UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One):

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
For the quarterly period ended September 30, 2021

OR

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

Commission File Number: 001-35975

Gogo Inc.
(Exact name of registrant as specified in its charter)

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

111 North Canal St., Suite 1400
Chicago, IL 60606
(Address of principal executive offices)

Telephone Number (303) 301-3271
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Trading Symbol	Name of Each Exchange on Which Registered
Common stock, par value $0.0001 per share	GOGO	NASDAQ Global Select Market
Preferred Stock Purchase Rights	GOGO	NASDAQ Global Select Market

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 every Interactive Data File required to be submitted 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 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	☐	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 October 29, 2021, 109,953,885 shares of $0.0001 par value common stock were outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Gogo Inc. and Subsidiaries
Unaudited Condensed Consolidated Balance Sheets
(in thousands, except share and per share data)

	September 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 133,233	$ 435,345
Accounts receivable, net of allowances of $711 and $1,044, respectively	40,354	39,833
Inventories	29,964	28,114
Prepaid expenses and other current assets	36,921	8,934
Total current assets	240,472	512,226
Non-current assets:		
Property and equipment, net	58,403	63,493
Intangible assets, net	48,162	52,693
Operating lease right-of-use assets	71,411	33,690
Other non-current assets, net of allowances of $431 and $375, respectively	24,757	11,486
Total non-current assets	202,733	161,362
Total assets	$ 443,205	$ 673,588
Liabilities and stockholders' deficit		
Current liabilities:		
Accounts payable	$ 13,974	$ 11,013
Accrued liabilities	94,816	83,009
Deferred revenue	2,257	3,113
Current portion of long-term debt	109,348	341,000
Total current liabilities	220,395	438,135
Non-current liabilities:		
Long-term debt	695,894	827,968
Non-current operating lease liabilities	77,774	38,018
Other non-current liabilities	9,379	10,581
Total non-current liabilities	783,047	876,567
Total liabilities	1,003,442	1,314,702
Stockholders' deficit		
Common stock, par value $0.0001 per share; 500,000,000 shares authorized at September 30, 2021 and December 31, 2020; 116,541,881 and 91,086,191 shares issued at September 30, 2021 and December 31, 2020, respectively; and 109,926,367 and 85,990,499 shares outstanding at September 30, 2021 and December 31, 2020, respectively	11	9
Additional paid-in capital	1,240,231	1,088,590
Accumulated other comprehensive loss	(1,339)	(1,013)
Treasury stock, at cost	(128,803)	(98,857)
Accumulated deficit	(1,670,337)	(1,629,843)
Total stockholders' deficit	(560,237)	(641,114)
Total liabilities and stockholders' deficit	$ 443,205	$ 673,588

See the Notes to Unaudited Condensed Consolidated Financial Statements

Gogo Inc. and Subsidiaries
Unaudited Condensed Consolidated Statements of Operations
(in thousands, except per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue:				
Service revenue	$ 66,204	$ 53,324	$ 190,326	$ 155,083
Equipment revenue	20,968	13,201	53,090	37,001
Total revenue	87,172	66,525	243,416	192,084
Operating expenses:				
Cost of service revenue	12,985	11,635	42,257	32,809
Cost of equipment revenue	12,368	8,543	31,582	24,036
Engineering, design and development	5,958	4,510	17,992	17,365
Sales and marketing	5,538	3,758	14,093	10,724
General and administrative	15,250	12,539	37,369	36,378
Depreciation and amortization	4,160	3,320	11,824	10,117
Total operating expenses	56,259	44,305	155,117	131,429
Operating income	30,913	22,220	88,299	60,655
Other (income) expense:				
Interest income	(34)	(36)	(145)	(689)
Interest expense	10,943	31,199	56,577	93,595
Loss on extinguishment of debt and settlement of convertible notes	—	—	83,961	—
Other (income) expense	143	12	11	12
Total other expense	11,052	31,175	140,404	92,918
Income (loss) from continuing operations before income taxes	19,861	(8,955)	(52,105)	(32,263)
Income tax provision (benefit)	131	(65)	443	216
Net income (loss) from continuing operations	19,730	(8,890)	(52,548)	(32,479)
Net loss from discontinued operations, net of tax	(8,771)	(71,234)	(13,426)	(218,402)
Net income (loss)	$ 10,959	$ (80,124)	$ (65,974)	$ (250,881)
Net income (loss) attributable to common stock per share - basic:				
Continuing operations	$ 0.18	$ (0.11)	$ (0.52)	$ (0.40)
Discontinued operations	(0.08)	(0.86)	(0.13)	(2.67)
Net income (loss) attributable to common stock per share - basic	$ 0.10	$ (0.97)	$ (0.65)	$ (3.07)
Net income (loss) attributable to common stock per share - diluted:				
Continuing operations	$ 0.16	$ (0.11)	$ (0.52)	$ (0.40)
Discontinued operations	—	(0.86)	(0.13)	(2.67)
Net income (loss) attributable to common stock per share - diluted	$ 0.16	$ (0.97)	$ (0.65)	$ (3.07)
Weighted average number of shares				
Basic	109,345	82,707	101,189	81,892
Diluted	133,160	82,707	101,189	81,892

See the Notes to Unaudited Condensed Consolidated Financial Statements

Gogo Inc. and Subsidiaries
Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)
(in thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income (loss)	$ 10,959	$ (80,124)	$ (65,974)	$ (250,881)
Other comprehensive income (loss), net of tax				
Currency translation adjustments	(32)	535	106	(2,067)
Cash flow hedges:				
Net unrealized loss	(2)	—	(432)	—
Amount realized and reclassified to earnings	—	—	—	—
Changes in fair value of cash flow hedges	(2)	—	(432)	—
Other comprehensive income (loss), net of tax	(34)	535	(326)	(2,067)
Comprehensive income (loss)	$ 10,925	$ (79,589)	$ (66,300)	$ (252,948)

See the Notes to Unaudited Condensed Consolidated Financial Statements

Gogo Inc. and Subsidiaries
Unaudited Condensed Consolidated Statements of Cash Flows
(in thousands)

	For the Nine Months Ended September 30, 2021	2020
Operating activities from continuing operations:		
Net loss	$ (52,548)	$ (32,479)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	11,824	10,117
(Gain) Loss on asset disposals, abandonments and write-downs	121	64
Provision for expected credit losses	55	1,048
Deferred income taxes	147	134
Stock-based compensation expense	10,144	8,283
Amortization of deferred financing costs	3,718	4,355
Accretion and amortization of debt discount and premium	303	10,311
Losses on extinguishment of debt and settlement of convertible notes	83,961	—
Changes in operating assets and liabilities:		
Accounts receivable	(520)	8,619
Inventories	(1,850)	98
Prepaid expenses and other current assets	(26,794)	1,487
Contract assets	(4,689)	(7,581)
Accounts payable	2,474	577
Accrued liabilities	16,245	(12,193)
Deferred revenue	(849)	277
Accrued interest	(7,034)	26,379
Other non-current assets and liabilities	1,647	819
Net cash provided by operating activities from continuing operations	36,355	20,315
Investing activities from continuing operations:		
Proceeds from sale of property and equipment	1,000	—
Purchases of property and equipment	(2,833)	(448)
Acquisition of intangible assets—capitalized software	(1,171)	(5,915)
Purchase of interest rate cap	(8,629)	—
Net cash used in investing activities from continuing operations	(11,633)	(6,363)
Financing activities from continuing operations:		
Proceeds from credit facility draw	—	26,000
Repayments of amounts drawn from credit facility	—	(6,000)
Repurchase of convertible notes	—	(2,498)
Redemption of senior secured notes	(1,023,146)	—
Proceeds from term loan, net of discount	721,375	—
Payments on term loan	(1,813)	—
Payment of debt issuance costs	(20,251)	—
Payments on financing leases	(154)	(33)
Stock-based compensation activity	(2,234)	(1,428)
Net cash provided by (used in) financing activities from continuing operations	(326,223)	16,041
Cash flows from discontinued operations:		
Cash used in operating activities	(809)	(56,009)
Cash used in investing activities	—	(28,152)
Cash used in financing activities	—	(344)
Net cash used in discontinued operations	(809)	(84,505)
Effect of exchange rate changes on cash	28	(19)
Decrease in cash, cash equivalents and restricted cash	(302,282)	(54,531)
Cash, cash equivalents and restricted cash at beginning of period	435,870	177,675
Cash, cash equivalents and restricted cash at end of period	$ 133,588	$ 123,144
Cash, cash equivalents and restricted cash at end of period	$ 133,588	$ 123,144
Less: current restricted cash	25	560
Less: non-current restricted cash	330	5,101
Cash and cash equivalents at end of period	$ 133,233	$ 117,483
Supplemental Cash Flow Information:		
Cash paid for interest	$ 59,660	$ 53,230
Cash paid for taxes	326	311

See the Notes to Unaudited Condensed Consolidated Financial Statements

Gogo Inc. and Subsidiaries
Unaudited Condensed Consolidated Statements of Stockholders' Equity (Deficit)
(in thousands, except share data)

For the Three Months Ended September 30, 2021

	Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Accumulated	Treasury Stock		
	Shares	Par Value	Capital	Loss	Deficit	Shares	Amount	Total
Balance at June 30, 2021	109,695,594	$ 11	$ 1,234,111	$ (1,305)	$ (1,681,296)	6,615,449	$ (128,803)	$ (577,282)
Net income	—	—	—	—	10,959	—	—	10,959
Currency translation adjustments, net of tax	—	—	—	(32)	—	—	—	(32)
Fair value adjustments of cash flow hedge, net of tax	—	—	—	(2)	—	—	—	(2)
Stock-based compensation expense	—	—	5,601	—	—	—	—	5,601
Issuance of common stock upon exercise of stock options	142,545	—	360	—	—	—	—	360
Issuance of common stock upon vesting of restricted stock units and restricted stock awards	77,568	—	—	—	—	—	—	—
Tax withholding related to vesting of restricted stock units	—	—	35	—	—	—	—	35
Issuance of common stock in connection with employee stock purchase plan	10,660	—	124	—	—	—	—	124
Settlement of convertible notes	—	—	—	—	—	—	—	—
Settlement of prepaid forward shares	—	—	—	—	—	—	—	—
Balance at September 30, 2021	109,926,367	$ 11	$ 1,240,231	$ (1,339)	$ (1,670,337)	6,615,449	$ (128,803)	$ (560,237)

For the Three Months Ended September 30, 2020

	Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Accumulated	Treasury Stock		
	Shares	Par Value	Capital	Loss	Deficit	Shares	Amount	Total
Balance at June 30, 2020	84,032,343	$ 8	$ 1,085,254	$ (4,858)	$ (1,550,564)	5,077,400	$ (98,857)	$ (569,017)
Net loss	—	—	—	—	(80,124)	—	—	(80,124)
Currency translation adjustments, net of tax	—	—	—	535	—	—	—	535
Stock-based compensation expense	—	—	2,577	—	—	—	—	2,577
Issuance of common stock upon exercise of stock options	38,383	—	102	—	—	—	—	102
Issuance of common stock upon vesting of restricted stock units and restricted stock awards	1,066,909	—	—	—	—	—	—	—
Tax withholding related to vesting of restricted stock units	—	—	(1,464)	—	—	—	—	(1,464)
Issuance of common stock in connection with employee stock purchase plan	99,647	1	196	—	—	—	—	197
Balance at September 30, 2020	85,237,282	$ 9	$ 1,086,665	$ (4,323)	$ (1,630,688)	5,077,400	$ (98,857)	$ (647,194)

	For the Nine Months Ended September 30, 2021							
	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury Stock		Total
	Shares	Par Value				Shares	Amount	
Balance at January 1, 2021	85,990,499	$ 9	$ 1,088,590	$ (1,013)	$ (1,629,843)	5,077,400	$ (98,857)	$ (641,114)
Net loss	—	—	—	—	(65,974)	—	—	(65,974)
Currency translation adjustments, net of tax	—	—	—	106	—	—	—	106
Fair value adjustments of cash flow hedge, net of tax	—	—	—	(432)	—	—	—	(432)
Stock-based compensation expense	—	—	16,913	—	—	—	—	16,913
Issuance of common stock upon exercise of stock options	354,942	—	904	—	—	—	—	904
Issuance of common stock upon vesting of restricted stock units and restricted stock awards	731,640	—	—	—	—	—	—	—
Tax withholding related to vesting of restricted stock units	—	—	(3,509)	—	—	—	—	(3,509)
Issuance of common stock in connection with employee stock purchase plan	34,329	—	371	—	—	—	—	371
Settlement of convertible notes	24,353,006	2	154,439	—	—	—	—	154,441
Settlement of prepaid forward shares	(1,538,049)	—	29,946	—	—	1,538,049	(29,946)	—
Impact of the adoption of ASU 2020-06	—	—	(47,423)	—	25,480	—	—	(21,943)
Balance at September 30, 2021	109,926,367	$ 11	$ 1,240,231	$ (1,339)	$ (1,670,337)	6,615,449	$ (128,803)	$ (560,237)

	For the Nine Months Ended September 30,2020							
	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury Stock		Total
	Shares	Par Value				Shares	Amount	
Balance at January 1, 2020	88,240,877	$ 9	$ 979,499	$ (2,256)	$ (1,376,142)	—	$ —	$ (398,890)
Net loss	—	—	—	—	(250,881)	—	—	(250,881)
Currency translation adjustments, net of tax	—	—	—	(2,067)	—	—	—	(2,067)
Stock-based compensation expense	—	—	9,736	—	—	—	—	9,736
Issuance of common stock upon exercise of stock options	38,383	—	102	—	—	—	—	102
Issuance of common stock upon vesting of restricted stock units and restricted stock awards	1,708,337	—	—	—	—	—	—	—
Tax withholding related to vesting of restricted stock units	—	—	(2,273)	—	—	—	—	(2,273)
Issuance of common stock in connection with employee stock purchase plan	327,085	1	743	—	—	—	—	744
Settlement of prepaid forward shares	(5,077,400)	(1)	98,858	—	—	5,077,400	(98,857)	—
Impact of the adoption of ASU 2016-13	—	—	—	—	(3,665)	—	—	(3,665)
Balance at September 30, 2020	85,237,282	$ 9	$ 1,086,665	$ (4,323)	$ (1,630,688)	5,077,400	$ (98,857)	$ (647,194)

See the Notes to Unaudited Condensed Consolidated Financial Statements

1. Basis of Presentation

The Business - Gogo Inc. ("Gogo," the "Company," "we," "us," "our") is the world's largest provider of broadband connectivity services for the business aviation market. Our mission is to provide ground-like connectivity to every passenger on every flight around the globe, enabling superior passenger experiences and efficient flight operations. To accomplish our mission, we design, build and operate dedicated air-to-ground ("ATG") networks, engineer and maintain in-flight systems of proprietary hardware and software, and deliver customizable connectivity and wireless entertainment services and global support capabilities to our aviation partners. Our services include narrowband satellite-based voice and data services through our strategic alliances with satellite providers.

On December 1, 2020, we completed the previously announced sale of our Commercial Aviation ("CA") business to a subsidiary of Intelsat Jackson Holdings S.A. ("Intelsat") for a purchase price of $400 million in cash, subject to certain adjustments (the "Transaction").

At the closing of the Transaction, the parties entered into certain ancillary agreements, including a transition services agreement, an intellectual property license agreement and commercial agreements. These agreements include an ATG network sharing agreement, pursuant to which we provide certain in-flight connectivity services on our current ATG network and, when available, our Gogo 5G network, subject to certain revenue sharing obligations. Under the ATG network sharing agreement, Intelsat will have exclusive access to the ATG network for commercial aviation in North America, subject to minimum revenue guarantees starting at $5 million in the first year of the agreement.

As a result of the Transaction, the CA business is reported in discontinued operations and all periods presented in this Form 10-Q have been conformed to present the CA business as a discontinued operation. We report the financial results of discontinued operations separately from continuing operations to distinguish the financial impact of disposal transactions from ongoing operations. Discontinued operations reporting occurs only when the disposal of a component or a group of components (i) meets the held-for-sale classification criteria or is disposed of by sale or other than by sale, and (ii) represents a strategic shift that will have a major effect on our operations and financial results. The results of operations and cash flows of a discontinued operation are restated for all comparative periods presented.

Unless otherwise noted, discussion in these Notes to Unaudited Condensed Consolidated Financial Statements refers to our continuing operations. Refer to Note 2, "Discontinued Operations" for further information.

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, 2020 as filed with the Securities and Exchange Commission ("SEC") on March 11, 2021 (the "2020 10-K"). These Unaudited Condensed Consolidated Financial Statements reflect, in the opinion of management, all material adjustments (which include normal recurring adjustments) necessary to fairly state, in all material respects, our financial position, results of operations and cash flows for the periods presented.

The results of operations and cash flows for the three- and nine-month periods ended September 30, 2021 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2021.

We had one class of common stock outstanding as of September 30, 2021 and December 31, 2020.

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 as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates the significant estimates and bases such estimates on historical experience and various other assumptions believed to be reasonable under the circumstances. However, actual results could differ materially from those estimates.

Reclassifications - To conform to the current-year presentation, certain amounts in our Unaudited Condensed Consolidated Statements of Cash Flows for the nine-month period ended September 30, 2020 have been reclassified. Warranty reserves of $0.5 million have been combined in Accrued liabilities. Right-of-use assets and operating lease liabilities of $0.9 million have been combined into two captions: $0.4 million in Accrued liabilities and $0.5 million in Other long-term assets and liabilities.

2. Discontinued Operations

As discussed in Note 1, "Basis of Presentation," on December 1, 2020, we completed the sale of our CA business to Intelsat. As a result of the Transaction, the CA business is reported for all periods as discontinued operations.

The following table summarizes the results of discontinued operations which are presented as Net loss from discontinued operations in our Unaudited Condensed Consolidated Statements of Operations *(in thousands)*:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue:				
Service revenue	$ —	$ 40,498	$ —	$ 163,800
Equipment revenue	—	3,496	—	35,750
Total revenue	—	43,994	—	199,550
Operating expenses:				
Cost of service revenue	—	29,530	—	121,334
Cost of equipment revenue	—	5,984	—	31,907
Engineering, design and development	—	16,285	—	41,702
Sales and marketing	—	5,742	—	14,308
General and administrative	8,871	11,306	13,426	37,138
Impairment of long-lived assets	—	—	—	47,376
Depreciation and amortization	—	45,666	—	120,229
Total operating expenses	8,871	114,513	13,426	413,994
Operating loss	(8,871)	(70,519)	(13,426)	(214,444)
Total other (income) expense	—	315	—	3,565
Loss before income taxes	(8,871)	(70,834)	(13,426)	(218,009)
Income tax provision (benefit)	(100)	400	—	393
Net loss from discontinued operations, net of tax	$ (8,771)	$ (71,234)	$ (13,426)	$ (218,402)

Gain on sale – Upon the closing of the Transaction on December 1, 2020, we received initial gross proceeds of $386.3 million, which reflected the $400.0 million purchase price, adjusted for cash, debt, transaction expenses and working capital. The final purchase price remained subject to change due to customary post-closing purchase price adjustment procedures set forth in the purchase and sale agreement between Gogo and Intelsat that were not yet complete. In February 2021, Intelsat delivered a draft closing statement that would reduce the working capital portion of the purchase price computation by $9.4 million, which would result in Gogo returning to Intelsat $9.4 million of the initial gross proceeds. Gogo disputed certain items in Intelsat's draft closing statement and in accordance with the terms of the purchase and sale agreement the parties submitted the disputed items to an independent accounting firm for resolution. As the post-closing purchase price adjustment was not yet finalized and therefore represented a contingent gain, $9.4 million was recorded as a deferred gain on sale included within Accrued liabilities as of September 30, 2021. During December 2020, we recognized within Gain on sale of CA business a pretax gain on sale of $38.0 million, computed as the $386.3 million of initial gross proceeds less (i) the potential $9.4 million post-closing purchase price adjustment not yet finalized, (ii) the carrying value of the assets and liabilities transferred in the Transaction and (iii) Transaction-related costs. In October 2021, the independent accounting firm engaged to resolve the working capital matter determined the final amount of the working capital adjustments to be $7.8 million. In the fourth quarter of 2021, Gogo will pay Intelsat the $7.8 million and recognize an additional Gain on sale of CA business of $1.6 million.

Stock-based compensation – In August 2020, the Compensation Committee of our Board of Directors (the "Compensation Committee") approved modifications to the vesting conditions and exercise periods of outstanding equity compensation awards held by certain of our then-current employees who became employees of Intelsat in the Transaction. These modifications became effective upon the consummation of the Transaction. Pursuant to such modifications, the options and restricted stock units ("RSUs") held by Intelsat employees generally vest on the earlier of (i) the original vesting date or (ii) November 30, 2021; provided that the employee does not voluntarily resign from and is not terminated for cause by Intelsat prior to such date. Certain of these awards vest based on conditions that are not classified as a service, market or performance condition and as a result such awards are classified as a liability. Other than mark-to-market accounting adjustments, all costs related to stock-based compensation for our prior employees who became employees of Intelsat in the Transaction were recognized as of December 31, 2020. During the three- and nine-month periods ended September 30, 2021, $0.2 million and $6.8 million, respectively, was reclassified from Accrued liabilities to Additional paid-in capital as the awards vested during the respective periods.

The following is a summary of our stock-based compensation expense by operating expense line contained within the results of discontinued operations *(in thousands)*:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Cost of service revenue	$ —	$ 2,259	$ —	$ 3,066
Engineering, design and development	—	2,712	—	3,735
Sales and marketing	—	2,141	—	2,957
General and administrative	8,862	1,409	12,717	2,319
Total stock-based compensation expense	$ 8,862	$ 8,521	$ 12,717	$ 12,077

For additional information on our stock-based compensation plans, see Note 17, "Stock-Based Compensation and 401(k) Plan."

Other Costs Classified to Discontinued Operations – During the three- and nine-month periods ended September 30, 2021, we incurred an immaterial amount and $0.7 million, respectively, of additional costs (exclusive of the stock-based compensation expense noted above and income tax benefit) primarily due to employer-paid taxes arising from the exercise of stock options by former employees now employed by Intelsat.

3. Recent Accounting Pronouncements

The Company considers the applicability and impact of all Accounting Standards Updates (ASUs) issued by the Financial Accounting Standards Board (FASB). ASUs not listed below were assessed and determined to be either not applicable or expected to have minimal impact on our Condensed Consolidated Financial Statements.

Accounting standards adopted:

On January 1, 2021, we adopted ASU 2020-06, *Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity ("ASU 2020-06").* ASU 2020-06 simplifies the accounting for certain convertible instruments by removing the separation models for convertible debt with a cash conversion feature or convertible instruments with a beneficial conversion feature. As a result, convertible debt instruments will be reported as a single liability instrument with no separate accounting for embedded conversion features. Additionally, ASU 2020-06 amends the diluted earnings per share calculation for convertible instruments by requiring the use of the if-converted method. The treasury stock method is no longer available. This standard is effective beginning on January 1, 2022, with early adoption permitted. Adoption of the standard requires using either a modified retrospective or a full retrospective approach. We elected to early adopt ASU 2020-06 using the modified retrospective approach.

The cumulative impact of using the modified retrospective approach for the adoption of ASU 2020-06 on our Unaudited Condensed Consolidated Balance Sheets as of January 1, 2021 is summarized below:

	Balance at December 31, 2020	Impact of ASU 2020-06	Balances with Adoption of ASU 2020-06
Liabilities			
Long-term debt	$ 827,968	$ 21,943	$ 849,911
Equity			
Additional paid-in capital	$ 1,088,590	$ (47,423)	$ 1,041,167
Accumulated deficit	$ (1,629,843)	$ 25,480	$ (1,604,363)

On January 1, 2021, we adopted Accounting Standards Update No. 2019-12 – *Income Taxes (Topic 740) Simplifying the Accounting for Income Taxes* ("ASU 2019-12"). The amendments in ASU 2019-12 eliminate certain exceptions to the incremental approach for intraperiod tax allocation and interim period income tax accounting for year-to-date losses that exceed projected losses. ASU 2019-12 also clarifies and simplifies other aspects of the accounting for income taxes. Adoption of this standard did not have a material impact on our Unaudited Condensed Consolidated Financial Statements.

4. Revenue Recognition

Remaining performance obligations

As of September 30, 2021, the aggregate amount of the transaction price in our contracts allocated to the remaining unsatisfied performance obligations was approximately $90 million. The remaining unsatisfied performance obligations primarily represent connectivity and entertainment service revenues which are recognized as services are provided, which is expected to occur through the remaining term of the contract. We have excluded from this amount consideration from contracts that have an original duration of one year or less.

Disaggregation of revenue

The following table presents our revenue disaggregated by category *(in thousands)*:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Service revenue				
Connectivity	$ 65,185	$ 52,607	$ 187,641	$ 153,029
Entertainment and other	1,019	717	2,685	2,054
Total service revenue	$ 66,204	$ 53,324	$ 190,326	$ 155,083
Equipment revenue				
ATG	$ 17,554	$ 10,785	$ 42,005	$ 27,285
Satellite	2,249	2,176	8,775	9,068
Other	1,165	240	2,310	648
Total equipment revenue	$ 20,968	$ 13,201	$ 53,090	$ 37,001
Customer type				
Aircraft owner/operator/service provider	$ 66,204	$ 53,324	$ 190,326	$ 155,083
OEM and aftermarket dealer	20,968	13,201	53,090	37,001
Total revenue	$ 87,172	$ 66,525	$ 243,416	$ 192,084

Contract balances

Our current and non-current deferred revenue balances totaled $2.3 million and $3.1 million as of September 30, 2021 and December 31, 2020, respectively. Deferred revenue includes, among other things, fees paid for equipment and subscription connectivity products.

Our current and non-current contract asset balances totaled $16.8 million and $12.2 million as of September 30, 2021 and December 31, 2020, respectively. Contract assets represent the aggregate amount of revenue recognized in excess of billings primarily for certain sales programs.

Major Customers

No customer accounted for more than 10% of revenue during the three- and nine-month periods ended September 30, 2021 and 2020 and no customer accounted for more than 10% of accounts receivable as of September 30, 2021 or December 31, 2020.

5. Earnings (Loss) Per Share

Basic and diluted earnings (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 10, "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 will be allocated between common shares and participating securities on a one-to-one basis. 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. Additionally, the calculation of weighted average shares outstanding as of September 30, 2021 and 2020 excludes approximately 0.6 million and 2.1 million shares, respectively, associated with the Forward Transactions.

The diluted earnings (loss) per share calculations exclude the effect of stock options, deferred stock units, restricted stock units and convertible notes when the computation is anti-dilutive. For the three-month period ended September 30, 2021, the weighted average number of shares excluded from the computation was 0.4 million shares. As a result of the net loss for the nine-month period ended September 30, 2021, and the three- and nine-month periods ended September 30, 2020, all of the outstanding shares of common stock underlying stock options, deferred stock units and restricted stock units were excluded from the computation of diluted shares outstanding because they were anti-dilutive.

The following table sets forth the computation of basic and diluted earnings per share for the three- and nine-month periods ended September 30, 2021 and 2020; however, for the reasons described above, the shares of common stock associated with the Forward Transactions are excluded from the computation of basic earnings per share (*in thousands, except per share amounts*):

	For the Three Months Ended September 30,					
	2021			2020		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net income (loss) from continuing operations	$ 19,730			$ (8,890)		
Less: Participation rights on Forward Transactions allocated to continuing operations	103			—		
Basic Earnings (Loss) Per Share from Continuing Operations						
Undistributed income (loss) from continuing operations	$ 19,627	109,345	$ 0.18	$ (8,890)	82,707	$ (0.11)
Effect of Dilutive Securities from Continuing Operations						
Stock-based compensation	—	6,684		—	—	
2022 Convertible Notes	1,809	17,131		—	—	
Diluted Earnings (Loss) Per Share from Continuing Operations						
Undistributed income (loss) from continuing operations and assumed conversions	$ 21,436	133,160	$ 0.16	$ (8,890)	82,707	$ (0.11)
Net loss from discontinued operations	$ (8,771)			$ (71,234)		
Less: Participation rights on Forward Transactions allocated to discontinued operations	(46)			—		
Basic Earnings (Loss) Per Share from Discontinued Operations						
Undistributed loss from discontinued operations	$ (8,725)	109,345	$ (0.08)	$ (71,234)	82,707	$ (0.86)
Effect of Dilutive Securities from Discontinued Operations						
Stock-based compensation	8,861	6,684		—	—	
2022 Convertible Notes	—	17,131		—	—	
Diluted Earnings (Loss) Per Share from Discontinued Operations						
Undistributed loss from discontinued operations and assumed conversions	$ 136	133,160	$ —	$ (71,234)	82,707	$ (0.86)
Earnings (loss) per share - basic			$ 0.10			$ (0.97)
Earnings (loss) per share - diluted			$ 0.16			$ (0.97)

	For the Nine Months Ended September 30,					
	2021			2020		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net loss from continuing operations	$ (52,548)			$ (32,479)		
Less: Participation rights on Forward Transactions allocated to continuing operations	—			—		
Basic Loss Per Share from Continuing Operations						
Undistributed loss from continuing operations	$ (52,548)	101,189	$ (0.52)	$ (32,479)	81,892	$ (0.40)
Effect of Dilutive Securities from Continuing Operations						
Stock-based compensation	—	—		—	—	
2022 Convertible Notes	—	—		—	—	
Diluted Loss Per Share from Continuing Operations						
Undistributed loss from continuing operations and assumed conversions	$ (52,548)	101,189	$ (0.52)	$ (32,479)	81,892	$ (0.40)
Net loss from discontinued operations	$ (13,426)			$ (218,402)		
Less: Participation rights on Forward Transactions allocated to discontinued operations	—			—		
Basic Loss Per Share from Discontinued Operations						
Undistributed loss from discontinued operations	$ (13,426)	101,189	$ (0.13)	$ (218,402)	81,892	$ (2.67)

Effect of Dilutive Securities from Discontinued Operations						
Stock-based compensation	—	—		—	—	
2022 Convertible Notes	—	—		—	—	
Diluted Loss Per Share from Discontinued Operations						
Undistributed loss from discontinued operations and assumed conversions	$ (13,426)	101,189	$ (0.13)	$ (218,402)	81,892	$ (2.67)
Loss per share - basic			$ (0.65)			$ (3.07)
Loss per share - diluted			$ (0.65)			$ (3.07)

6. Inventories

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

Inventories as of September 30, 2021 and December 31, 2020 were as follows (*in thousands*):

	September 30, 2021	December 31, 2020
Work-in-process component parts	$ 19,430	$ 15,405
Finished goods	10,534	12,709
Total inventory	$ 29,964	$ 28,114

7. Composition of Certain Balance Sheet Accounts

Prepaid expenses and other current assets as of September 30, 2021 and December 31, 2020 were as follows (*in thousands*):

	September 30, 2021	December 31, 2020
Contract assets	$ 3,994	$ 2,417
Prepaid inventories	3,340	124
Insurance receivable *(1)*	17,300	—
Vendor receivable	2,274	—
Tenant improvement allowance receivables	1,936	—
Other	8,077	6,393
Total prepaid expenses and other current assets	$ 36,921	$ 8,934

(1) See Note 14, "Commitments and Contingencies," for additional information.

Property and equipment as of September 30, 2021 and December 31, 2020 were as follows (*in thousands*):

	September 30, 2021	December 31, 2020
Office equipment, furniture, fixtures and other	$ 12,007	$ 10,986
Leasehold improvements	12,067	12,012
Network equipment	137,917	139,884
	161,991	162,882
Accumulated depreciation	(103,588)	(99,389)
Total property and equipment, net	$ 58,403	$ 63,493

Other non-current assets as of September 30, 2021 and December 31, 2020 were as follows (*in thousands*):

	September 30, 2021	December 31, 2020
Contract assets, net of allowances of $431 and $375, respectively	$ 12,831	$ 9,775
Interest rate cap	7,940	—
Revolving credit facility deferred financing costs	1,988	—
Other	1,998	1,711
Total other non-current assets	$ 24,757	$ 11,486

Accrued liabilities as of September 30, 2021 and December 31, 2020 were as follows (*in thousands*):

	September 30, 2021	December 31, 2020
Accrued interest	$ 7,801	$ 17,836
Employee compensation and benefits *(1)*	37,493	35,516
Litigation settlement accrual *(2)*	17,300	—
Operating leases	7,231	8,089
Deferred gain on sale of CA business *(3)*	9,400	9,400
Warranty reserve	2,400	2,400
Taxes	2,370	2,022
Other	10,821	7,746
Total accrued liabilities	$ 94,816	$ 83,009

(1) Includes $25.1 million and $19.2 million as of September 30, 2021 and December 31, 2020, respectively, expected to be paid in shares of Gogo common stock upon the vesting of certain equity awards issued to former employees now employed by Intelsat and classified within discontinued operations.

(2) See Note 14, "Commitments and Contingencies," for additional information.

(3) Relates to sale of CA business. See Note 2, "Discontinued Operations," for additional information.

Other non-current liabilities as of September 30, 2021 and December 31, 2020 were as follows (*in thousands*):

	September 30, 2021	December 31, 2020
Asset retirement obligations	$ 4,749	$ 4,401
Deferred tax liabilities	2,012	2,108
Other	2,618	4,072
Total other non-current liabilities	$ 9,379	$ 10,581

8. Intangible Assets

Our intangible assets are comprised of both indefinite-lived and finite-lived intangible assets. Intangible assets with indefinite lives are not amortized; rather, they 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 during the fourth quarter of each fiscal year, and the results from the test performed in the fourth quarter of 2020 indicated no impairment. We also reevaluate the useful life of indefinite-lived intangible assets each reporting period to determine whether events and circumstances continue to support an indefinite useful life.

As of both September 30, 2021 and December 31, 2020, our goodwill balance was $0.6 million.

Our intangible assets, other than goodwill, as of September 30, 2021 and December 31, 2020 were as follows (*in thousands, except for weighted average remaining useful life*):

		As of September 30, 2021			As of December 31, 2020		
	Weighted Average Remaining Useful Life (in years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:							
Software	2.4	$ 51,186	$ (37,427)	$ 13,759	$ 50,029	$ (31,739)	$ 18,290
Other intangible assets	8.0	1,500	—	1,500	1,500	—	1,500
Service customer relationships		8,081	(8,081)	—	8,081	(8,081)	—
OEM and dealer relationships		6,724	(6,724)	—	6,724	(6,724)	—
Total amortized intangible assets		67,491	(52,232)	15,259	66,334	(46,544)	19,790
Unamortized intangible assets:							
FCC Licenses		32,283	—	32,283	32,283	—	32,283
Total intangible assets		$ 99,774	$ (52,232)	$ 47,542	$ 98,617	$ (46,544)	$ 52,073

Amortization expense was $1.9 million and $5.7 million, respectively, for the three- and nine-month periods ended September 30, 2021 and $1.6 million and $4.6 million, respectively, for the prior-year periods.

Amortization expense for the remainder of 2021, each of the next four years and thereafter is estimated to be as follows (*in thousands*):

Years ending December 31,	Amortization Expense
2021 (period from October 1 to December 31)	$ 1,858
2022	$ 4,657
2023	$ 2,485
2024	$ 992
2025	$ 972
Thereafter	$ 4,295

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

9. 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 $2.4 million as of both September 30, 2021 and December 31, 2020.

10. Long-Term Debt and Other Liabilities

Long-term debt as of September 30, 2021 and December 31, 2020 was as follows (*in thousands*):

	September 30, 2021	December 31, 2020
Term Loan Facility	$ 719,753	$ —
2024 Senior Secured Notes	—	973,539
2022 Convertible Notes	102,788	215,122
Total debt	822,541	1,188,661
Less deferred financing costs	(17,299)	(19,693)
Less current portion of long-term debt	(109,348)	(341,000)
Total long-term debt	$ 695,894	$ 827,968

2021 Credit Agreement

On April 30, 2021, Gogo and Gogo Intermediate Holdings LLC ("GIH") (a wholly owned subsidiary of Gogo) entered into a credit agreement (the "2021 Credit Agreement") among Gogo, GIH, the lenders and issuing banks party thereto and Morgan Stanley Senior Funding, Inc., as administrative agent, which provides for (i) a term loan credit facility (the "Term Loan Facility") in an aggregate principal amount of $725 million, issued with a discount of 0.5%, and (ii) a revolving credit facility (the "Revolving Facility" and together with the Term Loan Facility, the "Facilities") of up to $100 million, which includes a letter of credit sub-facility. The Term Loan Facility amortizes in nominal quarterly installments equal to one percent of the aggregate initial principal amount thereof per annum, with the remaining balance payable upon final maturity of the Term Loan Facility on April 30, 2028. There are no amortization payments under the Revolving Facility, and all borrowings under the Revolving Facility mature on April 30, 2026.

The Term Loan Facility bears annual interest at a floating rate measured by reference to, at GIH's option, either (i) an adjusted London inter-bank offered rate (subject to a floor of 0.75%) plus an applicable margin of 3.75% or (ii) an alternate base rate plus an applicable margin of 2.75%.

Loans outstanding under the Revolving Facility bear annual interest at a floating rate measured by reference to, at GIH's option, either (i) an adjusted London inter-bank offered rate (subject to a floor of 0.00%) plus an applicable margin ranging from 3.25% to 3.75% per annum depending on GIH's senior secured first lien net leverage ratio or (ii) an alternate base rate plus an applicable margin ranging from 2.25% to 2.75% per annum depending on GIH's senior secured first lien net leverage ratio. Additionally, unused commitments under the Revolving Facility are subject to a fee ranging from 0.25% to 0.50% per annum depending on GIH's senior secured first lien net leverage ratio.

The Facilities may be prepaid at GIH's option at any time without premium or penalty (other than customary breakage costs and except during the first six months following the closing of the Facilities during which certain prepayments of the Term Loan Facility are subject to a prepayment premium), subject to minimum principal payment amount requirements.

Subject to certain exceptions and de minimis thresholds, the Term Loan Facility is subject to mandatory prepayments in an amount equal to:

- 100% of the net cash proceeds of certain asset sales, insurance recovery and condemnation events, subject to reduction to 50% and 0% if specified senior secured first lien net leverage ratio targets are met;

- 100% of the net cash proceeds of certain debt offerings; and
- 50% of annual excess cash flow (as defined in the 2021 Credit Agreement), subject to reduction to 25% and 0% if specified senior secured first lien net leverage ratio targets are met.

The 2021 Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants. The negative covenants include restrictions on, among other things: incurrence of indebtedness or issuance of disqualified equity interests; incurrence or existence of liens; consolidations or mergers; activities of Gogo and any subsidiary holding a license issued by the Federal Communications Commission; investments, loans, advances, guarantees or acquisitions; asset sales; dividends or other distributions on equity; purchase, redemption or retirement of capital stock; payment or redemption of certain junior indebtedness; entry into other agreements that restrict the ability to incur liens securing the Facilities; and amendment of organizational documents; in each case subject to customary exceptions.

The Revolving Facility includes a financial covenant set at a maximum senior secured first lien net leverage ratio of 7.50:1.00, which will apply if the outstanding amount of loans and unreimbursed letter of credit drawings thereunder at the end of any fiscal quarter exceeds 35% of the aggregate of all commitments thereunder.

The 2021 Credit Agreement contains customary events of default, which, if any of them occurred, would permit or require the principal, premium, if any, and interest on all of the then outstanding obligations under the Facilities to be due and payable immediately and the commitments under the Revolving Facility to be terminated.

The proceeds of the Term Loan Facility were used, together with cash on hand, (i) to redeem in full and pay the outstanding principal amount of the 2024 Senior Secured Notes (as defined below) together with accrued and unpaid interest and redemption premiums and to pay fees associated with the termination of the ABL Credit Agreement (as defined below and, together with the redemption of the 2024 Senior Secured Notes, the "Refinancing"), and (ii) to pay fees and expenses incurred in connection with the Refinancing and the Facilities (the "Transaction Costs"). The Revolving Facility is available for working capital and general corporate purposes of Gogo and its subsidiaries and was undrawn as of September 30, 2021.

As of September 30, 2021, the outstanding principal amount of the Term Loan Facility was $723.2 million, the unaccreted debt discount was $3.4 million and the net carrying amount was $719.8 million.

We paid approximately $19.7 million of loan origination and financing costs related to the Facilities which are being accounted for as deferred financing costs on our Unaudited Condensed Consolidated Balance Sheets and are amortized over the terms of the Facilities. Total amortization expense was $0.7 million and $1.1 million, respectively, for the three- and nine-month periods ended September 30, 2021 and is included in interest expense in our Unaudited Condensed Consolidated Statements of Operations. As of September 30, 2021, the balance of unamortized deferred financing costs related to the Facilities was $18.6 million.

On April 30, 2021, Gogo, GIH, and each direct and indirect wholly-owned U.S. restricted subsidiary of GIH (Gogo and such subsidiaries collectively, the "Guarantors") entered into a guarantee agreement (the "Guarantee Agreement") in favor of Morgan Stanley Senior Funding, Inc., as collateral agent (the "Collateral Agent"), whereby GIH and the Guarantors guarantee the obligations under the Facilities and certain other secured obligations as set forth in the Guarantee Agreement, and GIH and the Guarantors entered into a collateral agreement (the "Collateral Agreement"), in favor of the Collateral Agent, whereby GIH and the Guarantors grant a security interest in substantially all of their respective tangible and intangible assets (including the equity interests in each direct material wholly-owned U.S. restricted subsidiary owned by GIH or any Guarantor, and 65% of the equity interests in any non-U.S. subsidiary held directly by GIH or any Guarantor), subject to certain exceptions, to secure the obligations under the Facilities and certain other secured obligations as set forth in the Collateral Agreement.

2022 Convertible Notes

On November 21, 2018, Gogo issued $215.0 million aggregate principal amount of 6.00% Convertible Senior Notes due 2022 (the "2022 Convertible Notes"). Gogo granted an option to the initial purchasers to purchase up to an additional $32.3 million aggregate principal amount of 2022 Convertible Notes to cover over-allotments, of which $22.8 million was subsequently exercised during December 2018, resulting in a total issuance of $237.8 million aggregate principal amount of 2022 Convertible Notes. The 2022 Convertible Notes mature on May 15, 2022, unless earlier repurchased or converted into shares of our common stock under certain circumstances described below. Upon conversion, Gogo has the option to settle its obligation through cash, shares of common stock, or a combination of cash and shares of common stock. Gogo pays interest on the 2022 Convertible Notes semi-annually in arrears on May 15 and November 15 of each year, beginning on May 15, 2019.

Under the accounting standards applicable at the time of issuance, the $237.8 million of proceeds received from the issuance of the 2022 Convertible Notes was initially allocated between long-term debt (the liability component) at $188.7 million and additional paid-in capital (the equity component) at $49.1 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 2022 Convertible Notes. If Gogo or the note holders elect not to settle the 2022 Convertible Notes through conversion, at maturity Gogo must repay the principal amount at face value in cash. Therefore, the liability component will be accreted up to the face value of the 2022 Convertible Notes, which will result in additional non-cash interest expense being recognized in the consolidated statements of operations through the 2022 Convertible Notes maturity date (see Note 12, "Interest Costs," for additional information). The effective interest rate on the 2022 Convertible Notes, including accretion of the notes to par and debt issuance cost amortization, was approximately 13.6%. The equity component will not be remeasured as long as it continues to meet the conditions for equity classification.

As of December 31, 2020, the outstanding principal amount of the 2022 Convertible Notes was $237.8 million, the unaccreted debt discount was $22.7 million and the net carrying amount of the liability component was $215.1 million.

Upon adoption of ASU 2020-06 on January 1, 2021 (see Note 3, "Recent Accounting Pronouncements," for more information), the 2022 Convertible Notes are accounted for as a single liability. The adoption of this standard resulted in the $49.1 million initially recorded to additional paid-in capital being reclassified and recorded as an increase to long-term debt in the Unaudited Condensed Consolidated Balance Sheets. Additionally, the $26.5 million of accretion recognized life-to-date was reversed and recorded as a reduction to long-term debt and a reduction to accumulated deficit in the Unaudited Condensed Consolidated Balance Sheets.

During January 2021, $1.0 million aggregate principal amount of 2022 Convertible Notes were converted by holders and settled through the issuance of 166,666 shares of common stock.

On March 17, 2021, Gogo entered into separate, privately negotiated exchange agreements (the "March 2021 Exchange Agreements") with certain holders of the 2022 Convertible Notes. Pursuant to the March 2021 Exchange Agreements, such holders exchanged a total of $28,235,000 aggregate principal amount of 2022 Convertible Notes for 5,121,811 shares of our common stock on March 24, 2021. The negotiated exchange rate under the March 2021 Exchange Agreements was 181.40 shares of common stock per $1,000 principal amount of the 2022 Convertible Notes, which resulted in a loss on settlement of $4.4 million, which is included in Other (income) expense in our Unaudited Condensed Consolidated Statements of Operations for the nine-month period ended September 30, 2021.

On April 1, 2021, Gogo entered into a privately negotiated exchange agreement (the "GTCR Exchange Agreement") with an affiliate of funds managed by GTCR LLC ("GTCR"). Pursuant to the GTCR Exchange Agreement, GTCR exchanged $105,726,000 aggregate principal amount of 2022 Convertible Notes for 19,064,529 shares of our common stock on April 9, 2021. The negotiated exchange rate under the GTCR Exchange Agreement was 180.32 shares of common stock per $1,000 principal amount of 2022 Convertible Notes, which resulted in a loss on settlement of $14.6 million, which is included in Other (income) expense in our Unaudited Condensed Consolidated Statements of Operations for the nine-month period ended September 30, 2021.

As of September 30, 2021, the outstanding principal amount of the 2022 Convertible Notes was $102.8 million and was classified as Current portion of long-term debt in the Unaudited Condensed Consolidated Balance Sheets.

We incurred approximately $8.1 million of issuance costs related to the 2022 Convertible Notes, of which $6.4 million and $1.7 million were recorded to deferred financing costs and additional paid-in capital, respectively, in proportion to the allocation of the proceeds of the 2022 Convertible Notes. However, upon adoption of ASU 2020-06 on January 1, 2021, the $1.7 million that was initially recorded to additional paid-in capital was reclassified and recorded as deferred financing costs, with catch-up amortization of

$1.0 million recorded to accumulated deficit in the Unaudited Condensed Consolidated Balance Sheets. The deferred financing costs are being amortized over the term of the 2022 Convertible Notes using the effective interest method. Total amortization expense was $0.3 million and $1.1 million, respectively, for the three- and nine-month periods ended September 30, 2021, and $0.5 million and $1.3 million, respectively, for the prior-year periods. Amortization expense is included in interest expense in the Unaudited Condensed Consolidated Statements of Operations. As of September 30, 2021 and December 31, 2020, the balance of unamortized deferred financing costs related to the 2022 Convertible Notes was $0.7 million and $2.7 million, respectively, and is included as a reduction to the carrying amount of the debt in our Unaudited Condensed Consolidated Balance Sheets. See Note 12, “Interest Costs,” for additional information.

The 2022 Convertible Notes had an initial conversion rate of 166.6667 shares of common stock per $1,000 principal amount of 2022 Convertible Notes, which is equivalent to an initial conversion price of approximately $6.00 per share of our common stock. Upon conversion, Gogo currently expects to settle in shares for the amount of the 2022 Convertible Notes then outstanding. Gogo may elect to deliver cash in lieu of all or a portion of such shares, and borrowings under the Revolving Facility are permitted to be used for this purpose. The shares of common stock subject to conversion are considered in the diluted earnings per share calculations under the if-converted method.

Holders may convert the 2022 Convertible Notes, at their option, in multiples of $1,000 principal amount at any time prior to January 15, 2022, but only in the following circumstances:

- during any fiscal quarter beginning after the fiscal quarter ended December 31, 2018, 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 2022 Convertible Notes on each applicable trading day (the “Stock Price Condition”);
- during the five-business day period following any five consecutive trading day period in which the trading price for the 2022 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 2022 Convertible Notes on each such trading day (the “Notes Price Condition”); or
- upon the occurrence of specified corporate events.

The Stock Price Condition was triggered for the periods from October 1, 2020 through December 31, 2020, January 1, 2021 through March 31, 2021, April 1, 2021 through June 30, 2021 and July 1, 2021 through September 30, 2021. Regardless of whether any of the foregoing circumstances occurs, a holder may convert its 2022 Convertible Notes, in multiples of $1,000 principal amount, at any time on or after January 15, 2022 until the second scheduled trading day immediately preceding May 15, 2022.

In addition, if Gogo undergoes a fundamental change (as defined in the indenture governing the 2022 Convertible Notes), holders may, subject to certain conditions, require us to repurchase their 2022 Convertible Notes for cash at a price equal to 100% of the principal amount of the 2022 Convertible Notes to be purchased, plus any accrued and unpaid interest. In addition, following a make-whole fundamental change, Gogo will increase the conversion rate in certain circumstances for a holder who elects to convert its 2022 Convertible Notes in connection with such make-whole fundamental change.

Forward Transactions

In connection with our issuance of 3.75% Convertible Senior Notes due 2020 (the “2020 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 2020 Convertible Notes, subject to the ability of each Forward Counterparty to elect to settle all or a portion of its Forward Transactions early.

On December 11, 2019, we entered into an amendment to one of the Forward Transactions (the “Amended and Restated Forward Transaction”) to extend the expected settlement date with respect to approximately 2.1 million shares of common stock held by one of the Forward Counterparties, JPMorgan Chase Bank, National Association (the “2022 Forward Counterparty”), to correspond with the May 15, 2022 maturity date for the 2022 Convertible Notes. In the future, we may request that the 2022 Forward Counterparty modify the settlement terms of the Amended and Restated Forward Transaction to provide that, in lieu of the delivery of the applicable number of shares of our common stock to us to settle a portion of the Amended and Restated Forward Transaction in accordance with its terms, the 2022 Forward Counterparty would pay to us the net proceeds from the sale by the 2022 Forward Counterparty (or its affiliate) of a corresponding number of shares of our common stock in a registered offering (which may include block sales, sales on the NASDAQ Global Select Market, sales in the over-the-counter market, sales pursuant to negotiated transactions or otherwise, at market prices prevailing at the time of sale or at negotiated prices). Any such sales could potentially decrease (or reduce the size of any increase in) the market price of our common stock. The 2022 Forward Counterparty is not required to effect any such settlement in cash in lieu of delivery of shares of our common stock and, if we request that the 2022 Forward

Counterparty effect any such settlement, it will be entered into in the discretion of the 2022 Forward Counterparty on such terms as may be mutually agreed upon at the time. As a result of the Forward Transactions, total shareholders' equity within our consolidated balance sheet was reduced by approximately $140 million. In March 2020, approximately 5.1 million shares of common stock were delivered to us in connection with the Forward Transactions. In April 2021, approximately 1.5 million shares of common stock were delivered to us in connection with the Amended and Restated Forward Transaction. The approximately 0.6 million shares of common stock remaining under the Amended and Restated Forward Transaction are treated as retired shares for basic and diluted EPS purposes although they remain legally outstanding.

2024 Senior Secured Notes

On April 25, 2019, GIH and Gogo Finance Co. Inc. (a wholly owned subsidiary of GIH) ("Gogo Finance" and, together with GIH, the "Issuers") issued $905 million aggregate principal amount of 9.875% senior secured notes due 2024 (the "2024 Senior Secured Notes"), at a price equal to 99.512% of their face value, under an indenture (as supplemented, the "Indenture"), dated as of April 25, 2019, among the Issuers, Gogo, the subsidiary guarantors party thereto and U.S. Bank National Association, as trustee.

The Issuers issued an additional $20 million of 2024 Senior Secured Notes on May 7, 2019, which were issued at a price equal to 100.5% of their face value, and $50 million of 2024 Senior Secured Notes on November 13, 2020, which were issued at a price equal to 103.5% of their face value.

The 2024 Senior Secured Notes were guaranteed on a senior secured basis by Gogo and all of GIH's existing and future restricted subsidiaries (other than Gogo Finance), subject to certain exceptions. The 2024 Senior Secured Notes and the related guarantees were secured by certain liens on the Company's collateral, which were released upon the closing of the Transaction.

We paid approximately $22.6 million of origination fees and financing costs related to the issuance of the 2024 Senior Secured Notes, which were accounted for as deferred financing costs on our Unaudited Condensed Consolidated Balance Sheets and were being amortized over the contractual term of the 2024 Senior Secured Notes using the effective interest method. Total amortization expense was $1.4 million for the nine-month period ended September 30, 2021, and $0.9 million and $2.7 million, respectively, for the three- and nine-month periods ended September 30, 2020. Amortization expense is included in interest expense in the Unaudited Condensed Consolidated Statements of Operations. As of December 31, 2020, the balance of unamortized deferred financing costs related to the 2024 Senior Secured Notes was $16.6 million. The remaining unamortized deferred financing costs were written off as of May 1, 2021.

The 2024 Senior Secured Notes were redeemed on May 1, 2021 (the "Redemption Date") at a redemption price equal to 104.938% of the principal amount of the 2024 Senior Secured Notes redeemed, plus accrued and unpaid interest to (but not including) the Redemption Date. The make-whole premium paid in connection with the redemption was $48.1 million and we wrote off the remaining unamortized deferred financing costs of $15.2 million and the remaining debt discount of $1.3 million, which together are included in Loss on extinguishment of debt and settlement of convertible notes in our Unaudited Condensed Consolidated Statements of Operations for the nine-month period ended September 30, 2021.

ABL Credit Facility

On August 26, 2019, Gogo, GIH and Gogo Finance entered into a credit agreement (the "ABL Credit Agreement") with the other loan parties thereto, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, and Morgan Stanley Senior Funding, Inc., as syndication agent, which provided for an asset-based revolving credit facility (the "ABL Credit Facility") of up to $30 million, subject to borrowing base availability, and included letter of credit and swingline sub-facilities. The obligations under the ABL Credit Agreement were guaranteed by Gogo and all of its existing and future subsidiaries, subject to certain exceptions and secured by certain collateral of the Company. On April 30, 2021, the ABL Credit Agreement and all commitments thereunder were terminated. As a result of the termination, the remaining unamortized deferred financing costs of $0.3 million were written off as of May 1, 2021 and included in Loss on extinguishment of debt and settlement of convertible notes in our Unaudited Condensed Consolidated Statements of Operations for the nine-month period ended September 30, 2021.

11. Derivative Instruments and Hedging Activities

We are exposed to interest rate risk on our variable rate borrowings. We currently use interest rate caps to manage our exposure to interest rate changes, and have designated these interest rate caps as cash flow hedges for accounting purposes. Accordingly, the earnings impact of the derivatives designated as cash flow hedges is recorded upon the recognition of the variable interest payments related to the hedged debt.

In May 2021, we purchased interest rate caps with an aggregate notional amount of $650 million for $8.6 million. We receive payments in the amount calculated pursuant to the caps for any period in which the three-month USD LIBOR rate increases beyond the applicable strike rate. The notional amounts of the interest rate caps periodically decrease over the life of the caps.

The notional amounts, strike rates and end dates of the cap agreements are as follows *(notional amounts in thousands)*:

Start Date	End Date	Notional Amounts	Strike Rate
7/31/2021	7/31/2023	$ 650,000	0.75 %
7/31/2023	7/31/2024	525,000	0.75 %
7/31/2024	7/31/2025	350,000	1.25 %
7/31/2025	7/31/2026	250,000	2.25 %
7/31/2026	7/31/2027	200,000	2.75 %

We record the effective portion of changes in the fair value of our cash flow hedges to other comprehensive income (loss), net of tax, and subsequently reclassify these amounts into earnings in the period during which the hedged transaction is recognized. The amounts included in accumulated other comprehensive income will be reclassified to interest expense in the event the hedges are no longer considered effective, in accordance with ASC 815, *Derivatives and Hedging*. No gains or losses of our cash flow hedges were considered to be ineffective and reclassified from other comprehensive income (loss) to earnings for the three- and nine-month periods ended September 30, 2021. We estimate that approximately $114 thousand currently recorded in accumulated other comprehensive income (loss) will be recognized in earnings over the next 12 months. We assess the effectiveness of the hedge on an ongoing basis. Cash flows from interest rate caps are classified in the Unaudited Condensed Consolidated Statement of Cash Flows as investing activities from continuing operations.

For the three-month period ended September 30, 2021, the unrealized loss on the interest rate caps was not material. For the nine-month period ended September 30, 2021, we recorded an unrealized loss on the interest rate caps of $0.4 million, net of tax of $0.1 million. The cost of the interest rate caps will be amortized to interest expense over the life using the caplet method, from the effective date through termination date.

When derivatives are used, we are exposed to credit loss in the event of non-performance by the counterparties; however, non-performance is not anticipated. ASC 815, *Derivatives and Hedging*, requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the balance sheet. The fair values of the interest rate derivatives are based on quoted market prices for similar instruments from commercial banks (based on significant observable inputs - Level 2 inputs).

The following table presents the fair value of our interest rate derivatives included in the unaudited condensed consolidated balance sheets for the periods presented (in thousands):

Derivatives designated as hedging instruments	Balance sheet location	September 30, 2021	December 31, 2020
Current portion of interest rate caps	Prepaid expenses and other current assets	$ 114	$ —
Non-current portion of interest rate caps	Other non-current assets	$ 7,940	$ —

Fair Value Measurement

Our derivative assets and liabilities consist principally of interest rate caps, which are carried at fair value based on significant observable inputs (Level 2 inputs). Derivatives entered into by us are typically executed over-the-counter and are valued using discounted cash flows along with fair value models that primarily use market observable inputs. These models take into account a variety of factors including, where applicable, maturity, interest rate yield curves, and counterparty credit risks.

12. 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 nine-month periods ended September 30, 2021 and 2020 *(in thousands)*:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Interest costs charged to expense	$ 9,891	$ 26,164	$ 52,556	$ 78,928
Amortization of deferred financing costs	937	1,484	3,718	4,355
Amortization of interest rate cap premium	—	—	—	—
Accretion of debt discount	115	3,551	303	10,312
Interest expense	10,943	31,199	56,577	93,595
Interest costs capitalized to software	61	381	240	565
Total interest costs	$ 11,004	$ 31,580	$ 56,817	$ 94,160

13. Leases

Operating and Financing Leases — We determine whether a contract contains a lease at contract inception. For leases subsequent to adoption of ASC 842, lease liabilities are calculated using a discount rate based on our incremental borrowing rate at lease commencement. We have operating lease agreements for certain facilities and equipment as well as tower space and base stations. Certain facility and tower space leases have renewal option terms that have been deemed to be reasonably certain to be exercised. These renewal options extend a lease up to 15 years. We recognize operating lease expense on a straight-line basis over the lease term. As of September 30, 2021, there were no significant leases which have not commenced.

The following is a summary of our lease expense included in the Unaudited Condensed Consolidated Statements of Operations *(in thousands)*:

	For the Three Months Ended September 30, 2021	For the Three Months Ended September 30, 2020
Operating lease cost	$ 3,520	$ 2,864
Financing lease cost:		
Amortization of leased assets	3	38
Interest on lease liabilities	12	31
Total lease cost	$ 3,535	$ 2,933

	For the Nine Months Ended September 30, 2021	For the Nine Months Ended September 30, 2020
Operating lease cost	$ 9,684	$ 8,657
Financing lease cost:		
Amortization of leased assets	8	219
Interest on lease liabilities	40	80
Total lease cost	$ 9,732	$ 8,956

Other information regarding our leases is as follows *(in thousands, except lease terms and discount rates)*:

	For the Nine Months Ended September 30, 2021	For the Nine Months Ended September 30, 2020
Supplemental cash flow information		
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows used in operating leases	$ 10,391	$ 9,331
Operating cash flows used in financing leases	$ 40	$ 80
Financing cash flows used in financing leases	$ 154	$ 513
Non-cash items:		
Operating leases obtained	$ 43,148	$ 2,660
Financing leases obtained	$ —	$ 428
Weighted average remaining lease term		
Operating leases	9 years	7 years
Financing leases	2 years	2 years
Weighted average discount rate		
Operating leases	7.0 %	10.4 %
Financing leases	16.5 %	11.1 %

Annual future minimum lease payments as of September 30, 2021 *(in thousands)*:

Years ending December 31,	**Operating Leases**	**Financing Leases**
2021 (period from October 1 to December 31)	$ 2,389	$ 139
2022	13,513	495
2023	12,239	289
2024	11,645	—
2025	11,079	—
Thereafter	64,230	—
Total future minimum lease payments	115,095	923
Less: Amount representing interest	(30,090)	(43)
Present value of net minimum lease payments	$ 85,005	$ 880
Reported as of September 30, 2021		
Accrued liabilities	$ 7,231	$ 376
Non-current operating lease liabilities	77,774	—
Other non-current liabilities	—	504
Total lease liabilities	$ 85,005	$ 880

14. Commitments and Contingencies

Contractual Commitments - We have agreements with various vendors under which we have remaining commitments to purchase hardware components and development services. Such commitments will become payable as we receive the hardware components, or as development services are provided.

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 the 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 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.

Linksmart Litigation - On April 20, 2018, Linksmart Wireless Technology, LLC filed suit against Gogo Inc., Gogo LLC, our former subsidiary and the entity that operated our CA business ("Gogo LLC"), and eight CA airline partners in the U.S. District Court for the Central District of California alleging that CA's redirection server and login portal infringe a patent owned by the plaintiff. The suits seek an unspecified amount of damages. Intelsat is required under its contracts with these airlines, which it assumed in the Transaction, to indemnify them for defense costs and any liabilities resulting from the suit. The Court has stayed the suits against the airline customers pending resolution of the suit against Gogo. Linksmart has also filed suit against other defendants asserting the same patent. Following the filing by one of those defendants of a petition to commence an *inter partes* review against the asserted patent in the U.S. Patent and Trademark Office, the Court stayed the litigation against such other defendant, Gogo Inc. and Gogo LLC, but such stay was lifted in July 2019 when the U.S. Patent and Trademark Office determined that the petitioner had not met the standard of proof required to commence the *inter partes* review. Since the stay was lifted, discovery has been completed and motion practice has continued. A final pre-trial conference will be held in the fourth quarter of 2021. We believe that the plaintiff's claims are without merit and intend to continue to defend our position vigorously. The outcome of this litigation is inherently uncertain. No amounts have been accrued for any potential losses under this matter, as we cannot reasonably predict the outcome of the litigation or any potential losses.

Securities Litigation - On June 27, 2018, a purported stockholder of the Company filed a putative class action lawsuit in the United States District Court for the Northern District of Illinois, Eastern Division styled Pierrelouis v. Gogo Inc., naming the Company, its former Chief Executive Officer and Chief Financial Officer, its current Chief Financial Officer and its then-current President, Commercial Aviation as defendants purportedly on behalf of all purchasers of our securities from February 27, 2017 through May 4, 2018. The complaint asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, alleging misrepresentations or omissions by us purporting to relate to the reliability of and installation and remediation costs associated with CA's 2Ku antenna. The plaintiffs seek to recover from us and the individual defendants an unspecified amount of damages. In December 2018 the plaintiffs filed an amended complaint and in February 2019, we filed a motion to dismiss such amended complaint. In October 2019 the judge granted the motion to dismiss on two independent grounds, finding that plaintiffs failed to plausibly allege that defendants made materially false or misleading statements and that plaintiffs failed to plead with particularity that defendants acted with scienter. The amended complaint was dismissed without prejudice, and in December 2019, defendants filed a second amended complaint. In July 2020, plaintiffs filed a motion requesting leave to file a proposed third amended complaint, which was granted by the Court. Plaintiffs proceeded to file the third amended complaint in July 2020 and we filed a motion to dismiss in September 2020. In April 2021, the Court denied our motion to dismiss, and the defendants filed their answer and affirmative defenses to the third amended complaint in June 2021.

The parties engaged in mediation and reached a tentative resolution that includes a cash payment of $17.3 million (funded by our D&O insurance carriers) in exchange for a dismissal with prejudice of the class claims and full releases. As a result of this development, the Company has accrued a $17.3 million liability within Accrued liabilities and a corresponding insurance receivable in Prepaid expenses and other current assets in the Condensed Consolidated Balance Sheets as of September 30, 2021. This resolution is subject to execution by the parties of a definitive settlement agreement and final approval by the court. While the Company will in good faith negotiate the terms of the definitive settlement agreement and seek court approval, there can be no assurance that these efforts will result in a settlement or, if they do, as to the timing of such settlement. We believe that the claims are without merit and will continue to defend them vigorously should the parties' settlement efforts be unsuccessful.

Derivative Litigation - On September 25, 2018 and September 26, 2018, two purported stockholders of the Company filed substantively identical derivative lawsuits in the United States District Court for the Northern District of Illinois, Eastern Division, styled Nanduri v. Gogo Inc. and Hutsenpiller v. Gogo Inc., respectively. Both lawsuits were purportedly brought derivatively on behalf of us and name us as a nominal defendant and name as defendants each member of the Company's Board of Directors, its former Chief Executive Officer and Chief Financial Officer and its current Chief Executive Officer, Chief Financial Officer and President, Commercial Aviation. The complaints assert claims under Section 14(a) of the Securities Exchange Act of 1934, breach of fiduciary duty, unjust enrichment, and waste of corporate assets, and allege misrepresentations or omissions by us purporting to relate to the 2Ku antenna's reliability and installation and remediation costs, as well as allegedly excessive bonuses, stock options, and other compensation paid to current Officers and Directors and excessive severance paid to former Officers. The plaintiffs seek to recover, on our behalf, an unspecified amount of damages from the individual defendants. The two lawsuits were consolidated and were stayed pending a final disposition of the motion to dismiss in the class action suit. Since, as discussed above, the court in the class action suit denied the motion to dismiss, the stay has been lifted and the litigation has resumed. In addition, a purported stockholder has sent a letter to the Company's Board of Directors, dated June 21, 2021, demanding based on substantially the same allegations, that the Company sue certain current and former Officers for, *inter alia*, breach of fiduciary duty.

We believe that the claims are without merit and intend to defend them vigorously. No amounts have been accrued for any potential costs under these matters, as we cannot reasonably predict the outcome or the potential costs. We have filed a claim under our Directors' and Officers' insurance policy with respect to these suits and the demand from the purported stockholder. We expect any material financial exposure for these matters to be borne by our insurance carriers, although they have reserved their rights under the policies.

15. 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 for identical assets or liabilities in active markets;
- *Level 2* - defined as observable inputs other than Level 1 inputs 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.

Refer to Note 11 "Derivative Instruments and Hedging Activities," for fair value information relating to our interest rate caps.

Long-Term Debt:

As of September 30, 2021 and December 31, 2020, our financial assets and liabilities that are disclosed but not measured at fair value include the Term Loan Facility, the 2022 Convertible Notes, and, while outstanding, the 2024 Senior Secured Notes, which are reflected on the consolidated balance sheets 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 Term Loan Facility, the 2022 Convertible Notes, and, while outstanding, the 2024 Senior Secured Notes by calculating the upfront cash payment a market participant would require to assume these obligations. The upfront cash payments used in the calculations of fair value on our September 30, 2021 Unaudited Condensed Consolidated Balance Sheets, excluding any issuance costs, are the amount that a market participant would be willing to lend at September 30, 2021 to an entity with a credit rating similar to ours and that would allow such an entity to achieve sufficient cash inflows to cover the scheduled cash outflows under the Term Loan Facility and the 2022 Convertible Notes. The calculated fair value of each of the 2022 Convertible Notes is correlated to our stock price and as a result, significant changes to our stock price could have a significant impact on the calculated fair values.

The fair value and carrying value of long-term debt as of September 30, 2021 and December 31, 2020 were as follows *(in thousands)*:

	September 30, 2021		December 31, 2020	
	Fair Value (1)	Carrying Value	Fair Value (1)	Carrying Value
Term Loan Facility	$ 728,000	$ 719,753 (2)	$ —	$ —
2022 Convertible Notes	$ 302,000	$ 102,788	$ 404,000	$ 215,122 (3)
2024 Senior Secured Notes	$ —	$ —	$ 1,045,000	$ 973,539 (4)

(1) Fair value amounts are rounded to the nearest million.
(2) Carrying value of the Term Loan Facility reflects the unaccreted debt discount of $3.4 million as of September 30, 2021. See Note 10, "Long-Term Debt and Other Liabilities," for further information.
(3) Carrying value of the 2022 Convertible Notes reflects the unaccreted debt discount of $22.6 million as of December 31, 2020. See Note 10, "Long-Term Debt and Other Liabilities," for further information.
(4) Carrying value of the 2024 Senior Secured Notes reflects the unaccreted debt discount of $1.5 million as of December 31, 2020. See Note 10, "Long-Term Debt and Other Liabilities," for further information.

16. Income Tax

The effective income tax rates for continuing operations for the three- and nine-month periods ended September 30, 2021 were 0.7% and (0.9)%, respectively, compared to 0.7% and (0.7)%, respectively, for the prior-year periods. For the three- and nine-month periods ended September 30, 2021 and 2020, our income tax expense (benefit) was not significant, primarily due to the full valuation allowance against our deferred income tax assets.

We regularly assess the need for a valuation allowance related to our deferred income tax assets to determine, based on the weight of the available positive and negative evidence, whether it is more likely than not that some or all of such deferred assets will not be realized. In our assessments, the Company considers recent financial operating results, the scheduled expiration of our net operating losses, future taxable income, the reversal of existing taxable differences, and tax planning strategies. We will continue to assess whether we need to maintain all, or part, of the valuation allowance on our deferred income tax assets. A reversal of the valuation allowance may occur within the next twelve months.

We are subject to income taxation in the United States and Canada. With few exceptions, as of September 30, 2021, we are no longer subject to U.S. federal, state, local or foreign examinations by tax authorities for years before 2017.

We record penalties and interest relating to uncertain tax positions in the income tax provision line item in the Unaudited Condensed Consolidated Statements of Operations. No penalties or interest related to uncertain tax positions were recorded for the three- and nine-month periods ended September 30, 2021 and 2020. As of September 30, 2021 and December 31, 2020, we did not have a liability recorded for interest or potential penalties.

Presently, we do not require a reserve for unrecognized tax benefits, nor do we foresee any change to that position during the next 12 months.

17. Stock-Based Compensation and 401(k) Plan

Stock-Based Compensation — As of September 30, 2021, we maintained three stock-based incentive compensation plans (“Stock Plans”), as well as an Employee Stock Purchase Plan (“ESPP”). See Note 14, “Stock-Based Compensation,” in our 2020 10-K for further information regarding these plans. The majority of our equity grants are awarded on an annual basis.

For the nine-month period ended September 30, 2021, options to purchase 26,726 shares of common stock were granted, options to purchase 354,942 shares of common stock were exercised, 9,147 options to purchase shares of common stock were forfeited and no options to purchase shares of common stock expired. The fair value of the options granted during the nine-month period ended September 30, 2021 was approximately $0.2 million, which will be recognized over a period of one year.

For the nine-month period ended September 30, 2021, 2,538,584 RSUs were granted, 992,781 RSUs vested and 222,627 RSUs were forfeited. The fair value of the RSUs granted during the nine-month period ended September 30, 2021 was approximately $24.9 million, which will be recognized over a period of four years.

For the nine-month period ended September 30, 2021, 89,732 deferred stock units were granted and 146,128 vested. The fair value of the deferred stock units granted during the nine-month period ended September 30, 2021 was approximately $1.1 million, which will be recognized over a period of one year.

For the nine-month period ended September 30, 2021, 34,329 shares of common stock were issued under the ESPP.

The following is a summary of our stock-based compensation expense by operating expense line in the Unaudited Condensed Consolidated Statements of Operations, excluding stock-based compensation expense for discontinued operations *(in thousands)*:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Cost of service revenue	$ 145	$ 179	300	239
Cost of equipment revenue	141	203	336	338
Engineering, design and development	379	584	866	902
Sales and marketing	601	413	1,137	938
General and administrative	4,137	3,301	7,505	5,866
Total stock-based compensation expense	$ 5,403	$ 4,680	$ 10,144	$ 8,283

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 $0.4 million and $1.3 million, respectively, during the three- and nine-month periods ended September 30, 2021 and $0.3 million and $0.9 million, respectively, for the prior-year periods.

18. Research and Development Costs

Expenditures for research and development are charged to expense as incurred and totaled $6.0 million and $18.0 million, respectively, during the three- and nine-month periods ended September 30, 2021 and $4.5 million and $17.4 million, respectively, for the prior-year periods. Research and development costs are reported as engineering, design and development expenses in our Unaudited Condensed Consolidated Statements of Operations.

19. Accumulated Other Comprehensive Income (Loss)

The following is a summary of changes in accumulated other comprehensive income (loss) by component *(in thousands):*

	Currency Translation Adjustment	Change in Fair Value of Cash Flow Hedge	Total
Balance at January 1, 2021	$ (1,013)	$ —	$ (1,013)
Other comprehensive income (loss) before reclassifications	106	(432)	(326)
Amounts reclassified from accumulated other comprehensive income	—	—	—
Net current period comprehensive income (loss)	106	(432)	(326)
Balance at September 30, 2021	$ (907)	$ (432)	$ (1,339)

	Currency Translation Adjustment	Change in Fair Value of Cash Flow Hedge	Total
Balance at January 1, 2020	$ (2,256)	$ —	$ (2,256)
Other comprehensive income (loss) before reclassifications	(2,067)	—	(2,067)
Amounts reclassified from accumulated other comprehensive income	—	—	—
Net current period comprehensive loss	(2,067)	—	(2,067)
Balance at September 30, 2020	$ (4,323)	$ —	$ (4,323)

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 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," "forecast," "intend," "may," "plan," "potential," "predict," "project," "should," "will," "future" and the negative of these or similar terms and phrases are intended to 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:

- our ability to attract and retain customers and generate revenue from the provision of our connectivity and entertainment services;
- our reliance on our key OEMs and dealers for equipment sales;
- our ability to develop and deploy Gogo 5G on a timely basis;
- our ability 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 and performance;
- the impact of the COVID-19 pandemic and the measures implemented to combat it;
- our ability to evaluate or pursue strategic opportunities;
- our reliance on third parties for equipment and services;
- our ability to recruit, train and retain highly skilled employees;
- the achievement of the anticipated benefits of the sale of the CA business or our ability to operate as a standalone business;
- the impact of adverse economic conditions;
- 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 availability of additional ATG spectrum in the United States or internationally;
- 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 impact of assertions by third parties of infringement, misappropriation or other violations;
- our ability to innovate and provide products and services;
- the impact of government regulation of the internet;
- our possession and use of personal information;
- the extent of expenses or liabilities resulting from litigation;
- our ability to protect our intellectual property;
- our substantial indebtedness, limitations and restrictions in the agreements governing our current and future indebtedness and our ability to service our indebtedness;

- fluctuations in our operating results;
- the utilization of our tax losses; and
- other risks and factors listed under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2020, as filed with the Securities and Exchange Commission (“SEC”) on March 11, 2021 (the “2020 10-K”), in Item 1A of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2021, as filed with the SEC on May 6, 2021 (the “2021 Q1 10-Q”), in Item 1A of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2021, as filed with the SEC on August 5, 2021 (the “2021 Q2 10-Q”), and in Item 1A of this Report.

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.

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.

On December 1, 2020, we completed the previously announced sale of our commercial aviation ("CA") business to a subsidiary of Intelsat Jackson Holdings S.A. ("Intelsat") for a purchase price of $400 million in cash, subject to certain adjustments (the "Transaction"). As a result, all periods presented in our Unaudited Condensed Consolidated Financial Statements and other portions of this Quarterly Report on Form 10-Q have been conformed to present the CA business as discontinued operations.

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 2020 10-K, in Item 1A of the 2021 Q1 10-Q, in Item 1A of the 2021 Q2 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 is the world's largest provider of broadband connectivity services for the business aviation market. Our mission is to provide ground-like connectivity to every passenger on every flight around the globe, enabling superior passenger experiences and efficient flight operations. To accomplish our mission, we design, build and operate dedicated air-to-ground ("ATG") networks, engineer and maintain in-flight systems of proprietary hardware and software, and deliver customizable connectivity and wireless entertainment services and global support capabilities to our aviation partners. Our services include narrowband satellite-based voice and data services made available through strategic partnerships with satellite providers.

Our chief operating decision maker evaluates performance and business results for our operations, and makes resource and operating decisions, on a consolidated basis. As we do not have multiple segments, we do not present segment information in this Quarterly Report on Form 10-Q.

Impact of COVID-19 Pandemic

The COVID-19 pandemic caused a significant decline in international and domestic business aviation travel, which materially and adversely affected our business in 2020. Beginning in March 2020, our business saw a sharp decrease in flight activity, as well as an increase in requests for account suspensions and decreases in new plan activations. Though we continue to see strong signs of recovery from the lows we experienced in mid-April 2020, we continue to monitor the status of the pandemic in the United States and internationally. We are unable to predict whether COVID-19 will have a material adverse effect on our business in the future or with what degree of severity or over what length of time such impact may occur.

Factors and Trends Affecting Our Results of Operations

We believe that our operating and business performance is driven by various factors that affect the business aviation industry, 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, including upgrades to and installation of the ATG technologies we currently offer, Gogo 5G, and any other next generation or other new technology;
- our ability to manage issues and related costs that may arise in connection with the implementation of our technology roadmap, including technological issues and related remediation efforts and failures or delays on the part of antenna and other equipment developers and providers, some of which are single source;
- our ability to license additional spectrum and make other improvements to our network and operations as technology and user expectations change;

- the number of aircraft in service in our markets, including consolidations or changes in fleet size by one or more of our large-fleet customers;
- the economic environment and other trends that affect both business and leisure aviation travel, including the impact of COVID-19 on restrictions on and demand for air travel;
- disruptions to supply chains and installations, including COVID-19-related shortages of electronic components that have resulted in longer lead times and delays in obtaining certain electronic components used in the airborne equipment that we manufacture;
- the extent of our customers' adoption of our products and services, which is affected by, among other things, willingness to pay for the services that we provide, the quality and reliability of our products and services, changes in technology and competition from current competitors and new market entrants;
- our ability to engage suppliers of equipment components and network services on a timely basis and on commercially reasonable terms;
- 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, expand our service offerings and manage our network; and
- changes in laws, regulations and policies affecting our business or the business of our customers and suppliers, including changes that impact the design of our equipment and our ability to obtain required certifications for our equipment.

Key Business Metrics

Our management regularly reviews financial and operating metrics, including the following key operating metrics, 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.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Aircraft online (at period end)				
ATG	6,154	5,577	6,154	5,577
Satellite	4,542	4,737	4,542	4,737
Average monthly service revenue per aircraft online				
ATG	$ 3,264	$ 2,996	$ 3,216	$ 2,910
Satellite	257	211	248	207
Units Sold				
ATG	266	167	583	392
Satellite	22	28	169	151
Average equipment revenue per unit sold (in thousands)				
ATG	$ 66	$ 65	$ 72	$ 70
Satellite	102	78	52	60

- *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. This number excludes aircraft receiving ATG service as part of the ATG Network Sharing Agreement with Intelsat.
- *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.
- *Average monthly connectivity service revenue per ATG aircraft online.* We define average monthly connectivity service revenue per ATG aircraft online as the aggregate ATG connectivity 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). Revenue share earned from the ATG Network Sharing Agreement with Intelsat is excluded from this calculation.
- *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).

- *Units sold*. We define units sold as the number of ATG or satellite units for which we recognized revenue during the period.
- *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.
- *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.

Key Components of Consolidated Statements of Operations

There have been no material changes to our key components of Unaudited Condensed Consolidated Statements of Operations as described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A") in our 2020 10-K.

Off-Balance Sheet Arrangements

We do not have any obligations that meet the definition of an off-balance sheet arrangement.

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 requires 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 revenue recognition, indefinite-lived intangible assets, stock-based compensation and the valuation allowance related to our deferred income tax assets have the greatest potential impact on our Unaudited Condensed Consolidated Financial Statements. Therefore, we consider these to be our critical accounting policies and estimates.

The information presented below updates, and should be read in conjunction with, the critical accounting policies and estimates described in MD&A in our 2020 10-K. Except as set forth below, there have been no material changes to our critical accounting policies and estimates described in MD&A in our 2020 10-K.

Deferred Income Taxes - Valuation Allowance:

We account for the valuation allowance on our deferred income tax assets in accordance with Accounting Standards Codification Topic 740, *Income Taxes* ("ASC 740").

On a recurring basis, we assess the need for a valuation allowance related to our deferred income tax assets, which includes consideration of both positive and negative evidence to determine, based on the weight of the available evidence, whether it is more likely than not that some or all of our deferred tax assets will not be realized. In our assessment, the Company considers recent financial operating results, the scheduled expiration of our net operating losses, future taxable income, the reversal of existing taxable differences, and tax planning strategies. A recent history of financial reporting losses is a source of objectively verifiable negative evidence. Cumulative pre-tax losses in the three-year period ending with the current quarter is considered to be negative evidence regarding future profitability. Cumulative pre-tax losses from continuing operations adjusted for certain non-recurring items resulting in positive normalized income is an objectively verifiable source of positive evidence of the ability of the Company to generate positive earnings in the future. When there is a recent history of operating losses and a return to operating profitability has not yet been demonstrated, we cannot rely on projections of future earnings for purposes of assessing recoverability of our deferred tax assets. In such cases, we use systematic and logical methods to estimate when deferred tax assets will reverse and generate tax deductions. The selection of methodologies and assessment of when temporary differences will result in deductible amounts involves significant management judgment and is inherently complex and subjective.

See Note 16, "Income Tax," to our Unaudited Condensed Consolidated Financial Statements for additional information regarding our valuation allowance related to our deferred income tax assets.

Recent Accounting Pronouncements

See Note 3, “Recent Accounting Pronouncements,” to our Unaudited Condensed Consolidated Financial Statements for additional information.

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.

Gogo Inc. and Subsidiaries
Unaudited Condensed Consolidated Statements of Operations
(in thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue:				
Service revenue	$ 66,204	$ 53,324	$ 190,326	$ 155,083
Equipment revenue	20,968	13,201	53,090	37,001
Total revenue	87,172	66,525	243,416	192,084
Operating expenses:				
Cost of service revenue	12,985	11,635	42,257	32,809
Cost of equipment revenue	12,368	8,543	31,582	24,036
Engineering, design and development	5,958	4,510	17,992	17,365
Sales and marketing	5,538	3,758	14,093	10,724
General and administrative	15,250	12,539	37,369	36,378
Depreciation and amortization	4,160	3,320	11,824	10,117
Total operating expenses	56,259	44,305	155,117	131,429
Operating income	30,913	22,220	88,299	60,655
Other (income) expense:				
Interest income	(34)	(36)	(145)	(689)
Interest expense	10,943	31,199	56,577	93,595
Loss on extinguishment of debt and settlement of convertible notes	—	—	83,961	—
Other (income) expense	143	12	11	12
Total other expense	11,052	31,175	140,404	92,918
Income (loss) from continuing operations before income taxes	19,861	(8,955)	(52,105)	(32,263)
Income tax provision (benefit)	131	(65)	443	216
Net income (loss) from continuing operations	19,730	(8,890)	(52,548)	(32,479)
Net loss from discontinued operations, net of tax	(8,771)	(71,234)	(13,426)	(218,402)
Net income (loss)	$ 10,959	$ (80,124)	$ (65,974)	$ (250,881)

Three and Nine Months Ended September 30, 2021 and 2020

Revenue:

Revenue and percent change for the three- and nine-month periods ended September 30, 2021 and 2020 were as follows *(in thousands, except for percent change)*:

	For the Three Months Ended September 30,		% Change	For The Nine Months Ended September 30,		% Change
	2021	2020	2021 over 2020	2021	2020	2021 over 2020
Service revenue	$ 66,204	$ 53,324	24.2 %	$ 190,326	$ 155,083	22.7 %
Equipment revenue	20,968	13,201	58.8 %	53,090	37,001	43.5 %
Total revenue	$ 87,172	$ 66,525	31.0 %	$ 243,416	$ 192,084	26.7 %

Revenue increased to $87.2 million and $243.4 million, respectively, for the three- and nine-month periods ended September 30, 2021, as compared with $66.5 million and $192.1 million, respectively, for the prior-year periods, due to increases in service revenue and equipment revenue.

Service revenue increased to $66.2 million and $190.3 million, respectively, for the three- and nine-month periods ended September 30, 2021, as compared with $53.3 million and $155.1 million, respectively, for the prior-year periods, primarily due to an increase in average monthly service revenue per aircraft online, an increase in ATG aircraft online and, to a lesser extent, revenue share earned from the ATG Network Sharing Agreement with Intelsat, which went into effect in the fourth quarter of the prior year.

Equipment revenue increased to $21.0 million and $53.1 million, respectively, for the three- and nine-month periods ended September 30, 2021, as compared with $13.2 million and $37.0 million, respectively, for the prior-year periods, primarily due to increases in the number of ATG units sold, with 266 units and 583 units, respectively, sold during the three- and nine-month periods ended September 30, 2021, as compared with 167 units and 392 units, respectively, sold during the prior-year periods.

We expect service revenue to increase in the future as additional ATG aircraft come online and average monthly connectivity service revenue per ATG aircraft online increases. We expect equipment revenue to increase in the future as additional ATG units are sold.

Cost of Revenue:

Cost of revenue and percent change for the three- and nine-month periods ended September 30, 2021 and 2020 were as follows *(in thousands, except for percent change)*:

	For the Three Months Ended September 30,		% Change	For The Nine Months Ended September 30,		% Change
	2021	2020	2021 over 2020	2021	2020	2021 over 2020
Cost of service revenue	$ 12,985	$ 11,635	11.6 %	$ 42,257	$ 32,809	28.8 %
Cost of equipment revenue	$ 12,368	$ 8,543	44.8 %	$ 31,582	$ 24,036	31.4 %

Cost of service revenue increased to $13.0 million and $42.3 million, respectively, for the three- and nine-month periods ended September 30, 2021, as compared with $11.6 million and $32.8 million, respectively, for the prior-year periods, primarily due to an increase in ATG network costs as these costs are no longer shared with the divested CA business, partially offset by a credit for regulatory surcharges that we are now exempt from.

We expect cost of service revenue to increase over time, primarily due to service revenue growth and increasing ATG network costs associated with Gogo 5G.

Cost of equipment revenue increased to $12.4 million and $31.6 million, respectively, for the three- and nine-month periods ended September 30, 2021, as compared with $8.5 million and $24.0 million, respectively, for the prior-year periods, primarily due to an increase in ATG units sold.

We expect that our cost of equipment revenue will increase with growth in ATG units sold.

Engineering, Design and Development Expenses:

Engineering, design and development expenses increased to $6.0 million and $18.0 million, respectively, for the three- and nine-month periods ended September 30, 2021, as compared with $4.5 million and $17.4 million, respectively, for the prior-year periods, primarily due to an increase in personnel costs resulting from the impact on the prior-year period of cost controls implemented in response to the effect of COVID on our business.

We expect engineering, design and development expenses as a percentage of service revenue to increase in the near term, driven by Gogo 5G development costs, and decrease over the long term as the level of investment decreases and revenue increases.

Sales and Marketing Expenses:

Sales and marketing expenses increased to $5.5 million and $14.1 million, respectively, for the three- and nine-month periods ended September 30, 2021, as compared with $3.8 million and $10.7 million, respectively, for the prior-year periods, primarily due to an increase in personnel costs driven by COVID-related cost controls implemented in the prior-year periods.

We expect sales and marketing expenses as a percentage of service revenue to remain relatively flat in the long term but increase slightly in the near term driven by Gogo 5G marketing spend.

General and Administrative Expenses:

General and administrative expenses increased to $15.3 million and $37.4 million, respectively, for the three- and nine-month periods ended September 30, 2021 as compared with $12.5 million and $36.4 million, respectively, for the prior-year periods, primarily due to an increase in stock-based compensation in the current period and an increase in personnel costs driven by COVID-related cost controls implemented in the prior-year period.

We expect general and administrative expenses as a percentage of service revenue to decrease over time as the business grows given the fixed cost nature of this category and as we realize the full run rate of completed cost savings initiatives.

Depreciation and Amortization:

Depreciation and amortization expense increased to $4.2 million and $11.8 million, respectively, for the three- and nine-month periods ended September 30, 2021, as compared with $3.3 million and $10.1 million, respectively, for the prior-year periods, primarily due to the amortization of capitalized software.

We expect that our depreciation and amortization expense will increase in the future as we launch our Gogo 5G network.

Other (Income) Expense:

Other (income) expense and percent change for the three- and nine-month periods ended September 30, 2021 and 2020 were as follows *(in thousands, except for percent change)*:

	For the Three Months Ended September 30,		% Change
	2021	**2020**	**2021 over 2020**
Interest income	$ (34)	$ (36)	(5.6)%
Interest expense	10,943	31,199	(64.9)%
Loss on extinguishment of debt and settlement of convertible notes	—	—	nm
Other (income) expense	143	12	nm
Total	$ 11,052	$ 31,175	(64.5)%

	For The Nine Months Ended September 30,		% Change
	2021	2020	2021 over 2020
Interest income	$ (145)	$ (689)	(79.0)%
Interest expense	56,577	93,595	(39.6)%
Loss on extinguishment of debt and settlement of convertible notes	83,961	—	nm
Other income	11	12	(8.3)%
Total	$ 140,404	$ 92,918	51.1%

Percentage changes that are considered not meaningful are denoted with nm.

Total other expense decreased to $11.1 million for the three-month period ended September 30, 2021, as compared with $31.2 million for the three-month period ended September 30, 2020, primarily due a decrease in interest expense. Total other expense increased to $140.4 million for the nine-month period ended September 30, 2021, as compared with $92.9 million for the nine-month period ended September 30, 2020, primarily due to the loss on extinguishment of debt and settlement of convertible notes, partially offset by a decrease in interest expense.

We expect our interest expense to decrease in the future as a result of the Refinancing and the conversions and exchanges of 2022 Convertible Notes that have occurred year-to-date and the maturity or earlier conversion of the remaining 2022 Convertible Notes. Additionally, effective November 2021, the applicable margin on the floating interest rate for the Term Loan Facility will decrease 0.5% as a result of a reduction in GIH's senior secured first lien net leverage ratio. See Note 10, "Long-Term Debt and Other Liabilities" to our Unaudited Condensed Consolidated Financial Statements for additional information.

Income Taxes:

The effective income tax rates for the three- and nine-month periods ended September 30, 2021 were 0.7% and (0.9)%, respectively, compared to 0.7% and (0.7)%, respectively, for the prior-year periods. For the three- and nine-month periods ended September 30, 2021 and 2020, our income tax expense was not significant primarily due to the full valuation allowance against our deferred income tax assets. See Note 16, "Income Tax" to our Unaudited Condensed Consolidated Financial Statements for additional information.

We expect our income tax provision to increase in future periods as we generate positive pre-tax income.

Non-GAAP Measures

In our discussion below, we discuss Adjusted EBITDA and Free Cash Flow, as defined below, which are non-GAAP financial measures. Management uses Adjusted EBITDA and Free Cash Flow 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 measures may vary from and may not be comparable to similarly titled measures used by other companies. Adjusted EBITDA and Free Cash Flow are not recognized measurements under GAAP; when analyzing our performance with Adjusted EBITDA or liquidity with Free Cash Flow, as applicable, investors should (i) evaluate each adjustment in our reconciliation to the corresponding GAAP measure, and the explanatory footnotes regarding those adjustments, (ii) use Adjusted EBITDA in addition to, and not as an alternative to, net income (loss) attributable to common stock as a measure of operating results and (iii) use Free Cash Flow in addition to, and not as an alternative to, consolidated net cash provided by operating activities when evaluating our liquidity.

Definition and Reconciliation of Non-GAAP Measures

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

Adjusted EBITDA represents EBITDA adjusted for (i) stock-based compensation expense included in the results of continuing operations, (ii) the results of discontinued operations, including stock-based compensation expense, (iii) loss on extinguishment of debt and settlement of convertible notes and (iv) separation costs related to the sale of CA. 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 that 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 that 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.

We believe it is useful for an understanding of our operating performance to exclude the results of our discontinued operations from Adjusted EBITDA because they are not part of our ongoing operations.

We believe it is useful for an understanding of our operating performance to exclude the loss on extinguishment of debt and settlement of convertible notes from Adjusted EBITDA because of the infrequently occurring nature of these activities.

We believe it is useful for an understanding of our operating performance to exclude separation costs related to the sale of CA from Adjusted EBITDA because of the non-recurring nature of this activity.

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.

Free Cash Flow represents net cash provided by operating activities, less purchases of property and equipment and the acquisition of intangible assets. We believe that Free Cash Flow provides meaningful information regarding our liquidity.

Gogo Inc.
and Subsidiaries
Reconciliation of GAAP to Non-GAAP Measures
(in thousands, unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Adjusted EBITDA:				
Net income (loss) attributable to common stock (GAAP)	$ 10,959	$ (80,124)	$ (65,974)	$ (250,881)
Interest expense	10,943	31,199	56,577	93,595
Interest income	(34)	(36)	(145)	(689)
Income tax provision (benefit)	131	(65)	443	216
Depreciation and amortization	4,160	3,320	11,824	10,117
EBITDA	26,159	(45,706)	2,725	(147,642)
Stock-based compensation expense	5,403	4,680	10,144	8,283
Loss from discontinued operations	8,771	71,234	13,426	218,402
Loss on extinguishment of debt and settlement of convertible notes	—	—	83,961	—
Separation costs related to CA sale	450	—	1,170	—
Adjusted EBITDA	$ 40,783	$ 30,208	$ 111,426	$ 79,043
Free Cash Flow:				
Net cash provided by operating activities (GAAP)	$ 26,754	$ 21,498	$ 36,355	$ 20,315
Consolidated capital expenditures	(2,178)	(1,293)	(4,004)	(6,363)
Free cash flow	$ 24,576	$ 20,205	$ 32,351	$ 13,952

Material limitations of Non-GAAP measures

Although EBITDA and Adjusted EBITDA are measurements frequently used by investors and securities analysts in their evaluations of companies, EBITDA and Adjusted EBITDA 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.

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;
- Adjusted EBITDA does not reflect the results of discontinued operations;
- Adjusted EBITDA does not reflect the separation costs related to the sale of CA;
- Adjusted EBITDA does not reflect the loss on extinguishment of debt and settlement of convertible notes;
- Free Cash Flow does not represent the total increase or decrease in our cash balance for the period; 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.

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 Nine Months Ended September 30,	
	2021	2020
Continuing operations cash flow activity:		
Net cash provided by operating activities	$ 36,355	$ 20,315
Net cash used in investing activities	(11,633)	(6,363)
Net cash provided by (used in) financing activities	(326,223)	16,041
Discontinued operations cash flow activity	(809)	(84,505)
Effect of foreign exchange rate changes on cash	28	(19)
Net decrease in cash, cash equivalents and restricted cash	(302,282)	(54,531)
Cash, cash equivalents and restricted cash at the beginning of period	435,870	177,675
Cash, cash equivalents and restricted cash at the end of period	$ 133,588	$ 123,144
Supplemental information:		
Cash, cash equivalents and restricted cash at the end of period	$ 133,588	$ 123,144
Less: current restricted cash	25	560
Less: non-current restricted cash	330	5,101
Cash and cash equivalents at the end of the period	$ 133,233	$ 117,483

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, credit facilities and cash from operating activities. We continually evaluate our ongoing capital needs in light of increasing demand for our services, capacity requirements, evolving user expectations regarding the in-flight connectivity experience, 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:

Based on our current plans, we believe that our cash and cash equivalents and cash flows provided by operating activities will be sufficient to meet our operating obligations, including our committed capital expenditure requirements, any cash we elect to use to settle our 2022 Convertible Notes and any cash required to pay the principal amount of any 2022 Convertible Notes that remain outstanding at maturity, for at least the next twelve months.

As detailed in Note 10, "Long-Term Debt and Other Liabilities," to our Unaudited Condensed Consolidated Financial Statements, on April 30, 2021, GIH entered into the 2021 Credit Agreement with Gogo, the lenders and issuing banks party thereto and Morgan Stanley Senior Funding, Inc., as administrative agent, which provides for the Term Loan Facility in an aggregate principal amount of $725 million, issued with a discount of 0.5%, and the Revolving Facility, which includes a letter of credit sub-facility. The Term Loan Facility amortizes in nominal quarterly installments equal to 1% of the aggregate initial principal amount thereof per annum, with the remaining balance payable upon final maturity on April 30, 2028. There are no amortization payments under the Revolving Facility, and all borrowings under the Revolving Facility mature on April 30, 2026.

The Term Loan Facility bears annual interest at a floating rate measured by reference to, at GIH's option, either (i) an adjusted London inter-bank offered rate (subject to a floor of 0.75%) plus an applicable margin of 3.75% or (ii) an alternate base rate plus an applicable margin of 2.75%. Loans outstanding under the Revolving Facility bear annual interest at a floating rate measured by reference to, at GIH's option, either (i) an adjusted London inter-bank offered rate (subject to a floor of 0.00%) plus an applicable margin ranging from 3.25% to 3.75% per annum depending on GIH's senior secured first lien net leverage ratio or (ii) an alternate base rate plus an applicable margin ranging from 2.25% to 2.75% per annum depending on GIH's senior secured first lien net leverage ratio. Additionally, unused commitments under the Revolving Facility are subject to a fee ranging from 0.25% to 0.50% per annum depending on GIH's senior secured first lien net leverage ratio.

The Facilities may be prepaid at GIH's option at any time without premium or penalty (other than customary breakage costs and except during the first six months following the closing of the Facilities during which certain prepayments of the Term Loan Facility are subject to a prepayment premium), subject to minimum principal payment amount requirements. Subject to certain exceptions and de minimis thresholds, the Term Loan Facility is subject to mandatory prepayments in an amount equal to: (i) 100% of the net cash proceeds of certain asset sales, insurance recovery and condemnation events, subject to reduction to 50% and 0% if specified senior secured first lien net leverage ratio targets are met; (ii) 100% of the net cash proceeds of certain debt offerings; and (iii) 50% of annual excess cash flow (as defined in the 2021 Credit Agreement), subject to reduction to 25% and 0% if specified senior secured first lien net leverage ratio targets are met.

The Revolving Facility includes a financial covenant set at a maximum senior secured first lien net leverage ratio of 7.50:1.00, which will apply if the outstanding amount of loans and unreimbursed letter of credit drawings thereunder at the end of any fiscal quarter exceeds 35% of the aggregate of all commitments thereunder.

The 2021 Credit Agreement contains customary events of default, which, if any of them occurred, would permit or require the principal, premium, if any, and interest on all of the then outstanding obligations under the Facilities to be due and payable immediately and the commitments under the Revolving Facility to be terminated.

The 2021 Credit Agreement contains covenants that limit the ability of GIH and its subsidiaries to incur additional indebtedness. Further, market conditions and/or our financial performance may limit our access to additional sources of equity or debt financing, or our ability to pursue potential strategic alternatives. As a result, we may be unable to finance growth of our business to the extent that our cash, cash equivalents and short-term investments and cash generated through operating activities prove insufficient or we are unable to raise additional financing through the issuance of equity, permitted incurrences of debt (by us or by GIH and its subsidiaries), or the pursuit of potential strategic alternatives.

The 2022 Convertible Notes mature on May 15, 2022, unless earlier repurchased or converted into shares of our common stock under certain circumstances described in Note 10, “Long-term Debt and Other Liabilities,” to our Unaudited Condensed Consolidated Financial Statements. Upon conversion, Gogo currently expects to settle in shares for the amount of the 2022 Convertible Notes then outstanding. Gogo may elect to deliver cash in lieu of all or a portion of such shares, and borrowings under the Revolving Facility are permitted to be used for this purpose. To the extent any 2022 Convertible Notes remain outstanding at maturity, we currently expect to pay such principal amount through cash on hand or borrowings under the Revolving Facility.

For additional information on the 2021 Credit Agreement and 2022 Convertibles Notes, see Note 10, “Long-Term Debt and Other Liabilities,” to our Unaudited Condensed Consolidated Financial Statements.

In May 2021, we purchased interest rate caps with an aggregate notional amount of $650 million for $8.6 million. We receive payments in the amounts calculated pursuant to the caps for any period in which the three-month USD LIBOR rate increases beyond the applicable strike rate. The termination date of the cap agreements is July 31, 2027. The notional amounts of the interest rate caps periodically decrease over the life of the caps. While the interest rate caps are intended to limit our interest rate exposure under our variable rate indebtedness, which includes the Facilities, if our variable rate indebtedness does not decrease in proportion to the periodic decreases in the notional amount hedged under the interest rate caps, then the portion of such indebtedness that will be effectively hedged against possible increases in interest rates will decrease. In addition, the strike prices periodically increase over the life of the caps. As a result, the extent to which the interest rate caps will limit our interest rate exposure will decrease in the future.

For additional information on the interest rate caps, see Note 11, “Derivative Instruments and Hedging Activities,” to our Unaudited Condensed Consolidated Financial Statements.

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 Nine Months Ended September 30,	
	2021	**2020**
Net loss	$ (52,548)	$ (32,479)
Non-cash charges and credits	110,273	34,312
Changes in operating assets and liabilities	(21,370)	18,482
Net cash provided by operating activities	$ 36,355	$ 20,315

For the nine-month period ended September 30, 2021, net cash provided by operating activities was $36.4 million as compared with net cash provided by operating activities of $20.3 million in the prior-year period. The principal contributors to the year-over-year change in operating cash flows were:

- A $55.9 million improvement in net loss and non-cash charges and credits, as noted above under "—Results of Operations."
- A $39.9 million decrease in cash flows related to operating assets and liabilities resulting from:
  - A decrease in cash flows due to the following:
    - Changes in accrued interest primarily due to the timing of interest payments as compared with the prior-year and reduced interest payments resulting from the Refinancing; and
    - Changes in accounts receivable due to the timing of payments.
  - Partially offset by an increase in cash flows due to changes in contract assets during the current-year period.

For the nine-month period ended September 30, 2021, our free cash flow improved to $32.4 million as compared to $14.0 million for the prior-year period.

Cash flows provided by (used in) Investing Activities:

Cash used in investing activities is primarily for capital expenditures related to cell site construction, software development, and data center upgrades, see "— Capital Expenditures" below. Additionally, cash used in investing activities includes the purchase of the interest rate caps during the nine-month period ended September 30, 2021.

Cash flows provided by (used in) Financing Activities:

Cash used in financing activities for the nine-month period ended September 30, 2021 was $326.2 million primarily due to the redemption of all of our outstanding 2024 Senior Secured Notes (including the make-whole premium payable under the indenture governing the 2024 Senior Secured Notes) for a redemption price totaling $1,023.1 million and the payment of $20.3 million of deferred financing fees associated with the issuance of the Facilities, offset in part by $721.4 million of gross proceeds from the Term Loan Facility.

Cash provided by financing activities for the nine-month period ended September 30, 2020 was $16.0 million primarily due to $26.0 million of proceeds from the ABL Credit Facility offset in part by the repayment of $6.0 million under the ABL Credit Facility and repayment on maturity of the outstanding $2.5 million in aggregate principal amount of the 2020 Convertible Notes on March 1, 2020.

Capital Expenditures

Our operations require capital expenditures associated with our ATG network and data centers. We capitalize software development costs related to network technology solutions. We also capitalize costs related to the build out of our office locations.

Capital expenditures for the nine-month periods ended September 30, 2021 and 2020 were $4.0 million and $6.4 million, respectively.

We expect that our capital expenditures will increase in the near-term as we build out Gogo 5G and further invest in capitalized software and decrease substantially after the Gogo 5G build out is completed.

Other

Leases and Cell Site Contracts: We have lease agreements relating to certain facilities and equipment, which are considered operating leases. See Note 13, “Leases,” to our Unaudited Condensed Consolidated Financial Statements for additional information.

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 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.

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 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 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. Treasury securities, U.S. government agency securities, and money market funds. Our cash and cash equivalents as of both September 30, 2021 and December 31, 2020 included amounts in bank deposit accounts and money market funds, and we did not have any short-term investments as of either such date. We believe that a change in average interest rates would not affect our interest income and results of operations by a material amount.

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 Rate Risk: We are exposed to interest rate risk on our variable rate indebtedness, which includes borrowings under the Term Loan Facility and Revolving Facility (if any). We assess our market risks based on changes in interest rates utilizing a sensitivity analysis that measures the potential impact on earnings and cash flows based on a hypothetical one percentage point change in interest rates. As of September 30, 2021, we had interest rate cap agreements to hedge a portion of our exposure to interest rate movements of our variable rate debt and to manage our interest expense. We receive payments in the amounts calculated pursuant to the caps for any period in which the three-month USD LIBOR rate increases beyond the applicable strike rate. The termination date of the cap agreements is July 31, 2027. Over the life of the interest rate caps, the notional amounts of the caps periodically decrease, while the applicable strike prices increase.

The notional amount of outstanding debt associated with interest rate cap agreements as of September 30, 2021 was $650.0 million. Based on our September 30, 2021 outstanding variable rate debt balance, a hypothetical one percentage point increase in the three-month LIBOR interest rate would impact our annual interest expense by approximately $0.3 million, which includes the impact of our interest rate cap at a strike rate of 0.75%. Excluding the impact of our interest rate caps, a hypothetical one percentage point increase in the three-month LIBOR interest rate would impact our annual interest expense by approximately $2.7 million. A hypothetical one percentage point decrease in the three-month LIBOR interest rate would not impact our annual interest expense due to the LIBOR floor of 0.75% in our Term Loan Facility.

Our earnings are affected by changes in interest rates due to the impact those changes have on interest income generated from our cash and cash equivalents. Our cash and cash equivalents as of both September 30, 2021 and December 31, 2020 included amounts in bank deposit accounts and money market funds. We believe we have minimal interest rate risk related to our cash and cash equivalents, as a 10% decrease in the average interest rate on our portfolio would have reduced interest income for the three- and nine-month periods ended September 30, 2021 and 2020 by immaterial amounts.

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.

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 September 30, 2021. 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 September 30, 2021.

(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.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

We are subject to a number of lawsuits arising out of the conduct of our business. See Note 14, “Commitments and Contingencies”, to our Unaudited Condensed Consolidated Financial Statements for a discussion of litigation matters.

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 outcome of any litigation or the potential for 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

“Item 1A. Risk Factors” of our Form 10-K includes a discussion of our risk factors. Except as set forth in Item 1A of the 2021 Q1 10-Q and the 2021 Q2 10-Q, there have been no material changes to the risk factors previously disclosed in our 2020 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

None.

ITEM 6. Exhibits

Exhibit Number	Description of Exhibits
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	Inline XBRL Instance Document – The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* 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.

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: November 4, 2021

Gogo Inc.

/s/ Oakleigh Thorne

Oakleigh Thorne

President and Chief Executive Officer

(Principal Executive Officer)

/s/ Barry Rowan

Barry Rowan

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

Exhibit 31.1

Gogo Inc.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14(a) OF THE EXCHANGE ACT, AS AMENDED,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Oakleigh Thorne, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Gogo Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2021

/s/ Oakleigh Thorne

Oakleigh Thorne
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

Gogo Inc.

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a) OF THE EXCHANGE ACT, AS AMENDED,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Barry Rowan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Gogo Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2021

/s/ Barry Rowan

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

Exhibit 32.1

Gogo Inc.

**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**

I, Oakleigh Thorne, President and Chief Executive Officer of Gogo Inc. (the “Company”), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2021 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 4, 2021

/s/ Oakleigh Thorne

Oakleigh Thorne
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

Gogo Inc.

**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**

I, Barry Rowan, Executive Vice President and Chief Financial Officer of Gogo Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2021 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 4, 2021

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