par value common stock were outstanding.

Gogo Inc.

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Gogo Inc. and Subsidiaries

Unaudited Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 96,416	$ 117,302
Short-term investments	283,241	338,477
Total cash, cash equivalents and short-term investments	379,657	455,779
Accounts receivable, net of allowances of $657 and $499, respectively	87,097	73,743
Inventories	52,041	50,266
Prepaid expenses and other current assets	20,870	24,942
Total current assets	539,665	604,730
Non-current assets:		
Property and equipment, net	583,245	519,810
Intangible assets, net	90,296	85,175
Goodwill	620	620
Long-term restricted cash	6,873	7,773
Other non-current assets	56,557	28,088
Total non-current assets	737,591	641,466
Total assets	$ 1,277,256	$ 1,246,196
Liabilities and Stockholders deficit		
Current liabilities:		
Accounts payable	$ 29,471	$ 31,689
Accrued liabilities	148,569	132,055
Accrued airline revenue share	15,504	15,521
Deferred revenue	36,817	32,722
Deferred airborne lease incentives	35,342	36,277
Current portion of capital leases	2,613	2,799
Total current liabilities	268,316	251,063

Non-current liabilities:		
Long-term debt	880,371	800,715
Deferred airborne lease incentives	117,459	135,879
Deferred tax liabilities	8,791	8,264
Other non-current liabilities	118,833	90,668
Total non-current liabilities	1,125,454	1,035,526
Total liabilities	1,393,770	1,286,589
Commitments and contingencies (Note 11)		
Stockholders deficit		
Common stock, par value $0.0001 per share; 500,000,000 shares authorized at June 30, 2017 and December 31, 2016; 86,944,391 and 86,529,907 shares issued at June 30, 2017 and December 31, 2016, respectively; and 86,714,037 and 86,295,870 shares outstanding at June 30, 2017 and December 31, 2016, respectively	9	9
Additional paid-in-capital	888,100	879,135
Accumulated other comprehensive loss	(1,673)	(2,163)
Accumulated deficit	(1,002,950)	(917,374)
Total stockholders deficit	(116,514)	(40,393)
Total liabilities and stockholders deficit	$ 1,277,256	$ 1,246,196

See the Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents

Gogo Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Operations

(in thousands, except per share amounts)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue:				
Service revenue	$ 154,076	$ 127,587	$ 300,571	$ 246,307
Equipment revenue	18,724	19,952	37,635	42,978
Total revenue	172,800	147,539	338,206	289,285
Operating expenses:				
Cost of service revenue (exclusive of items shown below)	69,127	53,396	133,940	108,250
Cost of equipment revenue (exclusive of items shown below)	14,649	12,477	26,297	26,225
Engineering, design and development	35,685	24,718	71,949	46,366
Sales and marketing	16,564	16,750	30,959	31,492
General and administrative	23,549	22,388	46,098	43,377
Depreciation and amortization	30,562	24,906	60,997	49,263
Total operating expenses	190,136	154,635	370,240	304,973
Operating loss	(17,336)	(7,096)	(32,034)	(15,688)
Other (income) expense:				
Interest income	(771)	(166)	(1,316)	(212)
Interest expense	27,226	17,557	54,169	33,853
Loss on extinguishment of debt		15,406		15,406
Adjustment of deferred financing costs		77		(792)
Other (income) expense	56	3	94	(171)
Total other expense	26,511	32,877	52,947	48,084
Loss before income taxes	(43,847)	(39,973)	(84,981)	(63,772)
Income tax provision	362	221	595	528
Net loss	$ (44,209)	$ (40,194)	$ (85,576)	$ (64,300)
Net loss attributable to common stock per share basic and diluted	$ (0.56)	$ (0.51)	$ (1.08)	$ (0.82)
Weighted average number of shares basic and diluted	79,334	78,849	79,237	78,793

See the Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents

Gogo Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Comprehensive Loss

(in thousands)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Net loss	$ (44,209)	$ (40,194)	$ (85,576)	$ (64,300)
Currency translation adjustments	264	64	490	476
Comprehensive loss	$ (43,945)	$ (40,130)	$ (85,086)	$ (63,824)

See the Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents

Gogo Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

	For the Six Months Ended June 30, 2017	For the Six Months Ended June 30, 2016
Operating activities:		
Net loss	$ (85,576)	$ (64,300)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	60,997	49,263
Loss on asset disposals/abandonments	3,477	924
Deferred income taxes	527	420
Stock-based compensation expense	9,724	7,986
Loss of extinguishment of debt		15,406
Amortization of deferred financing costs	1,799	2,163
Accretion and amortization of debt discount and premium	9,142	8,508
Adjustment of deferred financing costs		(792)
Changes in operating assets and liabilities:		
Accounts receivable	(13,316)	4,409
Inventories	(1,775)	(4,155)
Prepaid expenses and other current assets	4,468	(12,428)
Accounts payable	1,444	(1,598)
Accrued liabilities	2,830	(2,873)
Deferred airborne lease incentives	6,374	8,374
Deferred revenue	5,024	14,235
Deferred rent	103	443
Accrued airline revenue share	(27)	1,005
Accrued interest	963	3,012
Other non-current assets and liabilities	(3,790)	(5,641)
Net cash provided by operating activities	2,388	24,361
Investing activities:		
Proceeds from the sale of property and equipment		1
Purchases of property and equipment	(128,892)	(71,048)
Acquisition of intangible assets capitalized software	(16,851)	(13,993)
Purchases of short-term investments	(193,845)	(259,068)
Redemptions of short-term investments	249,081	99,886
(Decrease) increase in restricted cash	500	(14)
Net cash used in investing activities	(90,007)	(244,236)
Financing activities:		

Proceeds from the issuance of senior secured notes	70,200	525,000
Payments on amended and restated credit agreement		(310,132)
Payment of issuance costs	(1,485)	(10,610)
Payments on capital leases	(1,540)	(1,218)
Stock-based compensation activity	(759)	(346)
Net cash provided by financing activities	66,416	202,694
Effect of exchange rate changes on cash	317	(233)
Decrease in cash and cash equivalents	(20,886)	(17,414)
Cash and cash equivalents at beginning of period	117,302	147,342
Cash and cash equivalents at end of period	$ 96,416	$ 129,928
Supplemental Cash Flow Information:		
Cash paid for interest	$ 42,698	$ 20,748
Cash paid for taxes	24	273
Noncash Investing and Financing Activities:		
Purchases of property and equipment in current liabilities	$ 48,721	$ 22,051
Purchases of property and equipment paid by commercial airlines	5,917	8,728
Purchases of property and equipment under capital leases	1,174	1,318
Acquisition of intangible assets in current liabilities	1,532	1,201
Asset retirement obligation incurred and adjustments	745	372

See the Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents

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 include, among others, real-time credit card transaction processing, electronic flight bags and real-time weather information. Services are provided by CA-NA on commercial aircraft flying routes that generally begin and end within North America, which for this purpose includes the United States, Canada and Mexico. CA-ROW 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) on which our international service is provided. BA 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, 2016 as filed with the Securities and Exchange Commission (SEC) on February 27, 2017 (the 2016 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 six month period ended June 30, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2017.

We have one class of common stock outstanding as of June 30, 2017 and December 31, 2016.

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.

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. Additionally, the FASB issued several amendments to the standard, including clarification on accounting for licenses of intellectual property and identifying performance obligations. This guidance is effective for annual reporting periods beginning after December 15, 2017, including interim 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. During 2016, we established a project team responsible for assessment and implementation of this guidance. While we are continuing to evaluate the impact of the adoption of this guidance on our consolidated financial statements, we currently believe

Table of Contents

Gogo Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

that the measurement and timing of recognition of revenue from certain of our CA-NA, CA-ROW and BA customers will be impacted in the following ways (however cash and cash equivalents will not be impacted):

Under the current standard, the sale of CA-NA and CA-ROW airborne connectivity equipment does not meet all of the requirements for being recognized as a separate unit of accounting, resulting in the deferral of the related revenue (and cost) over the life of the contract. Under the new standard, we believe airborne connectivity equipment represents a standalone performance obligation as it is both distinct and distinct within the context of the arrangement. As such, the recognition of all airborne equipment revenue will be accelerated and recognized upon installation.

Certain of our CA-NA, CA-ROW and BA contracts provide service revenue that varies based on usage by passengers and our airline customers. The adoption of this guidance will require consideration of whether service revenue under such contracts is considered an optional purchase of goods or services or variable consideration.

We are continuing to assess the treatment of costs to obtain or fulfill a contract with a customer, including costs to obtain Supplemental Type Certificates issued by the FAA that are required to install our equipment on aircraft (STCs), which may require capitalization and amortization over the anticipated service period.

Recognition of up-front activation fees may be accelerated as the incurrence of such fees does not contain a future material right or otherwise significantly influence whether a customer would renew its service contract.

Penalties will be accounted for as a reduction of revenue that will be recognized at the time the related performance obligation is satisfied.

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 of bright-line tests used in current GAAP for determining lease classification. It also requires lessors to provide additional transparency into their exposure to the changes in value of their residual assets and how they manage that exposure. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those annual reporting periods. We will adopt this as guidance as of January 1, 2019 and we are currently evaluating the impact of the adoption of this guidance on our consolidated financial statements.

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 will adopt this as guidance as of January 1, 2018 and we are currently evaluating the impact of the adoption of this guidance on our consolidated financial statements.

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 classification of certain cash receipts and payments including debt prepayment or debt extinguishment costs. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, and early adoption is permitted. 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.

Gogo Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

In October 2016, the FASB issued ASU 2016-16, *Intra-Entity Transfers of Assets Other Than Inventory* (ASU 2016-16), which removes the prohibition in ASC 740, *Income Taxes*, against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. This is intended to reduce the complexity of GAAP and diversity in practice related to the tax consequences of certain types of intra-entity asset transfers, particularly those involving intellectual property. ASU 2016-16 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. We will adopt this guidance as of January 1, 2018 and we are currently evaluating the impact of the adoption of this guidance on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash A Consensus of the FASB Emerging Issues Task Force*, (ASU 2016-18), which amends ASC 230, *Statement of Cash Flows*, to clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. ASU 2016-18 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. We will adopt this guidance as of January 1, 2018 and do not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment* (ASU 2017-04), which simplifies the accounting for goodwill impairments by eliminating Step-2 from the goodwill impairment test. ASU 2017-04 is effective for annual reporting periods beginning after December 15, 2019 and early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We will adopt this guidance as part of our annual goodwill impairment test in October 2017 and do not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, *Scope of Modification Accounting* (ASU 2017-09), which amends the scope of modification accounting for share-based payment arrangements. The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718, *Compensation Stock Compensation*. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. ASU 2017-09 is effective for annual reporting periods beginning after December 15, 2017 and early adoption is permitted. We will adopt this guidance as of January 1, 2018 and do not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

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

June 30, 2017 and 2016 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 six month periods ended June 30, 2017 and 2016, 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.

Table of Contents

Gogo Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The following table sets forth the computation of basic and diluted earnings per share for the three and six month periods ended June 30, 2017 and 2016; 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 2017 and 2016 as undistributed losses are not allocated to these shares (*in thousands, except per share amounts*):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Net loss	$ (44,209)	$ (40,194)	$ (85,576)	$ (64,300)
Less: Participation rights of the Forward Transactions				
Undistributed losses	$ (44,209)	$ (40,194)	$ (85,576)	$ (64,300)
Weighted-average common shares outstanding-basic and diluted	79,334	78,849	79,237	78,793
Net loss attributable to common stock per share-basic and diluted	$ (0.56)	$ (0.51)	$ (1.08)	$ (0.82)

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 June 30, 2017 and December 31, 2016, all of which were included within the BA segment, were as follows (*in thousands*):

	June 30, 2017	December 31, 2016
Work-in-process component parts	$ 43,446	$ 39,150
Finished goods	8,595	11,116
Total inventory	$ 52,041	$ 50,266

5. Composition of Certain Balance Sheet Accounts

Property and equipment as of June 30, 2017 and December 31, 2016 were as follows (*in thousands*):

	June 30, 2017	December 31, 2016
Office equipment, furniture, fixtures and other	$ 53,009	$ 49,529
Leasehold improvements	42,402	42,143
Airborne equipment	639,958	557,196
Network equipment	184,440	168,121
	919,809	816,989
Accumulated depreciation	(336,564)	(297,179)
Property and equipment, net	$ 583,245	$ 519,810

Other non-current assets as of June 30, 2017 and December 31, 2016 were as follows (*in thousands*):

	June 30, 2017	December 31, 2016
Deferred cost of equipment revenue	$ 39,496	$ 14,159
Deposits on satellite and airborne equipment	13,914	10,800
Other	3,147	3,129
Total other non-current assets	$ 56,557	$ 28,088

Table of Contents

Gogo Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Accrued liabilities as of June 30, 2017 and December 31, 2016 were as follows (*in thousands*):

	June 30, 2017	December 31, 2016
Employee compensation and benefits	$ 17,299	$ 21,008
Airborne equipment and installation costs	36,012	22,442
Airborne partner related accrued liabilities	18,188	14,307
Accrued interest	41,399	40,436
Other	35,671	33,862
Total accrued liabilities	$ 148,569	$ 132,055

Other non-current liabilities as of June 30, 2017 and December 31, 2016 were as follows (*in thousands*):

	June 30, 2017	December 31, 2016
Deferred revenue	$ 62,965	$ 38,976
Deferred rent	36,831	36,538
Asset retirement obligations	9,684	8,527
Other	9,353	6,627
Total other non-current liabilities	$ 118,833	$ 90,668

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 2016 indicated no impairment.

As of June 30, 2017 and December 31, 2016, our goodwill balance, all of which related to our BA segment, was $0.6 million.

Our intangible assets, other than goodwill, as of June 30, 2017 and December 31, 2016 were as follows (*in thousands, except for weighted average remaining useful life*):

	Weighted Average Remaining Useful Life (in years)	As of June 30, 2017			As of December 31, 2016		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:							
Software	2.3	$ 135,596	$ (80,992)	$ 54,604	$ 118,836	$ (70,127)	$ 48,709
Service customer relationship	2.8	8,081	(5,280)	2,801	8,081	(4,773)	3,308
Other intangible assets	1.5	1,500	(892)	608	1,500	(682)	818
OEM and dealer relationships		6,724	(6,724)		6,724	(6,667)	57
Total amortized intangible assets		151,901	(93,888)	58,013	135,141	(82,249)	52,892
Unamortized intangible assets:							
FCC Licenses		32,283		32,283	32,283		32,283
Total intangible assets		$ 184,184	$ (93,888)	$ 90,296	$ 167,424	$ (82,249)	$ 85,175

Amortization expense was $5.8 million and $11.6 million, respectively, for the three and six month periods ended June 30, 2017, and $5.1 million and $9.7 million, respectively, for the prior year periods.

Table of Contents

Gogo Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Amortization expense for each of the next five years and thereafter is estimated to be as follows (*in thousands*):

Years ending December 31,	Amortization Expense
2017 (period from July 1 to December 31)	$ 13,151
2018	$ 21,843
2019	$ 12,837
2020	$ 6,252
2021	$ 2,277
Thereafter	$ 1,653

Actual future amortization expense could differ from the estimated amount as a result of future investments and other factors.

7. Warranties

We provide warranties on parts and labor related to our products. Our warranty terms range from two to five years. Warranty reserves are established for costs that are estimated to be incurred after the sale, delivery and installation of the products under warranty. The warranty reserves are determined based on known product failures, historical experience and other available evidence, and are included in accrued liabilities in our unaudited condensed consolidated balance sheets. Our warranty reserve balance was $2.6 million as of both June 30, 2017 and December 31, 2016.

8. Long-Term Debt and Other Liabilities

Long-term debt as of June 30, 2017 and December 31, 2016 was as follows (*in thousands*):

	June 30, 2017	December 31, 2016
Senior Secured Notes	$ 594,849	$ 525,000
Convertible Notes	301,517	292,024
Total debt	896,366	817,024
Less deferred financing costs	(15,995)	(16,309)
Total long-term debt	$ 880,371	$ 800,715

Senior Secured Notes On June 14, 2016 (the Issue Date), Gogo Intermediate Holdings LLC (GIH) (a wholly owned subsidiary of Gogo Inc.) and Gogo Finance Co. Inc. (a wholly owned subsidiary of GIH) (the Co-Issuer and, together with GIH, the Issuers), issued $525 million aggregate principal amount of 12.500% senior secured notes due 2022 (the Original Senior Secured Notes) under an Indenture, dated as of June 14, 2016 (the Indenture), among the Issuers, us, as guarantor, certain subsidiaries of GIH, as guarantors (the Subsidiary Guarantors and, together with us, the Guarantors), and U.S. Bank National Association, as trustee (in such capacity, the Trustee) and as collateral agent (in such capacity, the Collateral Agent). On January 3, 2017, the Issuers issued $65 million aggregate principal amount of additional senior secured notes due 2022 (the Additional Notes). The Additional Notes were issued at a price equal to 108% of their face value resulting in gross proceeds of $70.2 million. We refer to the Original Senior Secured Notes and the Additional Notes collectively as the Senior Secured Notes.

As of June 30, 2017 and December 31, 2016 the outstanding principal balance of the Senior Secured Notes was $590.0 million and $525.0 million, respectively. The unamortized debt premium was $4.8 million as of June 30, 2017 and the net carrying amount was $594.8 million as of June 30, 2017. The net carrying amount was $525.0 million as of December 31, 2016.

Interest on the Senior Secured Notes accrues at the rate of 12.500% per annum and is payable semi-annually in arrears on July 1 and January 1, commencing on January 1, 2017 (other than the Additional Notes, for which interest payments commenced on July 1, 2017). The Senior Secured Notes mature on July 1, 2022. The Additional Notes have the same terms as the Original Senior Secured Notes, except with respect to the issue date and issue price, and are treated as a single series for all purposes under the Indenture and the security documents that govern the Additional Notes and the Original Senior Secured Notes.

We paid approximately $11.4 million and $2.0 million, respectively, of Senior Secured Notes origination fees and financing costs related to the issuance of the Original Senior Secured Notes and the Additional Notes, which have been accounted for as deferred financing costs. The deferred financing costs on our unaudited condensed

Gogo Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

consolidated balance sheet are being amortized over the contractual term of the Senior Secured Notes using the effective interest method. Total amortization expense was $0.6 million and $1.1 million, respectively, for the three and six month periods ended June 30, 2017, and $0.1 million and $0.1 million, respectively, for the prior year periods. As of June 30, 2017 and December 31, 2016, the balance of unamortized deferred financing costs related to the Senior Secured Notes was $11.3 million and $11.2 million, respectively, and is included as a reduction to long-term debt in our unaudited condensed consolidated balance sheet. See Note 9, Interest Costs for additional information.

The Senior Secured Notes are the senior secured indebtedness of the Issuers and are:

- effectively senior to all of the Issuers existing and future senior unsecured indebtedness and the Issuers indebtedness secured on a junior priority basis by the same collateral securing the Senior Secured Notes, if any, in each case to the extent of the value of the collateral securing the Senior Secured Notes;

- effectively senior in right of payment to all of the Issuers future indebtedness that is subordinated in right of payment to the Senior Secured Notes;

- effectively equal in right of payment with the Issuers existing and future (i) unsecured indebtedness that is not subordinated in right of payment to the Senior Secured Notes and (ii) indebtedness secured on a junior priority basis by the same collateral securing the Senior Secured Notes, if any, in each case to the extent of any insufficiency in the collateral securing the Senior Secured Notes;

- structurally senior to all of our existing and future indebtedness, including our Convertible Notes (as defined below); and

- structurally subordinated to all of the indebtedness and other liabilities of any non-Guarantors (other than the Issuers).

The Senior Secured Notes are guaranteed, on a senior secured basis, by us and all of GIH s existing and future domestic restricted subsidiaries (other than the Co-Issuer), subject to certain exceptions. The Issuers obligations under the Senior Secured Notes are not guaranteed by Gogo International Holdings, LLC, a subsidiary of ours that holds no material assets other than equity interests in our foreign subsidiaries. Each guarantee is a senior secured obligation of such Guarantor and is:

effectively senior to all of such Guarantor s existing and future senior unsecured indebtedness and such Guarantor s indebtedness secured on a junior priority basis by the same collateral, if any, securing the guarantee of such Guarantor, in each case to the extent of the value of the collateral securing such guarantee;

effectively senior in right of payment to all of such Guarantor s future indebtedness that is subordinated in right of payment to such Guarantor s guarantee;

effectively equal in right of payment with all of such Guarantor s existing and future (i) unsecured indebtedness that is not subordinated in right of payment to such Guarantor s guarantee, and (ii) indebtedness secured on a junior priority basis by the same collateral, if any, securing the guarantee of such Guarantor, in each case to the extent of any insufficiency in the collateral securing such guarantee; and

structurally subordinated to all indebtedness and other liabilities of any non-Guarantor subsidiary of such Guarantor (excluding, in the case of our guarantee, the Issuers).

The Senior Secured Notes and the related guarantees are secured by first-priority liens, subject to permitted liens, on substantially all of the Issuers and the Guarantors assets, except for certain excluded assets, including pledged equity interests of the Issuers and all of our existing and future domestic restricted subsidiaries guaranteeing the Senior Secured Notes.

The security interests in certain collateral may be released without the consent of holders of the Senior Secured Notes if such collateral is disposed of in a transaction that complies with the Indenture and related security agreements. In addition, under certain circumstances, we and the Guarantors have the right to transfer certain intellectual property assets that on the Issue Date constitute collateral securing the Senior Secured Notes or the guarantees to a restricted subsidiary organized under the laws of Switzerland, resulting in the release of such collateral without consent of the holders of the Senior Secured Notes.

Table of Contents

Gogo Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

On or after July 1, 2019, the Issuers may, at their option, at any time or from time to time, redeem any of the Senior Secured Notes in whole or in part. The Senior Secured Notes will be redeemable at the following redemption prices (expressed in percentages of principal amount), plus accrued and unpaid interest, if any, to (but not including) the redemption date (subject to the right of holders of record on the relevant regular record date on or prior to the redemption date to receive interest due on an interest payment date), if redeemed during the twelve-month period commencing on July 1 of the following years:

Year	**Redemption Price**
2019	106.250%
2020	103.125%
2021 and thereafter	100.000%

In addition, at any time prior to July 1, 2019, the Issuers may redeem up to 35% of the aggregate principal amount of the Senior Secured Notes with the proceeds of certain equity offerings at a redemption price of 112.500% of the principal amount redeemed, plus accrued and unpaid interest, if any, to (but not including) the date of redemption; provided, however, that Senior Secured Notes representing at least 65% of the principal amount of the Senior Secured Notes remain outstanding immediately after each such redemption.

The Issuers may redeem the Senior Secured Notes, in whole or in part, at any time prior to July 1, 2019, at a redemption price equal to 100% of the principal amount of the Senior Secured Notes redeemed plus the make-whole premium set forth in the Indenture as of, and accrued and unpaid interest, if any, to (but not including) the applicable redemption date.

The Indenture contains covenants that, among other things, limit the ability of the Issuers and the Subsidiary Guarantors and, in certain circumstances, our ability, to: incur additional indebtedness; pay dividends, redeem stock or make other distributions; make investments; create restrictions on the ability of our restricted subsidiaries to pay dividends to the Issuers or make other intercompany transfers; create liens; transfer or sell assets; merge or consolidate; and enter into certain transactions with the Issuers affiliates, including us. Most of these covenants will cease to apply if, and for as long as, the Senior Secured Notes have investment grade ratings from both Moody s Investment Services, Inc. and Standard & Poor s.

If we or the Issuers undergo specific types of change of control prior to July 1, 2022, GIH is required to make an offer to repurchase for cash all of the Senior Secured Notes at a repurchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to (but not including) the payment date.

The Indenture provides for events of default, which, if any of them occur, would permit or require the principal, premium, if any, and interest on all of the then outstanding Senior Secured Notes issued under the Indenture to be due and payable immediately. As of June 30, 2017, no event of default had occurred.

Convertible Notes On March 3, 2015, we issued $340.0 million aggregate principal amount of 3.75% Convertible Senior Notes due 2020 (the Convertible Notes) in a private offering to qualified institutional buyers, pursuant to Rule 144A under the Securities Act. We granted an option to the initial purchasers to purchase up to an additional $60.0 million aggregate principal amount of Convertible Notes to cover over-allotments, of which $21.9 million was subsequently exercised during March 2015, resulting in a total issuance of $361.9 million aggregate principal amount of Convertible Notes. The Convertible Notes mature on March 1, 2020, unless earlier repurchased or converted into shares of our common stock under certain circumstances described below. Upon maturity, we have the option to settle our obligation through cash, shares of common stock, or a combination of cash and shares of common stock. We pay interest on the Convertible Notes semi-annually in arrears on March 1 and September 1 of each year. Interest payments began on September 1, 2015.

The $361.9 million of proceeds received from the issuance of the Convertible Notes was initially allocated between long-term debt (the liability component) at $261.9 million and additional paid-in-capital (the equity component) at $100.0 million, within the consolidated balance sheet. The fair value of the liability component was measured using rates determined for similar debt instruments without a conversion feature. The carrying amount of the equity component, representing the conversion option, was determined by deducting the fair value of the liability component from the aggregate face value of the Convertible Notes. If we or the note holders elect not to settle the debt through conversion, we must settle the Convertible Notes at face value. Therefore, the liability component will

Gogo Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

be accreted up to the face value of the Convertible Notes, which will result in additional non-cash interest expense being recognized in the unaudited condensed consolidated statements of operations through the Convertible Notes maturity date (see Note 9, Interest Costs for additional information). The effective interest rate on the Convertible Notes, including accretion of the notes to par and debt issuance cost amortization, was approximately 11.5%. The equity component will not be remeasured as long as it continues to meet the conditions for equity classification.

As of June 30, 2017 and December 31, 2016, the outstanding principal on the Convertible Notes was $361.9 million, the unamortized debt discount was $60.4 million and $69.9 million, respectively, and the net carrying amount of the liability component was $301.5 million and $292.0 million, respectively.

We incurred approximately $10.4 million of issuance costs related to the issuance of the Convertible Notes of which $7.5 million and $2.9 million were recorded to deferred financing costs and additional paid-in capital, respectively, in proportion to the allocation of the proceeds of the Convertible Notes. The $7.5 million recorded as deferred financing costs on our unaudited condensed consolidated balance sheet is being amortized over the term of the Convertible Notes using the effective interest method. Total amortization expense of the deferred financing costs was $0.3 million and $0.7 million, respectively, for the three and six months periods ended June 30, 2017, and $0.3 million and $0.7 million, respective, for the prior year periods. Amortization expense is included in interest expense in the unaudited condensed consolidated statements of operations. As of June 30, 2017 and December 31, 2016, the balance of unamortized deferred financing costs related to the Convertible Notes was $4.7 million and $5.1 million, respectively, and is included as a reduction to long-term debt in our unaudited condensed consolidated balance sheets. See Note 9, Interest Costs for additional information.

The Convertible Notes had an initial conversion rate of 41.9274 common shares per $1,000 principal amount of Convertible Notes, which is equivalent to an initial conversion price of approximately $23.85 per share of our common stock. Upon conversion, we currently expect to deliver cash up to the principal amount of the Convertible Notes then outstanding. With respect to any conversion value in excess of the principal amount, we currently expect to deliver shares of our common stock. We may elect to deliver cash in lieu of all or a portion of such shares. The shares of common stock subject to conversion are excluded from diluted earnings per share calculations under the if-converted method as their impact is anti-dilutive.

Holders may convert the Convertible Notes, at their option, in multiples of $1,000 principal amount at any time prior to December 1, 2019, but only in the following circumstances:

- during any fiscal quarter beginning after the fiscal quarter ended June 30, 2015, if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during the last 30 consecutive trading days of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price of the Convertible Notes on each applicable trading day;

- during the five business day period following any five consecutive trading day period in which the trading price for the Convertible Notes is less than 98% of the product of the last reported sale price of our common stock and the conversion rate for the Convertible Notes on each such trading day; or

- upon the occurrence of specified corporate events.

None of the above events allowing for conversion prior to December 1, 2019 occurred during the three and six month periods ended June 30, 2017. Regardless of whether any of the foregoing circumstances occurs, a holder may convert its Convertible Notes, in multiples of $1,000 principal amount, at any time on or after December 1, 2019 until maturity.

In addition, if we undergo a fundamental change (as defined in the indenture governing the Convertible Notes), holders may, subject to certain conditions, require us to repurchase their Convertible Notes for cash at a price equal to 100% of the principal amount of the Convertible Notes to be purchased, plus any accrued and unpaid interest. In addition, if specific corporate events occur prior to the maturity date, we will increase the conversion rate for a holder who elects to convert its Convertible Notes in connection with such a corporate event in certain circumstances.

In connection with the issuance of the Convertible Notes, we paid approximately $140 million to enter into prepaid forward stock repurchase transactions (the Forward Transactions) with certain financial institutions (the Forward Counterparties), pursuant to which we purchased approximately 7.2 million shares of common stock for settlement on or around the March 1, 2020 maturity date for the Convertible Notes, subject to the ability of each

Table of Contents

Gogo Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Forward Counterparty to elect to settle all or a portion of its Forward Transactions early. As a result of the Forward Transactions, total shareholders equity within our unaudited condensed consolidated balance sheet was reduced by approximately $140 million. Approximately 7.2 million shares of common stock that will be effectively repurchased through the Forward Transactions are treated as retired shares for basic and diluted EPS purposes although they remain legally outstanding.

Amended and Restated Senior Term Facility On July 30, 2014, GIH, Gogo Business Aviation LLC, f/k/a Aircell Business Aviation Services LLC (GBA), and Gogo LLC, as borrowers (collectively, the Borrowers), entered into an Amendment and Restatement Agreement (the Amendment) to the Credit Agreement dated as of June 21, 2012 and amended on April 4, 2013 (the Amended Senior Term Facility) among the Borrowers, the lenders named therein, and Morgan Stanley Senior Funding, Inc., as Administrative Agent and Collateral Agent. We refer to the Amendment and the Amended Senior Term Facility collectively as the Amended and Restated Senior Term Facility.

On June 14, 2016, the outstanding principal balance of $287.7 million, together with accrued and unpaid interest, was paid in full, and the Amended and Restated Senior Term Facility was terminated in accordance with its terms on such date (subject to the survival of provisions expressly stated therein to survive the termination thereof). Additionally, we paid the voluntary prepayment premium of 3.0%, or $8.6 million, and wrote off all of the remaining unamortized deferred financing costs of $6.8 million. Both of these items are included in loss on extinguishment of debt in our unaudited condensed consolidated financial statements. See Note 6, Long-Term Debt and Other Liabilities, in our 2016 10-K for additional information on the Amended and Restated Senior Term Facility.

We paid $22.2 million of loan origination fees and financing costs related to the Amended and Restated Senior Term Facility, all but $4.1 million of which were accounted for as deferred financing costs. Total amortization expense of the deferred financing costs was $0.6 million and $1.4 million, respectively, for the three and six month periods ended June 30, 2016. Amortization expense is included in interest expense in the unaudited condensed consolidated statements of operations. As noted above, deferred financing costs related to the Amended and Restated Senior Term Facility were written off as of June 14, 2016.

Restricted Cash - Our restricted cash balances were $7.4 million and $7.9 million, respectively, as of June 30, 2017 and December 31, 2016 and primarily consist of letters of credit. Certain of the letters of credit require us to maintain restricted cash accounts in a similar amount, and are issued for the benefit of the landlords at our current office locations in Chicago, IL, Bensenville, IL and Broomfield, CO.

9. Interest Costs

We capitalize a portion of our interest on funds borrowed during the active construction period of major capital projects. Capitalized interest is added to the cost of the underlying assets and amortized over the useful lives of the assets.

The following is a summary of our interest costs for the three and six month periods ended June 30, 2017 and 2016 *(in thousands)*:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Interest costs charged to expense	$ 21,689	$ 12,250	$ 43,228	$ 23,182
Amortization of deferred financing costs	903	995	1,799	2,163
Accretion of debt discount on Convertible Notes	4,812	4,312	9,493	8,508
Amortization of debt premium on Senior Secured Notes	(178)		(351)	
Interest expense	27,226	17,557	54,169	33,853
Interest costs capitalized to property and equipment	2	82	6	153
Interest costs capitalized to software	253	400	611	682
Total interest costs	$ 27,481	$ 18,039	$ 54,786	$ 34,688

Table of Contents

Gogo Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

10. Leases

Arrangements with Commercial Airlines Pursuant to contractual agreements with our airline partners, we place our equipment on commercial aircraft operated by the airlines for the purpose of delivering the Gogo service to passengers on the aircraft. There are currently two types of commercial airline arrangements: Turnkey and Airline Directed.

Under the Turnkey model, we account for equipment transactions as operating leases of space for our equipment on the aircraft. We may be responsible for the costs of installing and/or deinstalling the equipment. The majority of the equipment transactions involve the transfer of legal title but do not meet sales recognition for accounting purposes because the risks and rewards of ownership are not fully transferred due to our continuing involvement with the equipment, the length of the term of our agreements with the airlines, and restrictions in the agreements regarding the airlines use of the equipment.

Under the Airline Directed model, which we have historically used on a limited basis, equipment transactions qualify for sale treatment due to the specific provisions of the agreement. When all the recognition conditions are met for the equipment, the sale is recognized as equipment revenue. When equipment and services are not separable, equipment revenue is deferred and recognized over the service period. For more information see Note 2, Summary of Significant Accounting Policies in our 10-K.

Under the Turnkey model, the assets are recorded as airborne equipment on our unaudited condensed consolidated balance sheets, as noted in Note 5, Composition of Certain Balance Sheet Accounts. Any upfront equipment payments are accounted for as lease incentives and recorded as deferred airborne lease incentives on our unaudited condensed consolidated balance sheets and are recognized as a reduction of the cost of service revenue on a straight-line basis over the term of the agreement with the airline. We recognized $8.6 million and $18.0 million, respectively, for the three and six month periods ended June 30, 2017, and $7.2 million and $12.9 million, respectively, for the prior year periods as a reduction to our cost of service revenue in our unaudited condensed consolidated statements of operations. As of June 30, 2017, deferred airborne lease incentives of $35.3 million and $117.5 million, respectively, are included in current and non-current liabilities in our unaudited condensed consolidated balance sheet. As of December 31, 2016, deferred airborne lease incentives of $36.3 million and $135.9 million, respectively, are included in current and non-current liabilities in our unaudited condensed consolidated balance sheet. The decrease in our deferred airborne lease incentives is due primarily to the transition in the accounting treatment for one of our airline agreements from a Turnkey model in the prior year period to an Airline Directed model in the first quarter of 2017 due to specific provisions elected by the airline.

Under the Turnkey model, the revenue share paid to our airline partners represents operating lease payments. They are deemed to be contingent rental payments, as the payments due to each airline are based on a percentage of our CA-NA and CA-ROW service revenue generated from that airline s passengers, which is unknown until realized. Therefore, we cannot estimate the lease payments due to an airline at the commencement of our contract with such airline. This rental expense is included in cost of service revenue and is partially offset by the amortization of the deferred airborne lease incentives discussed above. Such rental expenses totaled a net charge of $10.2 million and $19.1 million, respectively, for the three and six month periods ended June 30, 2017, and $10.8 million and $22.2 million, respectively, for the prior year periods.

A contract with one of our airline partners requires us to provide the airline partner with cash rebates of $1.8 million in June 2017 and June 2018. We paid the 2017 rebate on June 13, 2017.

Leases and Cell Site Contracts We have lease agreements relating to certain facilities and equipment, which are considered operating leases. Rent expense for such operating leases was $3.0 million and $6.0 million, respectively, for the three and six month periods ended June 30, 2017, and $2.9 million and $6.0 million, respectively, for the prior year periods. Additionally, we have operating leases with wireless service providers for tower space and base station capacity on a volume usage basis (cell site leases), some of which provide for minimum annual payments. Our cell site leases generally provide for an initial noncancelable term with various renewal options. Total cell site rental expense was $2.4 and $4.7 million, respectively, for the three and six month periods ended June 30, 2017, and $2.4 million and $4.7 million, respectively, for the prior year periods.

Table of Contents

Gogo Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Annual future minimum obligations for operating leases for each of the next five years and thereafter, other than the arrangements we have with our commercial airline partners, as of June 30, 2017, are as follows (*in thousands*):

Years ending December 31,	**Operating Leases**
2017 (period from July 1 to December 31)	$ 9,790
2018	$ 17,836
2019	$ 16,747
2020	$ 14,662
2021	$ 14,423
Thereafter	$ 95,061

Equipment Leases We lease certain computer and network equipment under capital leases, for which interest has been imputed with annual interest rates in an approximate range of 8% to 14%. As of June 30, 2017 and December 31, 2016 the computer equipment leases were classified as part of office equipment, furniture, and fixtures and other in our unaudited condensed consolidated balance sheet at a gross cost of $5.1 million and $3.9 million, respectively. As of June 30, 2017 and December 31, 2016, the network equipment leases were classified as part of network equipment in our unaudited condensed consolidated balance sheet at a gross cost of $7.5 million and $7.5 million, respectively. Annual future minimum obligations under capital leases for each of the next five years and thereafter, as of June 30, 2017, are as follows (*in thousands*):

Years ending December 31,	**Capital Leases**
2017 (period from July 1 to December 31)	$ 1,851
2018	2,030
2019	1,016
2020	39
Thereafter	
Total minimum lease payments	4,936
Less: Amount representing interest	(509)
Present value of net minimum lease payments	$ 4,427

The $4.4 million present value of net minimum lease payments as of June 30, 2017 has a current portion of $2.6 million included in the current portion of long-term debt and capital leases and a non-current portion of $1.8 million included in other non-current liabilities.

11. Commitments and Contingencies

Contractual Commitments - We have agreements with vendors to provide us with transponder and teleport satellite services. These agreements vary in length and amount and as of June 30, 2017 commit us to purchase transponder and teleport satellite services totaling approximately $41.7 million in 2017 (July 1 through December 31), $72.9 million in 2018, $79.1 million in 2019, $85.4 million in 2020, $75.9 million in 2021 and $303.0 million thereafter.

We have agreements with various vendors under which we have remaining commitments to purchase satellite-based systems, certifications and development services. Such commitments will become payable as we receive the equipment or certifications, or as development services are provided.

Damages and Penalties - We have entered into a number of agreements with our airline partners that require us to provide a credit or pay penalties or liquidated damages to our airline partners if we are unable to install our equipment on aircraft by specified timelines or fail to comply with service level commitments. The maximum amount of future credits or payments we could be required to make under these agreements is uncertain because the amount of future credits or payments is based on certain variable inputs.

Indemnifications and Guarantees - In accordance with Delaware law, we indemnify our officers and directors for certain events or occurrences while the officer or director is, or was, serving at our request in such capacity. The maximum potential amount of future payments we could be required to make under this indemnification is uncertain and may be unlimited, depending upon circumstances. However, our Directors and Officers insurance does provide coverage for certain of these losses.

Gogo Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

In the ordinary course of business we may occasionally enter into agreements pursuant to which we may be obligated to pay for the failure of performance of others, such as the use of corporate credit cards issued to employees. Based on historical experience, we believe that the risk of sustaining any material loss related to such guarantees is remote.

We have entered into a number of agreements, including our agreements with commercial airlines, pursuant to which we indemnify the other party for losses and expenses suffered or incurred in connection with any patent, copyright, or trademark infringement or misappropriation claim asserted by a third party with respect to our equipment or services. The maximum potential amount of future payments we could be required to make under these indemnification agreements is uncertain and is typically not limited by the terms of the agreements.

12. Fair Value of Financial Assets and Liabilities

A three-tier fair value hierarchy has been established which prioritizes the inputs used in measuring fair value. These tiers include:

Level 1 - defined as observable inputs such as quoted prices in active markets;

Level 2 - defined as observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3 - defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Long-Term Debt:

Our financial assets and liabilities that are disclosed but not measured at fair value include the Senior Secured Notes and the Convertible Notes, which are reflected on the unaudited condensed consolidated balance sheet at cost. The fair value measurements are classified as Level 2 within the fair value hierarchy since they are based on quoted market prices of our instruments in markets that are not active. We estimated the fair value of the Senior Secured Notes and Convertible Notes by calculating the upfront cash payment a market participant would require to assume these obligations. The upfront cash payment used in the calculations of fair value on our June 30, 2017 unaudited condensed consolidated balance sheet, excluding any issuance costs, is the amount that a market participant would be willing to lend at June 30, 2017 to an entity with a credit rating similar to ours and achieve sufficient cash inflows to cover the scheduled cash outflows under the Senior Secured Notes and the Convertible Notes. The calculated fair value of our Convertible Notes is highly correlated to our stock price and as a result significant changes to our stock price could have a significant impact on the calculated fair value of our Convertible Notes.

The fair value and carrying value of long-term debt as of June 30, 2017 and December 31, 2016 were as follows *(in thousands)*:

	June 30, 2017		December 31, 2016	
	Fair Value (1)	**Carrying Value**	**Fair Value (1)**	**Carrying Value**
Senior Secured Notes	$ 673,000	$ 594,849(2)	$ 572,000	$ 525,000
Convertible Notes	330,000	301,517(3)	275,000	292,024(3)

(1) Fair value amounts are rounded to the nearest million.

(2) Carrying value of the Senior Secured Notes includes unamortized debt premium of $4.8 million as of June 30, 2017. See Note 8, Long-Term Debt and Other Liabilities, for further information.

(3) Carrying value of the Convertible Notes excludes unamortized debt discount of $60.4 million and $69.9 million, respectively, as of June 30, 2017 and December 31, 2016. See Note 8, Long-Term Debt and Other Liabilities, for further information.

We have held-to-maturity financial instruments where carrying value approximates fair value. There were no fair value adjustments to these financial instruments during 2017 and 2016.

13. Income Tax

The effective income tax rates for the three and six month periods ended June 30, 2017 was (0.8%) and (0.7%), respectively, and (0.6%) and (0.8%), respectively, for the prior year periods. Income tax expense recorded in each

Table of Contents

Gogo Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

period was similar, with differences in pre-tax income causing the change in the effective tax rate. The difference between our effective tax rates and the U.S. federal statutory rate of 35% for the three and six month periods ended June 30, 2017 and 2016 was primarily due to the recording of a valuation allowance against our net deferred tax assets.

We are subject to income taxation in the United States, various states within the United States, Canada, Switzerland, Japan, Mexico, Brazil, Singapore, the United Kingdom, Hong Kong and Australia. With few exceptions, as of June 30, 2017, we are no longer subject to U.S. federal, state, local or foreign examinations by tax authorities for years before 2013.

We record penalties and interest relating to uncertain tax positions in the income tax provision line item in the unaudited condensed consolidated statement of operations. No penalties or interest related to uncertain tax positions were recorded for the three and six month periods ended June 30, 2017 and 2016. As of June 30, 2017 and December 31, 2016, we did not have a liability recorded for interest or potential penalties.

We do not expect a change in the unrecognized tax benefits within the next 12 months.

14. Business Segments and Major Customers

We operate our business through three operating segments: Commercial Aviation North America, or CA-NA , Commercial Aviation Rest of World, or CA-ROW and Business Aviation, or BA . See Note 1, Basis of Presentation, for further information regarding our segments.

The accounting policies of the operating segments are the same as those described in Note 2, Summary of Significant Accounting Policies, in our 2016 10-K. Intercompany transactions between segments are excluded as they are not included in management s performance review of the segments. We currently do not generate a material amount of foreign revenue. We do not segregate assets between segments for internal reporting. Therefore, asset-related information has not been presented. We do not disclose assets outside of the United States as these assets are not material as of June 30, 2017 and December 31, 2016. For our airborne assets, we consider only those assets installed in aircraft associated with international commercial airline partners to be owned outside of the United States.

Management evaluates performance and allocates resources to each segment based on segment profit (loss), which is calculated internally as net income (loss) attributable to common stock before interest expense, interest income, income taxes, depreciation and amortization, certain non-cash charges (including amortization of deferred airborne lease incentives, stock-based compensation expense and adjustment to deferred financing costs) and other income (expense). Segment profit (loss) is a measure of performance reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segments and evaluating segment performance. In addition, segment profit (loss) is included herein in conformity with ASC 280-10, *Segment Reporting*. Management believes that segment profit (loss) provides useful information for analyzing and evaluating the underlying operating results of each segment. However, segment profit (loss) should not be considered in isolation or as a substitute for net income (loss) attributable to common stock or other measures of financial performance prepared in accordance with

GAAP. Additionally, our computation of segment profit (loss) may not be comparable to other similarly titled measures computed by other companies.

Information regarding our reportable segments is as follows (*in thousands*):

	For the Three Months Ended June 30, 2017			
	CA-NA	**CA-ROW**	**BA**	**Total**
Service revenue	$ 98,679	$ 13,188	$ 42,209	$ 154,076
Equipment revenue	2,272	885	15,567	18,724
Total revenue	$ 100,951	$ 14,073	$ 57,776	$ 172,800
Segment profit (loss)	$ 16,191	$ (31,403)	$ 25,202	$ 9,990

Table of Contents

Gogo Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

	For the Three Months Ended June 30, 2016			
	CA-NA	CA-ROW	BA	Total
Service revenue	$ 89,808	$ 5,376	$ 32,403	$ 127,587
Equipment revenue	2,879	368	16,705	19,952
Total revenue	$ 92,687	$ 5,744	$ 49,108	$ 147,539
Segment profit (loss)	$ 18,641	$ (23,300)	$ 19,016	$ 14,357

	For the Six Months Ended June 30, 2017			
	CA-NA	CA-ROW	BA	Total
Service revenue	$ 195,824	$ 22,556	$ 82,191	$ 300,571
Equipment revenue	3,943	1,803	31,889	37,635
Total revenue	$ 199,767	$ 24,359	$ 114,080	$ 338,206
Segment profit (loss)	$ 27,350	$ (57,958)	$ 51,317	$ 20,709

	For the Six Months Ended June 30, 2016			
	CA-NA	CA-ROW	BA	Total
Service revenue	$ 173,217	$ 9,978	$ 63,112	$ 246,307
Equipment revenue	6,517	371	36,090	42,978
Total revenue	$ 179,734	$ 10,349	$ 99,202	$ 289,285
Segment profit (loss)	$ 32,457	$ (43,021)	$ 39,240	$ 28,676

A reconciliation of segment profit (loss) to the relevant consolidated amounts is as follows (*in thousands*):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
CA-NA segment profit	$ 16,191	$ 18,641	$ 27,350	$ 32,457
CA-ROW segment loss	(31,403)	(23,300)	(57,958)	(43,021)
BA segment profit	25,202	19,016	51,317	39,240

Total segment profit	9,990	14,357	20,709	28,676
Interest income	771	166	1,316	212
Interest expense	(27,226)	(17,557)	(54,169)	(33,853)
Depreciation and amortization	(30,562)	(24,906)	(60,997)	(49,263)
Amortization of deferred airborne lease incentives (1)	8,630	7,241	17,978	12,885
Stock-based compensation expense	(5,394)	(3,788)	(9,724)	(7,986)
Adjustment to deferred financing costs		(77)		792
Loss of extinguishment of debt		(15,406)		(15,406)
Other income (expense)	(56)	(3)	(94)	171
Loss before income taxes	$ (43,847)	$ (39,973)	$ (84,981)	$ (63,772)

(1) Amortization of deferred airborne lease incentive relates to our CA-NA and CA-ROW segments. See Note 10, Leases, for further information.

Major Customers and Airline Partnerships During the three and six month periods ended June 30, 2017 and 2016, no customer accounted for more than 10% of our consolidated revenue. One airline partner accounted for approximately 13% and approximately 18% of consolidated accounts receivable as of June 30, 2017 and December 31, 2016, respectively. One customer accounted for approximately 10% of consolidated accounts receivable as of June 30, 2017 while no customer accounted for more than 10% of consolidated accounts receivable as of December 31, 2016.

Table of Contents

Gogo Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Revenue earned through Delta Air Lines and American Airlines accounted for approximately 48% of consolidated revenue for both the three and six month periods ended June 30, 2017, and 50% for both the prior year periods.

15. Employee Retirement and Postretirement Benefits

Stock-Based Compensation As of June 30, 2017, we had three stock-based employee compensation plans (Stock Plans). See Note 11, Stock-Based Compensation, in our 2016 10-K for further information regarding these plans. Most of our equity grants are awarded on an annual basis. The annual grants occurred in the first quarter of 2017 whereas they had occurred in the second quarter in prior years.

For the six month period ended June 30, 2017, options to purchase 1,953,474 shares of common stock (of which 527,850 are options that contain a market condition, in addition to the time-based vesting requirements) were granted, options to purchase 44,087 shares of common stock were exercised, options to purchase 269,571 (of which 26,000 options contain a market condition) shares of common stock were forfeited, and options to purchase 246,044 shares of common stock expired.

For the six month period ended June 30, 2017, 860,099 Restricted Stock Units (RSUs) (of which 228,840 are RSUs that contain a market condition, in addition to the time-based vesting requirements) were granted, 345,314 RSUs vested and 149,317 RSUs (of which 20,070 contained a market condition) were forfeited.

For the six month period ended June 30, 2017, 92,910 shares of restricted stock were granted and 96,593 shares vested. These shares are deemed issued as of the date of grant, but not outstanding until they vest.

For the six month period ended June 30, 2017, 41,290 DSUs were granted and none were released.

For the six month period ended June 30, 2017, 80,867 shares of common stock were issued under the employee stock purchase plan.

The following is a summary of our stock-based compensation expense by operating expense line in the unaudited condensed consolidated statements of operations *(in thousands)*:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Cost of service revenue	$ 332	$ 361	$ 790	$ 696
Cost of equipment revenue	50	18	87	44
Engineering, design and development	1,054	734	1,904	1,462
Sales and marketing	1,419	1,171	2,168	2,301

General and administrative	2,539	1,504	4,775	3,483
Total stock-based compensation expense	$ 5,394	$ 3,788	$ 9,724	$ 7,986

401(k) Plan Under our 401(k) plan, all employees who are eligible to participate are entitled to make tax-deferred contributions, subject to Internal Revenue Service limitations. We match 100% of the employee s first 4% of contributions made, subject to annual limitations. Our matching contributions were $1.2 million and $2.8 million, respectively, for the three and six month periods ended June 30, 2017, and $1.0 million and $2.1 million, respectively, for the prior year periods.

16. Research and Development Costs

Expenditures for research and development are charged to expense as incurred and totaled $17.2 million and $39.3 million, respectively, for the three and six month periods ended June 30, 2017, and $10.8 million and $22.7 million, respectively, for the prior year periods. Research and development costs are reported as a component of engineering, design and development expenses in our unaudited condensed consolidated statements of operations.

17. Canadian ATG Spectrum License

On July 17, 2012, Industry Canada issued to our Canadian subsidiary a subordinate license that allows us to use the Canadian ATG spectrum of which SkySurf Canada Communications Inc. (SkySurf) is the primary licensee. On July 24, 2012 we entered into a subordinate license agreement (the License Agreement) with SkySurf and on August 14, 2012 the agreement commenced. The License Agreement provides for our exclusive rights to use SkySurf s ATG spectrum licenses in Canada. For additional information, see Note 16, Canadian ATG Spectrum License, in our 2016 10-K.

Table of Contents

Gogo Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Amortization expense for the one-time payment for each of the next five years and thereafter is estimated to be as follows *(in thousands)*:

Years ending December 31,	Canadian ATG Spectrum Amortization	
2017 (period from July 1 to December 31)	$	49
2018	$	97
2019	$	97
2020	$	97
2021	$	97
Thereafter	$	1,522

Amortization expense totaled less than $0.1 million during the three and six month periods ended June 30, 2017 and 2016.

The monthly payments are expensed as incurred and totaled approximately $0.3 million and $0.5 million, respectively, during the three and six month periods ended June 30, 2017, and $0.3 million and $0.6 million, respectively, for the prior year periods.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this report may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, without limitation, statements regarding our business outlook, industry, business strategy, plans, goals and expectations concerning our market position, international expansion, future technologies, future operations, margins, profitability, future efficiencies, capital expenditures, liquidity and capital resources and other financial and operating information. When used in this discussion, the words anticipate, assume, believe, budget, continue, could, estimate, expect, intend, potential, predict, project, should, will, future and the negative of these or similar terms and phrases are inten identify forward-looking statements in this Quarterly Report on Form 10-Q.

Forward-looking statements reflect our current expectations regarding future events, results or outcomes. These expectations may or may not be realized. Although we believe the expectations reflected in the forward-looking statements are reasonable, we can give you no assurance these expectations will prove to have been correct. Some of these expectations may be based upon assumptions, data or judgments that prove to be incorrect. Actual events, results and outcomes may differ materially from our expectations due to a variety of known and unknown risks, uncertainties and other factors. Although it is not possible to identify all of these risks and factors, they include, among others, the following:

- the loss of, or failure to realize benefits from, agreements with our airline partners or any failure to renew any existing agreements upon expiration or termination;

- the failure to maintain airline satisfaction with our equipment or our service;

- any inability to timely and efficiently deploy our 2Ku service or develop and deploy our next-generation ATG solution or other components of our technology roadmap for any reason, including regulatory delays or failures, or delays on the part of any of our suppliers, some of whom are single source, or the failure by our airline partners to roll out equipment upgrades, new services or adopt new technologies in order to support increased network capacity demands;

- the timing of deinstallation of our equipment from aircraft, including deinstallations resulting from aircraft retirements and other deinstallations permitted by certain airline contract provisions;

- the loss of relationships with original equipment manufacturers or dealers;

- our ability to develop or purchase ATG and satellite network capacity sufficient to accommodate current and expected growth in passenger demand in North America and internationally as we expand;

- our reliance on third-party suppliers, some of whom are single source, for satellite capacity and other services and the equipment we use to provide services to commercial airlines and their passengers and business aviation customers;

unfavorable economic conditions in the airline industry and/or the economy as a whole;

our ability to expand our international or domestic operations, including our ability to grow our business with current and potential future airline partners;

an inability to compete effectively with other current or future providers of in-flight connectivity services and other products and services that we offer, including on the basis of price, service performance and line-fit availability;

our ability to successfully develop and monetize new products and services such as Gogo Vision and Gogo TV, including those that were recently released, are currently being offered on a limited or trial basis, or are in various stages of development;

our ability to certify and install our equipment and deliver our products and services, including newly developed products and services, on schedules consistent with our contractual commitments to customers;

the failure of our equipment or material defects or errors in our software resulting in recalls or substantial warranty claims;

Table of Contents

a revocation of, or reduction in, our right to use licensed spectrum, the availability of other air-to-ground spectrum to a competitor or the repurposing by a competitor of other spectrum for air-to-ground use;

our use of open source software and licenses;

the effects of service interruptions or delays, technology failures and equipment failures or malfunctions arising from defects or errors in our software or defects in or damage to our equipment;

the limited operating history of our CA-ROW segment;

contract changes and implementation issues resulting from decisions by airlines to transition from the retail model to the airline directed model;

increases in our projected capital expenditures due to, among other things, unexpected costs incurred in connection with the roll-out of our technology roadmap or our international expansion;

compliance with U.S. and foreign government regulations and standards, including those related to regulation of the Internet, including e-commerce or online video distribution changes, and the installation and operation of satellite equipment and our ability to obtain and maintain all necessary regulatory approvals to install and operate our equipment in the United States and foreign jurisdictions;

our, or our technology suppliers , inability to effectively innovate;

costs associated with defending pending or future intellectual property infringement and other litigation or claims;

our ability to protect our intellectual property;

breaches of the security of our information technology network, resulting in unauthorized access to our customers credit card information or other personal information;

any negative outcome or effects of future litigation;

our substantial indebtedness;

limitations and restrictions in the agreements governing our indebtedness and our ability to service our indebtedness;

our ability to obtain additional financing on acceptable terms or at all;

fluctuations in our operating results;

our ability to attract and retain customers and to capitalize on revenue from our platform;

the demand for and market acceptance of our products and services;

changes or developments in the regulations that apply to us, our business and our industry, including changes or developments affecting the ability of passengers or airlines to use our in-flight connectivity services, including the recent U.S. and U.K. bans on the use of certain personal devices such as laptops and tablets on certain aircraft flying certain routes;

a future act or threat of terrorism, cyber-security attack or other events that could result in adverse regulatory changes or developments as referenced above, or otherwise adversely affect our business and industry;

our ability to attract and retain qualified employees, including key personnel;

the effectiveness of our marketing and advertising and our ability to maintain and enhance our brands;

our ability to manage our growth in a cost-effective manner and integrate and manage acquisitions;

compliance with anti-corruption laws and regulations in the jurisdictions in which we operate, including the Foreign Corrupt Practices Act and the (U.K.) Bribery Act 2010;

restrictions on the ability of U.S. companies to do business in foreign countries, including, among others, restrictions imposed by the U.S. Office of Foreign Assets Control;

Table of Contents

- difficulties in collecting accounts receivable;
- our ability to successfully implement our new enterprise resource planning system and other improvements to systems and procedures needed to support our growth; and
- other risks and factors listed under Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2016 as filed with the Securities Exchange Commission (SEC) on February 27, 2017 (the 2016 10-K) and in Item 1A of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 as filed with the SEC on May 4, 2017.

Any one of these factors or a combination of these factors could materially affect our financial condition or future results of operations and could influence whether any forward-looking statements contained in this report ultimately prove to be accurate. Our forward-looking statements are not guarantees of future performance, and you should not place undue reliance on them. All forward-looking statements speak only as of the date made and we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

In addition, while we do, from time to time, communicate with securities analysts, it is against our policy to disclose to them any material non-public information or other confidential information. Accordingly, stockholders should not assume that we agree with any statement or report issued by any analyst irrespective of the content of the statement or report. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts, or opinions, such reports are not our responsibility.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is intended to help the reader understand our business, financial condition, results of operations, liquidity and capital resources. You should read this discussion in conjunction with our unaudited condensed consolidated interim financial statements and the related notes contained elsewhere in this Quarterly Report on Form 10-Q. Unless the context otherwise indicates or requires, the terms we, our, us, Gogo, and the Company, as used in this report, refer to Gogo Inc. and its directly and indirectly owned subsidiaries as a combined entity, except where otherwise stated or where it is clear that the terms refer only to Gogo Inc. exclusive of its subsidiaries.

The statements in this discussion regarding industry outlook, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements in this discussion are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described under Risk Factors in the 2016 10-K and Item 1A in this Quarterly Report on Form 10-Q, and in Special Note Regarding Forward-Looking Statements in this report. Our actual results may differ materially from those contained in or implied by any forward-looking statements.

Our fiscal year ends December 31 and, unless otherwise noted, references to years or fiscal are for fiscal years ended December 31. See Results of Operations.

Company Overview

Gogo (we , us , our) is the global leader in providing broadband connectivity solutions and wireless in-flight entertainment to the aviation industry. 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 include among others, real-time credit card transaction processing, electronic flight bags and real-time weather information. Services are provided by CA-NA on commercial aircraft flying routes that generally begin and end within North America, which for this purpose includes the United States, Canada and Mexico. CA-ROW 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) on which our international service is provided. BA 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.

Factors and Trends Affecting Our Results of Operations

We believe that our operating and business performance is driven by various factors that affect the commercial airline and business aviation industries, including trends affecting the travel industry and trends affecting the customer bases that we target, as well as factors that affect wireless Internet service providers and general macroeconomic factors. Key factors that may affect our future performance include:

costs associated with the implementation of, and our ability to implement on a timely basis, our technology roadmap, upgrades and installation of our ATG-4, 2Ku, next generation ATG and other new technologies (including failures or delays on the part of antenna and other equipment developers and providers, some of which are single source, or delays in obtaining STCs), the roll-out of our satellite services, the potential licensing of additional spectrum, and the implementation of improvements to our network and operations as technology changes and we experience increased network capacity constraints;

Table of Contents

costs associated with, and our ability to execute, our international expansion, including modifications of our network to accommodate satellite technology, development and implementation of new satellite-based technologies, the availability of satellite capacity, costs of satellite capacity to which we may have to commit well in advance, and, our ability to obtain and comply with foreign telecommunications, aviation and other licenses and approvals necessary for our international operations;

costs associated with managing a rapidly growing company;

costs associated with, and our ability to obtain, sufficient capacity for heavily-trafficked areas in the United States, the costs of which we may have to commit to well in advance;

the pace and extent of adoption of our service for use on international commercial aircraft by our current North American airline partners and new international airline partners;

the number of aircraft in service in our markets, including consolidation of the airline industry or changes in fleet size by one or more of our commercial airline partners or BA fractional ownership customers;

the economic environment and other trends that affect both business and leisure travel;

the extent of passengers , airline partners and other aircraft owners and operators adoption of our products and services, which is affected by, among other things, willingness to pay for the services that we provide, changes in technology and competition from current competitors and new market entrants;

our ability to enter into and maintain long-term connectivity arrangements with airline partners, which depends on numerous factors including the real or perceived availability, quality and price of our services and product offerings as compared to those offered by our competitors;

continued demand for connectivity and proliferation of Wi-Fi enabled devices, including smartphones, tablets and laptops;

changes in domestic or foreign laws, regulations or policies resulting from the 2016 elections that affect our business or the business of our customers and suppliers;

changes in laws, regulations and interpretations affecting telecommunications services, including those affecting our ability to maintain our licenses for ATG spectrum in the United States, obtain sufficient rights to use additional ATG spectrum and/or other sources of broadband connectivity to deliver our services, and expand our service offerings; and

changes in laws, regulations and interpretations affecting aviation, including, in particular, changes that impact the design of our equipment and our ability to obtain required certifications for our equipment and changes that affect the ability of passengers and airlines to utilize our in-flight connectivity services, including the recent U.S. and U.K. bans on the use of certain personal devices, such as laptops and tablets, on certain airlines flying certain routes.

Summary Financial Information

Consolidated revenue increased 17.1% and 16.9% to $172.8 million and $338.2 million, respectively, for the three and six month periods ended June 30, 2017, and $147.5 million and $289.3 million, respectively, for the prior year periods. For the three and six month periods ended June 30, 2017, the CA-NA segment had 2,816 and 2,794, respectively, aircraft equivalents providing the Gogo service as compared with 2,622 and 2,567, respectively, for the prior year periods. As of June 30, 2017, the BA segment had 5,464 aircraft online with satellite systems and 4,453 ATG systems online as compared with 5,458 and 3,795, respectively, as of June 30, 2016. For the three and six month periods ended June 30, 2017, the CA-ROW segment had 247 and 227, respectively, aircraft equivalents as compared with 196 and 186, respectively, for the prior year periods.

Table of Contents

Key Business Metrics

Our management regularly reviews financial and operating metrics, including the following key operating metrics for the CA-NA, CA-ROW and BA segments, to evaluate the performance of our business and our success in executing our business plan, make decisions regarding resource allocation and corporate strategies, and evaluate forward-looking projections.

Commercial Aviation North America

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Aircraft online (at period end)	2,791	2,596	2,791	2,596
Aircraft equivalents (average during the period)	2,816	2,622	2,794	2,567
Average monthly service revenue per aircraft equivalent (ARPA)	$ 11,784	$ 11,483	$ 11,789	$ 11,314
Gross passenger opportunity (GPO) (in thousands)	108,480	100,458	204,088	190,461
Total average revenue per session (ARPS)	$ 10.86	$ 12.94	$ 11.01	$ 12.99
Connectivity take rate	7.7%	6.3%	8.0%	6.4%

Commercial Aviation Rest of World

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Aircraft online (at period end)	318	249	318	249
Aircraft equivalents (average during the period)	247	196	227	186
ARPA	$ 18,872	$ 12,065	$ 17,932	$ 11,851

Aircraft online. We define aircraft online as the total number of commercial aircraft on which our equipment is installed and service has been made commercially available as of the last day of each period presented. We assign aircraft to CA-NA or CA-ROW at the time of contract signing as follows: (i) all aircraft operated by North American airlines and under contract for ATG or ATG-4 service are assigned to CA-NA, (ii) all aircraft operated by North American airlines and under a contract for satellite service are assigned to CA-NA or CA-ROW based on whether the routes flown by such aircraft under the contract are anticipated to be predominantly within or outside of North America at the time the contract is signed, and (iii) all aircraft operated by non-North American airlines and under a contract are assigned to CA-ROW.

Aircraft equivalents. We define aircraft equivalents for a segment as the total number of commercial aircraft online (as defined above) multiplied by the percentage of flights flown by such aircraft within the scope of that segment, rounded to the nearest whole aircraft and expressed as an average of the month end figures for each month in the period. This methodology takes into account the fact that during a particular period certain aircraft may fly routes outside the scope of the segment to which they are assigned for purposes of the calculation of aircraft online.

Average monthly service revenue per aircraft equivalent (ARPA). We define ARPA for a segment as the aggregate service revenue plus monthly service fees, some of which are reported as a reduction to cost of service revenue for that segment for the period divided by the number of months in the period, and further divided by the number of aircraft equivalents (as defined above) for that segment during the period.

Gross passenger opportunity (GPO). We define GPO as the aggregate number of passengers who board commercial aircraft on which Gogo service has been available at any time during the period presented. When actual passenger counts are available directly from our airline partners, we aggregate such counts across flights on Gogo-equipped aircraft. When not available directly from our airline partners, we estimate GPO. Estimated GPO is calculated by first estimating the number of flights occurring on each Gogo-equipped aircraft, then multiplying by the number of seats on that aircraft, and finally multiplying by a seat factor that is determined from historical information provided to us in arrears by our airline partners. The estimated number of flights is derived from real-time flight information provided to our front-end systems by Air Radio Inc. (ARINC), direct airline feeds and supplementary third-party data sources. These aircraft-level estimates are then aggregated with any available airline-provided passenger counts to obtain total GPO.

Table of Contents

Total average revenue per session (ARPS). We define ARPS as revenue from Passenger Connectivity, excluding non-session related revenue, divided by the total number of sessions during the period. A session, or a use of Passenger Connectivity, is defined as the use by a unique passenger of Passenger Connectivity on a flight segment. Multiple logins or purchases under the same user name during one flight segment count as only one session.

Connectivity take rate. We define connectivity take rate as the number of sessions during the period expressed as a percentage of GPO. Included in our connectivity take-rate calculation are sessions for which we did not receive revenue, including those provided pursuant to free promotional campaigns and, to a lesser extent, as a result of complimentary passes distributed by our customer service representatives for unforeseen technical issues. For the periods listed above, the number of sessions for which we did not receive revenue was not material.

Business Aviation

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Aircraft online (at period end)				
Satellite	5,464	5,458	5,464	5,458
ATG	4,453	3,795	4,453	3,795
Average monthly service revenue per aircraft online				
Satellite	$ 236	$ 226	$ 230	$ 220
ATG	2,872	2,529	2,835	2,514
Units Sold				
Satellite	99	108	187	241
ATG	197	191	386	393
Average equipment revenue per unit sold (in thousands)				
Satellite	$ 42	$ 44	$ 44	$ 43
ATG	52	57	54	58

Satellite aircraft online. We define satellite aircraft online as the total number of business aircraft for which we provide satellite services as of the last day of each period presented.

ATG aircraft online. We define ATG aircraft online as the total number of business aircraft for which we provide ATG services as of the last day of each period presented.

Average monthly service revenue per satellite aircraft online. We define average monthly service revenue per satellite aircraft online as the aggregate satellite service revenue for the period divided by the number of months in the period, divided by the number of satellite aircraft online during the period (expressed as an average of the month end figures for each month in such period).

Average monthly service revenue per ATG aircraft online. We define average monthly service revenue per ATG aircraft online as the aggregate ATG service revenue for the period divided by the number of months in the period, divided by the number of ATG aircraft online during the period (expressed as an average of the month end figures for each month in such period).

Units sold. We define units sold as the number of satellite or ATG units for which we recognized revenue during the period. In the three and six months ended June 30, 2017, we recognized revenue on 3 Gogo Biz 4G units that were previously deferred.

Average equipment revenue per satellite unit sold. We define average equipment revenue per satellite unit sold as the aggregate equipment revenue earned from all satellite units sold during the period, divided by the number of satellite units sold.

Average equipment revenue per ATG unit sold. We define average equipment revenue per ATG unit sold as the aggregate equipment revenue from all ATG units sold during the period, divided by the number of ATG units sold.

Key Components of Consolidated Statements of Operations

There have been no material changes to our key components of unaudited condensed consolidated statements of operations and segment profit (loss) as described in Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) in our 2016 10-K.

Off-Balance Sheet Arrangements

We do not have any obligations that meet the definition of an off-balance sheet arrangement, other than operating leases, which have or are reasonably likely to have a material effect on our results of operations. See Note 10, Leases to our unaudited condensed consolidated financial statements for further information.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of our unaudited condensed consolidated financial statements and related disclosures require us to make estimates, assumptions and judgments that affect the reported amount of assets, liabilities, revenue, costs and expenses, and related exposures. We base our estimates and assumptions on historical experience and other factors that we believe to be reasonable under the circumstances. In some instances, we could reasonably use different accounting estimates, and in some instances results could differ significantly from our estimates. We evaluate our estimates and assumptions on an ongoing basis. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected.

We believe that the assumptions and estimates associated with long-lived assets, indefinite-lived assets and stock-based compensation have the greatest potential impact on our unaudited condensed consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in MD&A in our 2016 10-K.

Recent Accounting Pronouncements

See Note 2, Recent Accounting Pronouncements in our unaudited condensed consolidated financial statements for additional information.

Table of Contents

Results of Operations

The following table sets forth, for the periods presented, certain data from our unaudited condensed consolidated statements of operations. The information contained in the table below should be read in conjunction with our unaudited condensed consolidated financial statements and related notes.

Unaudited Condensed Consolidated Statement of Operations Data

(in thousands)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Revenue:				
Service revenue	$ 154,076	$ 127,587	$ 300,571	$ 246,307
Equipment revenue	18,724	19,952	37,635	42,978
Total revenue	172,800	147,539	338,206	289,285
Operating expenses:				
Cost of service revenue (exclusive of items shown below)	69,127	53,396	133,940	108,250
Cost of equipment revenue (exclusive of items shown below)	14,649	12,477	26,297	26,225
Engineering, design and development	35,685	24,718	71,949	46,366
Sales and marketing	16,564	16,750	30,959	31,492
General and administrative	23,549	22,388	46,098	43,377
Depreciation and amortization	30,562	24,906	60,997	49,263
Total operating expenses	190,136	154,635	370,240	304,973
Operating loss	(17,336)	(7,096)	(32,034)	(15,688)
Other (income) expense:				
Interest income	(771)	(166)	(1,316)	(212)
Interest expense	27,226	17,557	54,169	33,853
Loss on extinguishment of debt		15,406		15,406
Adjustment of deferred financing costs		77		(792)
Other (income) expense	56	3	94	(171)
Total other expense	26,511	32,877	52,947	48,084
Loss before income taxes	(43,847)	(39,973)	(84,981)	(63,772)
Income tax provision	362	221	595	528
Net loss	$ (44,209)	$ (40,194)	$ (85,576)	$ (64,300)

31

Table of Contents

Three and Six Months Ended June 30, 2017 and 2016

Revenue:

Revenue by segment and percent change for the three and six month periods ended June 30, 2017 and 2016 were as follows *(in thousands, except for percent change)*:

	For the Three Months Ended June 30, 2017	For the Three Months Ended June 30, 2016	% Change 2017 over 2016
Service Revenue:			
CA-NA	$ 98,679	$ 89,808	9.9%
BA	42,209	32,403	30.3%
CA-ROW	13,188	5,376	145.3%
Total Service Revenue	$ 154,076	$ 127,587	20.8%
Equipment Revenue:			
CA-NA	$ 2,272	$ 2,879	(21.1%)
BA	15,567	16,705	(6.8%)
CA-ROW	885	368	140.5%
Total Equipment Revenue	$ 18,724	$ 19,952	(6.2%)
Total Revenue:			
CA-NA	$ 100,951	$ 92,687	8.9%
BA	57,776	49,108	17.7%
CA-ROW	14,073	5,744	145.0%
Total Revenue	$ 172,800	$ 147,539	17.1%

	For the Six Months Ended June 30, 2017	For the Six Months Ended June 30, 2016	% Change 2017 over 2016
Service Revenue:			
CA-NA	$ 195,824	$ 173,217	13.1%
BA	82,191	63,112	30.2%
CA-ROW	22,556	9,978	126.1%
Total Service Revenue	$ 300,571	$ 246,307	22.0%
Equipment Revenue:			

CA-NA	$ 3,943	$ 6,517	(39.5%)
BA	31,889	36,090	(11.6%)
CA-ROW	1,803	371	386.0%
Total Equipment Revenue	$ 37,635	$ 42,978	(12.4%)
Total Revenue:			
CA-NA	$ 199,767	$ 179,734	11.1%
BA	114,080	99,202	15.0%
CA-ROW	24,359	10,349	135.4%
Total Revenue	$ 338,206	$ 289,285	16.9%

Commercial Aviation North America:

CA-NA revenue increased to $101.0 million and $199.8 million, respectively, for the three and six month periods ended June 30, 2017, as compared with $92.7 million and $179.7 million, respectively for the prior year periods, primarily due to an increase in service revenue driven by increased Passenger Connectivity revenue. The increase in CA-NA Passenger Connectivity revenue for the three and six month periods ended June 30, 2017 was primarily due to an increase in connectivity take rate and an increase in the number of aircraft equivalents, offset in part by a decrease in ARPS. GPO increased to 108.5 million and 204.1 million, respectively, for the three and six month periods ended June 30, 2017, as compared with 100.5 million and 190.5 million, respectively, for the prior year periods, driven by an increase in aircraft equivalents. The connectivity take rate increased to 7.7% and 8.0%, respectively, for the three and six month periods ended June 30, 2017, as compared with 6.3% and 6.4%, respectively, for the prior year periods, reflecting increased passenger adoption including the impact of third party-paid and airline-paid promotions. Passenger Connectivity sessions totaled 8.3 million and 16.3 million, respectively, for the three and six month periods ended June 30, 2017, as compared with 6.3 million and 12.2 million, respectively, for the prior year periods. ARPS decreased to $10.86 and $11.01, respectively, for the three and six month periods ended June 30, 2017, as compared with $12.94 and $12.99, respectively, for the prior year periods, due to shifts in product mix, third party-paid and airline-paid promotions. ARPA increased to $11,784 and $11,789, respectively, for the three and six month periods ended June 30, 2017, as compared with $11,483 and $11,314, respectively, for the prior year periods.

A summary of the components of CA-NA s service revenue for the three and six month periods ended June 30, 2017 and 2016 is as follows *(in thousands, except for percent change)*:

	For the Three Months Ended June 30, 2017	2016	% Change 2017 over 2016
Passenger Connectivity revenue (1)	$ 92,565	$ 85,669	8.0%
Passenger Entertainment and CAS revenue	6,114	4,139	47.7%
Total service revenue	$ 98,679	$ 89,808	9.9%

	For the Six Months Ended June 30, 2017	2016	% Change 2017 over 2016
Passenger Connectivity revenue (1)	$ 184,003	$ 165,737	11.0%
Passenger Entertainment and CAS revenue	11,821	7,480	58.0%
Total service revenue	$ 195,824	$ 173,217	13.1%

(1) Includes non-session related revenue of $2.1 million and $4.6 million, respectively, for the three and six month periods ended June 30, 2017, and $3.9 million and $7.9 million, respectively, for the prior year periods.

CA-NA Passenger Connectivity revenue increased to $92.6 million and $184.0 million, respectively, for the three and six month periods ended June 30, 2017, as compared with $85.7 million and $165.7 million, respectively, for the prior year periods, due to increases in passenger-paid, third party-paid and airline-paid revenue. Passenger-paid revenue increased due to increases in both individual sessions and subscriptions. Third party-paid revenue increased primarily due to increases in sponsorship, roaming, enterprise and wholesale revenue. Our airline-paid revenue increased due to new agreements with certain airline partners under which the airlines pay us for specified data usage, including data used by passengers and by airline crew members using connectivity services while in flight.

The increase in Passenger Entertainment and CAS revenue to $6.1 million and $11.8 million, respectively, for the three and six month periods ended June 30, 2017, as compared with $4.1 million and $7.5 million, respectively, for the prior year periods, was primarily due to increased usage of Passenger Entertainment services under business-to-business arrangements with our airline partners.

The increase in CA-NA service revenue was partially offset by a decrease in equipment revenue to $2.3 million and $3.9 million, respectively, for the three and six month periods ended June 30, 2017, as compared with $2.9 million and $6.5 million, respectively, in the prior year periods, due primarily to more equipment transactions qualifying for sales treatment in the prior year period as compared with the current year.

Business Aviation:

BA revenue increased to $57.8 million and $114.1 million, respectively, for the three and six month periods ended June 30, 2017, as compared with $49.1 million and $99.2 million, respectively, for the prior year periods, due to an increase in service revenue, offset in part by a decrease in equipment revenue.

BA service revenue increased to $42.2 million and $82.2 million, respectively, for the three and six month periods ended June 30, 2017, as compared with $32.4 million and $63.1 million, respectively, for the prior year periods, primarily due to more customers subscribing to our Gogo Biz (ATG) service and an increase in average monthly service revenue per aircraft online. The number of ATG aircraft online increased 17.3% to 4,453 as of June 30, 2017 as compared with 3,795 as of June 30, 2016.

BA equipment revenue decreased to $15.6 million and $31.9 million, respectively, for the three and six month periods ended June 30, 2017, as compared with $16.7 million and $36.1 million, respectively, for the prior year periods, due to decreases in both ATG and satellite equipment revenue consistent with trends in the overall business aviation market.

Under a sales program for Gogo Biz 4G equipment that started in 2016, we have deferred approximately $5.5 million of equipment revenue as of June 30, 2017 in connection with a free upgrade program under which we shipped ATG and UCS equipment to customers who have a right to exchange that equipment for Gogo Biz 4G equipment. In the three and six months ended June 30, 2017, we shipped 3 Gogo Biz 4G units under this program and recognized $0.2 million of previously deferred equipment revenue. We will recognize the remaining deferred revenue upon the earlier of the shipment of the Gogo Biz 4G equipment or the expiration of the free upgrade period, which is June 30, 2018.

Commercial Aviation Rest of World:

CA-ROW revenue increased to $14.1 million and $24.4 million, respectively, for the three and six month periods ended June 30, 2017, as compared with $5.7 million and $10.3 million, respectively, for the prior year periods, due to an increase in service revenue and to a lesser extent an increase in equipment revenue.

CA-ROW service revenue increased to $13.2 million and $22.6 million, respectively, for the three and six month periods ended June 30, 2017, as compared with $5.4 million and $10.0 million, respectively, for the prior year periods, due to an increase in ARPA and to a lesser extent an increase in aircraft equivalents. ARPA for the CA-ROW segment increased to $18,872 and $17,932 for the three and six month periods ended June 30, 2017, respectively, as compared with $12,065 and $11,851, respectively, for the prior year periods, due to increased airline-paid passenger usage and the transition in the accounting treatment for one of our airline agreements from an operating lease in the prior year to a sale in the first quarter of the current year due to specific provisions elected by the airline.

CA-ROW generated equipment revenue of $0.9 million and $1.8 million, respectively, for the three and six month periods ended June 30, 2017, as compared with $0.4 million and $0.4 million, respectively, for the prior year periods, due to the transition in the accounting treatment for one of one airline agreements from an operating lease in the prior year to a sale in the first quarter of the current year due to specific provisions elected by the airline.

Cost of Service Revenue:

Cost of service revenue by segment, percent change and cost of service revenue as a percent of service revenue for the three and six month periods ended June 30, 2017 and 2016 were as follows *(in thousands, except for percent change)*:

	For the Three Months Ended June 30,		% Change 2017 over 2016
	2017	**2016**	
CA-NA	$ 37,954	$ 33,797	12.3%
BA	9,877	8,898	11.0%
CA-ROW	21,296	10,701	99.0%
Total	$ 69,127	$ 53,396	29.5%

	For the Six Months Ended June 30, 2017	2016	% Change 2017 over 2016
CA-NA	$ 74,701	$ 70,371	6.2%
BA	19,386	17,317	11.9%
CA-ROW	39,853	20,562	93.8%
Total	$ 133,940	$ 108,250	23.7%

CA-ROW cost of service revenue increased to $21.3 million and $39.9 million, respectively, for the three and six month periods ended June 30, 2017, as compared with $10.7 million and $20.6 million, respectively, for the

34

prior year periods, primarily due to increases in network operations expenses (including satellite service fees), aircraft operations expenses, revenue share expense and billing and transaction related expenses as the business continued to grow.

CA-NA cost of service revenue increased to $38.0 million and $74.7 million, respectively, for the three and six month periods ended June 30, 2017, as compared with $33.8 million and $70.4 million, respectively, for the prior year periods, due to increases in revenue share earned by our airline partners, network operations expenses (including satellite service fees) and aircraft operations expenses. These increases were partially offset by increases in the amortization of our deferred airborne lease incentives, the recognition of monthly service fees and maintenance fees paid to us by certain of our airline partners, all of which reduce our cost of services. See Note 10, Leases in our unaudited condensed consolidated financial statements for additional information regarding our deferred airborne lease incentives.

BA cost of service revenue increased to $9.9 million and $19.4 million, respectively, for the three and six month periods ended June 30, 2017, as compared with $8.9 million and $17.3 million, respectively, for the prior year periods. The increases were primarily due to increased ATG units online and an increase in the average network utilization per ATG unit online which resulted in higher ATG network service costs and, to a lesser extent, an increase in satellite service fees.

We expect cost of service revenue in the near term for CA-NA to increase at a slower rate than historically. Such expenses will include additional satellite coverage to support and/or supplement geographic areas we currently serve as well as new areas, offset in part by an increase in the amortization of deferred airborne lease incentives. Over time, we expect total cost of service revenue in CA-NA to decline as a percentage of total service revenue as we realize efficiencies inherent in the scalability of our business.

As we expand our business internationally, we also expect to incur additional cost of service revenue in CA-ROW, reflecting increased satellite usage, maintenance costs and network related expenses.

Cost of Equipment Revenue:

Cost of equipment revenue by segment and percent change for the three and six month periods ended June 30, 2017 and 2016 were as follows *(in thousands, except for percent change)*:

	For the Three Months Ended June 30,		% Change 2017 over 2016
	2017	2016	
CA-NA	$ 3,214	$ 2,862	12.3%
BA	10,600	9,365	13.2%
CA-ROW	835	250	234.0%
Total	$ 14,649	$ 12,477	17.4%

	For the Six Months Ended June 30,		% Change

	2017	2016	2017 over 2016
CA-NA	$ 4,581	$ 6,809	(32.7%)
BA	20,237	19,166	5.6%
CA-ROW	1,479	250	491.6%
Total	$ 26,297	$ 26,225	0.3%

Cost of equipment revenue increased to $14.6 million and $26.3 million, respectively, for the three and six month periods ended June 30, 2017, as compared with $12.5 million and $26.2 million, respectively, for the prior year periods. The increase occurred primarily within the BA segment and to a lesser extent the CA-ROW segment, offset in part by a decrease in the CA-NA segment. The increase in BA was due to the changes in product mix and increases in warranty expense and the increase in CA-ROW was due to the additional equipment transactions that qualify for sale treatment. The decrease in CA-NA was due to fewer equipment transactions that qualify for sale treatment. We expect that our cost of equipment revenue in future periods will vary with changes in equipment revenue.

Table of Contents

Engineering, Design and Development Expenses:

Engineering, design and development expenses increased 44.4% and 55.2% to $35.7 million and $71.9 million, respectively, for the three and six month periods ended June 30, 2017, as compared with $24.7 million and $46.4 million, respectively, for the prior year periods, due primarily to increases in the CA-NA and CA-ROW segments. The CA-NA and CA-ROW segments increased due to higher personnel expense and outside services in connection with the development of new products and technologies and obtaining STCs. Additionally, the increase in the CA-NA segment for the three and six month periods was due to the recognition of $2.4 million and $11.8 million, respectively, of expenses related to the development of our next generation ATG solution.

Excluding the next generation ATG development expenses, we expect engineering, design and development expenses to remain relatively consistent in future periods. We expect consolidated engineering, design and development expenses to decrease as a percentage of consolidated revenue over time.

Sales and Marketing Expenses:

Sales and marketing expenses decreased 1.1% and 1.7% to $16.6 million and $31.0 million, respectively, for the three and six month periods ended June 30, 2017, as compared with $16.8 million and $31.5 million, respectively, for the prior year periods, due to a decrease in CA-NA, partially offset by increases in the BA and CA-ROW segments. Sales and marketing expenses as a percentage of total consolidated revenue decreased to 9.6% and 9.2%, respectively, for the three and six month periods ended June 30, 2017, as compared with 11.4% and 10.9%, respectively, for the prior year periods.

We expect our sales and marketing expenses to increase in future periods as we expand our international marketing initiatives, commence service on aircraft operated by new and existing airline partners in both CA-NA and CA-ROW, increase advertising and promotional initiatives for new product offerings (particularly in BA) and expand programs to retain and support our existing users. In addition, the commission component of sales and marketing expenses at BA will fluctuate with equipment revenue. We expect consolidated sales and marketing expenses to decrease as a percentage of consolidated revenue over time.

General and Administrative Expenses:

General and administrative expenses increased 5.2% and 6.3% to $23.5 million and $46.1 million, respectively, for the three and six month periods ended June 30, 2017, as compared with $22.4 million and $43.4 million, respectively, for the prior year periods, due to increases in the CA-NA and CA-ROW segments, partially offset by a decrease in the BA segment. General and administrative expenses as a percentage of total consolidated revenue decreased to 13.6% and 13.6%, respectively, for the three and six month periods ended June 30, 2017, as compared with 15.2% and 15.0%, respectively, for the prior year periods.

The increase in the CA-NA and CA-ROW segments general and administrative expenses for the three and six month periods ended June 30, 2017 from the prior year periods was due primarily to an increase in personnel related expenses.

The decrease in the BA segment s general and administrative expenses for the three and six month periods ended June 30, 2017 from the prior year periods was due primarily to a decrease in personnel related expense.

We expect our general and administrative expenses to remain relatively consistent in future periods. However, we expect general and administrative expenses to decrease as a percentage of consolidated revenue as we realize economies of scale.

Segment Profit (Loss):

CA-NA s segment profit decreased 13.1% and 15.7% to $16.2 million and $27.4 million, respectively, for the three and six month periods ended June 30, 2017, as compared with $18.6 million and $32.5 million, respectively, for the prior year periods. The decrease in CA-NA s segment profit for the three and six month periods ended June 30, 2017 was due to increases in cost of service revenue, engineering, design and development and general and administrative expenses and a decrease in equipment revenue, offset in part by an increase in service revenue, as discussed above.

BA s segment profit increased 32.5% and 30.8% to $25.2 million and $51.3 million, respectively, for the three and six month periods ended June 30, 2017, as compared with $19.0 million and $39.2 million, respectively, for the prior year periods. The increase in BA s segment profit for the three and six month periods ended June 30, 2017 was due to an increase in service revenue, partially offset by an increase in operating expenses and a decrease in equipment revenue, as discussed above.

Table of Contents

CA-ROW s segment loss increased 34.8% and 34.7% to $31.4 million and $58.0 million, respectively, for the three and six month periods ended June 30, 2017, as compared with $23.3 million and $43.0 million, respectively, for the prior year periods. The increase in CA-ROW s segment loss for the three and six month periods ended June 30, 2017 was due to an increase in operating expenses, offset in part by an increase in service and equipment revenue, as discussed above.

Depreciation and Amortization:

Depreciation and amortization expense increased 22.7% and 23.8% to $30.6 million and $61.0 million, respectively, for the three and six month periods ended June 30, 2017, as compared with $24.9 million and $49.3 million, respectively, for the prior year periods, due to the increase in the number of aircraft outfitted with our airborne equipment by our CA-ROW and CA-NA segments.

We expect our depreciation and amortization expense to increase in future periods as we install our equipment on additional aircraft, install more expensive satellite-based equipment on aircraft and further expand our ground and satellite networks.

Other (Income) Expense:

Other (income) expense and percent change for the three and six month periods ended June 30, 2017 and 2016 were as follows *(in thousands, except for percent change)*:

	For the Three Months Ended June 30, 2017	For the Three Months Ended June 30, 2016	% Change 2017 over 2016
Interest income	$ (771)	$ (166)	364.5%
Interest expense	27,226	17,557	55.1%
Loss on extinguishment of debt		15,406	n/a
Adjustment to deferred financing costs		77	n/a
Other expense	56	3	1766.7%
Total	$ 26,511	$ 32,877	(19.4%)

	For the Six Months Ended June 30, 2017	For the Six Months Ended June 30, 2016	% Change 2017 over 2016
Interest income	$ (1,316)	$ (212)	520.8%
Interest expense	54,169	33,853	60.0%
Loss on extinguishment of debt		15,406	n/a
Adjustment to deferred financing costs		(792)	n/a
Other (income) expense	94	(171)	n/a
Total	$ 52,947	$ 48,084	10.1%

Total other expense was $26.5 million and $52.9 million, respectively, for the three and six month periods ended June 30, 2017, as compared to $32.9 million and $48.1 million, respectively, for the prior year periods. Interest expense increased during the three and six month periods ended June 30, 2017 as compared with the prior year periods due to higher average debt levels outstanding and higher average interest rates incurred during the current year as compared with the prior year. The increase in interest expense for the three and six month periods ended June 30, 2017, as compared to the prior year periods, was due to the issuance of the Original Senior Secured Notes in June 2016 and the Additional Notes in January 2017. The increase in interest expense associated with the Senior Secured Notes was partially offset by lower interest expense associated with the Amended and Restated Senior Term Facility, which was repaid in full in June 2016. See Note 8, Long-Term Debt and Other Liabilities, in our unaudited condensed consolidated financial statements for additional information. See Note 9, Interest Costs, in our unaudited condensed consolidated financial statements for additional information related to our interest expense. The three and six month periods ended June 30, 2016 included a loss on extinguishment of debt related to the repayment of the Amended and Restated Senior Term Facility and adjustment of deferred financing costs, while the current year did not include such activities.

We expect our interest expense to increase in 2017 as compared with 2016 due to higher average debt outstanding and higher average interest rates in 2017 as compared to 2016 because of the issuance of the Senior Secured Notes. Interest expense will also increase due to a full year of amortization of deferred financing fees associated with the Senior Secured Notes. These increases will be partially offset by the extinguishment of the Amended and Restated Senior Term Facility. See Note 8, Long-Term Debt and Other Liabilities, in our unaudited condensed consolidated financial statements for additional information.

Income Taxes:

The effective income tax rate for the three and six month periods ended June 30, 2017 and 2016 was (0.8%) and (0.7%), respectively, as compared with (0.6%) and (0.8%), respectively, for the prior year periods. Income tax expense recorded in each period was similar, with differences in pre-tax income causing the change in the effective tax rate. The difference between our effective tax rates and the U.S. federal statutory rate of 35% for the three and six month periods ended June 30, 2017 and 2016 was primarily due to the recording of a valuation allowance against our net deferred tax assets.

We expect our income tax provision to increase in future periods to the extent we become profitable.

Non-GAAP Measures

In our discussion below, we discuss certain non-GAAP financial measurements, including Adjusted EBITDA and Cash CAPEX as defined below. Management uses Adjusted EBITDA and Cash CAPEX for business planning purposes, including managing our business against internally projected results of operations and measuring our performance and liquidity. These supplemental performance measures also provide another basis for comparing period to period results by excluding potential differences caused by non-operational and unusual or non-recurring items. These supplemental performance measurements may vary from and may not be comparable to similarly titled measures by other companies. Adjusted EBITDA and Cash CAPEX are not recognized measurements under accounting principles generally accepted in the United States, or GAAP, and when analyzing our performance with Adjusted EBITDA or liquidity with Cash CAPEX, as applicable, investors should (i) evaluate each adjustment in our reconciliation to net loss attributable to common stock, and the explanatory footnotes regarding those adjustments, (ii) use Adjusted EBITDA in addition to, and not as an alternative to, net loss attributable to common stock as a measure of operating results, and (iii) use Cash CAPEX in addition to, and not as an alternative to, consolidated capital expenditures when evaluating our liquidity.

Definition and Reconciliation of Non-GAAP Measures

EBITDA represents net income (loss) attributable to common stock before income taxes, interest income, interest expense, depreciation expense and amortization of other intangible assets.

Adjusted EBITDA represents EBITDA adjusted for (i) stock-based compensation expense, (ii) amortization of deferred airborne lease incentives (iii) loss on extinguishment of debt and (iv) adjustment of deferred financing costs. Our management believes that the use of Adjusted EBITDA eliminates items that, management believes, have less bearing on our operating performance, thereby highlighting trends in our core business which may not otherwise be apparent. It also provides an assessment of controllable expenses, which are indicators management uses to determine whether current spending decisions need to be adjusted in order to meet financial goals and achieve optimal financial performance.

We believe the exclusion of stock-based compensation expense from Adjusted EBITDA is appropriate given the significant variation in expense that can result from using the Black-Scholes model to determine the fair value of such compensation. The fair value of our stock options is determined using the Black-Scholes model and varies based on fluctuations in the assumptions used in this model, including inputs that are not necessarily directly related to the performance of our business, such as the expected volatility, the risk-free interest rate and the expected life of the options. Therefore, we believe the exclusion of this cost provides a clearer view of the operating performance of our business. Further, stock option grants made at a certain price and point in time do not necessarily reflect how our business is performing at any particular time. While we believe that investors should have information about any dilutive effect of outstanding options and the cost of that compensation, we also believe that stockholders should have the ability to consider our performance using a non-GAAP financial measure that excludes these costs and that management uses to evaluate our business.

Table of Contents

We believe the exclusion of the amortization of deferred airborne lease incentives from Adjusted EBITDA is useful as it allows an investor to view operating performance across time periods in a manner consistent with how management measures segment profit and loss (see Note 14, Business Segments and Major Customers, for a description of segment profit (loss) in our unaudited condensed consolidated financial statements). Management evaluates segment profit and loss in this manner, excluding the amortization of deferred airborne lease incentives, because such presentation reflects operating decisions and activities from the current period, without regard to the prior period decision or the form of connectivity agreements. See Key Components of Consolidated Statements of Operations Cost of Service Revenue Commercial Aviation North America and Rest of World in our 2016 10-K for a discussion of the accounting treatment of deferred airborne lease incentives.

We believe it is useful to an understanding of our operating performance to exclude the loss on extinguishment of debt and adjustment of deferred financing costs from Adjusted EBITDA because of the non-recurring nature of these charges.

We also present Adjusted EBITDA as a supplemental performance measure because we believe that this measure provides investors, securities analysts and other users of our financial statements with important supplemental information with which to evaluate our performance and to enable them to assess our performance on the same basis as management.

Cash CAPEX represents capital expenditures net of airborne equipment proceeds received from the airlines. We believe Cash CAPEX provides a more representative indication of our liquidity requirements with respect to capital expenditures, as under certain agreements with our airline partners we are reimbursed for all or a substantial portion of the cost of our airborne equipment, thereby reducing our cash capital requirements.

Gogo Inc. and Subsidiaries

Reconciliation of GAAP to Non-GAAP Measures

(in thousands, except per share amounts)

(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Adjusted EBITDA:				
Net loss attributable to common stock (GAAP)	$ (44,209)	$ (40,194)	$ (85,576)	$ (64,300)
Interest expense	27,226	17,557	54,169	33,853
Interest income	(771)	(166)	(1,316)	(212)
Income tax provision	362	221	595	528
Depreciation and amortization	30,562	24,906	60,997	49,263
EBITDA	13,170	2,324	28,869	19,132
Stock-based compensation expense	5,394	3,788	9,724	7,986
Amortization of deferred airborne lease incentives	(8,630)	(7,241)	(17,978)	(12,885)

Loss on extinguishment of debt		15,406		15,406
Adjustment of deferred financing costs		77		(792)
Adjusted EBITDA	$ 9,934	$ 14,354	$ 20,615	$ 28,847
Cash CAPEX:				
Consolidated capital expenditures (GAAP) (1)	$ (74,135)	$ (47,615)	$ (145,743)	$ (85,041)
Change in deferred airborne lease incentives (2)	(111)	683	3,505	8,344
Amortization of deferred airborne lease incentives (2)	8,608	7,175	17,917	12,761
Cash CAPEX	$ (65,638)	$ (39,757)	$ (124,321)	$ (63,936)

(1) See unaudited condensed consolidated statements of cash flows.

(2) Excludes deferred airborne lease incentives and related amortization associated with STCs for the three and six month periods ended June 30, 2017 and 2016 as STC costs are expensed as incurred as part of Engineering, Design and Development.

Material limitations of Non-GAAP measures

Although EBITDA, Adjusted EBITDA and Cash CAPEX are measurements frequently used by investors and securities analysts in their evaluations of companies, EBITDA, Adjusted EBITDA and Cash CAPEX each have limitations as an analytical tool, and you should not consider them in isolation or as a substitute for, or more meaningful than, amounts determined in accordance with GAAP.

39

Table of Contents

Some of these limitations include:

- EBITDA and Adjusted EBITDA do not reflect interest income or expense;
- EBITDA and Adjusted EBITDA do not reflect cash requirements for our income taxes;
- EBITDA and Adjusted EBITDA do not reflect depreciation and amortization, which are significant and unavoidable operating costs given the level of capital expenditures needed to maintain our business;
- Adjusted EBITDA does not reflect non-cash components of employee compensation;
- Cash CAPEX does not reflect the full extent of capital investments we have made in our operations; and
- since other companies in our or related industries may calculate these measures differently from the way we do, their usefulness as comparative measures may be limited.

Table of Contents

Liquidity and Capital Resources

The following table presents a summary of our cash flow activity for the periods set forth below *(in thousands)*:

	For the Six Months Ended June 30,	
	2017	**2016**
Net cash provided by operating activities	$ 2,388	$ 24,361
Net cash used in investing activities	(90,007)	(244,236)
Net cash provided by financing activities	66,416	202,694
Effect of foreign exchange rate changes on cash	317	(233)
Net decrease in cash and cash equivalents	(20,886)	(17,414)
Cash and cash equivalents at the beginning of period	117,302	147,342
Cash and cash equivalents at the end of period	$ 96,416	$ 129,928
Supplemental information:		
Short-term investments	$ 283,241	$ 378,673

We have historically financed our growth and cash needs primarily through the issuance of common stock, non-convertible debt, senior convertible preferred stock, convertible debt, term facilities and cash from operating activities. We continually evaluate our ongoing capital needs in light of increasing demand for our services, capacity requirements, evolving technologies in our industry and related strategic, operational and technological opportunities. We actively consider opportunities to raise additional capital in the public and private markets utilizing one or more of the types of capital raising transactions through which we have historically financed our growth and cash needs, as well as other means of capital raising not previously used by us.

Liquidity:

Although we can provide no assurances, we currently believe that cash, cash equivalents and short-term investments on hand as of June 30, 2017 will be sufficient to meet our working capital and capital expenditure requirements for at least the next twelve months, including costs associated with installing our 2Ku and ATG-4 equipment on certain aircraft operated by our airline partners, continuing our international expansion and developing our next generation ATG solution. Excluding the impact of our initial public offering in June 2013, the Amended and Restated Senior Term Facility, the Convertible Notes and the Senior Secured Notes, we have not generated positive cash flows on a consolidated basis, and our ability to do so will depend in large part on our ability to increase revenue in each of our three business segments. In addition, our ability to generate positive cash flows from operating activities and the timing of certain capital and other necessary expenditures are subject to numerous variables, such as costs related to international expansion and execution of our current technology roadmap, including 2Ku, next generation ATG and other potential future technologies. We currently believe that cash on hand, comprised of cash, cash equivalents and short-term investments, and cash flows provided by operating activities and, if necessary, additional equity financings or the incurrence of additional debt, will be sufficient to meet our liquidity needs in the longer-term, including our continued international expansion and execution of our current technology roadmap. The Indenture governing our Senior Secured Notes contains covenants that limit the ability of GIH and its subsidiaries to incur additional indebtedness. Additionally, the Indenture governing the Senior Secured Notes limits the amount of cash GIH and its subsidiaries may distribute to us, including cash distributed to us to pay interest on the Convertible Notes, to pay any interest on indebtedness incurred, or pay dividends on preferred stock issued by us to refinance, replace, renew or refund the Convertible Notes. Further, market conditions and/or our financial performance may limit our access to additional sources of equity or debt financing. As a result, we may be unable to finance growth of our business to the extent that our cash on hand (including short-term investments) and cash generated through operating activities prove insufficient and we are unable to raise additional financing through the issuance of our equity or through permitted incurrences of debt by us or by GIH and its subsidiaries.

For additional information on our Senior Secured Notes, Convertible Notes, Amended and Restated Credit Agreement and Restricted Cash, please see Note 8, Long-Term Debt and Other Liabilities.

Table of Contents

Cash flows provided by Operating Activities:

The following table presents a summary of our cash flows from operating activities for the periods set forth below *(in thousands)*:

	For the Six Months Ended June 30,	
	2017	**2016**
Net loss	$ (85,576)	$ (64,300)
Non-cash charges and credits	85,666	83,878
Changes in operating assets and liabilities	2,298	4,783
Net cash provided by operating activities	$ 2,388	$ 24,361

For the six month period ended June 30, 2017, cash provided by operating activities was $2.4 million as compared with $24.4 million for the prior year period. The principal contributors to the change in operating cash flows were:

A $19.5 million decrease in net loss adjusted for non-cash charges and credits, and

A $2.5 million change in cash flows related to operating assets and liabilities resulting from:

A decrease in cash flows due to the following:

Changes in CA-NA s and BA s accounts receivable due to the timing of collections;

Changes in CA-NA s deferred revenue as deferred revenue balances increased during 2016 and decreased slightly during 2017;

Changes in CA-ROW s deferred airborne lease incentives due to more installations during 2016 as compared with 2017;

Changes in BA s accounts payable and accrued liabilities due primarily to the timing of payments; and

Changes in accrued interest due to the Senior Secured Notes being issued in June 2016, while accrued interest remained relatively flat in during 2017.

Offset in part by an increase in cash flows due to the following:

- Changes in all three segments prepaid expenses and other current assets. The change in CA-NA was due to the recognition of development services during 2017 that were paid in 2016. The change in BA was due to deposits made on certain inventory items during the first quarter of 2016, while no such payments were made during 2017. The change in CA-ROW was due to the timing of payments on satellite services; and

- Changes in CA-NA s and CA-ROW s accounts payable and accrued liabilities due primarily to the timing of payments.

We anticipate cash flows from changes in operating assets and liabilities to be impacted by deferred airborne lease incentives, which we estimate will range from $60 million to $70 million for the year ending December 31, 2017 and $40 million to $50 million for the year ended December 31, 2018. See Capital Expenditures below for further information.

Cash flows used in Investing Activities:

Cash used in investing activities is primarily for capital expenditures related to airborne equipment, cell site construction, software development, and data center upgrades. See Capital Expenditures below. Additionally, cash used in investing activities includes net changes in our short-term investments of $55.2 million and $159.2 million, respectively, for the six month period ended June 30, 2017 and 2016.

Cash flows provided by Financing Activities:

Cash provided by financing activities for the six month period ended June 30, 2017 was $66.4 million primarily due to the issuance of the Additional Senior Secured Notes with gross proceeds of $70.2 million, offset in part by the payment of debt issuance costs for the Additional Senior Secured Notes of $1.5 million and capital lease payments of $1.5 million.

Cash used in financing activities for the six month period ended June 30, 2016 was $202.7 million primarily due to the issuance of $525.0 million of Senior Secured Notes, partially offset by the payment in full of the Amended and Restated Credit Agreement totaling $310.1 million (including the early prepayment penalty of approximately $8.6 million), the payment of debt issuance costs for the Senior Secured Notes of $10.6 million and capital lease payments of $1.2 million.

Capital Expenditures

Our operations continue to require significant capital expenditures, primarily for technology development, equipment and capacity expansion. Capital expenditures for the CA-NA and CA-ROW segments include the purchase of airborne equipment, which correlates directly to the roll out and/or upgrade of service to our airline partners fleets. Capital spending is also associated with the expansion of our ATG network and data centers and includes site acquisition, design, permitting, network equipment and construction costs. We capitalize software development costs related to network technology solutions, the Gogo platform and new product/service offerings. We also capitalized costs related to the build out of our new office locations.

Capital expenditures for the six month periods ended June 30, 2017 and 2016 were $145.7 million and $85.0 million, respectively. The increase in capital expenditures was primarily due to an increase in airborne equipment purchases (as airborne equipment represents approximately 70% of our capital expense for the current year), primarily for the rollout of 2Ku, and to a lesser extent an increase in capitalized software.

We anticipate that capital expenditures for the year ending December 31, 2017 will range from $290 million to $330 million as we increase purchases of airborne equipment (including 2Ku) that when sold to the airlines will qualify as an operating lease of space, and begin the buildout of our next generation ATG network. We expect our capital expenditures, net of deferred airborne lease incentives, which we estimate will range from $60 million to $70 million, to range from $230 million to $260 million for the year ending December 31, 2017. We anticipate that capital expenditures for the year ending December 31, 2018 will range from $110 million to $170 million. We expect our capital expenditures, net of deferred airborne lease incentives, which we estimate will range from $40 million to $50 million, to range from $70 million to $120 million for the year ending December 31, 2018. The decrease in capital expenditures and related deferred airborne lease incentives in 2018 as compared with 2016 and 2017 primarily reflects our purchases of equipment in 2018 that, when sold to airlines, will qualify as sales rather than as operating leases of space on aircraft.

Contractual Commitments:

We have agreements with vendors to provide us with transponder and teleport satellite services. These agreements vary in length and amount and as of June 30, 2017 commit us to purchase transponder and teleport satellite services totaling approximately $41.7 million in 2017 (July 1 through December 31), $72.9 million in 2018, $79.1 million in 2019, $85.4 million in 2020, $75.9 million in 2021 and $303.0 million thereafter.

We have agreements with various vendors under which we have remaining commitments to purchase satellite-based systems, certifications and development services. Such commitments will become payable as we receive the equipment or certifications, or as development services are provided.

Leases and Cell Site Contracts: We have lease agreements relating to certain facilities and equipment, which are considered operating leases. Additionally, we have operating leases with wireless service providers for tower space and base station capacity on a volume usage basis (cell site leases), some of which provide for minimum annual payments. See Note 10, Leases, in our unaudited condensed consolidated financial statements for additional information.

For the airline agreements where the equipment transactions are accounted for as operating leases of space, the revenue share paid to our airline partners represents operating lease payments. They are deemed to be contingent rental payments, as the payments due to each airline are based on a percentage of our CA-NA and CA-ROW service revenue generated from that airline s passengers, which is unknown until realized. As such, we cannot estimate the lease payments due to an airline at the commencement of our contract with such airline. This rental expense is included in cost of service revenue and is offset by the amortization of the deferred airborne lease incentive discussed above. See Note 10, Leases, in our unaudited condensed consolidated financial statements for additional information.

Table of Contents

A contract with one of our airline partners requires us to provide the airline partner with cash rebates of $1.8 million in June 2017 and June 2018. We paid the 2017 rebate on June 13, 2017.

Indemnifications and Guarantees: In accordance with Delaware law, we indemnify our officers and directors for certain events or occurrences while the officer or director is, or was, serving at our request in such capacity. The maximum potential amount of future payments we could be required to make under this indemnification is uncertain and may be unlimited, depending upon circumstances. However, our Directors and Officers insurance does provide coverage for certain of these losses.

In the ordinary course of business we may occasionally enter into agreements pursuant to which we may be obligated to pay for the failure of performance of others, such as the use of corporate credit cards issued to employees. Based on historical experience, we believe that the risk of sustaining any material loss related to such guarantees is remote.

We have entered into a number of agreements, including our agreements with commercial airlines, pursuant to which we indemnify the other party for losses and expenses suffered or incurred in connection with any patent, copyright, or trademark infringement or misappropriation claim asserted by a third party with respect to our equipment or services. The maximum potential amount of future payments we could be required to make under these indemnification agreements is uncertain and is typically not limited by the terms of the agreements.

Table of Contents

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk is currently confined to our cash and cash equivalents, short-term investments and our debt. We have not used derivative financial instruments for speculation or trading purposes. The primary objectives of our investment activities are to preserve our capital for the purpose of funding operations while at the same time maximizing the income we receive from our investments without significantly increasing risk. To achieve these objectives, our investment policy allows us to maintain a portfolio of cash equivalents and short-term investments through a variety of securities, including U.S. Treasuries, U.S. Government Agency Securities, and Money Market Funds. Our cash and cash equivalents as of June 30, 2017 and December 31, 2016 primarily included amounts in bank checking accounts and Money Market Funds. We believe that a change in average interest rates would not materially affect our interest income and results of operations.

The risk inherent in our market risk sensitive instruments and positions is the potential loss arising from interest rates as discussed below. The sensitivity analyses presented do not consider the effects that such adverse changes may have on the overall economic activity, nor do they consider additional actions we may take to mitigate our exposure to such changes. Actual results may differ.

Interest: Our earnings are affected by changes in interest rates due to the impact those changes have on interest income generated from our cash, cash equivalents and short-term investments. Our cash and cash equivalents as of June 30, 2017 and December 31, 2016 included amounts in bank checking accounts and money market funds, and our short-term investments consist of U.S. Treasury bills. We believe we have minimal interest rate risk; a 10% change in the average interest rate on our portfolio would have reduced interest income for the three and six month periods ended June 30, 2017 and 2016 by an immaterial amount.

Inflation: We do not believe that inflation has had a material effect on our results of operations. However, there can be no assurance that our business will not be affected by inflation in the future.

Seasonality: Our results of operations for any interim period are not necessarily indicative of those for any other interim period for the entire year because the demand for air travel, including business travel, is subject to significant seasonal fluctuations. We generally expect overall passenger opportunity to be greater in the second and third quarters compared to the rest of the year due to an increase in leisure travel offset in part by a decrease in business travel during the summer months and holidays. We expect seasonality of the air transportation business to continue, which may affect our results of operations in any one period.

Table of Contents

ITEM 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Management, with the participation of our Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of June 30, 2017. Based upon this evaluation, our Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of June 30, 2017.

(b) Changes in Internal Control over Financial Reporting

There have been no changes to our internal control over financial reporting in connection with the evaluation required by Rules 13a-15(f) and 15d-15(f) under the Exchange Act during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

From time to time we may become involved in legal proceedings arising in the ordinary course of our business. We cannot predict with certainty the potential for or outcome of any future litigation. Regardless of the outcome of any particular litigation and the merits of any particular claim, litigation can have a material adverse impact on our company due to, among other reasons, any injunctive relief granted, which could inhibit our ability to operate our business, amounts paid as damages or in settlement of any such matter, diversion of management resources and defense costs.

ITEM 1A. Risk Factors

Except as set forth in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 as filed with the SEC on May 4, 2017, there have been no material changes to the risk factors previously disclosed in our 2016 10-K.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

a) Sales of Unregistered Securities

None.

b) Use of Proceeds from Public Offering of Common Stock

None.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

None.

ITEM 5. Other Information

ITEM 6. Exhibits

Exhibit Number	Description of Exhibits
10.1.47	Amendment #1, dated April 3, 2017, to the Statement of Work #1 to the 2Ku In-Flight Connectivity Services Agreement by and between Delta Air Lines, Inc. and Gogo LLC
10.1.48	Amendment #1, dated April 3, 2017, to Statement of Work #2 to the 2Ku In-Flight Connectivity Services Agreement by and between Delta Air Lines, Inc. and Gogo LLC
10.1.49	Amendment #3 to the 2Ku In-Flight Connectivity Services Agreement dated April 13, 2017 by and between Delta Air Lines, Inc. and Gogo LLC
10.1.50	Statement of Work #4, dated May 4, 2017, to the 2Ku In-Flight Connectivity Services Agreement by and between Delta Air Lines, Inc. and Gogo LLC
10.2.14#	Employment Agreement, by and between Gogo LLC and Barry Rowan, effective as of April 24, 2017 (incorporated by reference to Exhibit 10.2.14 to Form 10-Q filed on May 4, 2017)
10.2.15#	Change in Control Severance Agreement, dated as of April 24, 2017, by and between Gogo Inc. and Barry Rowan (incorporated by reference to Exhibit 10.2.15 to Form 10-Q filed on May 4, 2017)
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1 *	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2 *	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

Certain provisions of this exhibit have been omitted and separately filed with the Securities and Exchange Commission pursuant to a request for confidential treatment.

\# Management contract or compensatory plan or arrangement

* This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Registrant under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 7, 2017

Gogo Inc.

/s/ Michael Small
Michael Small
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Barry Rowan
Barry Rowan
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)