

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, 2023

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

(State or other jurisdiction of
Incorporation or Organization)

27-1650905

(I.R.S. Employer
Identification No.)

**105 Edgeview Dr., Suite 300
Broomfield, CO 80021**

(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:

| <u>Title of Class</u> | <u>Trading Symbol</u> | <u>Name of Each Exchange on Which Registered</u> |
|--|-----------------------|--|
| 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 | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

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 November 2, 2023, 128,841,372 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, 2023 | December 31, 2022 |
|--|-----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 86,157 | \$ 150,550 |
| Short-term investments | 24,655 | 24,796 |
| Total cash, cash equivalents and short-term investments | 110,812 | 175,346 |
| Accounts receivable, net of allowances of \$1,884 and \$1,778, respectively | 49,356 | 54,210 |
| Inventories | 62,792 | 49,493 |
| Prepaid expenses and other current assets | 63,873 | 45,100 |
| Total current assets | 286,833 | 324,149 |
| Non-current assets: | | |
| Property and equipment, net | 100,982 | 104,595 |
| Intangible assets, net | 52,719 | 49,509 |
| Operating lease right-of-use assets | 71,539 | 75,261 |
| Other non-current assets, net of allowances of \$545 and \$501, respectively | 37,239 | 43,355 |
| Deferred income taxes | 217,976 | 162,657 |
| Total non-current assets | 480,455 | 435,377 |
| Total assets | \$ 767,288 | \$ 759,526 |
| Liabilities and stockholders' equity (deficit) | | |
| Current liabilities: | | |
| Accounts payable | \$ 15,328 | \$ 13,646 |
| Accrued liabilities | 38,219 | 60,056 |
| Deferred revenue | 1,704 | 3,418 |
| Current portion of long-term debt | 7,250 | 7,250 |
| Total current liabilities | 62,501 | 84,370 |
| Non-current liabilities: | | |
| Long-term debt | 588,733 | 690,173 |
| Non-current operating lease liabilities | 74,481 | 79,241 |
| Other non-current liabilities | 8,031 | 7,611 |
| Total non-current liabilities | 671,245 | 777,025 |
| Total liabilities | 733,746 | 861,395 |
| Commitments and contingencies (Note 11) | | |
| Stockholders' equity (deficit) | | |
| Common stock, par value \$0.0001 per share; 500,000,000 shares authorized at September 30, 2023 and December 31, 2022; 137,530,365 and 136,531,362 shares issued at September 30, 2023 and December 31, 2022, respectively; and 128,839,816 and 127,840,813 shares outstanding at September 30, 2023 and December 31, 2022, respectively | 14 | 14 |
| Additional paid-in capital | 1,396,348 | 1,385,933 |
| Accumulated other comprehensive income | 23,913 | 30,128 |
| Treasury stock, at cost | (158,375) | (158,375) |
| Accumulated deficit | (1,228,358) | (1,359,569) |
| Total stockholders' equity (deficit) | 33,542 | (101,869) |
| Total liabilities and stockholders' equity (deficit) | \$ 767,288 | \$ 759,526 |

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, | |
|--|---|------------------|--|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| Revenue: | | | | |
| Service revenue | \$ 79,546 | \$ 75,252 | \$ 237,107 | \$ 218,983 |
| Equipment revenue | 18,403 | 30,066 | 62,660 | 76,921 |
| Total revenue | <u>97,949</u> | <u>105,318</u> | <u>299,767</u> | <u>295,904</u> |
| Operating expenses: | | | | |
| Cost of service revenue (exclusive of amounts shown below) | 18,116 | 17,297 | 51,732 | 47,683 |
| Cost of equipment revenue (exclusive of amounts shown below) | 12,320 | 19,261 | 47,983 | 50,410 |
| Engineering, design and development | 9,154 | 7,988 | 26,259 | 21,346 |
| Sales and marketing | 7,015 | 6,240 | 21,748 | 18,539 |
| General and administrative | 13,336 | 15,474 | 40,734 | 44,289 |
| Depreciation and amortization | 4,692 | 2,716 | 12,022 | 10,006 |
| Total operating expenses | <u>64,633</u> | <u>68,976</u> | <u>200,478</u> | <u>192,273</u> |
| Operating income | <u>33,316</u> | <u>36,342</u> | <u>99,289</u> | <u>103,631</u> |
| Other expense (income): | | | | |
| Interest income | (1,622) | (690) | (5,509) | (931) |
| Interest expense | 8,025 | 8,781 | 24,807 | 29,442 |
| Loss on extinguishment of debt | — | — | 2,224 | — |
| Other (income) expense, net | (728) | 95 | (733) | 112 |
| Total other expense | <u>5,675</u> | <u>8,186</u> | <u>20,789</u> | <u>28,623</u> |
| Income before income taxes | <u>27,641</u> | <u>28,156</u> | <u>78,500</u> | <u>75,008</u> |
| Income tax (benefit) provision | 6,728 | 7,980 | (52,711) | 10,619 |
| Net income | <u>\$ 20,913</u> | <u>\$ 20,176</u> | <u>\$ 131,211</u> | <u>\$ 64,389</u> |
| Net income attributable to common stock per share: | | | | |
| Basic | \$ 0.16 | \$ 0.16 | \$ 1.01 | \$ 0.53 |
| Diluted | \$ 0.16 | \$ 0.15 | \$ 0.98 | \$ 0.50 |
| Weighted average number of shares: | | | | |
| Basic | <u>129,951</u> | <u>129,914</u> | <u>129,632</u> | <u>121,762</u> |
| Diluted | <u>133,320</u> | <u>134,221</u> | <u>133,382</u> | <u>134,454</u> |

See the Notes to Unaudited Condensed Consolidated Financial Statements

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--|---|------------------|--|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| Net income | \$ 20,913 | \$ 20,176 | \$ 131,211 | \$ 64,389 |
| Other comprehensive income (loss), net of tax | | | | |
| Currency translation adjustments | \$ (136) | \$ (247) | \$ 123 | \$ (256) |
| Cash flow hedges: | | | | |
| Amount recognized in other comprehensive income | 3,517 | 13,068 | 8,405 | 34,227 |
| Less: income realized and reclassified to earnings | 4,620 | 1,786 | 14,743 | 2,305 |
| Changes in fair value of cash flow hedges | (1,103) | 11,282 | (6,338) | 31,922 |
| Other comprehensive income (loss), net of tax | (1,239) | 11,035 | (6,215) | 31,666 |
| Comprehensive income | <u>\$ 19,674</u> | <u>\$ 31,211</u> | <u>\$ 124,996</u> | <u>\$ 96,055</u> |

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, | |
|---|--|-------------------|
| | 2023 | 2022 |
| Operating activities: | | |
| Net income | \$ 131,211 | \$ 64,389 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortization | 12,022 | 10,006 |
| Loss on asset disposals, abandonments and write-downs | 285 | 166 |
| Provision for expected credit losses | 541 | 855 |
| Deferred income taxes | (53,255) | 10,470 |
| Stock-based compensation expense | 15,729 | 14,101 |
| Amortization of deferred financing costs and interest rate caps | 2,671 | 2,486 |
| Accretion of debt discount | 304 | 345 |
| Changes in fair value of equity investment | (773) | — |
| Loss on extinguishment of debt | 2,224 | — |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 4,356 | (12,289) |
| Inventories | (13,299) | (12,622) |
| Prepaid expenses and other current assets | (37,454) | 12,862 |
| Contract assets | 2,822 | (2,836) |
| Accounts payable | 2,526 | 1,116 |
| Accrued liabilities | (5,091) | (16,245) |
| Deferred revenue | (1,708) | (222) |
| Accrued interest | (9,565) | 1,720 |
| Other non-current assets and liabilities | (728) | (2,363) |
| Net cash provided by operating activities | 52,818 | 71,939 |
| Investing activities: | | |
| Purchases of property and equipment | (14,006) | (35,187) |
| Acquisition of intangible assets—capitalized software | (4,711) | (4,745) |
| Proceeds from FCC Reimbursement Program | 3 | — |
| Proceeds from interest rate caps | 20,165 | 803 |
| Redemptions of short-term investments | 49,524 | — |
| Purchases of short-term investments | (49,383) | — |
| Purchase of equity investment | (5,000) | — |
| Net cash used in investing activities | (3,408) | (39,129) |
| Financing activities: | | |
| Payments on term loan | (105,438) | (5,438) |
| Repurchases of common stock | — | (18,375) |
| Payments on financing leases | (117) | (136) |
| Stock-based compensation activity | (8,326) | (2,703) |
| Net cash used in financing activities | (113,881) | (26,652) |
| Effect of exchange rate changes on cash | 78 | 65 |
| (Decrease) increase in cash, cash equivalents and restricted cash | (64,393) | 6,223 |
| Cash, cash equivalents and restricted cash at beginning of period | 150,880 | 146,268 |
| Cash, cash equivalents and restricted cash at end of period | \$ 86,487 | \$ 152,491 |
| Cash, cash equivalents and restricted cash at end of period | \$ 86,487 | \$ 152,491 |
| Less: non-current restricted cash | 330 | 330 |
| Cash and cash equivalents at end of period | \$ 86,157 | \$ 152,161 |
| Supplemental cash flow information: | | |
| Cash paid for interest | \$ 53,911 | \$ 28,841 |
| Cash paid for taxes | 429 | 289 |
| Non-cash investing activities: | | |
| Purchases of property and equipment in current liabilities | \$ 5,425 | \$ 11,549 |

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, 2023

| | Common Stock | | Additional Paid-In Capital | Accumulated Other Comprehen- sive Income | Accumulated Deficit | Treasury Stock | | Total |
|---|---------------------------------|--------------|----------------------------------|--|------------------------|------------------|---------------------|------------------|
| | Shares | Par Value | | | | Shares | Amount | |
| | Balance at June 30, 2023 | 128,696,883 | \$ 14 | \$ 1,391,692 | \$ 25,152 | \$ (1,249,271) | 8,690,549 | \$ (158,375) |
| Net income | — | — | — | — | 20,913 | — | — | 20,913 |
| Currency translation adjustments, net of tax | — | — | — | (136) | — | — | — | (136) |
| Fair value adjustments of cash flow hedges, net of tax | — | — | — | (1,103) | — | — | — | (1,103) |
| Stock-based compensation expense | — | — | 5,235 | — | — | — | — | 5,235 |
| Issuance of common stock upon exercise of stock options | 25,370 | — | 62 | — | — | — | — | 62 |
| Issuance of common stock upon vesting of restricted stock units | 117,563 | — | — | — | — | — | — | — |
| Tax withholding related to vesting of restricted stock units | — | — | (641) | — | — | — | — | (641) |
| Balance at September 30, 2023 | <u>128,839,816</u> | <u>\$ 14</u> | <u>\$ 1,396,348</u> | <u>\$ 23,913</u> | <u>\$ (1,228,358)</u> | <u>8,690,549</u> | <u>\$ (158,375)</u> | <u>\$ 33,542</u> |

For the Three Months Ended September 30, 2022

| | Common Stock | | Additional Paid-In Capital | Accumulated Other Comprehen- sive Loss | Accumulated Deficit | Treasury Stock | | Total |
|--|---------------------------------|--------------|----------------------------------|--|------------------------|------------------|---------------------|---------------------|
| | Shares | Par Value | | | | Shares | Amount | |
| | Balance at June 30, 2022 | 128,688,372 | \$ 13 | \$ 1,379,356 | \$ 22,420 | \$ (1,407,415) | 7,190,549 | \$ (140,000) |
| Net income | — | — | — | — | 20,176 | — | — | 20,176 |
| Currency translation adjustments, net of tax | — | — | — | (247) | — | — | — | (247) |
| Fair value adjustments of cash flow hedges, net of tax | — | — | — | 11,282 | — | — | — | 11,282 |
| Stock-based compensation expense | — | — | 4,690 | — | — | — | — | 4,690 |
| Issuance of common stock upon exercise of stock options | 11,258 | — | 27 | — | — | — | — | 27 |
| Issuance of common stock upon vesting of restricted stock units | 59,655 | — | — | — | — | — | — | — |
| Tax withholding related to vesting of restricted stock units | — | — | (361) | — | — | — | — | (361) |
| Issuance of common stock in connection with employee stock purchase plan | 10,908 | — | 146 | — | — | — | — | 146 |
| Repurchase of common stock | (1,500,000) | — | — | — | — | 1,500,000 | (18,375) | (18,375) |
| Balance at September 30, 2022 | <u>127,270,193</u> | <u>\$ 13</u> | <u>\$ 1,383,858</u> | <u>\$ 33,455</u> | <u>\$ (1,387,239)</u> | <u>8,690,549</u> | <u>\$ (158,375)</u> | <u>\$ (128,288)</u> |

For the Nine Months Ended September 30, 2023

| | Common Stock | | Additional Paid-In Capital | Accumulated Other Comprehen- sive Loss | Accumulated Deficit | Treasury Stock | | Total |
|--|-----------------------------------|--------------|----------------------------------|--|------------------------|------------------|---------------------|------------------|
| | Shares | Par Value | | | | Shares | Amount | |
| | Balance at January 1, 2023 | 127,840,813 | \$ 14 | \$ 1,385,933 | \$ 30,128 | \$ (1,359,569) | 8,690,549 | \$ (158,375) |
| Net income | — | — | — | — | 131,211 | — | — | 131,211 |
| Currency translation adjustments, net of tax | — | — | — | 123 | — | — | — | 123 |
| Fair value adjustments of cash flow hedges, net of tax | — | — | — | (6,338) | — | — | — | (6,338) |
| Stock-based compensation expense | — | — | 15,729 | — | — | — | — | 15,729 |
| Issuance of common stock upon exercise of stock options | 140,141 | — | 361 | — | — | — | — | 361 |
| Issuance of common stock upon vesting of restricted stock units | 829,605 | — | — | — | — | — | — | — |
| Tax withholding related to vesting of restricted stock units | — | — | (6,080) | — | — | — | — | (6,080) |
| Issuance of common stock in connection with employee stock purchase plan | 29,257 | — | 405 | — | — | — | — | 405 |
| Balance at September 30, 2023 | <u>128,839,816</u> | <u>\$ 14</u> | <u>\$ 1,396,348</u> | <u>\$ 23,913</u> | <u>\$ (1,228,358)</u> | <u>8,690,549</u> | <u>\$ (158,375)</u> | <u>\$ 33,542</u> |

For the Nine Months Ended September 30, 2022

| | Common Stock | | Additional Paid-In Capital | Accumulated Other Comprehen- sive Loss | Accumulated Deficit | Treasury Stock | | Total |
|--|--------------------|--------------|----------------------------------|--|------------------------|------------------|---------------------|---------------------|
| | Shares | Par Value | | | | Shares | Amount | |
| | | \$ | \$ | \$ | \$ | | \$ | |
| Balance at January 1, 2022 | 110,791,954 | \$ 11 | \$ 1,258,477 | \$ 1,789 | \$ (1,451,628) | 6,615,449 | \$ (128,803) | (320,154) |
| Net income | — | — | — | — | 64,389 | — | — | 64,389 |
| Currency translation adjustments, net of tax | — | — | — | (256) | — | — | — | (256) |
| Fair value adjustments of cash flow hedges, net of tax | — | — | — | 31,922 | — | — | — | 31,922 |
| Stock-based compensation expense | — | — | 14,101 | — | — | — | — | 14,101 |
| Issuance of common stock upon exercise of stock options | 738,681 | — | 1,971 | — | — | — | — | 1,971 |
| Issuance of common stock upon vesting of restricted stock units | 644,692 | — | — | — | — | — | — | — |
| Tax withholding related to vesting of restricted stock units | — | — | (5,139) | — | — | — | — | (5,139) |
| Issuance of common stock in connection with employee stock purchase plan | 38,634 | — | 465 | — | — | — | — | 465 |
| Settlement of convertible notes | 17,131,332 | 2 | 102,786 | — | — | — | — | 102,788 |
| Settlement of prepaid forward shares | (575,100) | — | 11,197 | — | — | 575,100 | (11,197) | — |
| Repurchase of common stock | (1,500,000) | — | — | — | — | 1,500,000 | (18,375) | (18,375) |
| Balance at September 30, 2022 | <u>127,270,193</u> | <u>\$ 13</u> | <u>\$ 1,383,858</u> | <u>\$ 33,455</u> | <u>\$ (1,387,239)</u> | <u>8,690,549</u> | <u>\$ (158,375)</u> | <u>\$ (128,288)</u> |

See the Notes to Unaudited Condensed Consolidated Financial Statements

1. Basis of Presentation

The Business – Gogo Inc. (“Gogo,” the “Company,” “we,” “us,” or “our”) is the world’s largest provider of broadband connectivity services for the business aviation market. We have served this market for more than 25 years. Our mission is to enrich the lives of passengers and the efficiency of operators with the world’s best business aviation in-flight connectivity and customer support. We have always sought to provide the best connectivity for the business aviation market regardless of technology, and we have a successful history of doing so. Until recently, we focused primarily on business aviation aircraft in North America, which comprise approximately 63% of the worldwide business aviation fleet, and we are the leading provider of in-flight connectivity in that market. Gogo started in analogue air-to-ground (“ATG”) technology in the late 1990s, then, as analogue cellular backhaul disappeared, migrated to narrowband satellite connectivity in the early 2000s, then back to ATG with our digital broadband 3G and 4G networks beginning in 2010. We expect to commercially launch our fourth ATG network – Gogo 5G – in the third quarter of 2024. We also continue to provide narrowband satellite services to customers in North America and internationally through distribution agreements with satellite providers. In May 2022, in order to further serve our existing customers and expand our target market, we announced plans to expand our broadband offerings beyond ATG by launching the first global broadband service designed for all models of business aircraft (“Gogo Galileo”). The service will use an electronically steered antenna, specifically designed to address a broad range of business aviation aircraft, operating on a low earth orbit (“LEO”) satellite network and is targeted for commercial launch in the second half of 2024.

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, 2022 as filed with the Securities and Exchange Commission (the “SEC”) on February 28, 2023 (the “2022 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, 2023 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2023.

We had one class of common stock outstanding as of September 30, 2023 and December 31, 2022.

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.

The Federal Communications Commission (“FCC”) Secure and Trusted Communications Networks Reimbursement Program (the “FCC Reimbursement Program”) – In July 2023, the Company elected to participate in the FCC Reimbursement Program. There is no applicable authoritative guidance under GAAP to account for this government grant. Therefore, we have elected to apply International Accounting Standard (“IAS”) 20 *Accounting for Government Grants and Disclosure of Government Assistance* by analogy. Under IAS 20, government grants related to assets are presented as either deferred income that is recognized on a systematic basis over the useful life of the asset or by deducting the grant from the carrying value of the asset. The Company has elected to deduct the grant from the carrying value of the asset. For grants related to income, the Company has elected to recognize these grants as a deduction from the related expense. Grant receivables from the FCC are recorded by the Company once there is reasonable assurance that we will comply with the conditions of the grant and the grant will be received. See Note 16, “Government Assistance,” for additional information.

As a result of our determination to participate in the FCC Reimbursement Program, we reassessed and shortened the estimated useful lives of affected network equipment to be consistent with our estimated date to complete the program. This change in accounting estimate was effective beginning the second quarter of 2023 and resulted in increased depreciation expense of \$1.9 million and \$3.6 million for the three- and nine-month periods ended September 30, 2023, respectively. Net income per basic and diluted share decreased by \$0.01 for the three-month period ended September 30, 2023 and decreased by \$0.02 for the nine-month period ended September 30, 2023.

Shareholder Rights Plan – On September 23, 2020, our Board of Directors adopted a Section 382 Rights Agreement (the “Rights Agreement”), between the Company and Computershare Trust Company, N.A., as rights agent. The Rights Agreement is intended to reduce the likelihood of an ownership change under Section 382 of the Internal Revenue Code of 1986, as amended, by deterring any person or group from acquiring beneficial ownership of 4.9% or more of the shares of the Company’s common stock

then-outstanding. The Rights Agreement expired on September 23, 2023 and the Board of Directors has voted not to renew the agreement.

2. Revenue Recognition

Remaining performance obligations

As of September 30, 2023, the aggregate amount of the transaction price in our contracts allocated to the remaining unsatisfied performance obligations (“RPO”) was approximately \$65 million and excludes consideration from contracts that have an original duration of one year or less. Approximately \$56 million of the RPO primarily represents connectivity and entertainment service revenues which are recognized as services are provided, which is expected to occur through the remaining term of the contracts. The remaining \$9 million of the RPO represents future equipment revenue that is expected to be recognized primarily within the next two years.

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, | |
|--|---|-------------------|--|-------------------|
| | 2023 | 2022 | 2023 | 2022 |
| Service revenue | | | | |
| Connectivity | \$ 78,246 | \$ 74,017 | \$ 233,291 | \$ 215,347 |
| Entertainment and other | 1,300 | 1,235 | 3,816 | 3,636 |
| Total service revenue | <u>\$ 79,546</u> | <u>\$ 75,252</u> | <u>\$ 237,107</u> | <u>\$ 218,983</u> |
| Equipment revenue | | | | |
| ATG | \$ 14,782 | \$ 26,274 | \$ 50,665 | \$ 64,916 |
| Narrowband satellite | 1,564 | 1,698 | 6,373 | 7,251 |
| Other | 2,057 | 2,094 | 5,622 | 4,754 |
| Total equipment revenue | <u>\$ 18,403</u> | <u>\$ 30,066</u> | <u>\$ 62,660</u> | <u>\$ 76,921</u> |
| Customer type | | | | |
| Aircraft owner/operator/service provider | \$ 79,546 | \$ 75,252 | \$ 237,107 | \$ 218,983 |
| OEM and aftermarket dealer | 18,403 | 30,066 | 62,660 | 76,921 |
| Total revenue | <u>\$ 97,949</u> | <u>\$ 105,318</u> | <u>\$ 299,767</u> | <u>\$ 295,904</u> |

Contract balances

Our current and non-current contract asset balances totaled \$17.0 million and \$19.9 million as of September 30, 2023 and December 31, 2022, respectively. Contract assets represent the aggregate amount of revenue recognized in excess of billings primarily for certain sales programs.

Our current and non-current deferred revenue balances totaled \$1.7 million and \$3.4 million as of September 30, 2023 and December 31, 2022, respectively. Deferred revenue includes, among other things, prepayments for equipment and subscription connectivity products.

Major Customers

No customer accounted for more than 10% of total revenue during the three- and nine-month periods ended September 30, 2023 and 2022 and no customer accounted for more than 10% of accounts receivable as of September 30, 2023 or December 31, 2022.

3. Earnings Per Share

Basic and diluted earnings 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 6, “Long-Term Debt and Other Liabilities”) were considered participating securities requiring the two-class method to calculate basic and diluted earnings per share. Net earnings were allocated between common shares and participating securities on a one-to-one basis. Refer to Note 6, “Long-Term Debt and Other Liabilities,” for further information.

The diluted earnings 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- and nine-month periods ended September 30, 2023, the

Gogo Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements – (Continued)

weighted average number of shares excluded from the computation was 2.0 million and 1.5 million, respectively. For the three- and nine-month periods ended September 30, 2022, the weighted average number of shares excluded from the computation was 0.8 million and 0.4 million, respectively.

The following table sets forth the computation of basic and diluted earnings per share for the three- and nine-month periods ended September 30, 2023 and 2022; however, for the reasons described above, while outstanding, the shares of common stock associated with the Forward Transactions were excluded from the computation of basic earnings per share (*in thousands, except per share amounts*):

| | For the Three Months Ended September 30, | | | | | |
|--|--|-------------------------|------------------|-----------------------|-------------------------|------------------|
| | 2023 | | | 2022 | | |
| | Income (Numerator) | Shares (Denominator) | Per Share Amount | Income (Numerator) | Shares (Denominator) | Per Share Amount |
| Net income | \$ 20,913 | | | \$ 20,176 | | |
| Less: participation rights on Forward Transactions | — | | | — | | |
| Basic earnings per share | | | | | | |
| Undistributed income | \$ 20,913 | 129,951 | <u>\$ 0.16</u> | \$ 20,176 | 129,914 | <u>\$ 0.16</u> |
| Effect of dilutive securities | | | | | | |
| Stock-based compensation | — | 3,369 | | — | 4,307 | |
| 2022 Convertible Notes | — | — | | — | — | |
| Diluted earnings per share | | | | | | |
| Undistributed income and assumed conversions | \$ 20,913 | 133,320 | <u>\$ 0.16</u> | \$ 20,176 | 134,221 | <u>\$ 0.15</u> |
| Earnings per share - basic | | | <u>\$ 0.16</u> | | | <u>\$ 0.16</u> |
| Earnings per share - diluted | | | <u>\$ 0.16</u> | | | <u>\$ 0.15</u> |
| | For the Nine Months Ended September 30, | | | | | |
| | 2023 | | | 2022 | | |
| | Income (Numerator) | Shares (Denominator) | Per Share Amount | Income (Numerator) | Shares (Denominator) | Per Share Amount |
| Net income | \$ 131,211 | | | \$ 64,389 | | |
| Less: participation rights on Forward Transactions | — | | | 162 | | |
| Basic earnings per share | | | | | | |
| Undistributed income | \$ 131,211 | 129,632 | <u>\$ 1.01</u> | \$ 64,227 | 121,762 | <u>\$ 0.53</u> |
| Effect of dilutive securities | | | | | | |
| Stock-based compensation | — | 3,750 | | — | 4,972 | |
| 2022 Convertible Notes | — | — | | 2,770 | 7,720 | |
| Diluted earnings per share | | | | | | |
| Undistributed income and assumed conversions | \$ 131,211 | 133,382 | <u>\$ 0.98</u> | \$ 66,997 | 134,454 | <u>\$ 0.50</u> |
| Earnings per share - basic | | | <u>\$ 1.01</u> | | | <u>\$ 0.53</u> |
| Earnings per share - diluted | | | <u>\$ 0.98</u> | | | <u>\$ 0.50</u> |

4. Composition of Certain Balance Sheet Accounts

Inventories consist primarily of telecommunications systems and parts and are recorded at the lower of average cost or net realizable value. 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. As a result of our determination to participate in the FCC Reimbursement Program (as defined and described in Note 16, "Government Assistance"), the Company wrote down the net realizable value of certain inventory by approximately \$1.3 million for the nine-month period ended September 30, 2023. The write-off charge is included in Cost of equipment revenue in our Unaudited Condensed Consolidated Statements of Operations.

Gogo Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements – (Continued)

Inventories as of September 30, 2023 and December 31, 2022 were as follows (*in thousands*):

| | September 30, 2023 | December 31, 2022 |
|---------------------------------|-------------------------------|------------------------------|
| Work-in-process component parts | \$ 34,845 | \$ 34,840 |
| Finished goods | 27,947 | 14,653 |
| Total inventory ⁽¹⁾ | <u>\$ 62,792</u> | <u>\$ 49,493</u> |

(1) See Note 16, “Government Assistance,” for additional information.

Prepaid expenses and other current assets as of September 30, 2023 and December 31, 2022 were as follows (*in thousands*):

| | September 30, 2023 | December 31, 2022 |
|---|-------------------------------|------------------------------|
| Interest rate caps and receivable | \$ 27,582 | \$ 28,496 |
| FCC reimbursement receivable ⁽¹⁾ | 16,242 | — |
| Contract assets ⁽¹⁾ | 7,154 | 6,494 |
| Prepaid inventories | 3,115 | 2,901 |
| Other | 9,780 | 7,209 |
| Total prepaid expenses and other current assets | <u>\$ 63,873</u> | <u>\$ 45,100</u> |

(1) See Note 16, “Government Assistance,” for additional information.

Property and equipment as of September 30, 2023 and December 31, 2022 were as follows (*in thousands*):

| | September 30, 2023 | December 31, 2022 |
|---|-------------------------------|------------------------------|
| Office equipment, furniture, fixtures and other | \$ 18,820 | \$ 17,242 |
| Leasehold improvements | 16,251 | 15,357 |
| Network equipment ⁽¹⁾ | 182,944 | 179,363 |
| | 218,015 | 211,962 |
| Accumulated depreciation | (117,033) | (107,367) |
| Total property and equipment, net | <u>\$ 100,982</u> | <u>\$ 104,595</u> |

(1) See Note 16, “Government Assistance,” for additional information.

Other non-current assets as of September 30, 2023 and December 31, 2022 were as follows (*in thousands*):

| | September 30, 2023 | December 31, 2022 |
|--|-------------------------------|------------------------------|
| Interest rate caps | \$ 17,470 | \$ 25,578 |
| Contract assets, net of allowances of \$545 and \$501, respectively ⁽¹⁾ | 9,850 | 13,376 |
| Equity investment ⁽²⁾ | 5,773 | — |
| Revolving credit facility deferred financing costs | 1,121 | 1,445 |
| Other | 3,025 | 2,956 |
| Total other non-current assets | <u>\$ 37,239</u> | <u>\$ 43,355</u> |

(1) See Note 16, “Government Assistance,” for additional information.

(2) See Note 8, “Fair Value of Financial Assets and Liabilities,” for additional information.

Gogo Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements – (Continued)

Accrued liabilities as of September 30, 2023 and December 31, 2022 were as follows (*in thousands*):

| | September 30, 2023 | December 31, 2022 |
|------------------------------------|-----------------------|----------------------|
| Operating leases | \$ 9,738 | \$ 9,094 |
| Employee compensation and benefits | 7,526 | 19,235 |
| Network equipment | 4,694 | 8,748 |
| Warranty reserve | 2,870 | 2,300 |
| Inventory | 2,508 | 2,455 |
| Taxes | 2,306 | 2,282 |
| Accrued interest | 313 | 9,878 |
| Other | 8,264 | 6,064 |
| Total accrued liabilities | \$ 38,219 | \$ 60,056 |

5. 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 test 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 2022 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, 2023 and December 31, 2022, our goodwill balance was \$0.6 million.

Our intangible assets, other than goodwill, as of September 30, 2023 and December 31, 2022 were as follows (*in thousands, except for weighted average remaining useful life*):

| | Weighted Average Remaining Useful Life (in years) | As of September 30, 2023 | | | As of December 31, 2022 | | |
|--|---|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
| | | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Amortized intangible assets: | | | | | | | |
| Software | 6.9 | \$64,950 | \$(45,633) | \$19,317 | \$59,932 | \$(43,950) | \$15,982 |
| Other intangible assets | 8.0 | 499 | — | 499 | 624 | — | 624 |
| 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 | | 80,254 | (60,438) | 19,816 | 75,361 | (58,755) | 16,606 |
| Unamortized intangible assets: | | | | | | | |
| FCC Licenses | | 32,283 | — | 32,283 | 32,283 | — | 32,283 |
| Total intangible assets | | \$112,537 | \$(60,438) | \$52,099 | \$107,644 | \$(58,755) | \$48,889 |

Amortization expense was \$0.5 million and \$1.7 million, respectively, for the three- and nine-month periods ended September 30, 2023 and \$0.7 million and \$4.1 million, respectively, for the prior-year periods.

Amortization expense for the remainder of 2023, each of the next four years and thereafter is estimated to be as follows (*in thousands*):

| Years ending December 31, | Amortization Expense |
|---|-------------------------|
| 2023 (period from October 1 to December 31) | \$284 |
| 2024 | \$1,693 |
| 2025 | \$2,969 |
| 2026 | \$2,903 |
| 2027 | \$2,704 |
| Thereafter | \$9,263 |

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

6. Long-Term Debt and Other Liabilities

Long-term debt as of September 30, 2023 and December 31, 2022 was as follows (*in thousands*):

| | September 30, 2023 | December 31, 2022 |
|---|-----------------------|----------------------|
| Term Loan Facility | \$ 606,510 | \$ 711,263 |
| Less: deferred financing costs | (10,527) | (13,840) |
| Less: current portion of long-term debt | (7,250) | (7,250) |
| Total long-term debt | <u>\$ 588,733</u> | <u>\$ 690,173</u> |

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 “Original 2021 Credit Agreement,” and, as it may be amended, supplemented or otherwise modified from time to time, 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 \$725.0 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 \$100.0 million, which includes a letter of credit sub-facility.

On February 2, 2023, Gogo and GIH entered into an amendment to the Original 2021 Credit Agreement with Morgan Stanley Senior Funding, Inc., as administrative agent, which replaced all references in the Original 2021 Credit Agreement to LIBOR in respect of the applicable interest rates for the Facilities with an adjusted term secured overnight financing rate as administered by the Federal Reserve Bank of New York (“SOFR”), plus a credit spread adjustment recommended by the Alternative Reference Rates Committee. We elected to apply the optional expedient within ASC 848, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, to conclude that this modification was not substantial and did not have a material impact to our condensed consolidated financial statements.

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 term SOFR rate (subject to a floor of 0.75%) plus an applicable margin of 3.75% and a credit spread adjustment recommended by the Alternative Reference Rates Committee of 0.11%, 0.26% or 0.43% per annum based on 1-month, 3-month or 6-month term SOFR, respectively 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 term SOFR 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 and a credit spread adjustment recommended by the Alternative Reference Rates Committee of 0.11%, 0.26% or 0.43% per annum based on 1-month, 3-month or 6-month term SOFR, respectively 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. As of September 30, 2023, the fee for unused commitments under the Revolving Facility was 0.25% and the applicable margin was 3.25%.

The Facilities may be prepaid at GIH’s option at any time without premium or penalty (other than customary breakage costs), subject to minimum principal payment amount requirements. On May 3, 2023, the Company prepaid \$100 million of the outstanding principal amount of the Term Loan Facility. As a result, we wrote off \$2.2 million of the deferred financing costs and unaccrued debt discount, which are included in Loss on extinguishment of debt in our Unaudited Condensed Consolidated Statements of Operations for the nine-month period ended September 30, 2023.

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 FCC; 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 Revolving Facility is available for working capital and general corporate purposes of GIH and its subsidiaries and was undrawn as of September 30, 2023 and December 31, 2022.

As of September 30, 2023 and December 31, 2022, the outstanding principal amount of the Term Loan Facility was \$608.7 million and \$714.1 million, respectively, the unaccreted debt discount was \$2.2 million and \$2.8 million, respectively, and the net carrying amount was \$606.5 million and \$711.3 million, respectively.

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 \$0.5 million and \$1.8 million, respectively, for the three- and nine-month periods ended September 30, 2023 and \$0.7 million and \$2.0 million, respectively, for the prior-year periods and is included in interest expense in our Unaudited Condensed Consolidated Statements of Operations. As of September 30, 2023 and December 31, 2022, the balance of unamortized deferred financing costs related to the Facilities was \$11.6 million and \$15.3 million, respectively.

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

In 2018, we issued \$237.8 million aggregate principal amount of 6.00% Convertible Senior Notes due 2022 (the “2022 Convertible Notes”) in private offerings to qualified institutional buyers, including pursuant to Rule 144A under the Securities Act, and in concurrent private placements.

In 2021, \$135.0 million aggregate principal amount of 2022 Convertible Notes was converted by holders and settled through the issuance of 24,353,006 shares of common stock.

In May 2022, the remaining \$102.8 million aggregate principal amount of 2022 Convertible Notes was converted by holders into 17,131,332 shares of common stock. Thorndale Farm Private Equity Fund 2, LLC, an entity affiliated with our Chair of the Board and Chief Executive Officer, held \$8.0 million aggregate principal amount of 2022 Convertible Notes that was converted into 1,333,333 shares of common stock.

We incurred approximately \$8.1 million of issuance costs related to the 2022 Convertible Notes that were amortized over the term of the 2022 Convertible Notes using the effective interest method. Total amortization expense was \$0.4 million for the nine-month period ended September 30, 2022 and is included in Interest expense in the Unaudited Condensed Consolidated Statements of Operations. As of December 31, 2022, there were no unamortized deferred financing costs related to the 2022 Convertible Notes. See Note 9, “Interest Costs,” for additional information.

The 2022 Convertible Notes had an initial conversion rate of 166.6667 common shares per \$1,000 principal amount of 2022 Convertible Notes, which was equivalent to an initial conversion price of approximately \$6.00 per share of our common stock. Prior to conversion, the shares of common stock subject to conversion were considered in the diluted earnings per share calculations under the if-converted method if their impact was dilutive.

Forward Transactions

In connection with the issuance of our 3.75% Convertible Senior Notes due 2020 (the “2020 Convertible Notes”), we paid approximately \$140.0 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. As a result of the Forward Transactions, total shareholders’ equity within our consolidated balance sheets was reduced by approximately \$140.0 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. In May 2022, the approximately 0.6 million shares that were remaining under the Amended and Restated Forward Transaction were delivered to us, and there are no additional prepaid forward stock repurchase transactions outstanding.

7. 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 \$650.0 million for \$8.6 million. The cost of the interest rate caps will be amortized to interest expense using the caplet method, from the effective date through termination date. We receive payments in the amount calculated pursuant to the caps for any period in which the daily compounded SOFR rate plus a credit spread adjustment recommended by the Alternative Reference Rates Committee of 0.26% 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*. For the three-month period ended September 30, 2023, approximately \$0.2 million in net unrealized losses from our cash flow hedges were considered to be ineffective and reclassified from other comprehensive income (loss) to earnings. The unrealized loss was offset with an unrealized gain from the previous quarter for a net zero impact for nine-month period ended September 30, 2023. The ineffective portion was the result of a voluntary partial de-designation of the hedge relationship related to a prepayment of our existing variable-rate debt discussed in Note 6, “Long-Term Debt and Other Liabilities.” No gains or losses of our cash flow hedges were considered to be ineffective for the three- and nine-month periods ended September 30, 2022. We estimate that approximately \$2.6 million currently recorded in accumulated other comprehensive income (loss) will be recognized in earnings over the next 12 months. We assess the effectiveness of the hedges on an ongoing basis, and the remaining outstanding caps, excluding the caps that were de-designated, are still considered to be highly effective, and remain designated as a cash flow hedge. Cash flows from interest rate caps are classified in the Unaudited Condensed Consolidated Statement of Cash Flows as investing activities.

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Notes to Unaudited Condensed Consolidated Financial Statements – (Continued)

For the three-month period ended September 30, 2023, we recorded a decrease in fair value on the interest rate caps of \$1.7 million, net of tax of \$0.4 million, and for the nine-month period ended September 30, 2023 we recorded a decrease in fair value on the interest rate caps of \$7.2 million, net of tax of \$2.1 million. For the three-month period ended September 30, 2022, we recorded an increase in fair value on the interest rate caps of \$11.2 million, net of tax of \$3.7 million, and for the nine-month period ended September 30, 2022, we recorded an increase in fair value on the interest rate caps of \$31.8 million, net of tax of \$10.5 million. Increases and decreases in fair value on interest rate caps above exclude amortization of the purchase price paid for the interest rate caps.

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, 2023 | December 31, 2022 |
|--|---|-------------------------------|------------------------------|
| Current portion of interest rate caps | Prepaid expenses and other current assets | \$ 23,288 | \$ 24,459 |
| Non-current portion of interest rate caps | Other non-current assets | \$ 17,470 | \$ 25,578 |

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.

Reference Rate Reform

In March 2020, the FASB issued Accounting Standard Update (“ASU”) 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU 2020-04, which provides optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848): Scope*. The amendments in ASU 2021-01 provide optional expedients to the current guidance on contract modification and hedge accounting from the expected market transition from LIBOR and other interbank offered rates to alternative reference rates. The guidance generally can be applied to applicable contract modifications through December 31, 2024. The Company evaluated the impact of ASU 2020-04 and 2021-01, both of which were previously adopted by the Company, and has made necessary changes to its affected contracts in order to capture the market transition from LIBOR to SOFR.

On February 2, 2023 the Company modified its 2021 Credit Agreement to use the Secured Overnight Financing Rate (“SOFR”) as a reference rate rather than LIBOR (see Note 6, “Long-Term Debt and Other Liabilities”). In conjunction with the amendment of the debt, the Company’s derivative positions automatically transitioned to SOFR, the designated fallback as determined by the International Swaps and Derivatives Association on July 31, 2023. Concurrently, the Company updated its hedge documentation to reflect the changing of the benchmark index, which changed solely as a result of reference rate reform. Under ASC 848, Reference Rate Reform, hedge accounting may continue without de-designation if certain criteria are met. For cash flow hedges in which the designated hedged risk is LIBOR (or another rate that is expected to be discontinued), the guidance allows an entity to assert that it remains probable that the hedged forecasted transaction will occur. The Company has assessed the effectiveness of the amended hedge relationship and concluded that the hedge relationship remains highly effective. The Company applied the optional expedient within ASC 848 to conclude the updates to the hedge relationship due to reference rate reform did not have a material impact on the Company's consolidated financial statements.

8. 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 7, “Derivative Instruments and Hedging Activities,” for fair value information relating to our interest rate caps.

Long-Term Debt:

As of September 30, 2023 and December 31, 2022, our only financial asset or liability disclosed but not measured at fair value is the Term Loan Facility, which is reflected on the Unaudited Condensed Consolidated Balance Sheets at cost. The fair value measurement is classified as Level 2 within the fair value hierarchy since it is based on quoted market prices of our instrument in markets that are not active. We estimated the fair value of the Term Loan Facility by calculating the upfront cash payment a market participant would require to assume the obligation. The upfront cash payment used in the calculation of fair value on our September 30, 2023 Unaudited Condensed Consolidated Balance Sheets, excluding any issuance costs, is the amount that a market participant would be willing to lend at such date 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.

The fair value and carrying value of long-term debt as of September 30, 2023 and December 31, 2022 were as follows (*in thousands*):

| | September 30, 2023 | | December 31, 2022 | |
|--------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | Fair Value ⁽¹⁾ | Carrying Value | Fair Value ⁽¹⁾ | Carrying Value |
| Term Loan Facility | \$ 608,000 | \$ 606,510 ⁽²⁾ | \$ 708,000 | \$ 711,263 ⁽²⁾ |

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

(2) Carrying value of the Term Loan Facility reflects the unaccreted debt discount of \$2.2 million and \$2.8 million as of September 30, 2023 and December 31, 2022, respectively. See Note 6, “Long-Term Debt and Other Liabilities,” for further information.

Equity Investment:

During the three-month period ended September 30, 2023, we purchased an equity investment in a publicly traded company for \$5.0 million. The equity investment is included in Other non-current assets on the Unaudited Condensed Consolidated Balance Sheets and is recorded at fair value. The equity investment is classified as a Level 1 within the fair value hierarchy based on the quoted stock price on the New York Stock Exchange American Exchange, an active market. For the three- and nine-month periods ended September 30, 2023, we recorded an unrealized holding gain in the equity investment of \$0.8 million which is included in Other (income) expense, net in our Unaudited Condensed Consolidated Statements of Operations.

9. Interest Costs

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

The following is a summary of our interest costs for the three- and nine-month periods ended September 30, 2023 and 2022 (*in thousands*):

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--|---|-----------------|--|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| Interest costs charged to expense | \$ 13,545 | \$ 10,553 | \$ 42,254 | \$ 29,753 |
| Amortization of deferred financing costs | 519 | 663 | 1,794 | 2,412 |
| Amortization of the purchase price of interest rate caps | 465 | 46 | 877 | 74 |
| Interest rate cap benefit | (6,589) | (2,595) | (20,422) | (3,142) |
| Accretion of debt discount | 85 | 114 | 304 | 345 |
| Interest expense | 8,025 | 8,781 | 24,807 | 29,442 |
| Interest costs capitalized to property and equipment | 555 | 350 | 1,557 | 507 |
| Interest costs capitalized to software | 213 | 152 | 544 | 360 |
| Total interest costs | \$ 8,793 | \$ 9,283 | \$ 26,908 | \$ 30,309 |

10. Leases

Operating and Financing Leases — We determine whether a contract contains a lease at contract inception. Lease liabilities are calculated using a discount rate based on our incremental borrowing rate at lease commencement. We have operating lease agreements primarily related to cell sites and office space. Certain cell site and office space leases have renewal option terms that have been deemed reasonably certain to be exercised. These renewal options extend a lease by up to 15 years. We recognize operating lease expense on a straight-line basis over the lease term. As of September 30, 2023, there were no significant leases which had 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, | | For the Nine Months Ended September 30, | |
|-------------------------------|---|-----------------|--|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| Operating lease cost | \$ 3,998 | \$ 3,843 | \$ 11,908 | \$ 11,007 |
| Financing lease cost: | | | | |
| Amortization of leased assets | 22 | 40 | 100 | 117 |
| Interest on lease liabilities | — | 9 | 8 | 33 |
| Total lease cost | \$ 4,020 | \$ 3,892 | \$ 12,016 | \$ 11,157 |

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

| | For the Nine Months Ended September 30, | |
|---|--|-------------|
| | 2023 | 2022 |
| Supplemental cash flow information | | |
| Cash paid for amounts included in measurement of lease liabilities: | | |
| Operating cash flows used in operating leases | \$ 12,203 | \$ 11,134 |
| Operating cash flows used in financing leases | \$ 8 | \$ 33 |
| Financing cash flows used in financing leases | \$ 117 | \$ 136 |
| Non-cash items: | | |
| Operating leases obtained | \$ 3,713 | \$ 11,525 |
| Financing leases obtained | \$ — | \$ 11 |
| Weighted average remaining lease term | | |
| Operating leases | 7 years | 8 years |
| Financing leases | 1 year | 1 year |
| Weighted average discount rate | | |
| Operating leases | 6.8% | 6.7% |
| Financing leases | 12.9% | 17.2% |

Gogo Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements – (Continued)

Annual future minimum lease payments as of September 30, 2023 (in thousands):

| Years ending December 31, | Operating Leases | Financing Leases |
|---|---------------------|---------------------|
| 2023 (period from October 1 to December 31) | \$ 2,761 | \$ 16 |
| 2024 | 16,035 | 3 |
| 2025 | 15,197 | 2 |
| 2026 | 14,983 | — |
| 2027 | 14,020 | — |
| Thereafter | 43,503 | — |
| Total future minimum lease payments | 106,499 | 21 |
| Less: Amount representing interest | (22,280) | — |
| Present value of net minimum lease payments | \$ 84,219 | \$ 21 |
| Reported as of September 30, 2023 | | |
| Accrued liabilities | \$ 9,738 | \$ 18 |
| Non-current operating lease liabilities | 74,481 | — |
| Other non-current liabilities | — | 3 |
| Total lease liabilities | \$ 84,219 | \$ 21 |

11. 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.

In June 2022, we entered into a supply and product support agreement (the “SPSA”) with Hughes Network Systems, LLC (“Hughes”), providing for our purchase from Hughes of airborne half duplex (“HDX”) antennas for use on a LEO satellite network, and the performance by Hughes of services related thereto. Under the SPSA, we commit to purchase, over a seven-year period that will begin on completion of a project milestone currently expected to occur in the second half of 2024, HDX antennas with an estimated aggregate purchase price of approximately \$170 million. During the contractual seven-year period, Hughes may not sell substantially similar equipment to other purchasers in our primary target market. In March 2023, we amended the SPSA, pursuant to which, we committed to purchase, over a seven-year period that will begin on completion of a project milestone currently expected to occur in mid-2025, full duplex (“FDX”) antennas with an estimated aggregate purchase price of approximately \$102 million.

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.

Derivative Litigation – On September 25, 2018 and September 26, 2018, two purported stockholders of the Company filed substantively identical derivative lawsuits in the Court, styled Nanduri v. Gogo Inc. and Hutsepiller 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 then-current member of the Company’s Board of Directors, its former Chief Executive Officer and Chief Financial Officer, its then-current President, Commercial Aviation, and its current Chief Executive Officer and Chief Financial Officer. 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 and remain stayed. 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. The two derivative lawsuits and the litigation demand letter are collectively referred to herein as the “Derivative Matters” and the plaintiffs in the two derivative lawsuits and the purported stockholder who sent the litigation demand letter are collectively referred to herein as the “Stockholders.”

On January 5, 2023, following mediation, the defendants and the Stockholders entered into a Stipulation and Agreement of Settlement (the “Derivative Settlement”) under which the Company, in consideration of dismissal of the two derivative lawsuits with prejudice and a release of all claims asserted against the Company and the individual defendants in the Derivative Matters, will implement certain corporate governance initiatives (“Governance Initiatives”) and cause its D&O insurance carrier to pay the Stockholders’ attorneys’ fees. Under the terms of the Derivative Settlement, the defendants will not be required to pay any damages. We had accrued a liability for attorneys’ fees within Accrued liabilities and a corresponding receivable in Prepaid expenses and other current assets in the Unaudited Condensed Consolidated Balance Sheets as of December 21, 2022.

On February 1, 2023, the Court granted preliminary approval of the proposed Derivative Settlement, approved various notices to be disseminated to the Company’s stockholders and the schedule for dissemination. On April 11, 2023, the Court issued final judgment approving the Derivative Settlement. The Company released the accrued liability and corresponding receivable for attorneys’ fees as of March 31, 2023 and pursuant to the terms of the Derivative Settlement, has implemented the Governance Initiatives.

SmartSky Litigation – On February 28, 2022, SmartSky Networks, LLC brought suit against Gogo Inc. and its subsidiary Gogo Business Aviation LLC in the U.S. District Court for the District of Delaware alleging that Gogo 5G infringes four patents owned by the plaintiff. On February 21, 2023, the plaintiff amended its complaint to allege that Gogo 5G infringes two additional patents recently issued to the plaintiff. The suit seeks an unspecified amount of compensatory damages as well as treble damages for alleged willful infringement and reimbursement of plaintiff’s costs, disbursements and attorneys’ fees. Under a schedule agreed upon by the parties, fact discovery and claim construction proceedings will be substantially completed by the end of 2023 or early 2024, and expert discovery by early-to-mid 2024, with dispositive motions to follow. A trial date has been scheduled for April 14, 2025. Also on February 28, 2022, the plaintiff filed a motion (the “PI Motion”) requesting that the Court preliminarily enjoin the Company from making, using, offering to sell or selling the Gogo 5G system. On September 26, 2022, the Court issued an order denying the PI Motion. The plaintiff has appealed the denial to the U.S. Court of Appeals for the Federal Circuit. Briefing for the appeal is complete and the appellate court heard oral arguments on June 5, 2023. The U.S. Court of Appeals for the Federal Circuit has not issued a decision on the appeal as of the date hereof. We believe that the plaintiff’s claims are without merit and intend to continue to vigorously defend our position in the infringement suit and defend against the appeal. The outcomes of the appeal and the underlying litigation are 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.

12. Income Tax

The effective income tax rates for the three- and nine-month periods ended September 30, 2023 were 24.3% and (67.1)%, respectively, compared to 28.3% and 14.2%, respectively, for the prior-year periods. For the three-month period ended September 30, 2023, our effective income tax rate was higher than the U.S. federal statutory rate of 21% primarily due to state income taxes. For the nine-month period ended September 30, 2023, our effective income tax rate was lower than the U.S. federal statutory rate of 21% primarily due to a partial release of the valuation allowance on our deferred income tax assets, partially offset by state income taxes. For the three-month period ended September 30, 2022, our effective income tax rate was higher than the U.S. federal statutory rate of 21% primarily due to deferred tax adjustments, state income taxes, and the establishment of a reserve for unrecognized tax benefits, partially offset by a partial release of the valuation allowance on our deferred tax assets. For the nine-month period ended September 30, 2022, our effective income tax rate was lower than the U.S. federal statutory rate of 21% primarily due to a partial release of the valuation allowance on our deferred income tax assets and tax benefits for stock-based compensation, partially offset by deferred tax adjustments, state income taxes, and the establishment of a reserve for unrecognized tax benefits.

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, potential sources of taxable income, the reversal of existing taxable differences, taxable income in prior carryback years, if permitted under tax law, and tax planning strategies. Based on our most recent assessment, for the nine-month period ended September 30, 2023, we released \$71.4 million of the valuation allowance for the portion of our deferred income tax assets that we are more likely going to utilize than not. As of September 30, 2023, we can demonstrate an estimate of objectively verifiable future income. This estimate of future income, along with our assessment of the other positive and negative evidence considered, supports the release of a portion of the valuation allowance. The remaining valuation allowance is still required for deferred income tax assets

related to certain state credits, foreign net operating losses and capital losses as it was more likely than not as of September 30, 2023 that these deferred income tax assets will not be realized.

We are subject to taxation and file income tax returns in the United States federal jurisdiction and many states and Canada. With few exceptions, as of September 30, 2023 we are no longer subject to U.S. federal, state, local or foreign examinations by tax authorities for years before 2019.

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, 2023 and 2022. As of September 30, 2023 and December 31, 2022, we did not have a liability recorded for interest or potential penalties.

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

Stock-Based Compensation — As of September 30, 2023, we maintained the Second Amended and Restated Gogo Inc. 2016 Omnibus Incentive Plan (the “2016 Omnibus Plan”). The Gogo Inc. 2013 Omnibus Incentive Plan, The Aircell Holdings Inc. Stock Option Plan and the Employee Stock Purchase Plan (“ESPP”) are all expired. The 2016 Omnibus Plan provides for the grant of both equity and cash awards, including non-qualified stock options, incentive stock options, stock appreciation rights, performance awards (shares and units), restricted stock, Restricted Stock Units (“RSUs”), deferred share units and other stock-based awards and dividend equivalents to eligible employees, directors and consultants, as determined by the Compensation Committee of our Board of Directors. See Note 14, “Stock-Based Compensation and 401(k) Plan,” in our 2022 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, 2023, no options to purchase shares of common stock were granted, options to purchase 140,141 shares of common stock were exercised, 1,875 options to purchase shares of common stock were forfeited and 4,120 options to purchase shares of common stock expired.

For the nine-month period ended September 30, 2023, 1,727,035 RSUs were granted, 1,260,630 RSUs vested and 133,985 RSUs were forfeited. The fair value of the RSUs granted during the nine-month period ended September 30, 2023 was approximately \$26.9 million, which will generally be recognized over a period of four years.

For the nine-month period ended September 30, 2023, 103,546 deferred stock units were granted and 127,741 vested. The fair value of the deferred stock units granted during the nine-month period ended September 30, 2023 was approximately \$1.5 million, which was recognized immediately.

For the nine-month period ended September 30, 2023, 29,257 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 (*in thousands*):

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--|---|-----------------|--|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| Cost of service revenue | \$ 448 | \$ 288 | \$ 1,229 | \$ 752 |
| Cost of equipment revenue | 349 | 265 | 987 | 733 |
| Engineering, design and development | 903 | 655 | 2,565 | 1,800 |
| Sales and marketing | 940 | 670 | 2,661 | 1,892 |
| General and administrative | 2,595 | 2,812 | 8,287 | 8,924 |
| Total stock-based compensation expense | <u>\$ 5,235</u> | <u>\$ 4,690</u> | <u>\$ 15,729</u> | <u>\$ 14,101</u> |

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 \$0.5 million and \$1.6 million, respectively, during the three- and nine-month periods ended September 30, 2023 and \$0.5 million and \$1.4 million, respectively, for the prior-year periods.

14. Research and Development Costs

Expenditures for research and development are charged to expense as incurred and totaled \$9.2 million and \$26.3 million, respectively, during the three- and nine-month periods ended September 30, 2023 and \$8.0 million and \$21.3 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.

15. 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 Hedges | Total |
|--|---------------------------------------|---|------------------|
| Balance at January 1, 2023 | \$ (1,225) | \$ 31,353 | \$ 30,128 |
| Other comprehensive income (loss) before reclassifications | 123 | 8,405 | 8,528 |
| Less: income realized and reclassified to earnings | — | 14,743 | 14,743 |
| Net current period comprehensive income (loss) | 123 | (6,338) | (6,215) |
| Balance at September 30, 2023 | <u>\$ (1,102)</u> | <u>\$ 25,015</u> | <u>\$ 23,913</u> |

| | Currency Translation Adjustment | Change in Fair Value of Cash Flow Hedges | Total |
|--|---------------------------------------|---|------------------|
| Balance at January 1, 2022 | \$ (960) | \$ 2,749 | \$ 1,789 |
| Other comprehensive income (loss) before reclassifications | (256) | 34,227 | 33,971 |
| Less: income realized and reclassified to earnings | — | 2,305 | 2,305 |
| Net current period comprehensive income (loss) | (256) | 31,922 | 31,666 |
| Balance at September 30, 2022 | <u>\$ (1,216)</u> | <u>\$ 34,671</u> | <u>\$ 33,455</u> |

16. Government Assistance

FCC Reimbursement Program

On July 15, 2022, the Company was notified that it was approved for participation in the FCC Reimbursement Program, designed to reimburse providers of advanced communications services for reasonable costs incurred in the required removal, replacement, and disposal of covered communications equipment or services, that have been deemed to pose a national security risk, from their networks. Pursuant to the FCC Reimbursement Program, the FCC approved up to approximately \$334 million in reimbursements to the Company to cover documented and approved costs to (i) remove and securely destroy all ZTE communications equipment and services in the Company’s terrestrial U.S. networks and replace such equipment and (ii) remove and replace certain equipment installed on aircraft operated by the Company’s ATG customers that is not compatible with the terrestrial equipment that will replace ZTE equipment. Due to a shortfall in the amount appropriated by Congress to fund the FCC Reimbursement Program, approximately \$132 million of the approved amount is currently allocated to the Company under the program. If Congress appropriates additional funds for this purpose, the allocations of the Company and other approved applicants will be increased *pro rata*. Program participants are subject to a number of conditions and requirements under the FCC’s rules including a requirement that they submit their first reimbursement request by July 17, 2023 and certify that they have developed a plan to permanently remove, replace and dispose of covered equipment or services within one year following the first reimbursement request. The rules permit participants to petition the FCC for one or more six-month extensions of the completion deadline. The Company, with the assistance of an advisor we engaged to help administer the program, submitted and received its first reimbursement claim in July 2023. The Company’s one year term to complete the program is set for July 21, 2024, however, based on discussions with our vendors supporting the program regarding lead times for network equipment, we plan to petition the FCC for multiple extensions.

As of September 30, 2023, we have recorded a \$16.2 million receivable from the FCC, which is included in Prepaid expenses and other current assets in our Unaudited Condensed Consolidated Balance Sheets. See Note 1, “Basis of Presentation,” for additional information on our accounting policy for government grants.

The following are the deductions to the carrying value of asset balances in our Unaudited Condensed Consolidated Balance Sheets as of September 30, 2023 (*in thousands*):

Gogo Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements – (Continued)

| | As of September 30, | |
|----------------------------------|----------------------------|---------|
| | 2023 | |
| Assets: | | |
| Inventories | \$ | (5,490) |
| Prepays and other current assets | | (1,010) |
| Property and equipment, net | | (1,938) |
| Intangible assets, net | | (58) |
| Other non-current assets | | (3,735) |

The following are the increases to Net income in our Unaudited Condensed Consolidated Statements of Operations for the three- and nine-month periods ended September 30, 2023 (*in thousands*):

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|----------------------------|---|-------|--|-------|
| | 2023 | | 2023 | |
| Revenue: | | | | |
| Service revenue | \$ | 380 | \$ | 380 |
| Operating expenses: | | | | |
| Cost of service revenue | | 694 | | 697 |
| Cost of equipment revenue | | 2,752 | | 2,752 |
| General and administrative | | 153 | | 185 |

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q 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 continue to generate revenue from the provision of our connectivity services;
- our reliance on our key OEMs and dealers for equipment sales;
- our ability to develop and deploy Gogo 5G, Gogo Galileo or other next generation technologies;
- the impact of competition;
- our ability to expand our business outside of the United States;
- the impact of pandemics or other outbreaks of contagious diseases, and the measures implemented to combat them;
- the impact of global supply chain and logistics issues and increasing inflation;
- our ability to evaluate or pursue strategic opportunities;
- our reliance on third parties for equipment components and services;
- our ability to recruit, train and retain highly skilled employees;
- the impact of adverse economic conditions;
- our ability to maintain our rights to use our licensed 3Mhz of ATG spectrum in the United States and obtain rights to additional spectrum if needed;
- the impact of our use of open-source software;
- the impact of equipment failure or material defects or errors in our software;
- the impact of service interruptions or delays, technology failures, equipment damage or system disruptions or failures, including any arising from cyber-attacks;
- the impact of assertions by third parties of infringement, misappropriation or other violations;
- our ability to innovate and provide products and services;
- risks associated with participation in the Federal Communications Commission (“FCC”) Reimbursement Program;
- our ability to comply with applicable foreign ownership limitations;
- our ability to comply with anti-bribery, anti-corruption and anti-money laundering laws;
- our possession and use of personal information;
- the extent of expenses, liabilities or business disruptions resulting from litigation;
- our ability to protect our intellectual property rights;
- the impact of global climate change and legal, regulatory or market responses to it;
- 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;
- our ability to fully utilize portions of our deferred income tax assets; and
- other risks and factors listed under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the Securities and Exchange Commission (the “SEC”) on February 28, 2023 (the “2022 10-K”), in Item 1A of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2023, as filed with the SEC on May 3, 2023 (the “2023 Q1 10-Q”); in Item 1A of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2023, as filed with the SEC on August 7, 2023 (the “2023 Q2 10-Q”); and in Item 1A of this Quarterly Report on Form 10-Q.

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 Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q, refer to Gogo Inc. and its directly and indirectly owned subsidiaries as a combined entity, except where otherwise stated or where it is clear that the terms refer only to Gogo Inc. exclusive of its subsidiaries.

The statements in this discussion regarding industry outlook, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements in this discussion are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described under “Risk Factors” in the 2022 10-K, in Item 1A of the 2023 Q1 10-Q, in Item 1A of the 2023 Q2 10-Q and in Item 1A and “Special Note Regarding Forward-Looking Statements” in this Quarterly Report on Form 10-Q. 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. We have served this market for more than 25 years. Our mission is to enrich the lives of passengers and the efficiency of operators with the world’s best business aviation in-flight connectivity and customer support. We have always sought to provide the best connectivity for the business aviation market regardless of technology, and we have a successful history of doing so. Until recently, we focused primarily on business aviation aircraft in North America, which comprise approximately 63% of the worldwide business aviation fleet, and we are the leading provider of in-flight connectivity in that market. Gogo started in analogue air-to-ground (“ATG”) technology in the late 1990s, then, as analogue cellular backhaul disappeared, migrated to narrowband satellite connectivity in the early 2000s, then back to ATG with our digital broadband 3G and 4G networks beginning in 2010. We expect to commercially launch our fourth ATG network – Gogo 5G – in the third quarter of 2024. We also continue to provide narrowband satellite services to customers in North America and internationally through distribution agreements with satellite providers. In May 2022, in order to further serve our existing customers and expand our target market, we announced plans to expand our broadband offerings beyond ATG by launching the first global broadband service designed for all models of business aircraft (“Gogo Galileo”). The service will use an electronically steered antenna (“ESA”), specifically designed to address a broad range of business aviation aircraft, operating on a low earth orbit (“LEO”) satellite network and is targeted for commercial launch in the second half of 2024.

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.

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, Gogo Galileo 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, chipset, and other equipment developers and providers or satellite network 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;
- disruptions to supply chains in the aviation industry and installations of our equipment driven by, among other things, labor shortages;

- 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;
- our ability to fully utilize portions of our deferred income tax assets;
- changes in laws, regulations and interpretations affecting telecommunications services globally, 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, including Gogo Galileo, 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 globally, 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, | |
|---|---|----------|--|----------|
| | 2023 | 2022 | 2023 | 2022 |
| Aircraft online (at period end) | | | | |
| ATG | 7,150 | 6,777 | 7,150 | 6,777 |
| Narrowband satellite | 4,395 | 4,484 | 4,395 | 4,484 |
| Average monthly connectivity service revenue per aircraft online | | | | |
| ATG | \$ 3,373 | \$ 3,376 | \$ 3,378 | \$ 3,342 |
| Narrowband satellite | 294 | 297 | 297 | 263 |
| Units sold | | | | |
| ATG | 192 | 388 | 692 | 944 |
| Narrowband satellite | 40 | 43 | 132 | 144 |
| Average equipment revenue per unit sold (in thousands) | | | | |
| ATG | \$ 77 | \$ 68 | \$ 73 | \$ 69 |
| Narrowband satellite | 39 | 39 | 48 | 50 |

- *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 commercial aircraft operated by Intelsat's airline customers receiving ATG service.
- *Narrowband satellite aircraft online.* We define narrowband satellite aircraft online as the total number of business aircraft for which we provide narrowband 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 Intelsat is excluded from this calculation.
- *Average monthly connectivity service revenue per narrowband satellite aircraft online.* We define average monthly connectivity service revenue per narrowband satellite aircraft online as the aggregate narrowband satellite connectivity service revenue for the period divided by the number of months in the period, divided by the number of narrowband 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 narrowband 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 narrowband satellite unit sold.* We define average equipment revenue per narrowband satellite unit sold as the aggregate equipment revenue earned from all narrowband satellite units sold during the period, divided by the number of narrowband 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 2022 10-K.

Critical Accounting 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 amounts 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, actual 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 the valuation allowance related to our deferred income tax assets have the greatest potential impact on and are the most critical to fully understanding and evaluating our reported financial results, and that they require our most difficult, subjective or complex judgments.

The information presented below updates, and should be read in conjunction with, the critical accounting estimates described in the MD&A in our 2022 10-K. Except as set forth below, there have been no material changes to our critical accounting estimates described in the MD&A in our 2022 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, we consider recent financial operating results, the scheduled expiration of our net operating losses, potential sources of taxable income, the reversal of existing taxable differences, taxable income in prior carryback years, if permitted under tax law, and tax planning strategies.

Our determination that we are more likely than not to realize a portion of our deferred tax assets represents our best estimate and considers both positive and negative factors. This estimate involves significant management judgment and is inherently complex and subjective. We considered positive factors including our recent history of pre-tax income, the sale of our Commercial Aviation business, the reduction in interest expense resulting from the Refinancing (as defined herein) and the settlement of the 6% Convertible Senior Notes due 2022 (the “2022 Convertible Notes”) and our projected future pre-tax income. The negative factors included no carryback potential due to historical pre-tax losses, not enough current taxable temporary differences to utilize the existing deferred tax assets and no available significant, prudent and feasible tax planning strategies. It is possible that there will be changes in our business, our performance, our industry or otherwise that cause actual results to differ materially from this estimate. If those changes result in significant and sustained reductions in our pre-tax income or utilization of existing tax carryforwards in future periods, additional valuation allowances may have to be recorded with corresponding adverse impacts on earnings and/or other comprehensive income. Such adverse impacts may be material.

For the nine-month period ended September 30, 2023, our determination that we are more likely than not to realize a portion of our deferred tax assets resulted in a release of approximately \$71.2 million of our valuation allowance. The remaining valuation allowance is still required for deferred tax assets related to certain state tax credits, foreign net operating losses and capital losses, as we determined that it was more likely than not that, as of September 30, 2023, these deferred tax assets will not be realized.

See Note 12, “Income Tax,” to our Unaudited Condensed Consolidated Financial Statements for additional information.

Recent Accounting Pronouncements

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

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, | |
|--|---|------------------|--|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| Revenue: | | | | |
| Service revenue | \$ 79,546 | \$ 75,252 | \$ 237,107 | \$ 218,983 |
| Equipment revenue | 18,403 | 30,066 | 62,660 | 76,921 |
| Total revenue | <u>97,949</u> | <u>105,318</u> | <u>299,767</u> | <u>295,904</u> |
| Operating expenses: | | | | |
| Cost of service revenue (exclusive of amounts shown below) | 18,116 | 17,297 | 51,732 | 47,683 |
| Cost of equipment revenue (exclusive of amounts shown below) | 12,320 | 19,261 | 47,983 | 50,410 |
| Engineering, design and development | 9,154 | 7,988 | 26,259 | 21,346 |
| Sales and marketing | 7,015 | 6,240 | 21,748 | 18,539 |
| General and administrative | 13,336 | 15,474 | 40,734 | 44,289 |
| Depreciation and amortization | 4,692 | 2,716 | 12,022 | 10,006 |
| Total operating expenses | <u>64,633</u> | <u>68,976</u> | <u>200,478</u> | <u>192,273</u> |
| Operating income | <u>33,316</u> | <u>36,342</u> | <u>99,289</u> | <u>103,631</u> |
| Other expense (income): | | | | |
| Interest income | (1,622) | (690) | (5,509) | (931) |
| Interest expense | 8,025 | 8,781 | 24,807 | 29,442 |
| Loss on extinguishment of debt | — | — | 2,224 | — |
| Other (income) expense, net | (728) | 95 | (733) | 112 |
| Total other expense | <u>5,675</u> | <u>8,186</u> | <u>20,789</u> | <u>28,623</u> |
| Income before income taxes | <u>27,641</u> | <u>28,156</u> | <u>78,500</u> | <u>75,008</u> |
| Income tax (benefit) provision | 6,728 | 7,980 | (52,711) | 10,619 |
| Net income | <u>\$ 20,913</u> | <u>\$ 20,176</u> | <u>\$ 131,211</u> | <u>\$ 64,389</u> |

Three and Nine Months Ended September 30, 2023 and 2022

Revenue:

Revenue and percent change for the three- and nine-month periods ended September 30, 2023 and 2022 were as follows (*in thousands, except for percent change*):

| | For the Three Months Ended September 30, | | % Change 2023 over 2022 | For the Nine Months Ended September 30, | | % Change 2023 over 2022 |
|-------------------|--|------------|----------------------------|---|------------|----------------------------|
| | 2023 | 2022 | | 2023 | 2022 | |
| Service revenue | \$ 79,546 | \$ 75,252 | 5.7% | \$ 237,107 | \$ 218,983 | 8.3% |
| Equipment revenue | 18,403 | 30,066 | (38.8)% | 62,660 | 76,921 | (18.5)% |
| Total revenue | \$ 97,949 | \$ 105,318 | (7.0)% | \$ 299,767 | \$ 295,904 | 1.3% |

Total revenue decreased to \$97.9 million for the three-month period ended September 30, 2023 as compared with \$105.3 million for the prior-year period, due to a decrease in equipment revenue, partially offset by an increase in service revenue. Total revenue increased to \$299.8 million for the nine-month period ended September 30, 2023 as compared with \$295.9 million for the prior-year period due to an increase in service revenue, partially offset by a decrease in equipment revenue.

Service revenue increased to \$79.5 million and \$237.1 million, respectively, for the three- and nine-month periods ended September 30, 2023, as compared with \$75.3 million and \$219.0 million, respectively, for the prior-year periods, primarily due to increases in ATG aircraft online.

Equipment revenue decreased to \$18.4 million and \$62.7 million, respectively, for the three- and nine-month periods ended September 30, 2023, as compared with \$30.1 million and \$76.9 million, respectively, for the prior-year periods, primarily due to decreases in the number of ATG units sold, with 192 units and 692 units, respectively, sold during the three- and nine-month periods ended September 30, 2023 as compared with 388 units and 944 units, respectively, sold during the prior-year periods.

We expect service revenue to increase in the future as additional aircraft come online, including the expected impact of the launch of Gogo 5G and Gogo Galileo. We expect equipment revenue to increase in the future driven by additional sales of ATG units, including Gogo 5G and Gogo Galileo units.

Cost of Revenue:

Cost of revenue and percent change for the three- and nine-month periods ended September 30, 2023 and 2022 were as follows (*in thousands, except for percent change*):

| | For the Three Months Ended September 30, | | % Change 2023 over 2022 | For the Nine Months Ended September 30, | | % Change 2023 over 2022 |
|---------------------------|--|-----------|----------------------------|---|-----------|----------------------------|
| | 2023 | 2022 | | 2023 | 2022 | |
| Cost of service revenue | \$ 18,116 | \$ 17,297 | 4.7% | \$ 51,732 | \$ 47,683 | 8.5% |
| Cost of equipment revenue | \$ 12,320 | \$ 19,261 | (36.0)% | \$ 47,983 | \$ 50,410 | (4.8)% |

Cost of service revenue increased to \$18.1 million and \$51.7 million, respectively, for the three- and nine-month periods ended September 30, 2023, as compared with \$17.3 million and \$47.7 million, respectively, for the prior-year periods, primarily due to an increase in personnel costs and ATG network costs.

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

Cost of equipment revenue decreased to \$12.3 million for the three-month period ended September 30, 2023 as compared with \$19.3 million for the prior-year period, primarily due to a decrease in ATG units sold and a reduction in current-period expense related to an accrued receivable from the FCC Reimbursement Program for certain prior period expenditures. Cost of equipment revenue decreased to \$48.0 million for the nine-month period ended September 30, 2023 as compared with \$50.4 million for the prior-year period, primarily due to a decrease in ATG units sold, partially offset by an increase in production costs and the write down of inventory related to the FCC Reimbursement Program. For more information on the FCC Reimbursement Program, see Note 16, "Government Assistance," to our Unaudited Condensed Consolidated Financial Statements.

We expect that our cost of equipment revenue will increase with growth in ATG units sold, including Gogo 5G, and Gogo Galileo units following the launch of those products. Additionally, we expect to incur additional costs associated with the FCC Reimbursement Program which we expect to be partially offset by the reimbursements from the FCC.

Engineering, Design and Development Expenses:

Engineering, design and development expenses increased to \$9.2 million and \$26.3 million, respectively, for the three- and nine-month periods ended September 30, 2023, as compared with \$8.0 million and \$21.3 million, respectively, for the prior-year periods, primarily due to the Gogo Galileo development program and increased personnel costs.

We expect engineering, design and development expenses as a percentage of service revenue to increase through 2024, driven by Gogo Galileo development costs and Gogo 5G program spend, and decrease thereafter as the level of investment decreases and revenue increases.

Sales and Marketing Expenses:

Sales and marketing expenses increased to \$7.0 million and \$21.7 million, respectively, for the three- and nine-month periods ended September 30, 2023, as compared with \$6.2 million and \$18.5 million, respectively, for the prior-year periods, primarily due to increased personnel costs.

We expect sales and marketing expenses as a percentage of service revenue to remain relatively flat in the future.

General and Administrative Expenses:

General and administrative expenses decreased to \$13.3 million and \$40.7 million, respectively, for the three- and nine-month periods ended September 30, 2023, as compared with \$15.5 million and \$44.3 million, respectively, for the prior-year periods, primarily due to decreased personnel costs tied to a reduction in bonus expense.

We expect general and administrative expenses as a percentage of service revenue to decrease over time.

Depreciation and Amortization:

Depreciation and amortization expense increased to \$4.7 million and \$12.0 million, respectively, for three- and nine-month periods ended September 30, 2023, as compared with \$2.7 million and \$10.0 million, respectively, for the prior-year periods, primarily due to accelerated depreciation expense for certain network equipment related to the FCC Reimbursement Program, partially offset by decreased amortization expense for capitalized software. See Note 1, "Basis of Presentation," to our Unaudited Condensed Consolidated Financial Statements for additional information on the accelerated depreciation expense.

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

Other Expense (Income):

Other expense (income) and percent change for the three- and nine-month periods ended September 30, 2023 and 2022 were as follows (in thousands, except for percent change):

| | For the Three Months Ended September 30, | | % Change 2023 over 2022 |
|-----------------------------|---|----------|----------------------------|
| | 2023 | 2022 | |
| Interest income | \$ (1,622) | \$ (690) | 135.1% |
| Interest expense | 8,025 | 8,781 | (8.6)% |
| Other (income) expense, net | (728) | 95 | (866.3)% |
| Total | \$ 5,675 | \$ 8,186 | (30.7)% |

| | For the Nine Months Ended September 30, | | % Change 2023 over 2022 |
|--------------------------------|--|-----------|----------------------------|
| | 2023 | 2022 | |
| Interest income | \$ (5,509) | \$ (931) | 491.7% |
| Interest expense | 24,807 | 29,442 | (15.7)% |
| Loss on extinguishment of debt | 2,224 | — | nm |
| Other (income) expense, net | (733) | 112 | (754.5)% |
| Total | \$ 20,789 | \$ 28,623 | (27.4)% |

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

Total other expense decreased to \$5.7 million for the three-month period ended September 30, 2023 as compared with \$8.2 million for the prior-year period, primarily due to an increase in interest income, an unrealized holding gain in an equity investment, an increase in capitalized interest and the benefit from the interest rate caps, partially offset by an increase in interest expense related to the Term Loan Facility. Total other expense decreased to \$20.8 million for the nine-month period ended September 30, 2023 as compared with \$28.6 million for the prior-year period, primarily due to an increase in interest income, a decrease in interest expense as a result of the 2022 Convertible Notes no longer being outstanding during the current-year period, an increase in capitalized interest, an unrealized holding gain in an equity investment and the benefit from the interest rate caps, partially offset by an increase in interest expense related to the Term Loan Facility and the loss on extinguishment of debt resulting from the \$100 million prepayment of the outstanding principal amount of the Term Loan Facility on May 3, 2023.

We expect our interest expense to fluctuate in the future based on changes in the variable rates associated with the Facilities, partially offset by the impact of the interest rate caps. We expect these fluctuations to be impacted by the decrease in the hedge benefit as our hedge notional amount decreases and the strike rate increases. See Note 6, “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, 2023 were 24.3% and (67.1)%, respectively, as compared to 28.3% and 14.2%, respectively, for the prior-year periods. For the three-month period ended September 30, 2023, our income tax provision was \$6.7 million due to pre-tax income and for the nine-month period ended September 30, 2023, our income tax benefit of \$52.7 million was primarily due to a partial release of the valuation allowance on our deferred income tax assets, partially offset by pre-tax income. For the three- and nine-month periods ended September 30, 2022, our income tax provision was \$8.0 million and \$10.6 million, respectively, primarily due to pre-tax income, partially offset by the partial release of the valuation allowance against our deferred income tax assets and the tax benefits for stock-based compensation. See Note 12, “Income Tax,” to our Unaudited Condensed Consolidated Financial Statements for additional information.

We expect our income tax provision to increase in the long term as we continue to generate positive pre-tax income. We expect cash tax payments to be immaterial for an extended period of time, subject to the availability of our net operating loss carryforward amounts.

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 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 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, (ii) changes in fair value of an equity investment and (iii) loss on extinguishment of debt. 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 provides a clearer view of the operating performance of our business and is appropriate given that 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 changes in fair value of an equity investment from Adjusted EBITDA because this activity is not related to our operating performance.

We believe it is useful for an understanding of our operating performance to exclude the loss on extinguishment of debt from Adjusted EBITDA because of the infrequently occurring 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 consolidated 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, plus the proceeds received from the FCC Reimbursement Program and the interest rate caps, less purchases of property and equipment. We believe that Free Cash Flow provides meaningful information regarding our liquidity. Management believes that Free Cash Flow is useful for investors because it provides them with an important perspective on the cash available for strategic measures, after making necessary capital investments in property and equipment to support the Company's ongoing business operations and provides them with the same measures that management uses as the basis of making capital allocation decisions.

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, | |
|--|---|------------------|--|-------------------|
| | 2023 | 2022 | 2023 | 2022 |
| Adjusted EBITDA: | | | | |
| Net income attributable to common stock (GAAP) | \$ 20,913 | \$ 20,176 | \$ 131,211 | \$ 64,389 |
| Interest expense | 8,025 | 8,781 | 24,807 | 29,442 |
| Interest income | (1,622) | (690) | (5,509) | (931) |
| Income tax (benefit) provision | 6,728 | 7,980 | (52,711) | 10,619 |
| Depreciation and amortization | 4,692 | 2,716 | 12,022 | 10,006 |
| EBITDA | 38,736 | 38,963 | 109,820 | 113,525 |
| Stock-based compensation expense | 5,235 | 4,690 | 15,729 | 14,101 |
| Change in fair value of equity investment | (773) | — | (773) | — |
| Loss on extinguishment of debt | — | — | 2,224 | — |
| Adjusted EBITDA | <u>\$ 43,198</u> | <u>\$ 43,653</u> | <u>\$ 127,000</u> | <u>\$ 127,626</u> |

Free Cash Flow:

| | | | | |
|--|------------------|-----------------|------------------|------------------|
| Net cash provided by operating activities (GAAP) | \$ 18,677 | \$ 27,699 | \$ 52,818 | \$ 71,939 |
| Consolidated capital expenditures | (5,355) | (19,982) | (18,717) | (39,932) |
| Proceeds from FCC Reimbursement Program | 3 | — | 3 | — |
| Proceeds from interest rate caps | 7,676 | 803 | 20,165 | 803 |
| Free cash flow | <u>\$ 21,001</u> | <u>\$ 8,520</u> | <u>\$ 54,269</u> | <u>\$ 32,810</u> |

Material limitations of Non-GAAP measures

Although EBITDA, Adjusted EBITDA and Free Cash Flow are measurements frequently used by investors and securities analysts in their evaluations of companies, EBITDA, Adjusted EBITDA and Free Cash Flow 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 unrealized holding gains or losses on equity investments;
- Adjusted EBITDA does not reflect the loss on extinguishment of debt;
- 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, | |
|---|--|------------|
| | 2023 | 2022 |
| Net cash provided by operating activities | \$ 52,818 | \$ 71,939 |
| Net cash used in investing activities | (3,408) | (39,129) |
| Net cash used in financing activities | (113,881) | (26,652) |
| Effect of foreign exchange rate changes on cash | 78 | 65 |
| Net (decrease) increase in cash, cash equivalents and restricted cash | (64,393) | 6,223 |
| Cash, cash equivalents and restricted cash at the beginning of period | 150,880 | 146,268 |
| Cash, cash equivalents and restricted cash at the end of period | \$ 86,487 | \$ 152,491 |
| Supplemental information: | | |
| Cash, cash equivalents and restricted cash at the end of period | \$ 86,487 | \$ 152,491 |
| Less: non-current restricted cash | 330 | 330 |
| Cash and cash equivalents at the end of the period | \$ 86,157 | \$ 152,161 |

We have historically financed our growth and cash needs primarily through the issuance of common stock, debt 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. Our capital management activities include the assessment of 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 expect our cash and cash equivalents, cash flows provided by operating activities and access to capital markets will be sufficient to meet the cash requirements of our business, including capital expenditure requirements, share repurchases, if any, and debt maturities, for at least the next twelve months and thereafter for the foreseeable future.

On September 5, 2023, we announced a share repurchase program that grants the Company authority to repurchase up to \$50 million of shares of the Company's common stock. Repurchases may be made at management's discretion from time to time on the open market, through privately negotiated transactions, or by other means, including through the use of trading plans intended to qualify under Rule 10b5-1 under the Securities Exchange Act, as amended, in accordance with applicable securities laws and other restrictions. The repurchase program has no time limit and may be suspended for periods or discontinued at any time and does not obligate us to purchase any shares of our common stock. The timing and total amount of stock repurchases will depend upon business, economic and market conditions, corporate and regulatory requirements, prevailing stock prices, and other considerations. We do not expect to incur debt to fund the share repurchase program. As of September 30, 2023, no share repurchases have been made under the repurchase program.

As detailed in Note 6, "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 \$725.0 million, issued with a discount of 0.5%, and the Revolving Facility, which includes a letter of credit sub-facility.

On February 2, 2023, Gogo and GIH entered into an amendment to the Original 2021 Credit Agreement with Morgan Stanley Senior Funding, Inc., as administrative agent, which replaced all references in the Original 2021 Credit Agreement to LIBOR in respect of the applicable interest rates for the Facilities with an adjusted term SOFR rate, plus a credit spread adjustment recommended by the Alternative Reference Rates Committee.

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 term SOFR rate (subject to a floor of 0.75%) plus an applicable margin of 3.75% and a credit spread adjustment recommended by the

Alternative Reference Rates Committee of 0.11%, 0.26% or 0.43% per annum based on 1-month, 3-month or 6-month term SOFR, respectively 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 term SOFR 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 and a credit spread adjustment recommended by the Alternative Reference Rates Committee of 0.11%, 0.26% or 0.43% per annum based on 1-month, 3-month or 6-month term SOFR, respectively 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. As of September 30, 2023, the fee for unused commitments under the Revolving Facility was 0.25% and the applicable margin was 3.25%.

The Facilities may be prepaid at GIH's option at any time without premium or penalty (other than customary breakage costs), subject to minimum principal payment amount requirements. On May 3, 2023, the Company prepaid \$100 million of the outstanding principal amount of the Term Loan Facility.

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 the 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 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 together with accrued and unpaid interest and redemption premiums and to pay fees associated with the termination of the ABL Credit Agreement (together with the redemption of the 2024 Senior Secured Notes, the "Refinancing"), and (ii) to pay the other fees and expenses incurred in connection with the Refinancing and the Facilities. The Revolving Facility is available for working capital and general corporate purposes of GIH and its subsidiaries and was undrawn as of September 30, 2023 and December 31, 2022.

For additional information on the 2021 Credit Agreement, see Note 6, "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 \$650.0 million for \$8.6 million. We receive payments in the amount calculated pursuant to the caps for any period in which the daily compounded SOFR rate plus a credit spread adjustment recommended by the Alternative Reference Rates Committee of 0.26% 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 with the first reduction of \$125.0 million having occurred on July 31, 2023. The aggregate notional amount of the interest rate caps as of September 30, 2023 is \$525.0 million. 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 7, "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, | |
|---|--|------------------|
| | 2023 | 2022 |
| Net income | \$ 131,211 | \$ 64,389 |
| Non-cash charges and credits | (20,252) | 38,429 |
| Changes in operating assets and liabilities | (58,141) | (30,879) |
| Net cash provided by operating activities | <u>\$ 52,818</u> | <u>\$ 71,939</u> |

For the nine-month period ended September 30, 2023, net cash provided by operating activities was \$52.8 million as compared with \$71.9 million in the prior-year period. The principal contributors to the year-over-year change in operating cash flows were:

- A \$8.1 million improvement in net income and non-cash charges and credits, as noted above under “—Results of Operations.”
- A \$27.3 million decrease in cash flows related to operating assets and liabilities resulting from:
 - o A decrease in cash flows primarily due to the following:
 - Changes in prepaid expenses and other current assets primarily due to an interest rate caps receivable and receivables related to the FCC Reimbursement Program; and
 - Changes in accrued interest due to the change in timing of payments.
 - o Partially offset by an increase in cash flows primarily due to changes in accounts receivable due to the timing of collections.

Cash flows 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 for the nine-month period ended September 30, 2023 included a \$5.0 million equity investment. Cash used in investing activities was partially offset by \$20.2 million of proceeds from interest rate caps, net proceeds from our short-term investments of \$0.1 million and an immaterial amount of proceeds received from the FCC Reimbursement Program associated with the reimbursement of capital expenditures.

Cash flows used in Financing Activities:

Cash used in financing activities for the nine-month period ended September 30, 2023 was \$113.9 million primarily due to principal payments on the Term Loan Facility and stock-based compensation activities.

Cash used in financing activities for the nine-month period ended September 30, 2022 was \$26.7 million, primarily due to the repurchase of 1.5 million shares of common stock in a private transaction and principal payments on the Term Loan Facility.

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, 2023 and 2022 were \$18.7 million and \$39.9 million, respectively. The expected decrease in capital expenditures was primarily due to the build out of the Gogo 5G network during the prior-year period.

We expect that our capital expenditures will increase in the near term due to Gogo 5G and the build out of the LTE network related to the FCC Reimbursement Program. This increase may be partially offset by reimbursements from the FCC. We expect that our capital expenditures will decrease starting in 2025 as these programs are completed. Capital expenditures associated with Gogo Galileo are not expected to be material.

Other

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. See Note 11, "Commitments and Contingencies," to our Unaudited Condensed Consolidated Financial Statements for additional information.

Leases and Cell Site Contracts: We have lease agreements relating to certain facilities and equipment, which are considered operating leases. See Note 10, "Leases," to our Unaudited Condensed Consolidated Financial Statements for additional information.

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, equity 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, cash equivalents and short-term investments as of both September 30, 2023 and December 31, 2022 included amounts in bank deposit accounts, U.S. Treasury securities and money market funds with U.S. Government and U.S. Treasury securities. The primary objective of our investment policy is to preserve capital and maintain liquidity while limiting concentration and counterparty risk. We believe that a change in average interest rates would not affect our interest income and results of operations by a material amount. However, a change in interest rates could impact our interest income and results of operations to the extent that we invest in a material amount of interest-bearing securities.

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, 2023, 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. Currently, we receive payments in the amounts calculated pursuant to the caps for any period in which the daily compounded SOFR rate plus a credit spread adjustment recommended by the Alternative Reference Rates Committee of 0.26% 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, 2023 was \$525.0 million. Based on our September 30, 2023 outstanding variable rate debt balance, a hypothetical one percentage point change in the applicable interest rate would impact our annual interest expense by approximately \$1.1 million for the next twelve-month period, which includes the impact of our interest rate caps at a strike rate of 0.75% and the \$175 million reduction in the notional amount and an increase of the strike rate to 1.25% that will occur on July 31, 2024. Excluding the impact of our interest rate caps, a hypothetical one percentage point change in the applicable interest rate would impact our annual interest expense by approximately \$6.1 million for the next twelve-month period.

Our earnings are affected by changes in interest rates due to the impact those changes have on interest income generated from our cash, cash equivalents and short-term investments. We believe we have minimal interest rate risk 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, 2023 and 2022 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, 2023. 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, 2023.

(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 lawsuits arising out of the conduct of our business. See Note 11, “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 2022 10-K includes a discussion of our risk factors. Except as set forth below, there have been no material changes to the risk factors previously disclosed in our 2022 10-K.

We are currently delayed in deploying Gogo 5G, and may be unsuccessful or delayed in developing and deploying this or other next generation technologies.

We are currently developing a next generation ATG network using 5G technology, unlicensed spectrum, and licensed spectrum. Gogo 5G will be capable of working with different spectrum and supporting different next generation technologies. As previously disclosed, we are delayed in our commercial, nationwide launch of Gogo 5G due to a design error in a non-5G component of our chip, which was designed by a third-party subcontractor of our 5G solution provider. We expect the launch of Gogo 5G to occur in the third quarter of 2024.

There can be no assurance that, during the current delay of our 5G launch, our customers will not seek alternative technologies of competitors. The launch of 5G is also expected to coincide in time with the launch of our Gogo Galileo service, which could impede our marketing and sales efforts with respect to either offering, due to possible customer confusion among the offerings or lack of sufficient customer focus on either one during launch. Additionally, while we expect to launch Gogo 5G in the third quarter of 2024, we cannot assure you that the 5G launch or our launch of other next generation technologies will in fact occur in sufficient time to meet growing user expectations regarding the in-flight connectivity experience and to effectively compete in the business aviation market. Historically, we have experienced longer lead times and encountered delays in obtaining certain electronic components used in our business, such as in the second half of 2022, when we announced a prior delay in our 5G launch due to manufacturing and late-stage testing issues with respect to the 5G chip. For more information on historical delays, see “—Risks Related to Our Business—Global supply chain challenges and logistics issues as well as increasing inflation have had, and may continue to have, an adverse effect on our business, financial condition and results of operations” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022. The current delay and any future delays could also decrease customer confidence, including from current or prospective customers, in our offerings, and negatively impact our financial position. For example, as previously disclosed, the delay in our Gogo 5G launch is anticipated to negatively impact year-end revenues in 2023 and 2024, while also deferring certain operating and capital expense from 2023 into 2024.

If Gogo 5G or any other next generation technology fails to perform as expected, our ability to meet users' expectations regarding our systems' performance and to effectively compete in our market may be impaired and our business, financial condition and results of operations may be materially adversely affected. Factors heightening the risk of future delays in our 5G network or other next generation technologies, or a failure of such technologies to perform once commercialized, include: (i) our failure to design and develop a technology that provides the features and performance we require; (ii) integrating the solution with our existing ATG network; (iii) the availability of adequate spectrum; (iv) the failure of spectrum to perform as expected; (v) the failure of equipment and software to perform as expected; (vi) problems arising in the manufacturing process; (vii) our ability to negotiate contracts with suppliers on acceptable commercial and other terms; (viii) our reliance on single-source suppliers for the development and manufacturing of the core elements of the network and on other suppliers to provide certain components and services; and (ix) delays in obtaining or failures to obtain the required regulatory approvals for installation and operation of such equipment and the provision of service to passengers.

Participation in the FCC Reimbursement Program could adversely affect our results of operations and financial condition.

On July 15, 2022, the FCC notified the Company that it was approved for participation in the FCC Reimbursement Program, a program designed by the FCC at the direction of Congress to reimburse providers of advanced communications services for reasonable costs incurred in the required removal, replacement and disposal of covered communications equipment or services from their networks that have been deemed to pose a national security risk. Pursuant to the FCC Reimbursement Program, the FCC approved up to approximately \$334 million in reimbursements to the Company to cover incurred and documented costs to (i) remove and securely destroy all ZTE communications equipment and services in the Company's terrestrial U.S. networks and replace such

equipment and (ii) remove and replace certain equipment installed on aircraft operated by the Company's ATG customers that is not compatible with the terrestrial equipment that will replace ZTE equipment. Due to a shortfall in the amount appropriated by Congress to fund the FCC Reimbursement Program, approximately \$132 million of the approved amount is currently allocated to the Company under the program. In July 2023, the Company elected to participate in the partially funded FCC Reimbursement Program and submitted its first reimbursement claim.

Congress is considering appropriating additional funding to meet the total demand for reimbursement, but we cannot predict whether, how much, or when such additional funding will be allocated. There can be no assurance that there will be sufficient available funding to reimburse us for all of our costs in participating in the program. Any shortfall in available funding would require the Company to fund the portion of program costs that exceeds the Company's allocation. In addition, companies that were awarded a funding allocation are not guaranteed to receive that funding. Once funds are allocated, recipients can draw down funds upon proof of actual expenses incurred by filing a request for the reimbursement of specific expenses. We cannot predict whether and to what extent the FCC or the administrator on which it relies to administer the Reimbursement Program will approve our requests for the specific reimbursement of costs, or the time frames for any reimbursement. If we are not successful in receiving the amount of funds necessary to remove, replace and dispose of the applicable equipment and services, or if we have underestimated the associated costs, our results of operations and financial condition could be adversely affected. Also, the process for seeking reimbursements under the FCC Reimbursement Program is complex, and the FCC or program administrator may seek revisions to our reimbursement requests or delay approval of some or all of the requested amounts while evaluating our submissions. Any delay in reimbursements under the program could have a material negative effect on our cash flows and working capital.

In order to participate in the program, we must comply with various conditions and requirements established by the FCC, including a requirement that we complete the removal, replacement and disposal of applicable equipment within one year of receiving our first funding disbursement (i.e., by July 21, 2024). The FCC may issue a single, general extension to all reimbursement recipients if it determines that the supply of replacement communications equipment or services needed by the recipients to achieve the purposes of the Reimbursement Program is inadequate to meet the needs of the recipients. The FCC may also grant one or more six-month extensions to a participant where it finds that due to factors beyond its control, the participant cannot complete the project by the deadline. Due to a number of factors including supply chain disruptions, the current insufficiency of FCC funding and the operational and logistical complexity of replacing airborne equipment, we do not believe that we will complete the project within one year of receiving the Company's first funding disbursement, and we intend to seek extensions as outlined in our initial FCC application. If the FCC does not grant the necessary extensions and the project is not completed by the FCC's deadline, we could face penalties or other sanctions.

In addition, if any of the Company's customers do not replace their airborne equipment with equipment that is compatible with the replacement terrestrial network equipment prior to the date on which the replacement terrestrial network equipment goes into effect, the Company will be unable to provide service to these legacy-equipment customers until the airborne equipment is replaced. Such service disruptions could have a material adverse effect on our results of operations and financial condition. The requirement that customers replace their airborne equipment may also damage the Company's relationships with its customers, leading some customers to switch to other service providers or forgo service altogether, which could have a material adverse effect on our market share, results of operations and financial condition.

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

Not applicable.

c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

None.

ITEM 5. Other Information

During the fiscal quarter ended September 30, 2023, none of our directors or officers adopted, modified or terminated a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement” as such terms are defined in Item 408 of Regulation S-K.

ITEM 6. Exhibits

| Exhibit Number | Description of Exhibits |
|-----------------------|--|
| 3.1 | <u>Third Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Form 10-Q filed on August 7, 2013 (File No. 001-35975))</u> |
| 3.2 | <u>Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to Form 10-Q filed on August 7, 2013 (File No. 001-35975))</u> |
| 31.1 | <u>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</u> |
| 31.2 | <u>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</u> |
| 32.1 * | <u>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</u> |
| 32.2 * | <u>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</u> |
| 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 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 7, 2023

Gogo Inc.

/s/ Oakleigh Thorne

Oakleigh Thorne
Chief Executive Officer and Chair of the Board
(Principal Executive Officer)

/s/ Jessica G. Betjemann

Jessica G. Betjemann
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

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 7, 2023

/s/ Oakleigh Thorne

Oakleigh Thorne

Chief Executive Officer and Chair of the Board

(Principal Executive Officer)

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, Jessica G. Betjemann, 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 7, 2023

/s/ Jessica G. Betjemann

Jessica G. Betjemann

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

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, Chief Executive Officer and Chair of the Board 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, 2023 (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 7, 2023

/s/ Oakleigh Thorne

Oakleigh Thorne

Chief Executive Officer and Chair of the Board
(Principal Executive Officer)

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, Jessica G. Betjemann, 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, 2023 (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 7, 2023

/s/ Jessica G. Betjemann

Jessica G. Betjemann

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)
