Gogo Inc.
Form 10-K
February 21, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One):

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended December 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from __________ to __________

Commission File Number: 001-35975

Gogo Inc.

(Exact name of registrant as specified in its charter)

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

111 North Canal St., Suite 1500

Chicago, IL 60606

(Address of principal executive offices)

Telephone Number (312) 517-5000

(Registrant s telephone number, including area code)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

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

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

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant as of June 30, 2018, the last business day of the registrant s most recently completed second fiscal quarter, was $275,249,580 based upon the closing price reported for such date on the NASDAQ Global Select Market.

As of February 19, 2019, 87,560,694 shares of $0.0001 par value common stock were outstanding.

Documents Incorporated By Reference

Portions of the registrant s definitive Proxy Statement for its Annual Meeting of Stockholders scheduled to be held June 11, 2019 are incorporated by reference into Part III of this Form 10-K. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant s fiscal year ended December 31, 2018.

Gogo Inc.

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Interim Financial Statements

GREAT AJAX CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands except shares and per share data)

	June 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Cash and cash equivalents	$ 68,359	$ 30,795
Cash held in trust	382	39
Mortgage loans[(1)]	630,534	554,877
Property held-for-sale	16,551	10,333
Rental property	760	58
Receivable from servicer	6,949	5,444
Investment in affiliates	3,900	2,625
Prepaid expenses and other assets	2,320	5,634
Total Assets	$ 729,755	$ 609,805
LIABILITIES AND EQUITY		
Liabilities:		
Secured borrowings, net[(1)]	$ 346,070	$ 265,006
Borrowings under repurchase agreement	102,240	104,533
Management fee payable	703	667
Accrued expenses and other liabilities	3,443	1,786
Total liabilities	452,456	371,992
Commitments and contingencies- see Note 7		
Equity:		
Preferred stock $.01 par value; 25,000,000 shares authorized, none issued or outstanding	-	-
Common stock $.01 par value; 125,000,000 shares authorized, 17,924,523 shares at June 30, 2016 and 15,301,946 shares at December 31, 2015 issued and outstanding	179	152
Additional paid-in capital	244,180	211,729

Retained earnings	22,666	15,921
Equity attributable to common stockholders	267,025	227,802
Non-controlling interests	10,274	10,011
Total equity	277,299	237,813
Total Liabilities and Equity	$ 729,755	$ 609,805

(1) Mortgage loans include $504,885 and $398,696 of loans at June 30, 2016 and December 31, 2015, respectively, transferred to securitization trusts that are variable interest entities (“VIEs”); these loans can only be used to settle obligations of the VIEs. Secured borrowings consist of notes issued by VIEs that can only be settled with the assets and cash flows of the VIEs. The creditors do not have recourse to the primary beneficiary (Great Ajax Corp.). See Note 8—Debt. Secured borrowings are presented net of deferred issuance costs.

The accompanying notes are an integral part of the consolidated interim financial statements.

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GREAT AJAX CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands except shares and per share data)

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
INCOME				
Loan interest income	$16,378	$10,793	$32,192	$17,677
Interest expense	(6,063)	(2,269)	(11,050)	(3,344)
Net interest income	10,315	8,524	21,142	14,333
Income from investment in Manager	46	64	90	104
Other income	327	222	867	406
Total income	10,688	8,810	22,099	14,843
EXPENSE				
Related party expense – loan servicing fees	1,453	851	2,856	1,507
Related party expense – management fees	937	856	1,843	1,603
Loan transaction expense	574	729	787	989
Professional fees	407	356	821	741
Real estate operating expenses	113	54	275	64
Other expense	317	289	670	449
Total expense	3,801	3,135	7,252	5,353
Income before provision for income taxes	6,887	5,675	14,847	9,490
Provision for income taxes	26	16	23	16
Consolidated net income	6,861	5,659	14,824	9,474
Less: consolidated net income attributable to the non-controlling interest	256	223	568	398
Consolidated net income attributable to common stockholders	$6,605	$5,436	$14,256	$9,076
Basic earnings per common share	$0.42	$0.36	$0.92	$0.64
Diluted earnings per common share	$0.42	$0.36	$0.92	$0.64
Weighted average shares – basic	15,742,932	15,237,739	15,524,725	14,129,162
Weighted average shares – diluted	16,389,126	15,909,634	16,174,164	14,801,319

The accompanying notes are an integral part of the consolidated interim financial statements.

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GREAT AJAX CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Six months ended June 30, 2016	**Six months ended June 30, 2015**
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	$ 14,824	$ 9,474
Adjustments to reconcile consolidated net income to net cash from operating activities		
Stock-based management fee and compensation expense	514	921
Non-cash interest income accretion	(20,711)	(11,850)
(Gain) loss on sale of property	(1,086)	9
Depreciation of property	11	1
Impairment of real estate owned	200	-
Amortization of deferred financing costs	2,889	435
Net change in operating assets and liabilities		
Cash held in trust	(343)	(41)
Prepaid expenses and other assets	(521)	(3,186)
Receivable from servicer	(1,505)	(2,198)
Undistributed income from investment in affiliate	(259)	(275)
Accrued expenses, Management fee payable, and other liabilities	1,693	1,685
Net cash from operating activities	(4,294)	(5,025)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of mortgage loans and related balances	(89,328)	(233,626)
Principal paydowns on mortgage loans	23,595	7,260
Purchase of property held-for-sale and related balances	-	(2,794)
Proceeds from sale of property held-for-sale	5,220	357
Investment in equity method investee	(1,111)	-
Distribution from affiliate	95	67
Renovations of rental property and property held for sale	(478)	(139)
Net cash from investing activities	(62,007)	(228,875)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from repurchase transactions	71,086	153,841
Proceeds from sale of secured notes	101,431	35,213
Repayments on repurchase transactions	(73,379)	(15,286)
Repayments on secured notes	(19,421)	(3,543)
Sale of common stock, net of offering costs	31,964	51,529
Distribution to non-controlling interest	(305)	(213)

Dividends paid on common stock	(7,511)	(4,541)
Net cash from financing activities	103,865	217,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	37,564	(16,900)
CASH AND CASH EQUIVALENTS, beginning of period	30,795	53,099
CASH AND CASH EQUIVALENTS, end of period	$ 68,359	$ 36,199
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 7,952	$ 2,544
Cash paid for income taxes	-	-
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Transfer of loans to rental property or property held-for-sale	$ 10,930	$ 4,965
Issuance of common stock for management and director fees	$ 514	$ 921
Transfer of property held-for-sale to loans	$ 143	$ -

The accompanying notes are an integral part of the consolidated interim financial statements.

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GREAT AJAX CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

(Dollars in thousands except share data)

	Common Stock						
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Stockholders' Equity	Non-controlling Interest	Total Equity
Balance at December 31, 2014	11,223,984	$ 112	$ 158,951	$ 2,744	$ 161,807	$ 9,473	$ 171,280
Issuance of shares	3,981,714	40	51,489	-	51,529	-	51,529
Net income	-	-	-	9,076	9,076	398	9,474
Stock-based management fee expense	43,301	-	814	-	814	-	814
Stock-based compensation expense	4,999	-	107	-	107	-	107
Dividends and distributions	-	-	-	(4,541)	(4,541)	(213)	(4,754)
Balance at June 30, 2015	15,253,998	$ 152	$ 211,361	$ 7,279	$ 218,792	$ 9,658	$ 228,450
Balance at December 31, 2015	15,301,946	$ 152	$ 211,729	$ 15,921	$ 227,802	$ 10,011	$ 237,813
Net income	-	-	-	14,256	14,256	568	14,824
Issuance of shares	2,589,427	27	31,937	-	31,964	-	31,964
Stock-based management fee expense	29,826	-	462	-	462	-	462
Stock-based compensation expense	3,324	-	52	-	52	-	52
Dividends and distributions	-	-	-	(7,511)	(7,511)	(305)	(7,816)
Balance at June 30, 2016	17,924,523	$ 179	$ 244,180	$ 22,666	$ 267,025	$ 10,274	$ 277,299

The accompanying notes are an integral part of the consolidated interim financial statements.

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GREAT AJAX CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS
June 30, 2016

(Unaudited)

Note 1 — Organization and basis of presentation

Great Ajax Corp., a Maryland corporation (the "Company"), is an externally managed real estate company formed on January 30, 2014 and capitalized on March 28, 2014 by its then sole stockholder, Aspen Yo LLC ("Aspen Yo"), a company affiliated with the Aspen Capital companies ("Aspen Capital"). The Company was formed to facilitate capital raising activities and to operate as a mortgage real estate investment trust. The Company focuses primarily on acquiring, investing in and managing a portfolio of re-performing ("RPL") and non-performing ("NPL") mortgage loans secured by single-family residences and, to a lesser extent, single-family properties. Re-performing loans are loans on which at least five of the seven most recent payments have been made, or the most recent payment has been made and accepted pursuant to an agreement, or the full dollar amount to cover at least five payments has been paid in the last seven months. Non-performing loans are those loans on which the most recent three payments have not been made. The Company also invests in loans secured by smaller multi-family residential and commercial mixed use retail/residential properties, as well as in the properties directly. The Company's manager is Thetis Asset Management LLC (the "Manager" or "Thetis"), an affiliated company. The Company owns 19.8% of the Manager. The Company's mortgage loans and real properties are serviced by Gregory Funding LLC ("Gregory" or "Servicer"), also an affiliated company. The Company has elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended (the "Code").

The Company conducts substantially all of its business through its operating partnership, Great Ajax Operating Partnership L.P., a Delaware limited partnership (the "Operating Partnership"), and its subsidiaries. The Company, through a wholly owned subsidiary, is the sole general partner of the Operating Partnership. GA-TRS LLC, or Thetis TRS, is a wholly owned subsidiary of the Operating Partnership that owns the equity interest in the Manager. The Company elected to treat Thetis TRS as a "taxable REIT subsidiary" ("TRS") under the Code. Great Ajax Funding LLC is a wholly owned subsidiary of the Operating Partnership formed to act as the depositor of mortgage loans into securitization trusts and to hold the subordinated securities issued by such trusts and any additional trusts the Company may form for additional securitizations. The Company generally securitizes its mortgage loans and retains subordinated securities from the securitizations. AJX Mortgage Trust I is a wholly owned subsidiary of the Operating Partnership formed to hold mortgage loans used as collateral for financings under the Company's repurchase agreement. In addition, the Company, through its Operating Partnership, holds real estate owned properties ("REO") acquired upon the foreclosure or other settlement of its owned non-performing loans, as well as through outright purchases. GAJX Real Estate LLC is a wholly owned subsidiary of the Operating Partnership formed to own, maintain, improve and sell REO properties purchased by the Company. The Company has elected to treat GAJX Real Estate LLC as a TRS under the Code. During the three-months ended June 30, 2016, the Company formed FLAIAS LLC, a wholly owned subsidiary of the operating partnership, to acquire property tax liens in the state of Florida.

The Company commenced its operations in July 2014, and completed its initial public offering, or IPO, on February 19, 2015.

The Company completed an additional public offering of its common stock in June 2016, in which it sold an aggregate of 2,589,427 shares of common stock, including shares sold pursuant to exercise of the option to purchase additional shares granted to the underwriters. The Company intends to use the approximately $32.0 million of proceeds net of expenses to acquire additional mortgage loans and mortgage-related assets.

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Basis of presentation and use of estimates

These interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and the notes thereto for the period ended December 31, 2015 included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on March 29, 2016.

Interim financial statements are unaudited and prepared in accordance with accounting principles generally accepted in the United States (" U.S. GAAP") for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Regulation S-X. In the opinion of management, all adjustments, consisting solely of normal recurring accruals considered necessary for the fair presentation of consolidated financial statements for the interim period presented, have been included. The current period's results of operations will not necessarily be indicative of results that ultimately may be achieved for the fiscal year ending December 31, 2016.

The consolidated interim financial statements have been prepared in accordance with U.S. GAAP, as contained within the Accounting Standards Codification ("ASC") of the Financial Accounting Standards Board ("FASB") and the rules and regulations of the SEC, as applied to interim financial statements.

All controlled subsidiaries are included in the consolidated financial statements and all intercompany accounts and transactions have been eliminated in consolidation. The Operating Partnership is a majority owned partnership that has a non-controlling ownership interest that is included in non-controlling interests on the consolidated balance sheet. As of June 30, 2016, the Company owned 96.6% of the outstanding operating partnership units ("OP Units") and the remaining 3.4% of the OP Units were owned by an unaffiliated holder.

The Company's 19.8% investment in the Manager is accounted for using the equity method because the Company exercises significant influence on the operations of the Manager through common officers and directors. There is no traded or quoted price for the interests in the Manager since it is privately held.

The preparation of consolidated financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. The Company considers significant estimates to include expected cash flows from mortgage loans and fair value measurements.

Note 2 — Summary of significant accounting policies

Mortgage loans

Purchased mortgage loans are initially recorded at the purchase price, net of any acquisition fees or costs at the time of acquisition and are considered asset acquisitions. As part of the determination of the bid price for mortgage loans, the Company uses a proprietary discounted cash flow valuation model to project expected cash flows, and consider alternate loan resolution probabilities, including liquidation or conversion to real estate owned. Observable inputs to the model include interest rates, loan amounts, status of payments and property types. Unobservable inputs to the model include discount rates, forecast of future home prices, alternate loan resolution probabilities, resolution timelines, the value of underlying properties and other economic and demographic data.

Loans acquired with deterioration in credit quality

The loans acquired by the Company have generally suffered some credit deterioration subsequent to origination. As a result, the Company is required to account for the mortgage loans pursuant to ASC 310-30, (Accounting for Loans with Deterioration in Credit Quality). The Company's recognition of interest income for loans within the scope of ASC 310-30 is based upon its having a reasonable expectation of the amount and timing of the cash flows expected to be collected. When the timing and amount of cash flows expected to be collected are reasonably estimable, the Company uses expected cash flows to apply the interest method of income recognition.

Under ASC 310-30, acquired loans may be aggregated and accounted for as a pool of loans if the loans have common risk characteristics. A pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Re-performing mortgage loans have been determined to have common risk

characteristics and are accounted for as a single loan pool for loans acquired within each three-month calendar quarter. Similarly, non-performing mortgage loans have been determined to have common risk characteristics and are accounted for as a single non-performing pool for loans acquired within each three-month calendar quarter. Excluded from the aggregate pools are loans that pay in full subsequent to the closing date but prior to pooling. Any gain or loss incurred on these loans is recognized in other income in the period the loan pays in full.

The Company's accounting for loans under ASC 310-30 gives rise to an accretable yield and a non-accretable amount. The excess of all undiscounted cash flows expected to be collected at acquisition over the initial investment in the loans is the accretable yield. Cash flows expected at acquisition include all cash flows directly related to the acquired loan, including those expected from the underlying collateral. The Company recognizes the accretable yield as interest income on a prospective level yield basis over the life of the pool. The excess of a loan's contractually required payments receivable over the amount of cash flows expected at the acquisition is the non-accretable amount. The Company's expectation of the amount of cash flows expected to be collected is evaluated at the end of each calendar quarter. If the Company expects to collect greater cash flows over the life of the pool, the accretable yield amount increases and the expected yield to maturity is adjusted on a prospective basis. If the Company expects to collect lower cash flows over the life of the pool, the Company records an impairment through the allowance for loan losses.

Loans acquired that have not experienced a deterioration in credit quality

While the Company generally acquires loans that have experienced deterioration in credit quality, it may, from time to time, acquire loans that have not missed a scheduled payment and have not experienced a deterioration in credit quality.

Accrual of interest on individual loans is discontinued when management believes that, after considering economic and business conditions and collection efforts, the borrower's financial condition is such that collection of interest is doubtful. The Company's policy is to stop accruing interest when a loan's delinquency exceeds 90 days. All interest accrued but not collected for loans that are placed on non-accrual status or subsequently charged-off are reversed against interest income. Income is subsequently recognized on the cash basis until, in management's judgment, the borrower's ability to make periodic principal and interest payments returns and future payments are reasonably assured, in which case the loan is returned to accrual status.

An individual loan is considered to be impaired when, based on current events and conditions, it is probable the Company will be unable to collect all amounts due (both principal and interest) according to the contractual terms of the loan agreement. Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market price, or the fair value of the collateral if the loan is collateral dependent. For individual loans, a troubled debt restructuring is a formal restructuring of a loan where, for economic or legal reasons related to the borrower's financial difficulties, a concession that would not otherwise be considered is granted

to the borrower. The concession may be granted in various forms, including providing a below-market interest rate, a reduction in the loan balance or accrued interest, an extension of the maturity date, or a combination of these. An individual loan that has had a troubled debt restructuring is considered to be impaired and is subject to the relevant accounting for impaired loans. Loans are tested quarterly for impairment and impairment reserves are recorded to the extent the net realizable value of the underlying collateral falls below net book value.

If necessary, an allowance for loan losses is established through a provision for loan losses charged to expenses. The allowance is an amount that management believes will be adequate to absorb probable losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans.

Real estate

The Company acquires real estate properties when it forecloses on the borrower and takes title to the underlying property (real estate owned or REO). Property is recorded at cost if purchased, or at the present value of future cash flows if obtained through foreclosure by the Company. Property that is currently unoccupied and actively marketed for sale is classified as held-for-sale. Property held-for-sale is carried at the lower of its acquisition basis, net realizable value (fair market value less expected selling costs), appraisals or independent broker price opinion (BPOs). Net unrealized losses due to changes in market value are recognized through a

valuation allowance by charges to income. No depreciation or amortization expense is recognized on properties held-for-sale, while holding costs are expensed as incurred.

Rental property is property not held-for-sale. Rental properties are intended to be held as long-term investments but may eventually be held-for-sale. Property is held for investment as rental property if the modeled present value of the future expected cash flows from use as a rental exceed the present value of expected cash flows from a sale. Depreciation is provided for using the straight-line method over the estimated useful lives of the assets of three to 27.5 years. The Company performs an impairment analysis for all rental property not held-for-sale using estimated cash flows if events or changes in circumstances indicate that the carrying value may be impaired, such as prolonged vacancy, identification of materially adverse legal or environmental factors, changes in expected ownership period or a decline in market value to an amount less than cost. This analysis is performed at the property level. The cash flows are estimated based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for rental properties, competition for customers, changes in market rental rates, costs to operate each property and expected ownership periods.

If the carrying amount of a held-for-investment asset exceeds the sum of its undiscounted future operating and residual cash flows, an impairment loss is recorded for the difference between estimated fair value of the asset and the carrying amount. The Company generally estimates the fair value of assets held for use by using BPOs. In some instances, appraisal information may be available and is used in addition to BPOs.

The Company performs property renovations to maximize the value of the property for its rental strategy. Such expenditures are part of its initial investment in a property and, therefore, are capitalized as part of the basis of the property. Subsequently, the residential property, including any renovations that improve or extend the life of the asset, are accounted for at cost. The cost basis is depreciated using the straight-line method over an estimated useful life of three to 27.5 years. Interest and other carrying costs incurred during the renovation period are capitalized until the property is ready for its intended use. Expenditures for ordinary maintenance and repairs are charged to expense as incurred.

Secured borrowings

The Company, through securitization trusts, issues callable debt secured by its mortgage loans in the ordinary course of business. The secured borrowings are structured as debt financings, and the loans remain on the Company’s balance sheet as the Company is the primary beneficiary of the securitization trusts, which are variable interest entities (VIEs). These secured borrowing VIEs are structured as pass through entities that receive principal and interest on the underlying mortgages and distribute those payments to the holders of the notes. The Company’s exposure to the obligations of the VIEs is generally limited to its investments in the entities; the creditors do not have recourse to the primary beneficiary. Coupon interest on the debt is recognized using the accrual method of accounting. Deferred

issuance costs, including original issue discount and debt issuance costs, are amortized on an effective yield basis based on the underlying cash flow of the mortgage loans. The Company assumes the debt will be called at the specified call date for purposes of amortizing discount and issuance costs because the Company believes it will have the intent and ability to call the debt on the call date. Changes in the actual or projected underlying cash flows are reflected in the timing and amount of deferred issuance cost amortization.

Repurchase facilities

The Company enters into repurchase financing facilities under which it nominally sells assets to a counterparty and simultaneously enters into an agreement to repurchase the sold assets at a price equal to the sold amount plus an interest factor. Despite being legally structured as sales and subsequent repurchases, repurchase transactions are generally accounted for as debt secured by the underlying assets. At the maturity of a repurchase financing, unless the repurchase financing is renewed, the Company is required to repay the borrowing including any accrued interest and concurrently receives back its pledged collateral from the lender. The repurchase financings are treated as collateralized financing transactions; pledged assets are recorded as assets in the Company's consolidated balance sheets, and debt is recognized at the contractual amount. Interest is recorded at the contractual amount on an accrual basis. Costs associated with the set-up of a repurchasing contract are recorded as prepaid expense at inception and amortized over the contractual life of the agreement. Any draw fees associated with individual transactions and any facility fees assessed on the amounts outstanding are recorded as prepaid expense when incurred and amortized over the contractual life of the related borrowing.

Management fee and expense reimbursement

Under the management agreement with the Manager (the “Management Agreement”), the Company pays a quarterly base management fee based on its stockholders’ equity and a quarterly incentive management fee based on its cash distributions to its stockholders. Manager fees are expensed in the quarter incurred and the portion payable in common stock is included in stockholders’ equity at quarter end. See Note 9 — Related party transactions.

Servicing fees

Under the Company’s Servicing Agreement, Gregory receives servicing fees of 0.65% annually of the Unpaid Principal Balance (UPB) for loans that are re-performing at acquisition and 1.25% annually of UPB for loans that are non-performing at acquisition. Servicing fees are paid monthly. The total fees incurred by the Company for these services depend upon the UPB and type of mortgage loans that Gregory services pursuant to the terms of the servicing agreement. The fees do not change if a re-performing loan becomes non-performing or vice versa. Servicing fees for the Company’s real property assets are the greater of (i) the servicing fee applicable to the underlying mortgage loan prior to foreclosure, or (ii) 1.00% annually of the fair market value of the REO as reasonably determined by the Manager or 1.00% annually of the purchase price of any REO otherwise purchased by the Company. Gregory is reimbursed for all customary, reasonable and necessary out-of-pocket costs and expenses incurred in the performance of its obligations, including the actual cost of any repairs and renovations undertaken on the Company’s behalf. The total fees incurred by the Company for these services will be dependent upon the UPB and type of mortgage loans that Gregory services, property values, previous UPB of the relevant loan, and the number of REO properties. The agreement will automatically renew for successive one-year terms, subject to prior written notice of non-renewal. In certain cases, the Company may be obligated to pay a termination fee. The Management Agreement will automatically terminate at the same time as the servicing agreement if the servicing agreement is terminated for any reason. See Note 9 — Related party transactions.

Stock-based payments

The Management Agreement provides for the payment to the Manager of a management fee. The Company pays a portion of the management fee in cash, and a portion of the management fee in shares of the Company’s common stock, which are issued to the Manager in a private placement and are restricted securities under the Securities Act. On October 27, 2015, the Company entered into an amended and restated management agreement with the Manager (the “Amended and Restated Agreement”), which amended the portion of the base management fee and manager’s incentive fee to be payable in cash and shares of the Company’s common stock retroactive to July 1, 2015. Shares issued to the Manager are determined based on the higher of the most recently reported book value or the average of the closing prices of our common stock on the NYSE on the five business days after the date on which the most recent regular quarterly dividend to holders of our common stock is paid. Management fees paid in common stock are expensed in

the quarter incurred and recorded in equity at quarter end.

Pursuant to the Company's 2014 Director Equity Plan (the "Director Plan"), the Company may make stock-based awards. The Company has issued to each of the independent directors restricted stock awards of 2,000 shares of its common stock, which are subject to a one-year vesting period. In addition, each of the Company's independent directors receives an annual retainer of $50,000, payable quarterly, half of which is paid in shares of the Company's common stock on the same basis as the stock portion of the management fee payable to the Manager, and half in cash. Stock-based expense for the directors' annual retainer is expensed as earned, in equal quarterly amounts during the year, and recorded in equity at quarter end.

On June 7, 2016, the Company's stockholders approved the 2016 Equity Incentive Plan (the "2016 Plan"), to attract and retain non-employee directors, executive officers, key employees and service providers, including officers and employees of the Company's affiliates. The 2016 Plan authorized the adoption of up to 5% of outstanding shares on a fully diluted basis (assuming, if applicable, the exercise of all outstanding options and the conversion of all warrants and convertible securities, including OP Units and LTIP units, into shares of common stock). At the time of the adoption of the 2016 Plan, there were 793,905 shares available under for distribution.

Directors' fees

The expense related to directors' fees is accrued and, the portion payable in common stock is reflected in stockholders' equity in the period in which it is incurred.

Variable interest entities

In the normal course of business, the Company enters into various types transactions with special purpose entities (SPEs), which have primarily consisted of trusts established for the Company's secured borrowings (See "Secured Borrowings" above and Note 8 to the financial statements). Additionally, from time to time, the Company may enter into joint ventures with unrelated entities. The Company evaluates each transaction and its resulting beneficial interest to determine if the entity formed pursuant to the transaction should be classified as a Variable Interest Entity (VIE). If an entity created in a transaction meets the definition of a VIE and the Company determines that Great Ajax is the primary beneficiary, the Company will include the entity in its consolidated financial statements.

Cash and cash equivalents

Highly liquid investments with an original maturity of three months or less when purchased are considered cash equivalents. The Company maintains cash and cash equivalents at insured banking institutions. Certain account balances exceed Federal Deposit Insurance Corporation ("FDIC") insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage.

Cash held in trust

Cash held in trust consists of cash balances legally due to lenders, and is segregated from the Company's other cash deposits. Cash held in trust is not available to the Company for any purposes other than the settlement of existing obligations to the lender.

Earnings per share

Basic earnings per share is computed by dividing consolidated net income attributable to common stockholders by the weighted average common stock outstanding during the period. The Company treats unvested restricted stock issued under its stock-based compensation plan, which are entitled to non-forfeitable dividends, as participating securities and applies the two-class method in calculating basic earnings per share. Diluted earnings per share is computed by dividing consolidated net income attributable to common stockholders and dilutive securities by the weighted average common stock outstanding for the period plus other potentially dilutive securities, such as stock grants, shares that would be issued in the event that OP Units are redeemed for shares of common stock of the Company and shares issued in respect of the stock-based portion of the base fee payable to the Manager and directors' fees.

Fair value of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy has been established that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- **Level 1** — Quoted prices in active markets for identical assets or liabilities.
- **Level 2** — Observable inputs other than Level 1 prices, such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- **Level 3** — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The degree of judgment utilized in measuring fair value generally correlates to the level of pricing observability. Assets and liabilities with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, assets and liabilities rarely traded or not quoted will generally have little or no pricing observability and a higher degree of judgment utilized in measuring fair value. Pricing observability is impacted by a number of factors, including the type of asset or liability, whether it is new to the market and not yet established, and the characteristics specific to the transaction.

The fair value of mortgage loans is estimated using the Manager's proprietary pricing model which estimates expected cash flows with the discount rate used in the present value calculation representing the estimated effective yield of the loan.

The Company calculates the fair value for the senior debt consolidated on its balance sheet from securitization trusts by using the Company's proprietary pricing model to estimate the cash flows expected to be generated from the underlying collateral with the discount rate used in the present value calculation representing an estimate of the average rate for debt instruments with similar durations and risk factors.

Income taxes

The Company elected REIT status upon the filing of its 2014 income tax return, and has conducted its operations in order to satisfy and maintain eligibility for REIT status. Accordingly, the Company does not believe it will be subject to U.S. federal income tax from the year ended December 31, 2014 forward on the portion of the Company's REIT taxable income that is distributed to the Company's stockholders as long as certain asset, income and stock ownership tests are met. If the Company fails to qualify as a REIT in any taxable year, it generally will not be permitted to qualify for treatment as a REIT for U.S. federal income tax purposes for the four taxable years following the year during which qualification is lost. The Company may also be subject to state or local income or franchise taxes.

Thetis TRS, GAJX Real Estate LLC, and any other TRS that the Company forms will be subject to U.S. federal and state income taxes. On February 22, 2016, the Company received a private letter ruling from the Internal Revenue Service regarding the consequences of owning the interest in our Manager through its operating partnership. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which management expects those temporary differences to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period in which the change occurs. Subject to the Company's judgment, it reduces a deferred tax asset by a valuation allowance if it is "more–likely-than-not" that some or all of the deferred tax asset will not be realized. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities.

Significant judgment is required in evaluating tax positions, and the Company recognizes tax benefits only if it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authority.

The Company evaluates tax positions taken in its consolidated financial statements under the interpretation for accounting for uncertainty in income taxes. As a result of this evaluation, the Company may recognize a tax benefit from an uncertain tax position only if it is “more-likely-than-not” that the tax position will be sustained on examination by taxing authorities.

The Company’s tax returns remain subject to examination and consequently, the taxability of the distributions and other tax positions taken by the Company may be subject to change. Distributions to stockholders generally will be taxable as ordinary income, although a portion of such distributions may be designated as long-term capital gain or qualified dividend income, or may constitute a return of capital. The Company furnishes annually to each stockholder a statement setting forth distributions paid during the preceding year and their U.S. federal income tax treatment.

Offering costs

Costs associated with the Company's completed offerings of shares of common stock have been netted against, and are reflected as a reduction in, additional paid-in capital.

Segment information

The Company's primary business is acquiring, investing in and managing a portfolio of mortgage loans. The Company operates in a single segment focused on non-performing mortgages and re-performing mortgages.

Emerging growth company

Section 107 of the Jumpstart Our Business Startups Act (the "JOBS Act") provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. The Company has elected to take advantage of the benefits of this extended transition period. Its consolidated financial statements may, therefore, not be comparable to those of companies that comply with such new or revised accounting standards.

Reclassifications

Certain amounts in the Company's 2015 Consolidated Financial Statements have been reclassified to conform to the current period presentation. These reclassifications had no effect on previously reported net income or equity.

Recently adopted accounting standards

In February 2015, the FASB issued ASU 2015-02 Amendments to the Consolidation Analysis. These amendments: (1) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs")

or voting interest entities; (2) eliminate the presumption that a general partner should consolidate a limited partnership; (3) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (4) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. ASU 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. The Company implemented this amendment for the six months ended June 30, 2016. As a result of this implementation, there was no effect on the application of the Company's consolidation policy.

In April 2015, the FASB issued ASU 2015-03 Interest – Imputation of Interest. The amendments in this update require that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of a debt liability, consistent with debt discounts. This guidance is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. This guidance may be adopted retrospectively or under a modified retrospective method where the cumulative effect is recognized at the date of initial application. In June 2015, the FASB issued ASU 2015-15, which acknowledges that the scope of ASU 2015-03 does not include line-of-credit arrangements but indicates that the SEC staff would not object to an entity deferring and presenting debt issuance costs for a line-of-credit borrowing arrangement as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement. The Company implemented this amendment during the three months ended March 31, 2016. The result of this implementation was a reduction of approximately $4.9 million on the balance sheet in Prepaid expenses and other assets, and an offsetting reduction of approximately $4.9 million in Secured borrowings, based on the Company's balance sheet at March 31, 2016. There was no effect on the presentation of the Company's Borrowings under repurchase agreement in its consolidated balance sheets as these borrowings are short-term in nature and as such are unaffected by the ASU. Additionally, there was no effect on consolidated net income, or equity.

Recently issued accounting standards

In May 2014, Financial Accounting Standards Board (the "FASB") issued ASU 2014-09 Revenue from Contracts with Customers. ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. While ASU 2014-09 specifically references contracts with customers, it may apply to certain other transactions such as the sale of real estate or equipment. ASU 2014-09 may be applied using either a full retrospective or a modified retrospective approach. In August 2015, the FASB issued ASU 2015-14 deferring the effective date for ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is not permitted. The Company is evaluating the impact of this amendment on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01Financial Instruments – Overall. ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Specifically the guidance (1) requires equity investments to be measured at fair value with changes in fair value recognized in earnings, (2) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (3) eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost, (4) requires the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (5) requires an entity to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option, (6) requires separate presentation of financial assets and liabilities by measurement category and form on the balance sheet or the notes to the financial statements, and (7) clarifies that the need for a valuation allowance on a deferred tax asset related to an available-for-sale security should be evaluated with other deferred tax assets. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company is currently evaluating the impact on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07 Investments – Equity Method and Joint Ventures which is intended to simplify the transition to the equity method of accounting. The guidance eliminates the retrospective application of the equity method of accounting when obtaining significant influence over a previously held investment. The guidance requires that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. This guidance is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09 Compensation – Stock Compensation. The guidance primarily simplifies the accounting for employee share-based payment transactions, including a new requirement to record all of

the income tax effects at settlement or expiration through the income statement, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This guidance is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13 Financial Instruments – Credit Losses. The main objective of this guidance is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity. To achieve this, the amendments in this guidance replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Specifically, the amendments in this guidance requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. This guidance is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted, beginning with fiscal years after December 15, 2018. The Company is currently evaluating the impact on its consolidated financial statements.

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Note 3 — Mortgage loans

Included on the Company's consolidated balance sheet as of June 30, 2016 and December 31, 2015, are approximately $630.5 million and $554.9 million, respectively, of residential and small business commercial whole loans at carrying value. The carrying value reflects the original investment amount, plus accretion of interest income, less principal and interest cash flows received. The carrying value is decreased by the allowance for losses, if any. To date, the Company has not recorded an allowance for losses against its purchased mortgage loans.

The Company's mortgage loans are secured by real estate. The Company categorizes mortgage loans as "re-performing" and as "non-performing" at acquisition and monitors the credit quality of the mortgage loans in its portfolio on an ongoing basis, principally by considering loan payment activity or delinquency status. In addition, the Company assesses the expected cash flows from the mortgage loans, the fair value of the underlying collateral and other factors, and evaluates whether and when it becomes probable that all amounts contractually due will not be collected.

The following table presents information regarding the accretable yield and non-accretable amount for loans acquired during the following periods. The Company's loan acquisitions for the three and six months ended June 30, 2016 consisted entirely of re-performing loans; no non-performing loans were acquired in either of the 2016 periods ($ in thousands):

	Three months ended June 30, 2016		**Three months ended June 30, 2015**	
Acquisitions	**Re-performing loans**	**Non-performing loans**	**Re-performing loans**	**Non-performing loans**
Contractually required principal and interest	$ 120,524	$ -	$ 332,571	$ 31,827
Non-accretable amount	(48,244)	-	(132,557)	(18,598)
Expected cash flows to be collected	72,280	-	200,014	13,229
Accretable yield	(20,152)	-	(49,626)	(4,185)
Fair value at acquisition	$ 52,128	$ -	$ 150,388	$ 9,044

	Six months ended June 30, 2016		Six months ended June 30, 2015	
	Re-performing loans	Non-performing loans	Re-performing loans	Non-performing loans
Contractually required principal and interest	$ 202,703	$ -	$ 486,603	$ 65,675
Non-accretable amount	(77,392)	-	(198,704)	(38,317)
Expected cash flows to be collected	125,311	-	287,899	27,358
Accretable yield	(36,005)	-	(73,680)	(8,038)
Fair value at acquisition	$ 89,306	$ -	$ 214,219	$ 19,320

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The following table presents the change in the accretable yield for the total loan portfolio for the following periods ($ in thousands):

Accretable yield	Three months ended June 30, 2016		Three months ended June 30, 2015	
	Re-performing loans	Non-performing loans	Re-performing loans	Non-performing loans
Balance at beginning of period	$ 138,768	$ 16,151	$ 74,045	$ 22,604
Accretable yield additions	20,152		49,626	4,185
Accretion	(14,317)	(2,057)	(7,739)	(3,054)
Reclassification from (to) non-accretable amount, net	39,570	2,204	-	-
Balance at end of period	$ 184,173	$ 16,298	$ 115,932	$ 23,735

	Six months ended June 30, 2016		Six months ended June 30, 2015	
	Re-performing loans	Non-performing loans	Re-performing loans	Non-performing loans
Balance at beginning of period	$ 136,455	$ 18,425	$ 54,940	$ 20,686
Accretable yield additions	36,005		73,680	8,038
Accretion	(27,857)	(4,331)	(12,688)	(4,989)
Reclassification from (to) non-accretable amount, net	39,570	2,204	-	-
Balance at end of period	$ 184,173	$ 16,298	$ 115,932	$ 23,735

For the three and six month periods ended June 30, 2016, and June 30, 2015, the Company recognized no provision for loan loss. For the three and six month periods ended June 30, 2016, the Company accreted $16.4 million and $32.2 million, respectively, into interest income with respect to its loan portfolio. For the three and six month periods ended and June 30, 2015, the Company accreted $10.8 million and $17.7 million, respectively, into interest income with respect to its loan portfolio.

During the three months ended June 30, 2016, the Company reclassified $39.6 million and $2.2 million from non-accretable amount to accretable yield for its re-performing and non-performing loans, respectively. The reclassification is based on an updated assessment of projected loan cash flows as compared to the projection at the acquisition date. Substantially fewer loans are defaulting than originally projected at acquisition, resulting in greater total cash flows being collected over a longer period of time. Performing loans have a longer duration than non-performing loans and generate higher cash flows over the expected life of the loan.

The following table sets forth the carrying value of the Company’s mortgage loans, and related UPB by delinquency status as of June 30, 2016 and December 31, 2015 ($ in thousands):

	June 30, 2016			December 31, 2015		
	Number of loans	Carrying value	Unpaid principal balance	Number of loans	Carrying value	Unpaid principal balance
Current	1,539	$274,302	$349,329	1,161	$212,469	$272,577
30	578	107,919	135,930	479	83,936	107,873
60	298	55,254	67,888	338	55,573	70,781
90	733	119,174	152,253	867	127,435	167,177
Foreclosure	388	73,885	100,171	404	75,464	107,301
Mortgage loans	3,536	$630,534	$805,571	3,249	$554,877	$725,709

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Note 4 — Real estate assets

The Company primarily acquires REO when a mortgage loan is foreclosed upon and the Company takes title to the property on the foreclosure date. Additionally, from time to time, the Company will acquire real estate assets in purchase transactions.

At June 30, 2016, the Company held 103 residential properties with a carrying value of $14.4 million that were acquired through foreclosure and have been reclassified out of its Mortgage Loan Portfolio. As of December 31, 2015, the Company held 55 residential properties with a carrying value of $6.8 million that were acquired through foreclosure and reclassified out of its Mortgage Loan Portfolio.

Rental property

As of June 30, 2016, the Company owned 3 REO properties with an aggregate carrying value of $0.8 million held for investment as rentals, at which time all of the properties were rented. None of these properties were acquired during the three-months ended June 30, 2016, through foreclosures, and none were transferred from Property held-for sale. As of December 31, 2015, the Company had one REO property having an aggregate carrying value of $0.1 million held for use as a rental, which was rented at that time.

Property held-for-sale

The Company classifies REO as property held-for sale if the property does not meet its residential rental property investment criteria. For the three-month periods ended June 30, 2016 and June 30, 2015, the Company moved 41 and 20 REO properties having aggregate carrying values of $4.8 million and $2.8 million, respectively, to real estate held-for-sale from its mortgage loan portfolio. For the six-month periods ended June 30, 2016 and June 30, 2015, the Company moved 80 and 45 REO properties having aggregate carrying values of $9.4 million and $7.7 million, respectively, to real estate held-for-sale from its mortgage loan portfolio. As of the periods ended June 30, 2016 and December 31, 2015, the Company’s net investments in REO held-for-sale were $16.6 million and $10.3 million, respectively.

Dispositions

During the three months ended June 30, 2016 and June 30, 2015, the Company sold 21 and 3 REO properties, realizing net gains of approximately $0.5 million and $27,000, respectively, which are included in Other income on the Company's consolidated statements of income. During the six months ended June 30, 2016 and 2015, the Company sold 39 and 4 REO properties realizing gains, net of selling expenses, commissions and other costs, of approximately $1.1 million and $22,000 respectively. In addition, following an updated assessment of liquidation amounts expected to be realized that was performed on all REO held at the end of the quarter, a downward adjustment of approximately $0.2 million was recorded to reflect certain REO properties at the lower of cost or estimated fair value for the three and six months ended June 30, 2016, respectively. The Company did not record any lower of cost or estimated fair market value adjustment in 2015.

The following table presents the activity in the Company's carrying value of REO held-for-sale for the three months and six months ended June 30, 2016 and June 30, 2015 *(in thousands)*:

Property Held-for-sale	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Balance at beginning of period	$ 13,380	$ 5,541	$ 10,333	$ 1,316
Transfers from mortgage loans	5,019	3,574	9,851	7,669
Adjustments to record at lower of cost or fair value	(154)	-	(200)	-
Disposals	(2,324)	(326)	(4,137)	(363)
Other	630	229	704	396
Balance at end of period	$ 16,551	$ 9,018	$ 16,551	$ 9,018

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Note 5 — Fair value

The following tables set forth the fair value of financial assets and liabilities by level within the fair value hierarchy as of June 30, 2016 and December 31, 2015 ($ in thousands):

June 30, 2016	Carrying Value	Level 1 Quoted prices in active markets	Level 2 Observable inputs other than Level 1 prices	Level 3 Unobservable inputs
Not recognized on consolidated balance sheet at fair value (assets)				
Mortgage loans	$630,534	-	-	$ 689,075
Not recognized on consolidated balance sheet at fair value (liabilities)				
Secured borrowings, net	$346,070	-	-	$ 341,245
Borrowings under repurchase agreement	$102,240	-	$ 102,240	-

December 31, 2015	Carrying Value	Level 1 Quoted prices in active markets	Level 2 Observable inputs other than Level 1 prices	Level 3 Unobservable inputs
Not recognized on consolidated balance sheet at fair value (assets)				
Mortgage loans	$554,877	-	-	$ 627,112
Not recognized on consolidated balance sheet at fair value (liabilities)				
Secured borrowings, net	$265,006	-	-	$ 259,649
Borrowings under repurchase agreement	$104,533	-	$ 104,533	-

The Company has not transferred any assets from one level to another level during either the three or six months ended June 30, 2016 or the three or six months ended June 30, 2015.

The carrying values of its cash and cash equivalents, cash held in trust, receivable from servicer, investment in affiliates, prepaid expenses and other assets, management fee payable and accrued expenses and other liabilities are equal to or approximate fair value. Property held-for-sale is measured at cost at acquisition and subsequently measured at the lower of cost or fair value less cost to sell on a nonrecurring basis. The fair value of property held-for-sale is generally based on estimated market prices from an independently prepared appraisal, an independent BPO, or an internal valuation based upon recent comparable selling prices.

The Company's borrowings under repurchase transactions are short-term in nature, and the Company's management believes it can renew the current borrowing arrangements on similar terms in the future. Accordingly, the fair value of these borrowings approximates carrying value.

The fair value of mortgage loans is estimated using the Manager's proprietary pricing model which estimates expected cash flows with the discount rate used in the present value calculation representing the estimated effective yield of the loan. The value of transfers of mortgage loans to real estate owned is based upon the present value of future expected cash flows of the loans being transferred.

Significant changes to any of the unobservable inputs used in the fair value measurement of the Company's mortgage loans including discount rates and loan resolution timelines among others, in isolation, could result in a significant change to the fair value measurement. A decline in the discount rate in isolation would increase the fair value. An increase in the loan resolution timeline in isolation would decrease the fair value. The following table sets forth quantitative information about the significant unobservable inputs used to measure the fair value of the Company's mortgage loans as of June 30, 2016 and December 31, 2015:

	Range of Values	
Input	**June 30, 2016**	**December 31, 2015**
Equity discount rate – Re-performing loans	7% - 14%	7% - 14%
Equity discount rate – Non-performing loans	10% - 18%	10% - 18%
Cost of debt	4.25%	4.25%
Loan resolution timelines – Re-performing loans (in years)	4 - 7	4 - 7
Loan resolution timelines – Non-performing loans (in years)	1.4 - 4	1.4 - 4

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Note 6 — Unconsolidated affiliates

The Company holds a 40.5% interest in a Delaware trust, GA-E 2014-12, which holds an economic interest in a single small-balance commercial loan secured by a commercial property in Portland, Oregon.

Upon the closing of the Company's original private placement in July 2014, the Company received a 19.8% equity interest in Thetis, a privately held company for which there is no public market for its securities. The Company accounts for its investment in Thetis using the equity method.

On March 14, 2016, the Company formed AS Ajax E LLC, to hold an equity interest in a Delaware trust formed to own residential mortgage loans and residential real estate assets. DoubleLine Capital LP, an independent third party, owns 95% of the Trust. Through AS Ajax E LLC, in which the Company holds a 24% interest, the Company owns 1.2% of the Trust, and other investors own 3.8% of the Trust. The Company accounts for its investment in AS Ajax E LLC using the equity method.

The table below shows the net income, assets and liabilities for the Company's unconsolidated affiliates at 100%, and at the Company's share (*dollars in thousands*):

Net income, assets and liabilities at 100%

Net income at 100%

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
GA-E 2014-12	$ 191	$ 221	$ 384	$ 423
Thetis Asset Management	$ 231	$ 295	$ 453	$ 500
AS Ajax E LLC	$ 57	-	$ 57	-

Assets and liabilities at 100%

	June 30, 2016		December 31, 2015	
	Assets	Liabilities	Assets	Liabilities
GA-E 2014-12	$6,120	$ 3	$ 5,763	$ 10
Thetis Asset Management	$3,897	$ 685	$ 3,028	$ 520
AS Ajax E LLC	$4,642	$ 3	-	-

Net income, assets and liabilities at Company share

Net income at Company share

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
GA-E 2014-12	$ 77	$ 90	$ 156	$ 171
Thetis Asset Management	$ 46	$ 58	$ 90	$ 99
AS Ajax E LLC	$ 14	-	$ 1	-

Assets and liabilities at Company share

	June 30, 2016		December 31, 2015	
	Assets	Liabilities	Assets	Liabilities
GA-E 2014-12	$2,479	$ 1	$ 2,334	$ 4
Thetis Asset Management	$772	$ 136	$ 600	$ 103
AS Ajax E LLC	$1,125	$ (1)	-	-

Note 7 — Commitments and contingencies

The Company regularly enters into agreements to acquire additional mortgage loans and mortgage-related assets, subject to continuing diligence on such assets and other customary closing conditions. There can be no assurance that the Company will acquire any or all of the mortgage loans identified in any acquisition agreement as of the date of these consolidated financial statements, and it is possible that the terms of such acquisitions may change.

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At June 30, 2016, the Company had commitments to purchase 1,063 RPLs secured by single and one-to-four family residences with aggregate UPB of $189.3 million.

Litigation, claims and assessments

From time to time, the Company may be involved in various claims and legal actions arising in the ordinary course of business. As of June 30, 2016, the Company was not a party to, and its properties were not subject to, any pending or threatened legal proceedings that individually or in the aggregate, are expected to have a material impact on its financial condition, results of operations or cash flows.

Note 8 — Debt

Repurchase agreements

On November 25, 2014, the Company entered into a repurchase facility pursuant to which a newly formed Delaware statutory trust, AJX Mortgage Trust I (the “Seller”), which is wholly owned by the Operating Partnership, will acquire, from time to time, pools of mortgage loans that are primarily secured by first liens on one-to-four family residential properties from its affiliates and/or third party sellers. These mortgage loans will generally be sold from time to time by the Operating Partnership as the “guarantor” to the Seller pursuant to the terms of a mortgage loan purchase agreement by and between the guarantor, as seller, and the Seller, as purchaser, in accordance with the terms thereof. Pursuant to a master repurchase agreement (the “2014 MRA”), these mortgage loans, together with the Seller’s 100% ownership interests in its wholly owned subsidiary, a newly formed Delaware limited liability company (“REO I”), and any future REO subsidiaries wholly owned by the Seller and certain other property of the Seller, will be sold by the Seller to Nomura Corporate Funding Americas, LLC, as buyer, from time to time, pursuant to one or more transactions, not exceeding $200 million at any point in time, with a simultaneous agreement by the Seller to repurchase such mortgage loans and other property, as provided in the 2014 MRA. The obligations of the Seller are guaranteed by the operating partnership. Repurchases under this facility carry interest calculated based on a spread to one-month LIBOR and are fixed for the term of the borrowing. The purchase price for each mortgage loan or REO is generally equal to 65% of the acquisition price for such asset or the then current BPO for the asset. The difference between the market value of the asset and the amount of the repurchase agreement is the amount of equity the Company has in the position and is intended to provide the lender some protection against fluctuations of value in the collateral and/or the failure by the Company to repay the borrowing at maturity. The Company has effective control over the assets associated with this agreement and therefore it is accounted for as a financing arrangement. The facility was amended on May 13, 2015 to increase the transaction limit, and on November 24, 2015 to extend the termination date. The facility termination date is November 22, 2016.

On July 15, 2016, the Company entered into a repurchase financing arrangement, as Seller, with JPMorgan Chase Bank, N.A., as Buyer, under which it will sell to Buyer the beneficial interests in mortgage loans and will pledge to Buyer the beneficial interests in such assets, with a simultaneous agreement by Buyer to transfer to the Company and the Company to repurchase such assets on a future date. The arrangement terminates on July 12, 2019, is capped at $150 million, and carries interest at LIBOR plus 2.5% and an annual percentage facility fee of 25 basis points on the committed amount.

Gregory services these mortgage loans and the REO properties pursuant to the terms of a servicing agreement by and among the Servicer, the Seller, REO I, and any other REO Subsidiary, which servicing agreement has the same fees and expenses terms as the Company's servicing agreement described under Note 9 — Related party transactions. The operating partnership as guarantor will provide to the buyer a limited guaranty of certain losses incurred by the buyer in connection with certain events and/or the seller's obligations under the MLPA, following the breach of certain covenants by the seller or an REO subsidiary related to its status as a special purpose entity, the occurrence of certain bad acts by the Seller Parties, the occurrence of certain insolvency events of the seller or an REO subsidiary or other events specified in the Guaranty. As security for its obligations under the Guaranty, the guarantor will pledge the Trust Certificate representing the Guarantor's 100% beneficial interest in the Seller.

Additionally, we have sold subordinate securities from our mortgage securitizations in repurchase transactions. The following table sets forth the details of the repurchase transactions ($ in thousands):

Maturity Date	Origination date	June 30, 2016 Maximum Borrowing capacity	Amount outstanding	Amount of collateral	Interest rate	
September 9, 2016	March 9, 2016	$ 15,730	$ 15,730	$ 22,470	3.00	%
September 30, 2016	March 30, 2016	10,658	10,658	15,226	3.01	%
November 22, 2016	November 24, 2015	200,000	66,433	109,252	4.19	%
December 23, 2016	June 23, 2016	9,419	9,419	13,391	2.91	%
Totals		$ 235,807	$ 102,240	$ 160,339	3.77	%

Maturity Date	Origination date	December 31, 2015 Maximum Borrowing capacity	Amount outstanding	Amount of collateral	Interest rate	
March 30, 2016	September 30, 2015	$ 10,838	$ 10,838	$ 15,483	2.53	%
June 23, 2016	December 23, 2015	9,374	9,374	13,391	2.91	%
November 22, 2016	November 24, 2015	200,000	84,321	135,736	4.17	%
Totals		$ 220,212	$ 104,533	$ 164,610	3.91	%

While the guaranty establishes a master netting arrangement, the arrangement does not meet the criteria for offsetting. The amount outstanding on the Company's repurchase facility and the carrying value of the Company's loans pledged as collateral are presented as gross amounts in the Company's balance sheets at June 30, 2016 and December 31, 2015.

Balance sheet date	Gross amounts not offset in balance sheet Gross amount of recognized liabilities	Gross amount pledged as collateral	Net amount
June 30, 2016	$ 102,240	$ 160,339	$ 58,099
December 31, 2015	$ 104,533	$ 164,610	$ 60,077

Secured borrowings

From the commencement of operations to June 30, 2016, the Company has completed six securitizations pursuant to Rule 144A under the Securities Act. The securitizations are structured as debt financings and not REMIC sales, and the loans included in the securitizations remain on the Company's balance sheet as the Company is the primary beneficiary of the securitization trusts, which are VIEs. The securitization VIEs are structured as pass through entities that receive principal and interest on the underlying mortgages and distribute those payments to the holders of the notes. The Company's exposure to the obligations of the VIEs is generally limited to its investments in the entities. The notes that are issued by the securitization trusts are secured solely by the mortgages held by the applicable trusts and not by any of the Company's other assets. The mortgage loans of the applicable trusts are the only source of repayment

and interest on the notes issued by such trusts. The Company does not guarantee any of the obligations of the trusts under the terms of the agreement governing the notes or otherwise.

The Company's securitizations are structured with Class A notes, Class B notes, and trust certificates which have rights to the residual interests in the mortgages once the notes are repaid. For each of the Company's six securitizations through June 30, 2016, the Company has retained the Class B notes and the trust certificate. The Class A notes are senior, sequential pay, fixed rate notes. The Class B notes are subordinate, sequential pay, fixed rate notes with Class B-2 notes subordinate to the Class B-1 notes. If the Class A notes have not been redeemed by the payment date 36 months after issue, or otherwise paid in full by that date, an amount equal to the aggregate interest payment amount that accrued and would otherwise be paid to the Class B-1 and the Class B-2 notes will be paid as principal to the Class A notes on that date and each subsequent payment date until the Class A notes are paid in full. After the Class A notes are paid in full, the Class B-1 and Class B-2 notes will resume receiving their respective interest payment amounts and any interest that accrued but was not paid to the Class B notes while the Class A notes were outstanding. As the holder of the trust certificates, the Company is entitled to receive any remaining amounts in the trusts after the Class A notes and Class B notes have been paid in full.

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The following table sets forth the original terms of all securitization notes at their respective cutoff dates:

Issuing Trust/Issue Date	Security	Original Principal	Interest Rate	
Ajax Mortgage Loan Trust 2014-A/ October 2014	Class A notes due 2057	$45 million	4.00	%
	Class B-1 notes due 2057[1] [3]	$8 million	5.19	%
	Class B-2 notes due 2057[1] [3]	$8 million	5.19	%
	Trust certificates[2]	$20.4 million	–	
	Deferred issuance costs	$(0.9) million	–	
Ajax Mortgage Loan Trust 2014-B / November 2014	Class A notes due 2054	$41.2 million	3.85	%
	Class B-1 notes due 2054[1] [3]	$13.7 million	5.25	%
	Class B-2 notes due 2054[1] [3]	$13.7 million	5.25	%
	Trust certificates[2]	$22.9 million	–	
	Deferred issuance costs	$(0.8) million	–	
Ajax Mortgage Loan Trust 2015-A / May 2015	Class A notes due 2054	$35.6 million	3.88	%
	Class B-1 notes due 2054[1] [3]	$8.7 million	5.25	%
	Class B-2 notes due 2054[1] [3]	$8.7 million	5.25	%
	Trust certificates[2]	$22.8 million	–	
	Deferred issuance costs	$(0.8) million	–	
Ajax Mortgage Loan Trust 2015-B / July 2015	Class A notes due 2060	$87.2 million	3.88	%
	Class B-1 notes due 2060[1] [3]	$15.9 million	5.25	%
	Class B-2 notes due 2060[1] [3]	$7.9 million	5.25	%
	Trust certificates[2]	$47.5 million	–	
	Deferred issuance costs	$(1.5) million	–	
Ajax Mortgage Loan Trust 2015-C / November 2015	Class A notes due 2057	$82.0 million	3.88	%
	Class B-1 notes due 2057[1] [3]	$6.5 million	5.25	%
	Class B-2 notes due 2057[1] [3]	$6.5 million	5.25	%
	Trust certificates[2]	$35.1 million	–	
	Deferred issuance costs	$(2.7) million	–	
Ajax Mortgage Loan Trust 2016-A/ April 2016	Class A notes due 2064	$101.4 million	4.25	%
	Class B-1 notes due 2064[1]	$7.9 million	5.25	%
	Class B-2 notes due 2064[1]	$7.9 million	5.25	%
	Trust certificates [2]	$41.3 million	–	
	Deferred issuance costs	$(2.7) million	–	

(1) The Class B notes are subordinate, sequential pay, fixed rate notes with Class B-2 notes subordinate to the Class B-1 notes. The Company has retained the Class B notes.

(2) The trust certificates issued by the trusts and the beneficial ownership of the trusts are retained by Great Ajax Funding LLC as the depositor. As the holder of the trust certificates, the Company is entitled to receive any remaining amounts in the trusts after the Class A notes and Class B notes have been paid in full.

(3) These securities are encumbered under a repurchase agreement.

Servicing for the mortgage loans in the Company's securitizations is provided by the Servicer at a servicing fee rate of 0.65% annually of UPB for loans that are re-performing at acquisition and 1.25% annually of UPB for loans that are non-performing at acquisition, and is paid monthly. The following table sets forth the status of the notes held by others at June 30, 2016, December 31, 2015, and the securitization cutoff date ($ in thousands):

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Class of Notes	Balances at June 30, 2016		Balances at December 31, 2015		Original balances at securitization cutoff date	
	Carrying value of mortgages	Bond principal balance	Carrying value of mortgages	Bond principal balance	Mortgage UPB	Bond Principal Balance
2014-A	$ 53,606	$ 34,659	$ 55,098	$ 36,463	$ 81,405	$ 45,000
2014-B	64,696	32,919	66,292	35,646	91,535	41,191
2015-A	52,991	31,615	53,673	33,674	75,835	35,643
2015-B	110,799	81,305	115,395	84,973	158,498	87,174
2015-C	104,015	72,783	108,238	79,824	130,130	81,982
2016-A	118,778	99,309	-	-	158,485	101,431
	$ 504,885	$ 352,590	$ 398,696	$ 270,580	$ 695,888	$ 392,421

The Company’s obligations under its secured borrowings are not fixed, and the payments on these borrowings are predicated upon cash flows received on the underlying mortgage loans. Accordingly, a projection of contractual maturities over the next five years is inapplicable.

Note 9 — Related party transactions

The Company’s consolidated statements of income included the following significant related party transactions ($ in thousands):

	Three months ended June 30, 2016			Three months ended June 30, 2015		
	Amount	Counterparty	Consolidated Statement of Income location	Amount	Counterparty	Consolidated Statement of Income location
Loan servicing fees	$1,453	Gregory	Related party expense-loan servicing fees	$851	Gregory	Related party expense-loan servicing fees
Management fee	937	Thetis	Related party expense-management fee	856	Thetis	Related party expense-management fee
Due diligence and related loan acquisition costs	24	Gregory	Loan transaction expense	1	Gregory	Loan transaction expense
Expense reimbursements	-	-	-	-	Aspen Yo	Professional fees

Six months ended June 30, 2016 Six months ended June 30, 2015

	Amount	Counterparty	Consolidated Statement of Income location	Amount	Counterparty	Consolidated Statement of Income location
Loan servicing fees	$2,856	Gregory	Related party expense-loan servicing fees	$1,507	Gregory	Related party expense-loan servicing fees
Management fee	1,843	Thetis	Related party expense-management fee	1,603	Thetis	Related party expense-management fee
Due diligence and related loan acquisition costs	50	Gregory	Loan transaction expense	19	Gregory	Loan transaction expense
Expense reimbursements	-	-	-	3	Aspen Yo	Professional fees

The Company’s consolidated balance sheets included the following significant related party balances ($ in thousands):

	June 30, 2016			December 31, 2015		
	Amount	Counterparty	Consolidated Balance sheet location	Amount	Counterparty	Consolidated Balance Sheet Location
Receivables from Servicer	$6,949	Gregory	Receivable from servicer	$5,444	Gregory	Receivable from servicer
Management fee payable	703	Thetis	Management fee payable	667	Thetis	Management fee payable
Servicing fees payable	123	Gregory	Accrued expenses and other liabilities	152	Gregory	Accrued expenses and other liabilities
Expense reimbursement receivable	-	-	-	37	Thetis	Prepaid expenses and other assets

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Management Agreement

On July 8, 2014, the Company entered into the Management Agreementwith the Manager, which has a 15-year term. Under the Management Agreement, the Manager implements the Company's business strategy and manages the Company's business and investment activities and day-to-day operations, subject to oversight by the Company's Board of Directors. Among other services, the Manager, directly or through Aspen affiliates, provides the Company with a management team and necessary administrative and support personnel. The Company does not currently have any employees (other than its Chief Financial Officer) and does not expect to have any other employees in the foreseeable future. Each of the Company's executive officers is an employee or officer, or both, of the Manager or the Servicer.

Under the Management Agreement, the Company pays both a base management fee and an incentive fee to the Manager.

The base management fee equals 1.5% of our stockholders' equity per annum and calculated and payable quarterly in arrears. For purposes of calculating the management fee, the Company's stockholders' equity means: (a) the sum of (i) the net proceeds from any issuances of common stock or other equity securities issued by the Company or the operating partnership (without double counting) since inception (allocated on a pro rata daily basis for such issuances during the fiscal quarter of any such issuance), and (ii) the Company's and the operating partnership's (without double counting) retained earnings calculated in accordance with U.S. GAAP at the end of the most recently completed fiscal quarter (without taking into account any non-cash equity compensation expense incurred in current or prior periods), less (A) any amount that the Company or the operating partnership pays to repurchase shares of common stock or OP Units since inception, (B) any unrealized gains and losses and other non-cash items that have affected consolidated stockholders' equity as reported in the Company's financial statements prepared in accordance with U.S. GAAP, and (C) one-time events pursuant to changes in U.S. GAAP, and certain non-cash items not otherwise described above, in each case after discussions between the Manager and the Company's independent directors and approval by a majority of the Company's independent directors. As a result, the Company's stockholders' equity, for purposes of calculating the management fee, could be greater or less than the amount of stockholders' equity shown on the Company's consolidated financial statements.

The initial $1 million of the quarterly base management fee will be payable 75% in cash and 25% in shares of the Company's common stock. Any amount of the base management fee in excess of $1 million will be payable in shares of the Company's common stock until payment is 50% in cash and 50% in shares (the "50/50 split"). Any remaining amount of the quarterly base management fee after the 50/50 split threshold is reached will be payable in equal amounts of cash and shares. As for the Manager's Incentive Fee, in the event that the payment of the quarterly base management fee has not reached the 50/50 split, all of the incentive fee will be payable in shares of the Company's common stock until the 50/50 split occurs. In the event that the total payment of the quarterly base management fee and the incentive fee has reached the 50/50 split, 20% of the remaining incentive fee is payable in shares of the Company's common stock and 80% of the remaining incentive fee is payable in cash. The common stock will be determined using the higher of the most recently reported book value or the average of the closing prices of our

common stock on the NYSE on the five business days after the date on which the most recent regular quarterly dividend to holders of our common stock is paid. The Manager has agreed to hold any shares of common stock received by it as payment of the base management fee for at least three years from the date such shares of common stock are received by it.

The Manager is also entitled to an incentive management fee that is payable quarterly in arrears in cash in an amount equal to one-fourth of 20% of the dollar amount by which (i) the sum of (A) the aggregate cash dividends, if any, declared out of the REIT taxable income of the Company by the Company's Board of Directors payable to the holders of the Company's common stock and (B) the aggregate cash distributions, if any, declared out of the REIT taxable income of the operating partnership (without duplication) by the operating partnership payable to holders of OP Units (other than any OP Units held by the Company as a limited partner) annualized, or the Annualized Dividends and Distributions, in respect of such calendar quarter exceeds (ii) the product of (1) the book value per share of the Company's common stock as of the end of each such quarter multiplied by the number of shares of the Company's common stock and OP Units (other than any OP Units held by the Company as a limited partner) outstanding as of the end of such calendar quarter and (2) 8%. Notwithstanding the foregoing, no incentive fee will be payable to the Manager with respect to any calendar quarter unless its cumulative core earnings, as

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defined in the agreement, is greater than zero for the most recently completed eight calendar quarters, or the number of completed calendar quarters since the closing date of the Original Private Placement, whichever is less.

The Company also reimburses the Manager for all third-party, out-of-pocket costs incurred by the Manager for managing its business, including third-party diligence and valuation consultants, legal expenses, auditors and other financial services. The Company will not reimburse the Manager for lease costs or salaries and expenses of employees of the Manager. The reimbursement obligation is not subject to any dollar limitation. Expenses will be reimbursed in cash on a monthly basis.

The Company will be required to pay the Manager a termination fee in the event that the Management Agreement is terminated as a result of (i) a termination by the Company without cause, (ii) its decision not to renew the Management Agreement upon the determination of at least two thirds of the Company’s independent directors for reasons including the failure to agree on revised compensation, (iii) a termination by the Manager as a result of the Company becoming regulated as an “investment company” under the Investment Company Act of 1940 (other than as a result of the acts or omissions of the Manager in violation of investment guidelines approved by the Company’s Board of Directors), or (iv) a termination by the Manager if the Company defaults in the performance of any material term of the Management Agreement (subject to a notice and cure period). The termination fee will be equal to twice the combined base fee and incentive fees payable to the Manager during the 12-month period ended as of the end of the most recently completed fiscal quarter prior to the date of termination.

Servicing Agreement

On July 8, 2014, the Company entered into a 15-year servicing agreement (the “Servicing Agreement”) with the Servicer. The Company’s overall servicing costs under the servicing agreement will vary based on the types of assets serviced.

Servicing fees are 0.65% annually of UPB for loans that are re-performing at acquisition and 1.25% annually of UPB for loans that are non-performing at acquisition, and are paid monthly. The total fees incurred by the Company for these services depend upon the UPB and type of mortgage loans that Gregory services pursuant to the terms of the servicing agreement. The fees do not change if a performing loan becomes non-performing or vice versa. Servicing fees for the Company’s real property assets are the greater of (i) the servicing fee applicable to the underlying mortgage loan prior to foreclosure, or (ii) 1.00% annually of the fair market value of the REO as reasonably determined by the Manager or 1.00% annually of the purchase price of any REO otherwise purchased by the Company.

The Company will also reimburse Gregory for all customary, reasonable and necessary out-of-pocket costs and expenses incurred in the performance of its obligations, including the actual cost of any repairs and renovations to REO properties. The total fees incurred by the Company for these services will be dependent upon the property value, previous UPB of the relevant loan, and the number of REO properties.

If the Management Agreement has been terminated other than for cause and/or the Servicer terminates the servicing agreement, the Company will be required to pay a termination fee equal to the aggregate servicing fees payable under the servicing agreement for the immediate preceding 12-month period.

Trademark Licenses

Aspen Yo has granted the Company a non-exclusive, non-transferable, non-sublicensable, royalty-free license to use the name “Great Ajax” and the related logo. The Company also has a similar license to use the name “Thetis.” The agreement has no specified term. If the Management Agreement expires or is terminated, the trademark license agreement will terminate within 30 days. In the event that this agreement is terminated, all rights and licenses granted thereunder, including, but not limited to, the right to use “Great Ajax” in its name will terminate. Aspen Yo also granted to the Manager a substantially identical non-exclusive, non-transferable, non-sublicensable, royalty-free license use of the name “Thetis.”

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Note 10 — Stock-based payments and director fees

Pursuant to the terms of the Management Agreement, the Company pays a portion of the base fee to the Manager in shares of its common stock with the number of shares determined based on the higher of the most recently reported book value or the average of the closing prices of its common stock on the NYSE on the five business days after the date on which the most recent regular quarterly dividend to holders of its common stock is paid. The Company paid the Manager a base management fee for the three and six months ended June 30, 2016 of $0.9 million and $1.8 million, respectively, of which the Company paid $0.2 million and $0.5 million, respectively, in 15,684 and 30,600 shares, respectively, of its common stock. The shares issued to the Manager are restricted securities subject to transfer restrictions.

In addition, each of the Company's independent directors receives an annual retainer of $50,000, payable quarterly, half of which is paid in shares of the Company's common stock on the same basis as the stock portion of the management fee payable to the Manager and half in cash. The following table sets forth the Company's stock-based management fees and independent director fees ($ in thousands except share amounts).

Management fees and director fees

	For the three-months ended June 30, 2016		For the three-months ended June 30, 2015	
	Number of shares	**Amount of expense recognized[(1)]**	Number of shares	**Amount of expense recognized[(1)]**
Management Fees	15,684	$ 234	29,790	$ 411
Independent Director Fees	1,672	25	1,740	25
	17,356	$ 259	31,530	$ 436

	For the six-months ended June 30, 2016		For the six-months ended June 30, 2015	
	Number of shares	**Amount of expense recognized[(1)]**	Number of shares	**Amount of expense recognized[(1)]**
Management Fees	30,600	$ 462	55,877	$ 814
Independent Director Fees	3,320	52	3,488	50
	33,920	$ 514	59,365	$ 864

(1) All management fees and independent director fees are fully expensed in the period in which they are incurred.

The Director Plan is designed to promote the Company's interests by attracting and retaining qualified and experienced individuals for service as non-employee directors. The Director Plan is administered by the Company's Board of Directors. The total number of shares of common stock or other stock-based award, including grants of long term incentive plan ("LTIP") units from the operating partnership, available for issuance under the Director Plan is 100,000 shares. At the closing of the Original Private Placement, the Company issued to each of its three independent directors restricted stock awards of 2,000 shares of its common stock, which are subject to a one-year vesting period. At the time of the IPO in February 2015, the Company added an additional independent director who was also granted a restricted stock award of 2,000 shares of its common stock, subject to a one-year vesting period.

The following table sets forth the activity in its restricted stock plan ($ in thousands, except share and per share amounts):

Restricted stock	**Number of shares**	**Per share value**	**Total cost of grant**	**Grant expense recognized for the three months ended June 30, 2016**	**Grant expense recognized for the six months ended June 30, 2016**
July 8, 2014, Directors' Grants[1]	6,000	$ 15.00	$ 90	$ -	$ -
February 19, 2015 Director Grant[1]	2,000	14.25	29	-	2
	8,000		$ 119	$ -	$ 2

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	Number of shares	Per share value	Total cost of grant	Grant expense recognized for the three months ended June 30, 2015	Grant expense recognized for the six months ended June 30, 2015
July 8, 2014, Directors' Grants[(1)]	6,000	$ 15.00	$ 90	$ 23	$ 45
February 19, 2015 Director Grant[(1)]	2,000	14.25	29	7	12
	8,000		$ 119	$ 30	$ 57

(1) Vesting period is one year from grant date.

Note 11 — Income taxes

As a REIT, the Company must meet certain organizational and operational requirements including the requirement to distribute at least 90% of its annual REIT taxable income to its stockholders. As a REIT, the Company generally will not be subject to U.S. federal income tax to the extent the Company distributes its REIT taxable income to its stockholders and provided the Company satisfies the REIT requirements including certain asset, income, distribution and stock ownership tests. If the Company fails to qualify as a REIT, and does not qualify for certain statutory relief provisions, it will be subject to U.S. federal, state and local income taxes and may be precluded from qualifying as a REIT for the subsequent four taxable years following the year in which it lost its REIT qualification.

The Company's consolidated financial statements include the operations of Thetis TRS and GAJX Real Estate LLC, which are subject to U.S. federal, state and local income taxes on the Company's taxable income.

Provisions for income taxes of $26,000 and $23,000 were recorded for the three- and six-month periods ended June 30, 2016. Provisions for income taxes of $16,000 were recorded for both the three- and six-month periods ended June 30, 2015, respectively. The Company recognized no deferred income tax assets or liabilities on its consolidated balance sheet at June 30, 2016 or December 31, 2015. The Company also recorded no interest or penalties for either of the three- or six-month periods ended June 30, 2016 or the three- or six-month periods ended June 30, 2015.

Note 12 — Earnings per share

The following table sets forth the components of basic and diluted earnings per share ($ in thousands, except share and per share amounts):

	Three months ended June 30, 2016			Three months ended June 30, 2015		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS						
Consolidated income attributable to common stockholders	$ 6,605	15,742,932		$ 5,436	15,237,739	
Allocation of earning to participating restricted shares	(9)	-		(17)	-	
Consolidated income attributable to unrestricted common stockholders	$ 6,596	15,742,932	$ 0.42	$ 5,419	15,237,739	$ 0.36
Effect of dilutive securities						
Operating partnership units	257	624,106		223	624,106	
Restricted stock grants and Manager and director fee shares	9	22,088		17	47,789	
Diluted EPS						
Consolidated income attributable to common stockholders and dilutive securities	$ 6,862	16,389,126	$ 0.42	$ 5,659	15,909,634	$ 0.36

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	Six months ended June 30, 2016			Six months ended June 30, 2015		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS						
Consolidated income attributable to common stockholders	$ 14,256	15,524,725		$ 9,076	14,129,162	
Allocation of earning to participating restricted shares	(23)	-		(31)	-	
Consolidated income attributable to unrestricted common stockholders	$ 14,233	15,524,725	$ 0.92	$ 9,045	14,129,162	$ 0.64
Effect of dilutive securities						
Operating partnership units	569	624,106		398	624,106	
Restricted stock grants and Manager and director fee shares	23	25,333		31	48,051	
Diluted EPS						
Consolidated income attributable to common stockholders and dilutive securities	$ 14,825	16,174,164	$ 0.92	$ 9,474	14,801,319	$ 0.64

Note 13 — Subsequent events

Director appointment

On July 7, 2016, the Company’s Board of Directors appointed Paul Friedman to fill a vacancy on the Board. Mr. Friedman will serve as a member of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee. Mr. Friedman is an independent director, as defined by the NYSE. In connection with his appointment, Mr. Friedman received a stock award of 2,000 shares of the Company’s common stock subject to a one-year vesting period pursuant to the 2014 Director Equity Plan. As a director, Mr. Friedman will be entitled to an annual retainer of $50,000, payable quarterly, half in shares of the Company’s common stock and half in cash.

Repurchase facility

On July 15, 2016, the Company entered into a repurchase financing arrangement, as Seller, with JPMorgan Chase Bank, N.A., as Buyer, under which it will sell to Buyer the beneficial interests in mortgage loans and will pledge to Buyer the beneficial interests in such assets, with a simultaneous agreement by Buyer to transfer to the Company and

the Company to repurchase such assets on a future date. The arrangement terminates on July 12, 2019, is capped at $150 million, and carries interest at LIBOR plus 2.5%, and an annual percentage facility fee of 25 basis points on the committed amount.

Dividend declaration

On July 28, 2016 the Company's Board of Directors declared a dividend of $0.25 per share, to be paid on August 31, 2016, to stockholders of record as of August 16, 2016.

Mortgage loan pool acquisitions

During July 2016, we completed the acquisitions of 882 RPLs with aggregate UPB of $149.2 million in five transactions from five different sellers. The loans were acquired at 83.6% of UPB and the estimated market value of the underlying collateral is $211.2 million. The purchase price equaled 59.1% of the estimated market value of the underlying collateral. All of these acquisitions had closed as of July 31, 2016.

Additionally, we have agreed to acquire, subject to due diligence, 626 RPLs with aggregate UPB of $124.0 million in eight transactions from eight different sellers. The purchase price equals 82.6% of UPB and 59.9% of the estimated market value of the underlying collateral of $171.0 million. We have not entered into a definitive agreement with respect to these loans, and there is no assurance that we will enter into a definitive agreement

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relating to these loans or, if such an agreement is executed, that we will actually close the acquisitions or that the terms will not change.

Management fees

On August 1, 2016 the Company issued 15,684 shares of its common stock to the Manager in payment of the stock-based portion of the management fee due for the second quarter of 2016 in a private transaction. The management fee expense associated with these shares was recorded as an expense in the second quarter of 2016.

Directors' retainer

On August 1, 2016 the Company issued each of its independent directors 418 shares of its common stock in payment of half of their quarterly director fees for the second quarter of 2016.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report constitute forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by terms such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "should," "will" and "woul negatives of these terms or other comparable terminology.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. You should carefully consider these risks, along with the following factors that could cause actual results to vary from our forward-looking statements:

- the factors referenced in this report, including those set forth under "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations";
- our ability to implement our business strategy;
- difficulties in identifying re-performing and non-performing loans and properties to acquire;
- the impact of changes to the supply of, value of and the returns on re-performing and non-performing loans;
- our ability to convert non-performing loans into performing loans, or to modify or otherwise resolve such loans;
- our ability to convert non-performing loans to properties that can generate attractive returns either through sale or rental;
- our ability to compete with our competitors;
- our ability to control our costs;

- the impact of changes in interest rates and the market value of the collateral underlying our re-performing and non-performing loan portfolios or of our other real estate assets;
- our ability to obtain financing arrangements on favorable terms, or at all;
- our ability to retain our Manager;
- the failure of the Servicer to perform its obligations under the servicing agreement;
- general volatility of the capital markets;
- the impact of adverse real estate, mortgage or housing markets and changes in the general economy;
- changes in our business strategy;
- our failure to maintain qualification as a real estate investment trust ("REIT");
- our expectations regarding the time during which we will be an emerging growth company under the JOBS Act;
- our failure to maintain our exemption from registration under the Investment Company Act of 1940, as amended (the "Investment Company Act"); and
- the impact of adverse legislative or regulatory tax changes.

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

In this quarterly report on Form 10-Q ("report"), unless the context indicates otherwise, references to "Great Ajax," "we," "the company," "our" and "us" refer to the activities of and the assets and liabilities of the business and operations of Great Ajax Corp.; "operating partnership" refers to Great Ajax Operating Partnership L.P., a Delaware limited partnership; "our Manager" refers to Thetis Asset Management LLC, a Delaware limited liability company; "Aspen Capital" refers to the Aspen Capital group of companies; "Aspen" and "Aspen Yo" refers to Aspen Yo LLC, an Oregon limited liability company that is part of Aspen Capital; "the Servicer" and "Gregory" refer to Gregory Funding LLC, an Oregon limited liability company and our affiliate, and an indirect subsidiary of Aspen Yo.

Our Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the unaudited interim Consolidated Financial Statements and related notes included in Item 1. Consolidated Interim Financial Statements of this report and in Item 8. Financial Statements and Supplementary Data in our most recent Annual Report on Form 10-K, as well as the sections entitled "Risk Factors" in Item 1A. of our most recent Annual Report on Form 10-K and Part II, Item 1A. of this report, as well as other cautionary statements and risks described elsewhere in this report and our most recent Annual Report on Form 10-K.

Overview

Great Ajax Corp. is a Maryland corporation that focuses primarily on acquiring, investing in and managing a portfolio of re-performing and non-performing mortgage loans secured by single-family residences and, to a lesser extent, single-family properties. We also invest in loans secured by multi-family residential and commercial mixed use retail/residential properties, as well as in the properties directly. The multi-family and commercial mixed-use properties generally will have loan values of up to approximately $5 million. We refer to these as "smaller commercial properties." On July 8, 2014, we closed a private offering of shares of our common stock and limited partnership units of our operating partnership, or OP Units. We commenced operations on July 8, 2014, and we completed our IPO on February 19, 2015.

We are externally managed by Thetis Asset Management LLC, an affiliated entity. We own a 19.8% interest in the Manager. Our mortgage loans and other real estate assets are serviced by Gregory Funding LLC, an affiliated entity. We conduct substantially all of our business through our operating partnership, Great Ajax Operating Partnership L.P., a Delaware limited partnership, and its subsidiaries. We, through a wholly owned subsidiary, are the general partner of our operating partnership. GA-TRS LLC, or Thetis TRS, is a wholly owned subsidiary of the operating partnership that owns the equity interest in the Manager. We elected to treat Thetis TRS as a TRS under the Code. On February 22, 2016, we received a Private Letter Ruling from the Internal Revenue Service in connection with our income earned through the Manager. Currently, our interest in the Manager is held through a taxable REIT subsidiary and is subject to federal and state income taxes. The ruling affirmed that we can generally own the Manager indirectly

through our operating partnership without the associated income impacting our applicable REIT testing requirements. Consistent with the ruling, we are currently exploring options for transferring our interest in the Manager to our operating partnership. Great Ajax Funding LLC is a wholly owned subsidiary of the operating partnership formed to act as the depositor of mortgage loans into securitization trusts and to hold the subordinated securities issued by such trusts and any additional trusts we may form for additional securitizations. AJX Mortgage Trust I, a wholly owned subsidiary of the operating partnership, was formed in connection with a repurchase agreement. GAJX Real Estate LLC, a wholly owned subsidiary of the operating partnership, was formed to own, maintain, improve and sell REO purchased by us. We have elected to treat GAJX Real Estate LLC as a TRS under the Code.

We elected to be taxed as a REIT for U.S. federal income tax purposes beginning with our taxable year ended December 31, 2014. Our qualification as a REIT depends upon our ability to meet, on a continuing basis, various complex requirements under the Code relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the diversity of ownership of our capital stock. We believe that we are organized in conformity with the requirements for qualification as a REIT under the Code, and that our current intended manner of operation enables us to meet the requirements for taxation as a REIT for U.S. federal income tax purposes.

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Market Trends and Outlook

We believe that cyclical trends continue to drive a significant realignment within the mortgage sector. These trends and their effects include:

- sustained low interest rates and elevated operating costs resulting from new regulatory requirements that continue to drive sales of residential mortgage assets by banks and other mortgage lenders;
- declining home ownership due to rising prices, low inventory and increased down payment requirements that have increased the demand for single-family and multi-family residential rental properties;
- rising home prices are increasing homeowner equity and reducing the incidence of strategic default;
- low interest rates combined with rising prices has resulted in millions of homeowners being in the money to refinance and;
- the Dodd-Frank risk retention rules for asset backed securities have reduced the universe of participants in the securitization markets.

The current market landscape is also generating new opportunities in residential mortgage-related whole loan strategies. The origination of subprime and alternative residential mortgage loans remain substantially below 2008 levels and the new qualified mortgage and ability-to-repay rule requirements has put pressure on new originations. Additionally, many banks and other mortgage lenders have increased their credit standards and down payment requirements for originating new loans.

The combination of these factors has also resulted in a significant number of families that cannot qualify to obtain new residential mortgage loans. We believe new U.S. federal regulations addressing “qualified mortgages” based, among other factors on employment status, debt-to-income level, impaired credit history or lack of savings, will continue to limit mortgage loan availability from traditional mortgage lenders. In addition, we believe that many homeowners displaced by foreclosure or who either cannot afford to own or cannot be approved for a mortgage will prefer to live in single-family rental properties with similar characteristics and amenities to owned homes as well as smaller multi-family residential properties. In certain demographic areas, new households are being formed at a rate that exceeds the new homes being added to the market, which we believe favors future demand for non-federally guaranteed mortgage financing for single-family and smaller multi-family rental properties. For all these reasons, we believe that demand for single-family and smaller multi-family rental properties will increase in the near term and remain at heightened levels for the foreseeable future.

We also believe that banks and other mortgage lenders have strengthened their capital bases and are more aggressively foreclosing on delinquent borrowers or selling these loans to dispose of their inventory. Additionally, many non-performing loan buyers are now interested in reducing their investment duration and have begun selling re-performing loans.

We believe that investments in re-performing single family residential loans provide the optimal investment value. As a result, we focus our investments in pools of re-performing loans and are no longer actively acquiring pools of non-performing loans.

We also believe there are significant attractive investment opportunities in the smaller commercial mortgage loan and property markets. We focus on densely populated urban areas where we expect positive economic change based on certain demographic, economic and social statistical data. The primary lenders for smaller multi-family and mixed retail/residential properties are community banks and not regional and national banks and large institutional lenders. We believe the primary lenders and loan purchasers are less interested in these assets because they typically require significant commercial and residential mortgage credit and underwriting expertise, special servicing capability and active property management. It is also more difficult to create the large pools that these primary banks, lenders and portfolio acquirers typically desire. Many community banks also remain under financial and regulatory pressure since the financial crisis and are now beginning to sell smaller commercial

mortgage loans as property values have begun to increase. We continually monitor opportunities to increase our holdings of these smaller commercial mortgage loans and properties.

Factors That May Affect Our Operating Results

Acquisitions. Our operating results depend heavily on sourcing re-performing and non-performing loans. We believe that there is currently a large supply of re-performing and non-performing loans available to us for acquisition. We believe the available supply provides for a steady acquisition pipeline of assets since we plan on targeting just a small percentage of the population. We further believe that we will be able to purchase residential mortgage loans at lower prices than "real estate owned" properties, or REO, for the following reasons.

- We believe that buying re-performing loans is more efficient and lower risk than acquiring REO rentals directly because the net cash flow from the re-performing loans is typically greater than rent cash flow. Re-performing loans are typically purchased at significant discounts from UPB and underlying property values, but the borrower pays interest on the full UPB, leading to a higher current yield. The borrower is also responsible for property taxes, insurance and maintenance, which are all costs that the owner of the REO would otherwise have to pay. In addition, to the extent that the UPB exceeds the home's value, the lender will receive all appreciation until such time as the home price appreciation ("HPA") exceeds the UPB. While the return to the mortgage loan owner is thus capped, conversely, there is also risk mitigation if the REO value decreases, until the value is less than the price the lender paid for the loan.

- If a re-performing loan becomes a non-performing loan, or we purchase a non-performing loan, which is generally purchased at a deeper discount than re-performing loans, we, through the Servicer, have a number of ways to mitigate our loss. These loss mitigation techniques include working with the borrower to achieve performance, including through modification of the mortgage loan terms as well as short sale, assisted deed-in-lieu of foreclosure, assisted deed-for-lease, foreclosure and other loss mitigation activities. With each REO acquired, we assess the best potential return—either through rental, sale with carryback financing, which we believe will increase the potential pool of purchasers, or sale without our financing the purchase.

- We believe that we will be able to purchase residential mortgage loans at lower prices than REO properties because sellers of such loans will be able to avoid paying the costs typically associated with sales of real estate, whether single-family residences or smaller commercial properties, such as broker commissions and closing costs of up to 10% of gross proceeds of the sale. We believe this will motivate the sellers to accept a lower price for the re-performing and non-performing loans than they would if selling REO.

- We believe there are fewer participants in the re-performing and non-performing loan marketplace than in the foreclosure auction and other REO acquisition channels due to the large size of portfolios offered for sale on an "all or none" basis and the required operational infrastructure and expertise involved in servicing loans and managing

single-family rental properties across various states. Additionally, as the acquirer of loans, we take the risk of delays in the foreclosure process for non-performing loans. We focus on smaller pools of mortgage loan assets that we can analyze on a loan-by-loan basis, and we believe that we will be able to aggregate these smaller pools often at a greater discount than would be available for larger pools. We believe the relatively lower level of competition for re-performing and non-performing loans, combined with growing supply, provides buyers with the opportunity for a higher discount rate relative to the foreclosure auction and other REO acquisition channels and therefore a relatively lower cost to acquire REO.

We expect that our residential mortgage loan portfolio may grow at an uneven pace, as opportunities to acquire distressed residential mortgage loans may be irregularly timed and may involve large portfolios of loans, and the timing and extent of our success in acquiring such loans cannot be predicted. In addition, for any given portfolio of loans that we agree to acquire, we typically acquire fewer loans than originally expected, as certain loans may be resolved prior to the closing date or may fail to meet our diligence standards. The number of unacquired loans typically constitutes a small portion of a particular portfolio. In any case where we do not acquire the full portfolio, we make appropriate adjustments to the applicable purchase price.

Financing. Our ability to grow our business by acquiring re-performing and non-performing loans depends on the availability of adequate financing, including additional equity financing, debt financing or both in order to meet our objectives. We intend to leverage our investments with debt, the level of which may vary based upon the particular characteristics of our portfolio and on market conditions. We securitize our whole loan portfolios, primarily as a financing tool, when economically efficient to create long-term, fixed rate, non-recourse financing with moderate leverage, while retaining one or more tranches of the subordinate MBS so created. The securitizations are structured as debt financings and not REMIC sales, and the loans included in the securitizations remain on our balance sheet. In October 2014, November 2014, May 2015, July 2015, October 2015 and April 2016, we completed securitization transactions pursuant to Rule 144A under the Securities Act of 1933, as amended, or the Securities Act, in which we issued notes primarily secured by seasoned, performing and non-performing mortgage loans primarily secured by first liens on one-to-four family residential properties.

To qualify as a REIT under the Code, we generally will need to distribute at least 90% of our taxable income each year (subject to certain adjustments) to our stockholders. This distribution requirement limits our ability to retain earnings and thereby replenish or increase capital to support our activities.

Resolution Methodologies. We, through the Servicer, or our affiliates, employ various loan resolution methodologies with respect to our residential mortgage loans, including loan modification, collateral resolution and collateral disposition. The manner in which a non-performing loan is resolved will affect the amount and timing of revenue we will receive. Our preferred resolution methodology is to modify non-performing loans. Once successfully modified and there is a period of continued performance, we expect that borrowers will typically refinance these loans either with other lenders or by the Servicer at or near the estimated value of the underlying property. We believe modification followed by refinancing generates near-term cash flows, provides the highest possible economic outcome for us and is a socially responsible business strategy because it keeps more families in their homes. In certain circumstances, we may also consider selling these modified loans. Though we do not actively seek to acquire REO or rental properties, through historical experience, we expect that many of our non-performing residential mortgage loans will enter into foreclosure or similar proceedings, ultimately becoming REO that we can convert into single-family rental properties. REO property can be converted into single-family rental properties or they may be sold through REO liquidation and short sale processes. We expect the timelines for each of the different processes to vary significantly, and final resolution could take up to 48 months or longer from the loan acquisition date. The exact nature of resolution will depend on a number of factors that are beyond our control, including borrower willingness, property value, availability of refinancing, interest rates, conditions in the financial markets, regulatory environment and other factors. To avoid the 100% prohibited transaction tax on the sale of dealer property by a REIT, we intend to dispose of any asset that may be treated as held “primarily for sale to customers in the ordinary course of a trade or business” by contributing or selling the asset to a TRS prior to marketing the asset for sale.

The state of the real estate market and home prices will determine proceeds from any sale of real estate. We will opportunistically and on an asset-by-asset basis determine whether to rent any REO we acquire, whether upon foreclosure or otherwise, we may determine to sell such assets if they do not meet our investment criteria. In addition, while we seek to track real estate price trends and estimate the effects of those trends on the valuations of our portfolios of residential mortgage loans, future real estate values are subject to influences beyond our control.

Generally, rising home prices are expected to positively affect our results. Conversely, declining real estate prices are expected to negatively affect our results.

Conversion to rental property. The key variables that will affect our residential rental revenues over the long-term will be the extent to which we acquire REO, which, in turn, will depend on the amount of our capital invested, average occupancy and rental rates in our owned rental properties. We expect the timeline to convert acquired loans into rental properties will vary significantly by loan, which could result in variations in our revenue and our operating performance from period to period. There are a variety of factors that may inhibit our ability, through the Servicer, to foreclose upon a residential mortgage loan and get access to the real property within the time frames we model as part of our valuation process. These factors include, without limitation: state foreclosure timelines and the associated deferrals (including from litigation); unauthorized occupants of the property; U.S. federal, state or local legislative action or initiatives designed to provide homeowners with assistance in avoiding residential mortgage loan foreclosures that may delay the foreclosure process; U.S. federal government programs that require specific procedures to be followed to explore the non-foreclosure outcome of a residential mortgage

loan prior to the commencement of a foreclosure proceeding; and declines in real estate values and high levels of unemployment and underemployment that increase the number of foreclosures and place additional pressure on the already overburdened judicial and administrative systems.

Expenses. Our expenses primarily consist of the fees and expenses payable by us under the Management Agreement and the Servicing Agreement. Our Manager incurs direct, out-of-pocket costs related to managing our business, which are contractually reimbursable by us. Depreciation and amortization is a non-cash expense associated with the ownership of real estate properties and generally remains relatively consistent each year at an asset level since we depreciate our properties on a straight-line basis over a fixed life. Interest expense consists of the costs to borrow money.

Changes in home prices. As discussed above, generally, rising home prices are expected to positively affect our results, particularly as it should result in greater levels of re-performance of mortgage loans, faster refinancing of those mortgage loans, more re-capture of principal on greater than 100% LTV (loan-to-value) mortgage loans and increased recovery of the principal of the mortgage loans upon sale of any REO. Conversely, declining real estate prices are expected to negatively affect our results, particularly if the price should decline below our purchase price for the loans and especially if borrowers determine that it is better to strategically default as their equity in their homes decline. While home prices have risen to nearly pre-Great Recession levels in many parts of the United States, there are still significant regions where values have not materially increased. When we analyze loan and property acquisitions we do not take HPA into account except for rural properties for which we model negative HPA related to our expectation of worse than expected property condition. We typically concentrate our investments in specific urban geographic locations in which we expect stable or better property markets, although we do not use any appreciation expectation in the performance modeling.

Changes in market interest rates. With respect to our business operations, increases in interest rates, in general, may over time cause: (1) the value of our mortgage loan and MBS (retained from our securitizations) portfolio to decline; (2) coupons on our ARM and hybrid ARM mortgage loans and MBS to reset, although on a delayed basis, to higher interest rates; (3) prepayments on our mortgage loans and MBS portfolio to slow, thereby slowing the amortization of our purchase premiums and the accretion of our purchase discounts; (4) the interest expense associated with our borrowings to increase; and (5) to the extent we enter into interest rate swap agreements as part of our hedging strategy, the value of these agreements to increase. Conversely, decreases in interest rates, in general, may over time cause: (a) prepayments on our mortgage loan and MBS portfolio to increase, thereby accelerating the accretion of our purchase discounts; (b) the value of our mortgage loan and MBS portfolio to increase; (c) coupons on our ARM and hybrid ARM mortgage loans and MBS to reset, although on a delayed basis, to lower interest rates; (d) the interest expense associated with our borrowings to decrease; and (e) to the extent we enter into interest rate swap agreements as part of our hedging strategy, the value of these agreements to decrease.

Market conditions. Due to the dramatic repricing of real estate assets during the most recent financial crisis and the continuing uncertainty in the direction and continuing strength of the real estate markets, we believe a void in the debt

and equity capital available for investing in real estate has been created as many financial institutions, insurance companies, finance companies and fund managers face insolvency or have determined to reduce or discontinue investment in debt or equity related to real estate. We believe the dislocations in the residential real estate market have resulted or will result in an “over-correction” in the repricing of real estate assets, creating a potential opportunity for us to capitalize on these market dislocations and capital void.

We believe that in spite of the continuing uncertain market environment for mortgage-related assets, current market conditions offer potentially attractive investment opportunities for us, even in the face of a riskier and more volatile market environment, as the depressed trading prices of our target assets have caused a corresponding increase in available yields. We expect that market conditions will continue to impact our operating results and will cause us to adjust our investment and financing strategies over time as new opportunities emerge and risk profiles of our business change.

Critical Accounting Policies and Estimates

Various elements of our accounting policies, by their nature, are inherently subject to estimation techniques, and other subjective assessments. In particular, we have identified three policies that, due to the judgment and estimates inherent in those policies, are critical to understanding of our consolidated financial

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statements. These policies relate to (i) accounting for interest income on our mortgage loan portfolio; (ii) accounting for interest expense on our secured borrowings; and, (iii) accounting for interest expense on our borrowings under repurchase agreements. We believe that the judgment and estimates used in the preparation of our consolidated financial statements are appropriate given the factual circumstances at the time. However, given the sensitivity of our consolidated financial statements to these critical accounting policies, the use of other judgments or estimates could result in material differences in our results of operations or financial condition. For further information on our critical accounting policies, please refer to Note 2, Summary of significant accounting policies in the notes to our interim consolidated financial statements.

Recent Accounting Pronouncements

Refer to the notes to our interim consolidated financial statements for a description of relevant recent accounting pronouncements.

Emerging growth company.

Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to take advantage of the benefits of this extended transition period. Our consolidated financial statements may, therefore, not be comparable to those of companies that comply with such new or revised accounting standards.

Results of Operations

For the three months and six months ended June 30, 2016, we had net income attributable to common stockholders of $6.6 million and $14.3 million, or $0.42 and $0.92, respectively, for both basic and diluted common shares. For the three and six months ended June 30, 2015, we had net income attributable to common stockholders of $5.4 million and $9.1 million, or $0.36 and $0.64, respectively, for both basic and diluted common shares.

(Dollars in thousands except shares and per share data)

	Three months ended June 30,		Six months ended June 30,	
	(unaudited)		(unaudited)	
	2016	2015	2016	2015
INCOME				
Loan interest income	$ 16,378	$ 10,793	$ 32,192	$ 17,677
Interest expense	(6,063)	(2,269)	(11,050)	(3,344)
Net interest income	10,315	8,524	21,142	14,333
Income from investment in manager	46	64	90	104
Other income	327	222	867	406
Total income	10,688	8,810	22,099	14,843
EXPENSE				
Related party expense – loan servicing fees	1,453	851	2,856	1,507
Related party expense – management fees	937	856	1,843	1,603
Loan transaction expense	574	729	787	989
Professional fees	407	356	821	741
Real estate operating expenses	113	54	275	64
Other expense	317	289	670	449
Total expense	3,801	3,135	7,252	5,353
Income before provision for income taxes	6,887	5,675	14,847	9,490
Provision (benefit) for income taxes	26	16	23	16
Consolidated net income	$ 6,861	$ 5,659	$ 14,824	$ 9,474
Less: consolidated net income attributable to the non-controlling interest	256	223	568	398
Consolidated net income attributable to common stockholders	$ 6,605	$ 5,436	$ 14,256	$ 9,076

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Net Interest Income

Our primary source of income is accretion earned on our mortgage loan portfolio offset by the interest expense incurred to fund portfolio acquisitions. Net interest income on our mortgage loan portfolio increased to $10.3 million for the three months ended June 30, 2016 versus $8.5 million for the three months ended June 30, 2015. Year to date net interest income increased to $21.1 million versus $14.3 million for the comparable period in 2015. The key driver of increased net interest income was an increase in the average balance of our mortgage loan portfolio offset by an increase in our secured borrowings as we continue to take advantage of favorable market conditions for issuing senior bonds secured by our mortgage loans. The average balance of our mortgage loan portfolio increased to $607.9 million for the three months ending June 30, 2016 versus $355.8 million for the three months ending June 30, 2015.

The average yield on our mortgage loan portfolio declined versus the comparable periods in 2015 primarily due to an increase in the percentage of re-performing loans. Re-performing loans generally have a longer duration than non-performing loans resulting in increased expected principal and interest collections over the life of the loan but lower current period income as cash collections occur over a longer period. Our average yield on our secured borrowings and repurchase agreements increased versus the comparable periods in 2015 primarily due to the impact of the amortization of deferred issuance costs on our secured borrowings and our repurchase agreements.

The average balance of our mortgage loan portfolio and debt outstanding for the three month periods ended June 30, 2016 and 2015 are included in the table below *($ in thousands)*:

Average Balance

	Three months ended June 30,	
	2016	2015
Mortgage loan portfolio	$607,906	$355,815
Total debt	$433,595	$190,834

Other Income

Other income for the three and six months ended June 30, 2016 versus the comparable periods in 2015 increased primarily due to higher gains on the sales of property held-for-sale and increased late fee income, offset by

impairments of our REO. We routinely assess the net realizable value on our REO and record an impairment if the carrying value of the REO exceeds the net realizable value. The following table sets forth the components of other income for the periods disclosed.

Other Income

($ in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net gain (loss) on sale of Property held-for-sale	$236	$(7)	$494	$(11)
Impairment of Property held-for-sale	(155)	-	(200)	-
Late fee income	81	21	163	39
HAMP fees *	56	89	149	170
Other income	109	119	261	208
Total Other Income	$327	$222	$867	$406

* Fees received pursuant to the government's Home Affordable Modification Program.

Operating Expenses

Total expenses for the three- and six-months ended June 30, 2016 increased versus the comparable period primarily due to increases in loan servicing fees as a result of the increase in the mortgage loan portfolio and management fees due to the increase in stockholders' equity at June 30, 2016 versus the comparable quarters. Real estate operating expenses similarly increased due to higher property taxes, insurance and HOA fees on the increased REO portfolios. Loan transaction expense increased during the three months ended June 30, 2016, as a result of due diligence expenses on portfolio acquisitions that closed in the third quarter of 2016 (see Note 13, Subsequent Events).

Equity and Net Book Value Per Share

Our net book value per share was $14.94 and $14.92 at June 30, 2016 and December 31, 2015, respectively, an increase of $0.02 due to the increase in equity from our earnings, partially offset by an increase in the number of shares outstanding from our offering of common stock completed during the second quarter of 2016. The net book

value per share is calculated by dividing equity by total adjusted shares outstanding, including OP Units (which are redeemable on a 1-for-1 basis into shares of our common stock after one year of ownership) and Manager and director shares not issued as of the date indicated *($ in thousands except per share amounts)*:

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	June 30, 2016	December 31, 2015
Outstanding shares	17,924,523	15,301,946
Adjustments for:		
Operating partnership units	624,106	624,106
Manager and director shares earned but not issued as of the date indicated	17,356	16,586
Total adjusted shares outstanding	18,565,985	15,942,638
Total equity	$277,299	$ 237,813
Book value per share	$14.94	$ 14.92

Mortgage loan portfolio

For the three and six months ended June 30, 2016, we acquired 251 and 469 RPLs, respectively, for acquisition prices of $52.1 million and $89.3 million, respectively. The loans were acquired at 74.2% and 74.5% of UPB, respectively. For the three and six months ended June 30, 2015, we acquired 421 and 1,179 RPLs, respectively, for acquisition prices of $63.5 million and $213.8 million, respectively. The loans were acquired at 73.8% and 77.8% of UPB, respectively. Mortgage loans purchased during the quarter and held as of June 30, 2016 were on our balance sheet for a weighted average of 42 days of the quarter. During the three- and six-month periods ended June 30, 2016, 56 and 93 mortgage loans, representing 1.2% and 2.1%, respectively, of our ending UPB, were repaid. During each of the three- and six-month periods ended June 30, 2015, 15 and 33 mortgage loans, representing 1.0% and 0.6%, respectively, of our ending UPB, were repaid. The following table shows loan portfolio acquisitions for the three- and six-months ended June 30, 2016, and June 30, 2015.

Portfolio acquisitions

($ in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
RPLs				
Count	251	758	469	1,179
UPB	$70,262	$188,935	$119,947	$274,883
Purchase price	$52,128	$150,390	$89,335	$213,922
Purchase price % of UPB	74.2 %	79.6 %	74.5 %	77.8 %
NPLs				
Count	-	69	-	158
UPB	$-	$15,710	$-	$31,822
Purchase price	$-	$9,044	$-	$19,617

Purchase price % of UPB	-	57.6 %	-	61.6 %

Loan portfolio activity

($ in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Beginning carrying value	$584,298	$285,834	$554,877	$211,159
Mortgage loan portfolio acquisitions	52,128	159,434	89,328	233,539
Payments received	(20,083)	(8,382)	(38,630)	(13,449)
Accretion recognized	16,375	10,793	32,188	17,677
Reclassifications to REO	(5,019)	(3,574)	(10,787)	(7,669)
Other non-cash adjustments to principal	2,835	303	3,558	3,151
Ending carrying value	$630,534	$444,408	$630,534	$444,408

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As of June 30, 2016, our portfolio of mortgage-related assets consisted of the following *($ in thousands):*

No. of Loans	3,536	Weighted Average Remaining Term (months)	324.2
Total UPB	$805,571	No. of first liens	3,515
Interest-Bearing Balance	$744,387	No. of second liens	21
Deferred Balance[1]	$61,184	No. of Rental Properties	3
Market Value of Collateral[2]	$915,415	Market Value of Rental Properties	$923
Price/Total UPB[3]	73.8 %	Capital Invested in Rental Properties	$760
Price/Market Value of Collateral	65.6 %	Price/Market Value of Rental Properties	82.4 %
Weighted Average Coupon[4]	4.44 %	No. of Other REO	111
Weighted Average LTV[4]	101.9 %	Market Value of Other REO	$21,427

(1) Amounts that have been deferred in connection with a loan modification on which interest does not accrue. These amounts generally become payable at the time of maturity.
(2) As of date of acquisition.
(3) Our loan portfolio consists of fixed rate (51.0% of UPB), ARM (16.1% of UPB) and Hybrid ARM (32.9% of UPB) mortgage loans with original terms to maturity of not more than 40 years.
(4) UPB as of June 30, 2016 divided by market value of collateral as of date of acquisition and weighted by the UPB of the loan.

We closely monitor the status of our mortgage loans through our Servicer as it works with our borrowers to improve their payment records. Re-performing loans are loans on which at least five of the seven most recent payments have been made, or the most recent payment has been made and accepted pursuant to an agreement, or the full dollar amount to cover at least five payments has been paid in the last seven months. Non-performing loans are those loans on which the most recent three payments have not been made. The following table shows the percentages of our portfolio, based on UPB, represented by non-performing loans and re-performing loans at June 30, 2016, and December 31, 2015, based on loan status as of the balance sheet date.

Portfolio composition by re-performing and non-performing loans

	June 30, 2016	December 31, 2015
Re-performing loans	88.7 %	85.0 %
Non-performing loans	11.3 %	15.0 %
Total loans	100.0 %	100.0 %

The following table presents certain characteristics about our mortgage loans by years of origination as of June 30, 2016 (*dollars in thousands*):

	Years of Origination				
Portfolio Characteristics:	**After 2008**	**2006-2008**	**2001-2005**	**1990-2000**	**Prior to 1990**
Number of loans	269	2,247	810	196	14
Current unpaid principal balance	$56,133	$582,580	$152,196	$14,145	$517
Mortgage loan portfolio by year of origination	6.9 %	72.4 %	18.8 %	1.8 %	0.1 %
Loan Attributes:					
Weighted average loan age (months)	63.2	113.6	142.6	220.6	351.0
Weighted Average loan-to-value (as of 6/30/16)	89.3 %	106.4 %	88.9 %	65.1 %	23.3 %
Delinquency Performance: (as of 6/30/16)					
30 days delinquent	19.3 %	16.6 %	17.2 %	15.6 %	40.1 %
60 days delinquent	7.9 %	8.4 %	9.0 %	7.6 %	0.0 %
90+ days delinquent	18.2 %	18.7 %	18.8 %	30.1 %	12.0 %
Foreclosure	6.4 %	12.4 %	14.5 %	15.5 %	26.2 %

Loans by state

The following table identifies our mortgage loans by state, number of loans, loan value and collateral value and percentages thereof at June 30, 2016 identified above *($ in thousands)*:

State	Loan Count	UPB ($)	% of UPB	Collateral Value ($) [1]	% of Collateral Value	State	Loan Count	UPB ($)	% of UPB	Collateral Value ($) [1]	% of Collateral Value
CA	546	205,686	25.8%	249,794	27.1 %	MN	30	5,234	0.6 %	6,795	0.7 %
FL	531	112,680	14.0%	114,318	12.5 %	MO	33	4,547	0.6 %	4,706	0.5 %
NY	242	83,532	10.4%	106,608	11.6 %	LA	29	3,602	0.4 %	4,277	0.5 %
NJ	200	58,937	7.3 %	57,300	6.3 %	DE	17	3,171	0.4 %	4,105	0.4 %
MD	132	34,970	4.3 %	37,255	4.1 %	RI	14	3,094	0.4 %	3,049	0.3 %
IL *	148	30,595	3.8 %	29,119	3.2 %	WI	21	3,007	0.4 %	3,212	0.4 %
MA	101	28,051	3.5 %	33,092	3.6 %	DC	9	2,685	0.3 %	4,292	0.5 %
TX	211	24,927	3.1 %	34,253	3.7 %	KY	20	2,237	0.3 %	2,547	0.3 %
GA*	141	19,541	2.4 %	20,327	2.2 %	HI	9	2,195	0.3 %	3,302	0.4 %
VA	78	17,200	2.1 %	18,584	2.0 %	NM	9	2,004	0.2 %	2,472	0.3 %
AZ	77	15,483	1.9 %	14,982	1.6 %	NH	9	1,994	0.2 %	2,453	0.3 %
WA	61	15,220	1.9 %	17,430	1.9 %	MS	16	1,562	0.2 %	1,746	0.2 %
NC	107	13,905	1.7 %	15,245	1.7 %	OK	12	1,381	0.2 %	1,294	0.1 %
PA	116	11,916	1.5 %	14,833	1.6 %	PR	10	1,271	0.2 %	1,626	0.2 %
OH	84	11,408	1.4 %	11,479	1.3 %	IA	11	964	0.1 %	1,035	0.1 %
OR	42	10,485	1.3 %	12,612	1.4 %	ME	6	920	0.1 %	863	0.1 %
NV	41	9,604	1.2 %	9,564	1.0 %	KS	9	804	0.1 %	915	0.1 %
CO	42	9,205	1.1 %	12,299	1.3 %	ID	7	761	0.1 %	1,282	0.1 %
SC	60	8,433	1.0 %	9,130	1.0 %	AR	9	661	0.1 %	762	0.1 %
MI	60	8,207	1.0 %	9,299	1.0 %	SD	3	623	0.1 %	787	0.1 %
TN	60	7,369	0.9 %	8,793	1.0 %	WV	6	544	0.1 %	608	0.1 %
CT	33	6,670	0.8 %	6,519	0.7 %	NE	4	306	0.0 %	325	0.0 %
UT	35	6,356	0.8 %	7,362	0.8 %	MT	1	132	0.0 %	215	0.0 %
AL	33	5,741	0.7 %	5,715	0.6 %	ND	1	72	0.0 %	159	0.0 %
IN	60	5,679	0.7 %	6,676	0.7 %	Total	3,536	805,571	100.0%	915,415	100.0 %

* Information reflects two loans in which we have a 95% participation interest and are owned by the Servicer because neither we nor our subsidiaries have the necessary licenses in certain states.

(1) As of date of acquisition.

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Liquidity and Capital Resources

Source and Uses of Cash

Our primary sources of cash have consisted of proceeds from securities offerings, our securitizations of residential mortgages, repurchase agreements, the collection of principal and interest on our loan portfolio, and sales of properties held-for-sale. We anticipate that our primary sources of cash in the future will generally consist of payments of principal and interest we receive on our loan portfolio and proceeds on the sale of REO property held for sale. Additionally, depending on market conditions, we expect that our primary financing sources will include securitizations, repurchase agreements and private and public equity and debt issuances in addition to transaction or asset specific funding arrangements and credit facilities (including term loans and revolving facilities). We expect that these sources of funds will be sufficient to meet our short-term and long-term liquidity needs. From time to time, we may invest with third parties and acquire interests in loans through investments in joint ventures.

We use cash to purchase mortgage-related assets, repay principal and interest on any borrowings, make distributions to our stockholders and holders of our operating partnership units and fund operations.

As of June 30, 2016, substantially all of our invested capital was in re-performing and non-performing mortgage loans. We also held approximately $68.4 million of cash and cash equivalents, an increase of $37.6 million from our balance of $30.8 million at December 31, 2015. The increase is primarily due to our securitization of mortgage loans in April 2016, under our 2016-A secured borrowings, and our offering of common stock in June 2016. Our average daily cash balance during the quarter was $39.0 million, an increase of $11.1 million from our average daily balance of $27.9 million during quarter ended March 31, 2016, an increase of $10.9 million from our average daily balance of $28.1 million during quarter ended December 31, 2015.

Our operating cash flows for the six months ended June 30, 2016 and 2015 were $(4.3) million and $(5.0) million, respectively. The key driver of negative operating cash flow for both periods is non-cash interest income accretion of $(20.7) million for the six months ended June 30, 2016 and $(11.9) million for the six months ended June 30, 2015. Operating cash flows do not include principal repayments on our mortgage loans or proceeds on the sale of our REO property held for sale. For the six months ended June 30, 2016 and 2015, we collected $23.6 million and $7.3 million, respectively, in principal payments and payoffs on our mortgage loans. For the six months ended June 30, 2016 and 2015, we collected $5.2 million and $0.3 million, respectively, in proceeds on the sale of our REO property held for sale.

Our investing cash flow are driven primarily by mortgage loan acquisitions offset by principal payments on and repayments of our mortgage loan portfolio and proceeds on the sale of our REO property held for sale. Changes in our investing cash flows for the six month period ended June 30, 2016 and 2015 were $(62.0) million and $(228.9) million, respectively, driven primarily by mortgage loan acquisitions for the period ended June 30, 2016 and 2015 of $89.3 million and $233.6 million, respectively.

Our financing cash flow are driven primarily by funding used to acquire mortgage loan pools and dividends paid on our common stock. We fund our mortgage loan pool acquisitions primarily through secured borrowings, repurchase agreements and the proceeds from our equity offerings. For the six months ended June 30, 2016 and 2015, we issued $101.4 million and $35.2 million in secured borrowings offset by repayments of $19.4 million and $3.5 million, respectively. For the six months ended June 30, 2016 and 2015, we borrowed $71.1 million and $153.8 million on our repurchase agreements, offset by repayments of $73.4 million and $15.3 million, respectively. Additionally, for the six months ended June 30, 2016 and 2015, we raised $32.0 million and $51.5 million, respectively, from the sale of our common stock. For the six months ended June 30, 2016 and 2015, we paid dividends and distributions in the amount of $7.5 million and $4.5 million, respectively.

Financing activities – equity offerings

We completed our IPO in February 2015, in which we and selling stockholders sold an aggregate of 5,276,797 shares of common stock, including shares sold pursuant to exercise of the option to purchase additional shares granted to the underwriters. We sold 3,976,464 shares of common stock and selling stockholders sold 1,300,333 shares of common stock, in each case, including shares sold pursuant to exercise of the option to

purchase additional shares granted to the underwriters. We used the approximately $53.9 million of proceeds (after deducting the underwriting discount but before deducting estimated offering expenses) to acquire additional mortgage loans and mortgage-related assets. In June 2016, we sold 2,589,427 shares of common stock, including shares sold pursuant to the underwriters' exercising the option to purchase additional shares granted, in a public offering. We have and will continue to use the approximately $32.0 million in net proceeds to acquire mortgage loan pools.

Financing activities – secured borrowings and repurchase arrangements

From inception (January 30, 2014) to June 30, 2016, we have completed six securitizations pursuant to Rule 144A under the Securities Act. The securitizations are structured as debt financings and not REMIC sales, and the loans included in the securitizations remain on our balance sheet as we are the primary beneficiary of the securitization trusts, which are variable interest entities ("VIEs"). The securitization VIEs are structured as pass through entities that receive principal and interest on the underlying mortgages and distribute those payments to the holders of the notes. Our exposure to the obligations of the VIEs is generally limited to our investments in the entities. The notes that are issued by the securitization trusts are secured solely by the mortgages held by the applicable trusts and not by any of our other assets. The mortgage loans of the applicable trusts are the only source of repayment and interest on the notes issued by such trusts. We do not guarantee any of the obligations of the trusts under the terms of the agreement governing the notes or otherwise.

Our securitizations are structured with Class A notes, Class B notes, and a trust certificate representing the residual interests in the mortgages. For each of our six securitizations through June 30, 2016, we have retained the Class B notes and the trust certificate. The Class A notes are senior, sequential pay, fixed rate notes. The Class B notes are subordinate, sequential pay, fixed rate notes with Class B-2 notes subordinate to the Class B-1 notes. If the Class A notes have not been redeemed by the payment date 36 months after issue, or otherwise paid in full by that date, an amount equal to the aggregate interest payment amount that accrued and would otherwise be paid to the Class B-1 and the Class B-2 notes will be paid as principal to the Class A notes on that date and each subsequent payment date until the Class A notes are paid in full. After the Class A notes are paid in full, the Class B-1 and Class B-2 notes will resume receiving their respective interest payment amounts and any interest that accrued but was not paid to the Class B notes while the Class A notes were outstanding. As the holder of the trust certificates, we are entitled to receive any remaining amounts in the trust after the Class A notes and Class B notes have been paid in full.

The following table sets forth the original terms of all securitization notes at their respective cutoff dates as of June 30, 2016:

Issuing Trust/Issue Date	Security	Original Principal	Interest Rate	
Ajax Mortgage Loan Trust 2014-A/ October 2014	Class A notes due 2057	$45 million	4.00	%

	Class B-1 notes due 2057[1][3]	$8 million	5.19	%
	Class B-2 notes due 2057[1][3]	$8 million	5.19	%
	Trust certificates[2]	$20.4 million	–	
	Deferred issuance costs	$(0.9) million	–	
Ajax Mortgage Loan Trust 2014-B / November 2014	Class A notes due 2054	$41.2 million	3.85	%
	Class B-1 notes due 2054[1][3]	$13.7 million	5.25	%
	Class B-2 notes due 2054[1][3]	$13.7 million	5.25	%
	Trust certificates[2]	$22.9 million	–	
	Deferred issuance costs	$(0.8) million	–	
Ajax Mortgage Loan Trust 2015-A / May 2015	Class A notes due 2054	$35.6 million	3.88	%
	Class B-1 notes due 2054[1][3]	$8.7 million	5.25	%
	Class B-2 notes due 2054[1][3]	$8.7 million	5.25	%
	Trust certificates[2]	$22.8 million	–	
	Deferred issuance costs	$(0.8) million	–	
Ajax Mortgage Loan Trust 2015-B / July 2015	Class A notes due 2060	$87.2 million	3.88	%
	Class B-1 notes due 2060[1][3]	$15.9 million	5.25	%
	Class B-2 notes due 2060[1][3]	$7.9 million	5.25	%
	Trust certificates[2]	$47.5 million	–	
	Deferred issuance costs	$(1.5) million	–	
Ajax Mortgage Loan Trust 2015-C / November 2015	Class A notes due 2057	$82.0 million	3.88	%
	Class B-1 notes due 2057[1][3]	$6.5 million	5.25	%
	Class B-2 notes due 2057[1][3]	$6.5 million	5.25	%
	Trust certificates[2]	$35.1 million	–	
	Deferred issuance costs	$(2.7) million	–	
Ajax Mortgage Loan Trust 2016-A/ April 2016	Class A notes due 2064	$101.4 million	4.25	%
	Class B-1 notes due 2064[1]	$7.9 million	5.25	%
	Class B-2 notes due 2064[1]	$7.9 million	5.25	%
	Trust certificates [2]	$41.3 million	-	
	Deferred issuance costs	$(2.7) million	–	

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(1) We have retained the Class B notes.

(2) The trust certificates issued by the trusts and the beneficial ownership of the trusts are retained by Great Ajax Funding LLC as the depositor. As the holder of the trust certificates, we are entitled to receive any remaining amounts in the trusts after the Class A notes and Class B notes have been paid in full.

(3) These securities are encumbered under a repurchase agreement.

Servicing for the mortgage loans in our securitizations is provided by the Servicer at a servicing fee rate of 0.65% annually of UPB for re-performing loans and 1.25% annually of UPB for non-performing loans, and is paid monthly.

Repurchase transactions

On November 25, 2014, we entered into a repurchase facility pursuant to which a newly formed Delaware statutory trust wholly owned by the operating partnership, AJX Mortgage Trust I, the “Seller,” will acquire, from time to time, pools of mortgage loans that are primarily secured by first liens on one-to-four family residential properties from its affiliates and/or third party sellers. These mortgage loans will generally be sold from time to time by the operating partnership as the “Guarantor” to the Seller pursuant to the terms of a mortgage loan purchase agreement by and between the Guarantor, as seller, and the Seller, as purchaser, in accordance with the terms thereof. Pursuant to a master repurchase agreement (the “2014 MRA”), these mortgage loans, together with the Seller’s 100% ownership interests in its wholly owned subsidiary, a newly formed Delaware limited liability company (“REO I”), and any future REO subsidiaries wholly owned by the Seller and certain other property of the Seller, will be sold by the Seller to Nomura Corporate Funding Americas, LLC, as buyer, from time to time, pursuant to one or more transactions, not exceeding $200 million at any point in time, with a simultaneous agreement by the Seller to repurchase such mortgage loans and other property, as provided in the 2014 MRA. The obligations of the Seller are guaranteed by the operating partnership. Repurchases under this facility carry interest calculated based on a spread to one-month LIBOR and are fixed for the term of the borrowing. The purchase price for each mortgage loan or REO is generally equal to 65% of the acquisition price for such asset or the then current BPO for the asset. The difference between the market value of the asset and the amount of the repurchase agreement is the amount of equity the Company has in the position and is intended to provide the lender some protection against fluctuations of value in the collateral and/or our failure to repay the borrowing at maturity. We have effective control over the assets associated with this agreement and therefore it is accounted for as a financing arrangement. The facility was amended on May 13, 2015 to increase the transaction limit, and on November 24, 2015 to extend the termination date. The facility termination date is November 22, 2016. Additionally, we have sold subordinate securities from our mortgage securitizations in repurchase transactions. A summary of our outstanding repurchase transactions at June 30, 2016 and December 31, 2015 follows:

		June 30, 2016			
Maturity Date	Origination date	Maximum Borrowing capacity	Amount outstanding	Amount of collateral	Interest rate
September 9, 2016	March 9, 2016	$15,730	$15,730	$22,470	3.00%
September 30, 2016	March 30, 2016	10,658	10,658	15,226	3.01%
November 22, 2016	November 24, 2015	200,000	66,433	109,252	4.19%
December 23, 2016	June 23, 2016	9,419	9,419	13,391	2.91%
Totals		$235,807	$102,240	$160,339	3.77%

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			December 31, 2015		
Maturity Date	Origination date	Maximum Borrowing capacity	Amount outstanding	Amount of collateral	Interest rate
March 30, 2016	September 30, 2015	$ 10,838	$ 10,838	$ 15,483	2.53 %
June 23, 2016	December 23, 2015	9,374	9,374	13,391	2.91 %
November 22, 2016	November 24, 2015	200,000	84,321	135,736	4.17 %
Totals		$ 220,212	$ 104,533	$ 164,610	3.91 %

As of June 30, 2016, we had $102.2 million outstanding under our repurchase transactions. The maximum month-end balance outstanding during the three-month period ended June 30, 2016 was $102.2 million, compared to a maximum month-end balance for the three-month period ended December 31, 2015 of $104.5 million. The following table sets summarizes our repurchase transactions for the three-month periods ended June 30, 2016, and December 31, 2015 ($ in thousands):

	Three months ended June 30, 2016	**Three months ended December 31, 2015**
Balance at the end of period	$ 102,240	$ 104,533
Maximum month-end balance outstanding during the period	$ 102,240	$ 104,533
Average balance	$ 83,107	$ 91,558

The decrease in our average balance of $8.5 million from $91.6 million for the three-months ended December 31, 2015 to our average balance of $83.1 million for the three-months ended June 30, 2016 was due to a net decrease in borrowing under the repurchase agreement during the three-months ended June 30, 2016 due to the securitization of mortgage loans under our 2016-A securitization which closed in April of this year.

On July 15, 2016, we entered into a repurchase financing arrangement, as seller, with JPMorgan Chase Bank, N.A., as buyer, under which we will sell to buyer the beneficial interests in mortgage loans and will pledge to buyer the beneficial interests in such assets, with a simultaneous agreement by buyer to transfer to us and for us to repurchase such assets on a future date. The arrangement terminates on July 12, 2019, is capped at $150 million, and carries interest at LIBOR plus 2.5%.

As of June 30, 2016 and December 31, 2015, we did not have any credit facilities or other outstanding debt obligations other than the repurchase facilities and secured borrowings.

We are not required by our investment guidelines to maintain any specific debt-to-equity ratio, and we believe that the appropriate leverage for the particular assets we hold depends on the credit quality and risk of those assets, as well as

the general availability and terms of stable and reliable financing for those assets.

We may declare dividends based on, among other things, our earnings, our financial condition, our working capital needs, new opportunities, and distribution requirements imposed on REITs. The declaration of dividends to our stockholders and the amount of such dividends are at the discretion of our Board of Directors. On July 28, 2016, our Board of Directors declared a dividend of $0.25 per share, to be paid on August 31, 2016 to stockholders of record as of August 16, 2016.

We believe that our capital resources will be sufficient to enable us to meet anticipated short-term and long-term liquidity requirements.

Off-Balance Sheet Arrangements

Other than the trusts holding assets pledged as security against our borrowings and equity method investments discussed elsewhere in this report, we do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed

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any obligations of unconsolidated entities nor do we have any commitment or intent to provide funding to any such entities. As such, we are not materially exposed to any market, credit, liquidity or financing risk that could arise if we had engaged in such relationships.

Contractual Obligations

A summary of our contractual obligations as of June 30, 2016 and December 31, 2015 is as follows:

June 30, 2016	**Payments Due by Period**				
	Total	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
			(In Thousands)		
Borrowings under repurchase agreement	$102,240	$ 102,240	$ -	$ -	$ -
Interest on repurchase agreement	1,740	1,740	-	-	-
Total	$103,980	$ 103,980	$ -	$ -	$ -

December 31, 2015	**Payments Due by Period**				
	Total	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
			(In Thousands)		
Borrowings under repurchase agreement	$104,533	$ 104,533	$ -	$ -	$ -
Interest on repurchase agreement	3,833	3,833	-	-	-
Total	$108,366	$ 108,366	$ -	$ -	$ -

At June 30, 2016, we had securitized borrowings with a balance of $352.6 million consisting of six tranches of $34.7 million, $32.9 million, $31.6 million, $81.3 million, $72.8 million and $99.3 million with contractual interest rates of 4.00%, 3.85%, 3.88%, 3.88%, 3.88% and 4.25% respectively.

At December 31, 2015, we had securitized borrowings with a balance of $270.6 million consisting of five tranches of $36.5 million, $35.6 million, $33.7 million, $85.0 million, and $79.8 million with contractual interest rates of 4.00%, 3.85%, 3.88%, 3.88%, and 3.88% respectively. Our securitized borrowings are not included in the table above, as such borrowings are non-recourse to us and are only paid to the extent that cash flows from mortgage loans (in the securitization trust) collateralizing the debt are received.

Inflation

Virtually all of our assets and liabilities are interest-rate sensitive in nature. As a result, interest rates and other factors influence our performance far more so than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The primary components of our market risk are related to real estate risk, interest rate risk, prepayment risk and credit risk. We seek to actively manage these and other risks and to acquire and hold assets at prices that we believe justify bearing those risks, and to maintain capital levels consistent with those risks.

Real Estate Risk

Residential property values are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing); construction quality, age and design; demographic factors; and retroactive changes to building or similar codes. Decreases in property values could cause us to suffer losses.

Interest Rate Risk

We expect to continue to securitize our whole loan portfolios, primarily as a financing tool, when economically efficient to create long-term, fixed rate, non-recourse financing with moderate leverage, while retaining one or more tranches of the subordinate MBS so created. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations

and other factors beyond our control. Changes in interest rates may affect the fair value of the mortgage loans and real estate underlying our portfolios as well as our financing interest rate expense.

We believe that a rising interest rate environment could have a positive net effect on our operations to the extent we will own rental real property or seek to sell real property. Rising interest rates could be accompanied by inflation and higher household incomes which generally correlate closely to higher rent levels and property values. Even if our interest and operating expenses rise at the same rate as rents, our operating profit could still increase. Despite our beliefs, it is possible that the value of our real estate assets and our net income could decline in a rising interest rate environment to the extent that our real estate assets are financed with floating rate debt and there is no accompanying increase in rental yield or property values.

Prepayment Risk

Prepayment risk is the risk of change, whether an increase or a decrease, in the rate at which principal is returned in respect of the mortgage loans we will own as well as the mortgage loans underlying our retained MBS, including both through voluntary prepayments and through liquidations due to defaults and foreclosures. This rate of prepayment is affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. Prepayment rates, besides being subject to interest rates and borrower behavior, are also substantially affected by government policy and regulation. Changes in prepayment rates will have varying effects on the different types of assets in our portfolio. We attempt to take these effects into account. We will generally purchase re-performing and non-performing loans at significant discounts from UPB and underlying property values. An increase in prepayments would accelerate the repayment of the discount and lead to increased yield on our assets while also causing re-investment risk that we can find additional assets with the same interest and return levels. A decrease in prepayments would likely have the opposite effects.

Credit Risk

We are subject to credit risk in connection with our assets. While we will engage in diligence on assets we will acquire, such due diligence may not reveal all of the risks associated with such assets and may not reveal other weaknesses in such assets, which could lead us to misprice acquisitions. Property values are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors), local real estate conditions (such as an oversupply of housing), changes or continued weakness in specific industry segments, construction quality, age and design, demographic factors and retroactive changes to building or similar codes.

There are many reasons borrowers will fail to pay including but not limited to, in the case of residential mortgage loans, reductions in personal income, job loss and personal events such as divorce or health problems, and in the case of commercial mortgage loans, reduction in market rents and occupancies and poor property management services by borrowers. We will rely on the Servicer to mitigate our risk. Such mitigation efforts may include loan modifications and prompt foreclosure and property liquidation following a default. If a sufficient number of re-performing borrowers default, our results of operations will suffer and we may not be able to pay our own financing costs.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report on Form 10-Q. The controls evaluation was conducted under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Disclosure controls and procedures are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), such as this Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures are also designed to reasonably assure that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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Based on the controls evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this Form 10-Q, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC, and that material information related to our company and our consolidated subsidiaries is made known to management, including the Chief Executive Officer and Chief Financial Officer, particularly during the period when our periodic reports are being prepared.

Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. other information

Item 1. Legal Proceedings

Neither we nor any of our affiliates are the subject of any material legal or regulatory proceedings. We and our affiliates may be involved, from time to time, in legal proceedings that arise in the ordinary course of business.

Item 1A. Risk Factors

For information regarding factors that could affect our results of operations, financial condition, and liquidity, see the risk factors discussed under “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015. There have been no material changes from these previously disclosed risk factors.

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

Unregistered Sales of Equity Securities

On August 1, 2016 we issued 15,684 shares of its common stock to the Manager in payment of the stock-based portion of the management fee due for the second quarter of 2016 in a private transaction. The management fee expense associated with these shares was recorded as an expense in the second quarter of 2016. These shares were issued in reliance on the exemption from registration set forth in Section 4(a)(2) of the Securities Act.

On August 1, 2016 we issued each of its independent directors 418 shares of its common stock in payment of half of their quarterly director fees for the first quarter of 2016. These shares were issued in reliance on the exemption from registration set forth in Section 4(a)(2) of the Securities Act.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits listed in the accompanying Exhibit Index are filed or furnished as part of this Quarterly Report on Form 10-Q.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

		GREAT AJAX CORP.
Date: August 4, 2016	By:	/s/ Lawrence Mendelsohn Lawrence Mendelsohn Chairman and Chief Executive Officer (Principal Executive Officer)
Date: August 4, 2016	By:	/s/ Mary Doyle Mary Doyle Chief Financial Officer (Principal Financial and Accounting Officer)

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EXHIBIT INDEX

Exhibit Number	Exhibit Description
31.1*	Rule 13a-14(a) Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Rule 13a-14(a) Certification of Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Section 1350 Certification of Chief Executive Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Section 1350 Certification of Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase
101.DEF**	XBRL Taxonomy Definition Linkbase
101.LAB**	XBRL Taxonomy Extension Label Linkbase
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

** Furnished herewith.

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">upon the occurrence of specified corporate events.

None of the above events allowing for conversion prior to December 1, 2019 occurred during the year ended December 31, 2018. Regardless of whether any of the foregoing circumstances occurs, a holder may convert its 2020 Convertible Notes, in multiples of $1,000 principal amount, at any time on or after December 1, 2019 until maturity.

In addition, if we undergo a fundamental change (as defined in the indenture governing the 2020 Convertible Notes), holders may, subject to certain conditions, require us to repurchase their 2020 Convertible Notes for cash at a price equal to 100% of the principal amount of the 2020 Convertible Notes to be purchased, plus any accrued and unpaid interest. In addition, if specific corporate events occur prior to the maturity date, we will increase the conversion rate for a holder who elects to convert its 2020 Convertible Notes in connection with such a corporate event in certain circumstances.

Forward Transactions

In connection with the issuance of the 2020 Convertible Notes, we paid approximately $140 million to enter into prepaid forward stock repurchase transactions (the Forward Transactions) with certain financial institutions (the Forward Counterparties), pursuant to which we purchased approximately 7.2 million shares of common stock for settlement on or around the March 1, 2020 maturity date for the 2020 Convertible Notes, subject to the ability of each Forward Counterparty to elect to settle all or a portion of its Forward Transactions early. In the future, we may request that any Forward Counterparty modify the settlement terms of its Forward Transaction to provide that, in lieu of the delivery of the applicable number of shares of our common stock to us to settle a portion of its Forward Transaction in accordance with its terms, such Forward Counterparty would pay to us the net proceeds from the sale by such Forward Counterparty (or its affiliate) of a corresponding number of shares of our common stock in a registered offering (which may include block sales, sales on the NASDAQ

Global Select Market, sales in the over-the-counter market, sales pursuant to negotiated transactions or otherwise, at market prices prevailing at the time of sale or at negotiated prices). Any such sales could potentially decrease (or reduce the size of any increase in) the market price of our common stock. The Forward Counterparties are not required to effect any such settlement in cash in lieu of delivery of shares of our common stock and, if we request for any Forward Counterparty to effect any such settlement, it will be entered into in the discretion of the applicable Forward Counterparty on such terms as we may agree with such Forward Counterparty at the time. As a result of the Forward Transactions, total shareholders equity within our consolidated balance sheet was reduced by approximately $140 million. Approximately 7.2 million shares of common stock that will be effectively repurchased through the Forward Transactions are treated as retired shares for basic and diluted EPS purposes although they remain legally outstanding.

Amended and Restated Senior Term Facility

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

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

We paid $22.2 million of loan origination fees and financing costs related to the Amended and Restated Senior Term Facility, all but $4.1 million of which were accounted for as deferred financing costs. Total amortization expense of the deferred financing costs was $1.4 million for the year ended December 31, 2016. Amortization expense is included in interest expense in the consolidated statements of operations. As noted above, deferred financing costs related to the Amended and Restated Senior Term Facility were written off as of June 14, 2016.

Restricted Cash:

Our restricted cash balances were $7.0 million and $7.4 million, respectively, as of December 31, 2018 and 2017 and primarily consist of letters of credit. Certain of the letters of credit require us to maintain restricted cash accounts in a similar amount, and are issued for the benefit of the landlords at our current office locations in Chicago, IL, Bensenville, IL and Broomfield, CO.

Liquidity:

Excluding the impact of our initial public offering, the Amended and Restated Senior Term Facility, the 2022 Convertible Notes, the 2020 Convertible Notes and the Senior Secured Notes, to date we have not generated positive cash flows on a consolidated basis. However, although we can provide no assurances, we believe that our cash, cash equivalents and short-term investments on hand as of December 31, 2018, will be sufficient to meet our obligations as they become due, and satisfy our working capital and capital expenditure requirements for at least one year from the date the 2018 financial statements are issued.

We also believe that our cash, cash equivalents, short-term investments and cash flows provided by operating activities will be sufficient to meet our operating obligations, and satisfy future working capital and

capital expenditure requirements beyond one year from the date the 2018 financial statements are issued; however, payment of our long-term debt, including our 2020 Convertible Notes due March 1, 2020 at maturity, depends on our ability to obtain additional equity financing, incur additional indebtedness or consummate other potential strategic transactions.

The Indenture governing our Senior Secured Notes contains covenants that limit the ability of GIH and its subsidiaries to incur additional indebtedness. Additionally, the Indenture governing the Senior Secured Notes limits the amount of cash GIH and its subsidiaries may distribute to us, including cash distributed to us to pay interest on the 2022 and 2020 Convertible Notes and pay any interest on other indebtedness incurred by us, including indebtedness or preferred stock to refinance, replace, renew or refund the 2022 and 2020 Convertible Notes. Further, market conditions and/or our financial performance may limit our access to additional sources of equity or debt financing, or our ability to pursue potential strategic alternatives. As a result, we may be unable to finance growth of our business to the extent that our cash, cash equivalents and short-term investments and cash generated through operating activities prove insufficient or we are unable to raise additional financing through the issuance of additional equity, permitted incurrences of debt by us or by GIH and its subsidiaries, or the pursuit of potential strategic alternatives.

Cash flows provided by (used in) 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 Years Ended December 31,		
	2018	**2017**	**2016**
Net loss	$ (162,031)	$ (171,995)	$ (124,505)
Non-cash charges and credits	180,697	194,019	164,598
Changes in operating assets and liabilities	(100,977)	38,232	24,895
Net cash provided by (used in) operating activities	$ (82,311)	$ 60,256	$ 64,988

For the year ended December 31, 2018, cash used in operating activities was $82.3 million as compared with cash provided by operating activities of $60.3 million for the prior year. The principal contributors to the decrease in operating cash flows were:

A $139.2 million decrease in cash flows related to changes in operating assets and liabilities resulting from:

The decrease in cash flows from operating assets and liabilities due to the following:

Changes in CA-NA s and CA-ROW s inventories as we now allocate a portion of our uninstalled airborne equipment to inventory and also an increase in BA s inventory due to builds during the year. See Note 5, Composition of Certain Balance Sheet Accounts, for additional information regarding inventory.

Changes in CA-NA s and CA-ROW s contract assets due to activity under airline-directed models during the year ended December 31, 2018 (see Note 4, Revenue Recognition, for additional information);

Changes in all three segments deferred revenue as deferred revenue decreased during 2018 but increased in 2017;

Changes in all three segments accounts payable, accrued liabilities and prepaid and other expenses due primarily to the timing of payments;

Changes in CA-NA s and CA-ROW s deferred airborne lease incentives due to more installations under the turnkey model in 2017 as compared with 2018, as airlines are

transitioning to the airline-directed model and as new airlines are also being signed under the airline-directed model; and

Changes in CA-ROW s accounts receivable primarily due to the timing of collections.

Partial offsets to the above due to increases in cash flows from operating assets and liabilities due to the following:

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

Changes in CA-NA s and CA-ROW s warranty reserves, due to more activity under our airline-directed model during the year ended December 31, 2018 (see Note 5, Composition of Certain Balance Sheet Accounts, for additional information).

For the year ended December 31, 2017, cash provided by operating activities was $60.3 million as compared with $65.0 million for the prior year. The principal contributors to the decrease in operating cash flows were:

A $18.1 million change in net loss adjusted for non-cash charges and credits that was due primarily to increases in the CA-NA, BA and CA-ROW segments service revenues more than offset by increased spending in all three segments, as noted above under Results of Operations.

Offset in part by a $13.3 million increase in cash flows related to changes in operating assets and liabilities resulting from:

An increase in cash flows for operating assets and liabilities is due to the following:

Changes in BA s inventory due to inventory builds throughout 2016 while inventory decreased during 2017;

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

Changes in all three segments accrued liabilities and CA-NA and CA-ROW s accounts payable due primarily to the timing of payments;

Changes in CA-ROW s deferred revenue as deferred revenue balances increased more during 2017 than in 2016; and

Changes in CA-NA s deferred airborne lease incentives due to more installations at higher amounts during 2017 as compared with 2016.

Partial offsets to the above due to decreases in cash flows for operating assets and liabilities due to the following:

Changes in accrued interest due to accrued interest balances increasing more in 2016 than in 2017, due to the issuance of the Original Senior Secured Notes in 2016 (which pay interest in January and July each year);

Changes in CA-NA s and BA s deferred revenue as deferred revenue balances increased more during 2016 than in 2017;

Changes in all three segments accounts receivable due to accounts receivable balances increasing more in 2017 than 2016 due to increased activity and the timing of collections; and

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

Cash flows provided by (used in) Investing Activities:

Cash provided by investing activities was $41.8 million for the year ended December 31, 2018. Cash used in investing activities was $157.4 million and $295.8 million for the years ended December 31, 2017 and 2016, respectively. Investing activities is comprised of capital expenditures related to airborne equipment for the turnkey model, software development, data center upgrades, cell site construction and build-out of our new office locations. Cash flows from investing activities were impacted by our allocation of a portion of our equipment purchases to inventory. See Capital Expenditures below. Additionally, investing activities includes net changes in our short-term investments of $173.5 million, $125.7 million and ($119.0) million, respectively, for the years ended December 31, 2018, 2017 and 2016.

Cash flows provided by Financing Activities:

Cash provided by financing activities for the year ended December 31, 2018 was $27.3 million primarily due to the issuance of the 2022 Convertible Notes with gross proceeds of $237.8 million, offset in part by $200.4 million of payments to repurchase 2020 Convertible Notes (comprised of $199.9 million of outstanding principal and $0.5 million of fees), $8.1 million of debt issuance costs and capital lease payments of $2.3 million.

Cash provided by financing activities for the year ended December 31, 2017 was $174.9 million primarily due to the issuance of the January 2017 Additional Notes and the September 2017 Additional Notes with gross proceeds of $181.8 million, offset in part by the payment of debt issuance costs for the January 2017 Additional Notes and September 2017 Additional Notes of $3.6 million and capital lease payments of $3.0 million.

Cash provided by financing activities for the year ended December 31, 2016 was $201.1 million primarily due to the issuance of $525.0 million of the Original Senior Secured Notes, partially offset by the $310.1 million repayment in full of the Amended and Restated Credit Agreement (including the early prepayment penalty of approximately $8.6 million), the payment of debt issuance costs for the Original Senior Secured Notes of $11.5 million ($10.6 million related to the issuance of the Original Senior Secured Notes in June 2016 and $0.9 million related to the issuance of the January 2017 Additional Notes) and capital lease payments of $2.6 million.

Capital Expenditures

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

Capital expenditures for the years ended December 31, 2018 and 2017 were $131.7 million and $280.2 million, respectively. The decrease in capital expenditures was primarily due to a decrease in airborne equipment purchases as a portion of our equipment purchases are now allocated to inventory (see Note 5, Composition of Certain Balance Sheet Accounts) and, to a lesser extent, a decrease in capitalized software.

We expect capital expenditures to decrease in 2019 compared to 2018 due to a lower number of installations under the turnkey model.

Capital expenditures for the years ended December 31, 2017 and 2016 were $280.2 million and $176.9 million, respectively. The increase in capital expenditures was primarily due to an increase in airborne equipment purchases (as airborne equipment represented approximately 70% of our capital expense for the year ended December 31, 2017), primarily for the rollout of 2Ku.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations (including those that require us to make future cash payments) as of December 31, 2018. The future contractual requirements include payments required for our operating leases and contractual purchase agreements *(in thousands)*.

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual Obligations:					
Capital lease obligations	$ 925	$ 707	$ 218	$	$
Operating lease obligations	172,857	21,902	39,609	33,246	78,100
Purchase obligations [1]	298,221	298,221			
2022 Convertible Notes [2]	237,750			237,750	
Interest on 2022 Convertible Notes	48,144	14,265	28,530	5,349	
2020 Convertible Notes [3]	162,000		162,000		
Interest on 2020 Convertible Notes	7,088	6,075	1,013		
Senior Secured Notes	690,000			690,000	
Interest on Senior Secured Notes	345,000	86,250	172,500	86,250	
Satellite transponder and teleport services	548,855	98,889	166,284	124,696	158,986
Deferred revenue arrangements [4]	60,053	38,571	4,677	4,229	12,576
Deferred airborne lease incentives [5]	153,231	24,145	42,665	41,785	44,636
Other long-term obligations [6]	61,572	11,521	11,213	1,478	37,360
Total	$ 2,785,696	$ 600,546	$ 628,709	$ 1,224,783	$ 331,658

(1) As of December 31, 2018, our outstanding purchase obligations represented obligations to vendors to meet operational requirements as part of the normal course of business and related primarily to information technology, research and development, sales and marketing and production related activities.

(2) The 2022 Convertible Notes mature on May 15, 2022. See Note 7, Long-Term Debt and Other Liabilities, for more information.

(3) The 2020 Convertible Notes mature on March 1, 2020. See Note 7, Long-Term Debt and Other Liabilities, for more information.

(4) Amounts represent obligations to provide services for which we have already received cash from our customers.

(5) Amounts represent the upfront payments made by our airline partners for our airborne equipment and payments for STCs. Upfront payments made pursuant to these agreements are accounted for as deferred airborne lease incentives which are amortized on a straight-line basis as a reduction of cost of service revenue over the term of the agreement.

(6) Other long-term obligations consist of estimated payments (undiscounted) for our asset retirement obligations, network transmission services, obligations to certain airline partners, and Canadian ATG Spectrum License related payments related to the monthly C$0.1 million payment over the estimated 25-year term of the agreement, using the December 31, 2018 exchange rate. Other long-term obligations do not include $2.1 million related to our deferred tax liabilities due to the uncertainty of their timing.

Contractual Commitments: We have agreements with vendors to provide us with transponder and teleport satellite services. These agreements vary in length and amount and, as of December 31, 2018, commit us to purchase

transponder and teleport satellite services totaling approximately $98.9 million in 2019, $89.4 million in 2020, $76.9 million in 2021, $66.1 million in 2022, $58.6 million in 2023 and $159.0 million thereafter.

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

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Leases and Cell Site Contracts: We have lease agreements relating to certain facilities and equipment, which are considered operating leases. Additionally, we have operating leases with wireless service providers for tower space and base station capacity on a volume usage basis (cell site leases), some of which provide for minimum annual payments. See Note 15, Leases, in our consolidated financial statements for additional information.

The revenue share paid to our airline partners represents operating lease payments and are deemed to be contingent rental payments, as the payments due to each airline are based on a percentage of our CA-NA and CA-ROW service revenue generated from that airline s passengers, which is unknown until realized. As such, we cannot estimate the lease payments due to an airline at the commencement of our contract with such airline. Rental expense related to the arrangements with commercial airlines included in cost of service revenue is primarily comprised of these revenue share payments offset by the amortization of the deferred airborne lease incentive discussed above. See Note 15, Leases, in our consolidated financial statements for additional information.

A contract with one of our airline customers required us to provide the airline customer with a cash rebate of $1.8 million in June 2018, which has not yet been paid.

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

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

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

Off-Balance Sheet Arrangements

We do not have any obligations that meet the definition of an off-balance sheet arrangement, other than operating leases, which have or are reasonably likely to have a material effect on our results of operations. See Note 15, Leases, in our consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk is currently confined to our cash and cash equivalents, short-term investments and our debt. We have not used derivative financial instruments for speculation or trading purposes. The primary objectives of our investment activities are to preserve our capital for the purpose of funding operations while at the same time maximizing the income we receive from our investments without significantly increasing risk. To achieve these objectives, our investment policy allows us to maintain a portfolio of cash equivalents and short-term investments through a variety of securities, including U.S. Treasuries, U.S. Government Agency Securities, and Money Market Funds. Our cash and cash equivalents as of December 31, 2018 and 2017 primarily included amounts in bank deposit

accounts and Money Market Funds. We believe that a change in average interest rates would not adversely affect our interest income and results of operations by a material amount.

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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. However, actual results may differ.

Interest: Our earnings are affected by changes in interest rates due to the impact those changes have on interest income generated from our cash, cash equivalents and short-term investments. Our cash and cash equivalents as of December 31, 2018 and December 31, 2017, included amounts in bank deposit accounts and money market funds, and our short-term investments are made up of U.S. Treasury bills. We believe we have minimal interest rate risk; a 10% change in the average interest rate on our portfolio would have reduced interest income for the years ended December 31, 2018, 2017 and 2016 by an immaterial amount.

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

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

Item 8. Financial Statements and Supplementary Data

Gogo Inc.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Gogo Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Gogo Inc. and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive loss, stockholders equity (deficit), and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with the accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 21, 2019, expressed an unqualified opinion on the Company s internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, effective January 1, 2018, the Company adopted FASB ASC 606, *Revenue from Contracts with Customers*, using the modified retrospective approach.

Basis for Opinion

These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on the Company s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Chicago, Illinois

February 21, 2019

We have served as the Company s auditor since 2007.

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Gogo Inc. and Subsidiaries

Consolidated Balance Sheets

(in thousands, except share and per share data)

	December 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 184,155	$ 196,356
Short-term investments	39,323	212,792
Total cash, cash equivalents and short-term investments	223,478	409,148
Accounts receivable, net of allowances of $500 and $587, respectively	134,308	117,896
Inventories	193,045	45,543
Prepaid expenses and other current assets	34,695	20,310
Total current assets	585,526	592,897
Non-current assets:		
Property and equipment, net	511,867	656,038
Goodwill and intangible assets, net	83,491	87,133
Other non-current assets	84,212	67,107
Total non-current assets	679,570	810,278
Total assets	$ 1,265,096	$ 1,403,175
Liabilities and stockholders deficit		
Current liabilities:		
Accounts payable	$ 23,860	$ 27,130
Accrued liabilities	212,459	201,815
Deferred revenue	38,571	43,448
Deferred airborne lease incentives	24,145	42,096
Current portion capital leases	652	1,789
Total current liabilities	299,687	316,278
Non-current liabilities:		
Long-term debt	1,024,893	1,000,868
Deferred airborne lease incentives	129,086	142,938
Other non-current liabilities	80,191	134,655
Total non-current liabilities	1,234,170	1,278,461

Total liabilities	1,533,857	1,594,739
Commitments and contingencies (Note 15)		
Stockholders deficit		
Common stock, par value $0.0001 per share; 500,000,000 shares authorized at December 31, 2018 and 2017; 87,678,812 and 87,062,578 shares issued at December 31, 2018 and 2017, respectively; and 87,560,694 and 86,843,928 shares outstanding at December 31, 2018 and 2017, respectively	9	9
Additional paid-in capital	963,458	898,729
Accumulated other comprehensive loss	(3,554)	(933)
Accumulated deficit	(1,228,674)	(1,089,369)
Total stockholders deficit	(268,761)	(191,564)
Total liabilities and stockholders deficit	$ 1,265,096	$ 1,403,175

See the Notes to Consolidated Financial Statements

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Gogo Inc. and Subsidiaries

Consolidated Statements of Operations

(in thousands, except per share amounts)

	For the Years Ended December 31,		
	2018	**2017**	**2016**
Revenue:			
Service revenue	$ 630,147	$ 617,906	$ 514,293
Equipment revenue	263,617	81,184	82,257
Total revenue	893,764	699,090	596,550
Operating expenses:			
Cost of service revenue (exclusive of items shown below)	291,642	268,334	226,078
Cost of equipment revenue (exclusive of items shown below)	222,244	58,554	48,650
Engineering, design and development	120,090	133,286	96,713
Sales and marketing	58,823	64,017	61,177
General and administrative	94,269	93,671	84,927
Depreciation and amortization	133,617	145,490	105,642
Total operating expenses	920,685	763,352	623,187
Operating loss	(26,921)	(64,262)	(26,637)
Other (income) expense:			
Interest income	(4,292)	(2,964)	(1,635)
Interest expense	122,809	111,944	83,647
Loss on extinguishment of debt	19,653		15,406
Adjustment of deferred financing costs			(792)
Other (income) expense	233	750	(72)
Total other expense	138,403	109,730	96,554
Loss before income taxes	(165,324)	(173,992)	(123,191)
Income tax provision (benefit)	(3,293)	(1,997)	1,314
Net loss	$ (162,031)	$ (171,995)	$ (124,505)
Net loss attributable to common stock per share basic and diluted	$ (2.02)	$ (2.17)	$ (1.58)
Weighted average number of shares basic and diluted	80,038	79,407	78,915

See the Notes to Consolidated Financial Statements

Gogo Inc. and Subsidiaries

Consolidated Statements of Comprehensive Loss

(in thousands)

	For the Years Ended December 31,		
	2018	**2017**	**2016**
Net loss	$ (162,031)	$ (171,995)	$ (124,505)
Currency translation adjustments, net of tax	(2,621)	1,230	25
Comprehensive loss	$ (164,652)	$ (170,765)	$ (124,480)

See the Notes to Consolidated Financial Statements

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Gogo Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands)

	For the Years Ended December 31,		
	2018	**2017**	**2016**
Operating activities:			
Net loss	$ (162,031)	$ (171,995)	$ (124,505)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:			
Depreciation and amortization	133,617	145,490	105,642
Loss on asset disposals, abandonments and write-downs	13,352	8,960	4,583
Gain on transition to airline-directed model	(21,551)		
Deferred income taxes	(3,821)	(2,281)	839
Stock-based compensation expense	16,912	19,821	17,621
Amortization of deferred financing costs	4,280	3,743	3,803
Accretion and amortization of debt discount and premium	18,255	18,286	17,496
Loss on extinguishment of debt	19,653		15,406
Adjustment of deferred financing costs			(792)
Changes in operating assets and liabilities:			
Accounts receivable	(17,064)	(43,798)	(4,265)
Inventories	(50,762)	4,723	(29,329)
Prepaid expenses and other current assets	(3,106)	4,990	(14,473)
Contract assets	(30,485)		
Accounts payable	(3,864)	3,402	(3,118)
Accrued liabilities	13,281	24,941	4,982
Deferred airborne lease incentives	(7,705)	20,407	14,652
Deferred revenue	(1,021)	21,477	26,981
Accrued interest	(955)	7,213	35,825
Warranty reserves	8,009	(152)	742
Other non-current assets and liabilities	(7,305)	(4,971)	(7,102)
Net cash provided by (used in) operating activities	(82,311)	60,256	64,988
Investing activities:			
Purchases of property and equipment	(108,632)	(252,375)	(148,294)
Acquisition of intangible assets capitalized software	(23,031)	(27,855)	(28,587)
Purchases of short-term investments	(39,323)	(317,418)	(363,436)
Redemptions of short-term investments	212,792	443,103	244,450
Other, net		(2,850)	84
Net cash provided by (used in) investing activities	41,806	(157,395)	(295,783)

Financing activities:			
Proceeds from issuance of convertible notes	237,750		
Redemption of convertible notes	(200,438)		
Proceeds from issuance of senior secured notes		181,754	525,000
Payments on amended and restated credit agreement			(310,132)
Payment of debt issuance costs	(8,054)	(3,630)	(11,474)
Payments on capital leases	(2,340)	(2,961)	(2,612)
Stock-based compensation activity	396	(227)	271
Net cash provided by financing activities	27,314	174,936	201,053
Effect of exchange rate changes on cash	578	743	(522)
Increase (decrease) in cash, cash equivalents and restricted cash	(12,613)	78,540	(30,264)
Cash, cash equivalents and restricted cash at beginning of period	203,729	125,189	155,453
Cash, cash equivalents and restricted cash at end of period	$ 191,116	$ 203,729	$ 125,189
Cash, cash equivalents and restricted cash at end of period	$ 191,116	$ 203,729	$ 125,189
Less: current restricted cash	1,535	500	114
Less: non-current restricted cash	5,426	6,873	7,773
Cash and cash equivalents at end of period	$ 184,155	$ 196,356	$ 117,302
Supplemental Cash Flow Information:			
Cash paid for interest	$ 101,489	$ 86,359	$ 27,535
Cash paid for taxes	401	103	305
Non-cash Investing and Financing Activities:			
Purchases of property and equipment in current liabilities	$ 18,640	$ 53,682	$ 39,492
Purchases of property and equipment paid by commercial airlines	7,474	23,762	13,804
Purchases of property and equipment under capital leases	279	1,082	2,177
Acquisition of intangible assets in current liabilities	312	1,483	1,623
Acquisition of intangible assets in non-current liabilities	1,375		
Asset retirement obligation	760	370	11

See the Notes to Consolidated Financial Statements

Gogo Inc. and Subsidiaries

Consolidated Statements of Stockholders Equity (Deficit)

(in thousands, except share data)

	Common Stock Shares	Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balance at January 1, 2016	85,913,206	$ 9	$ 861,243	$ (2,188)	$ (792,869)	$ 66,195
Net loss					(124,505)	(124,505)
Currency translation adjustments, net of tax				25		25
Stock-based compensation expense			17,621			17,621
Issuance of common stock upon exercise of stock options	12,150		110			110
Issuance of common stock upon vesting of restricted stock units and restricted stock awards	227,429					
Tax withholding related to vesting of restricted stock units			(1,199)			(1,199)
Issuance of common stock in connection with employee stock purchase plan	143,085		1,360			1,360
Balance at December 31, 2016	86,295,870	9	879,135	(2,163)	(917,374)	(40,393)
Net loss					(171,995)	(171,995)
Currency translation adjustments, net of tax				1,230		1,230
Stock-based compensation expense			19,821			19,821
Issuance of common stock upon exercise of stock options	50,392		449			449
Issuance of common stock upon vesting of restricted stock units and restricted stock awards	344,038					
Tax withholding related to vesting of restricted stock units			(2,162)			(2,162)
Issuance of common stock in connection with employee stock purchase plan	153,628		1,486			1,486

Balance at December 31, 2017	86,843,928	9	898,729	(933)	(1,089,369)	(191,564)
Net loss					(162,031)	(162,031)
Currency translation adjustments, net of tax				(2,621)		(2,621)
Stock-based compensation expense			16,912			16,912
Issuance of common stock upon exercise of stock options	2,500		21			21
Issuance of common stock upon vesting of restricted stock units and restricted stock awards	393,361					
Tax withholding related to vesting of restricted stock units			(1,181)			(1,181)
Issuance of common stock in connection with employee stock purchase plan	320,905		1,556			1,556
Issuance of 2022 Convertible Notes (including issuance costs)			47,421			47,421
Impact of the adoption of ASC 606					22,726	22,726
Balance at December 31, 2018	87,560,694	$ 9	$ 963,458	$ (3,554)	$ (1,228,674)	$ (268,761)

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1. Background

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

2. Summary of Significant Accounting Policies

Principles of Consolidation The consolidated financial statements include our wholly owned subsidiaries. All intercompany transactions and account balances have been eliminated.

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

Reclassifications To conform to the current year presentation, certain amounts in our 2017 and 2016 consolidated statements of cash flows have been reclassified. Specifically, for the years ended December 31, 2017 and 2016, current deferred rent of $174 thousand and $73 thousand, respectively, has been combined with accrued liabilities, and non-current deferred rent of $798 thousand and $120 thousand, respectively, has been combined with other non-current assets and liabilities. Additionally, warranty reserves is now separately stated in its own line, which was included in accrued liabilities previously.

Significant Risks and Uncertainties Our operations are subject to certain risks and uncertainties, including without limitation those associated with continuing losses, fluctuations in operating results, funding of business expansion, strategic alliances, capacity constraints, managing rapid growth and expansion, relationships with customers, suppliers and distributors, financing arrangement terms that may restrict operations, regulatory issues, competition, the economy, technology trends and evolving industry standards.

Cash, Cash Equivalents and Short-Term Investments We consider cash and cash equivalents to be short-term, highly liquid investments that have the following characteristics: readily convertible to known amounts of cash, so

near their maturities that there is insignificant risk of changes in value due to any changes in market interest rates, and having maturities of three months or less when purchased. We continually monitor positions with, and the credit quality of, the financial institutions with which we invest. The carrying amounts reported in the balance sheets for cash and cash equivalents approximate the fair market value of these assets.

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We consider short-term investments to be investments with maturities of twelve months or less (but greater than three months). Currently all our short-term investments are comprised of U.S. Treasury bills, which we intend to hold to maturity.

Certain cash amounts are restricted as to use and are classified outside of cash and cash equivalents. See Note 7, Long-term Debt and Other Liabilities, for further details.

Concentrations of Credit Risk Financial instruments that potentially subject us to a concentration of credit risk consist principally of cash and cash equivalents, short-term investments and accounts receivable. All cash and cash equivalents are invested with creditworthy financial institutions. We perform ongoing credit evaluations and generally do not require collateral to support receivables. Our short-term investments are all comprised of U.S. Treasury bills.

See Note 11, Business Segments and Major Customers, for further details.

Income Tax We use an asset- and liability-based approach in accounting for income taxes. Deferred income tax assets and liabilities are recorded based on the differences between the financial statement and tax bases of assets and liabilities, applying enacted statutory tax rates in effect for the year in which the tax differences are expected to reverse. Valuation allowances are provided against deferred tax assets which are not likely to be realized. On a regular basis, management evaluates the recoverability of deferred tax assets and the need for a valuation allowance. We also consider the existence of any uncertain tax positions and, as necessary, provide a reserve for any uncertain tax positions at each reporting date.

See Note 14, Income Tax, for further details.

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

Historically, inventories were solely related to the BA segment. Starting in 2018, the airborne equipment within our CA-NA and CA-ROW segments became increasingly deployed under airline-directed model agreements (see Revenue Recognition, below for additional details), and we now allocate uninstalled airborne equipment between property and equipment, net, and inventories, based on our forecasts of estimated future installations by contract type. Prior to this allocation, uninstalled airborne equipment for the CA-NA and CA-ROW segments was classified as property and equipment, net, as the majority of installations were performed under our turnkey model agreements. See Arrangements with Commercial Airlines, below for additional information on the turnkey model treatment.

See Note 5, Composition of Certain Balance Sheet Accounts, for further details.

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Property and Equipment and Depreciation Property and equipment, including leasehold improvements, are stated at historical cost, less accumulated depreciation. Network asset inventory and construction in progress, which include materials, transmission and related equipment, and interest and other costs relating to the construction and development of our network, are not depreciated until they are put into service. Network equipment consists of switching equipment, antennas, base transceiver stations, site preparation costs, and other related equipment used in the operation of our network. Airborne equipment consists of routers, modems, radomes, antennas and related equipment, and accessories installed or to be installed on aircraft under the turnkey model. Depreciation expense totaled $107.1 million, $120.6 million and $84.1 million for the years ended December 31, 2018, 2017 and 2016, respectively. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives for owned assets, which are as follows:

Office equipment, furniture, fixtures and other	3-7 years
Leasehold improvements	3-13 years
Airborne equipment	7 years
Network equipment	5-25 years

See Note 5, Composition of Certain Balance Sheet Accounts, for further details.

Improvements to leased property are amortized over the shorter of the useful life of the improvement or the term of the related lease. Repairs and maintenance costs are expensed as incurred.

Due to advances in technology and changes in agreements with our airline partners, with respect to upgrading equipment, we periodically reassess the useful lives of our property and equipment. Such reassessment has resulted in the useful life of specific assets being adjusted to a shorter period than originally estimated, resulting in an increase in annual depreciation expense for those assets.

Goodwill and Other Intangible Assets Goodwill and other intangible assets with indefinite lives are not amortized, but are reviewed for impairment at least annually or whenever events or circumstances indicate the carrying value of the asset may not be recoverable. Our FCC Licenses (as defined in Note 6, Intangible Assets) are our only indefinite-lived intangible assets. We perform our annual impairment tests of goodwill and our FCC Licenses during the fourth quarter of each fiscal year. We assess qualitative factors to determine the likelihood of impairment. Our qualitative analysis includes, but is not limited to, assessing the changes in macroeconomic conditions, regulatory environment, industry and market conditions, financial performance versus budget and any other events or circumstances specific to goodwill and the FCC Licenses. If it is more likely than not that the fair value of goodwill and the FCC Licenses is greater than the carrying value, no further testing is required. Otherwise, we will apply the quantitative impairment test method.

Our quantitative impairment testing of the FCC Licenses uses the Greenfield method, an income-based approach. When performing this quantitative impairment testing, we estimate the fair value of the goodwill and FCC Licenses asset balances based primarily on projected future operating results, discounted cash flows, and other assumptions. Projected future operating results and cash flows used for valuation purposes may reflect considerable improvements relative to historical periods with respect to, among other things, revenue growth and operating margins. Although we believe our projected future operating results and cash flows and related estimates regarding fair values are based on reasonable assumptions, projected operating results and cash flows may not always be achieved. The failure to achieve one or more of our assumptions regarding projected operating results and cash flows in the near term or long term could reduce the estimated fair value below carrying value and result in the recognition of an impairment charge. The results of our annual goodwill and indefinite-lived intangible asset impairment assessments for 2018, 2017 and 2016

indicated no impairment.

Intangible assets that are deemed to have a finite life are amortized over their useful lives as follows:

Software	3-8 years
OEM and dealer relationships	10 years
Service customer relationships	5-7 years
Other intangible assets	4-10 years

See Note 6, Intangible Assets, for further details.

Long-Lived Assets We review our long-lived assets to determine potential impairment whenever events indicate that the carrying amount of such assets may not be recoverable. We do this by comparing the carrying value of the long-lived assets with the estimated future undiscounted cash flows expected to result from the use of the assets, including cash flows from disposition. If we determine an impairment exists, the asset is written down to estimated fair value. There were no impairments of long-lived assets in 2018, 2017 and 2016.

Arrangements with Commercial Airlines Pursuant to contractual agreements with our airline partners, we place our equipment on commercial aircraft operated by the airlines for the purpose of delivering our service to passengers on the aircraft. There are currently two types of commercial airline arrangements: turnkey and airline-directed. See Revenue Recognition, below for additional information on the airline-directed model.

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

Under the turnkey model, the assets are recorded as airborne equipment on our consolidated balance sheets, as noted in Note 5, Composition of Certain Balance Sheet Accounts. Any upfront equipment payments are accounted for as lease incentives and recorded as deferred airborne lease incentives on our consolidated balance sheets and are recognized as a reduction of the cost of service revenue on the straight-line basis over the term of the agreement with the airline.

See Note 15, Leases, for further details.

Transition to Airline-Directed Model The accounting treatment for one of our airline agreements transitioned from our turnkey model to our airline-directed model in January 2018 due to specific provisions elected by the airline that resulted in the transfer of control of the previously installed connectivity equipment. Upon transition to the airline-directed model, the net book value of all previously delivered equipment classified within property and equipment was reclassified to cost of equipment revenue. Additionally, the unamortized proceeds previously received for equipment and classified within current and non-current deferred airborne lease incentives were eliminated and included as part of estimated contract value, which was then allocated amongst the various performance obligations under the agreement. The value allocated to previously delivered equipment was immediately recognized as equipment revenue in our consolidated financial statements; see Revenue Recognition, below for additional disclosures relating to the allocation of consideration among identified performance obligations. For amounts recognized in equipment revenue that were in excess of the amounts billed, we recorded current and non-current contract assets included within prepaid expenses and other current assets and other non-current assets, respectively;

see Revenue Recognition, below for additional details. In connection with the transition of this airline agreement to the airline-directed model, we also established warranty reserves related to previously sold equipment that are still under a warranty period, which is included within accrued liabilities. See Note 5, Composition of Certain Balance Sheet Accounts, for additional

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information. This transition from the turnkey model to the airline-directed model occurred on January 4, 2018 and the total financial statement effect on our consolidated balance sheet and consolidated statement of operations was as follows (*in thousands*):

	Increase (decrease)
Consolidated balance sheet	
Prepaid expense and other current assets	$ 6,603
Property and equipment, net	(32,716)
Other non-current assets	18,783
Accrued liabilities	2,000
Current deferred airborne lease incentive	(13,592)
Non-current deferred airborne lease incentive	(17,289)
Consolidated statement of operations	
Equipment revenue	45,396
Cost of equipment revenue	23,845

Revenue Recognition Our revenue is primarily earned from providing connectivity and entertainment services and through sales of equipment. Additionally, to a lesser extent, we earn revenue from providing ancillary services, including installation and CAS.

We determine revenue recognition through the following steps:

Identification of the contract, or contracts, with a customer;

Identification of the performance obligations in the contract;

Determination of the transaction price;

Allocation of the transaction price to the performance obligations in the contract; and

Recognition of revenue as we satisfy the performance obligations.

For CA-NA and CA-ROW, pursuant to contractual agreements with our airline partners, we place our equipment on commercial aircraft operated by the airlines in order to deliver our service to passengers on the aircraft. We currently have two types of commercial airline arrangements: turnkey and airline-directed. Under the airline-directed model, we have transferred control of the equipment to the airline and therefore the airline is our customer in these transactions. Under the turnkey model, while our airline partner generally has legal title to our equipment, we do not transfer control of our equipment to our airline partner and, as a result, the airline passenger is deemed to be our customer. Transactions with our airline partners under the turnkey model are accounted for as an operating lease of space on an aircraft. See Arrangements with Commercial Airlines, above for additional information on the turnkey model.

CA-NA and CA-ROW Service Revenue:

CA-NA and CA-ROW revenue consists of service revenue primarily derived from connectivity services, and, to a lesser extent, from Entertainment services and CAS. Connectivity is provided to our customers using both our ATG and satellite technologies.

Airline-directed connectivity revenue:

As noted above, under the airline-directed model, the airline is our customer and we earn service revenue as connectivity services are consumed directly by the airline or indirectly by passengers.

Turnkey connectivity revenue (passenger connectivity):

Under the turnkey model, passenger connectivity revenue is generated by services paid for by passengers, airlines and third parties.

Passenger paid revenue represents point-of-sale sessions (which may be flight-based, time-based, multiple individual session packages (multi-pack) or subscriptions). Flight-based, time-based and multi-pack revenue is recognized when the sessions are used. Subscription revenue is recognized evenly throughout the subscription period, regardless of the number of times the customer uses the network.

Third party and airline-paid revenue is generated by sales of connectivity services to airlines or third parties in sponsorship, wholesale, enterprise and roaming arrangements. Sponsorship revenue is recognized over the sponsorship term. Revenue from wholesale, enterprise and roaming arrangements is recognized as sessions are used by the passenger.

Entertainment revenue:

Entertainment revenue consists of entertainment services we provide to the airline for use by its passengers. Revenue is recognized as the services are provided to the airline.

CAS:

CAS includes, among other things, real-time credit card transaction processing, electronic flight bags and real-time weather information. Revenue is recognized as the service is provided.

BA Service Revenue:

BA service revenue primarily consists of monthly subscription and usage fees paid by aircraft owners and operators for telecommunication, data, and in-flight entertainment services. Revenue is recognized as the services are provided to the customer.

Equipment Revenue:

Equipment revenue primarily consists of the sale of ATG and satellite connectivity equipment and the sale of entertainment equipment. CA-NA and CA-ROW recognize equipment revenue upon acceptance by our airline customers. BA recognizes equipment revenue when the equipment is shipped to OEMs and dealers.

Equipment revenue also includes revenue generated by the installation of the connectivity or entertainment equipment on commercial aircraft, which is recognized when the installation is complete.

Contract price and allocation considerations:

Our CA-NA and CA-ROW airline-directed contracts contain multiple performance obligations, which primarily include the sale of equipment, installation services, connectivity services and entertainment services. For these contracts, we account for each distinct good or service as a separate performance obligation. We allocate the contract s transaction price to each performance obligation using the relative standalone selling price, which is based on the actual selling price for any good or service sold separately to a similar class of customer, if available. To the extent a good or service is not sold separately, we use our best estimate of the standalone selling price and maximize the use of observable inputs. The primary method we use to estimate the standalone selling price is the expected cost-plus margin approach.

The contractual consideration used for allocation purposes includes connectivity and entertainment services, which may be based on a fixed monthly fee per aircraft or a variable fee based on the volume of connectivity activity, or a

combination of both. Examples of variable consideration within our contracts include megabyte overages and pay-per-use sessions. We constrain our estimates to reduce the probability of a significant revenue reversal in future periods, allocate such variable consideration to the identified performance obligations and recognize revenue in the period the services are provided. Our estimates are based on historical experience, anticipated future performance, market conditions and our best judgment at the time.

A significant change in one or more of these estimates could affect our estimated contract value, and we regularly review and update our estimates and recognize adjustments under the cumulative catch-up method. Any adjustment under this method is recorded as a cumulative adjustment in the period identified and revenue for future periods is recognized using the new adjusted estimate.

Research and Development Costs Expenditures for research and development are charged to expense as incurred and totaled $72.7 million, $78.1 million and $45.9 million for the years ended December 31, 2018, 2017, and 2016, respectively. Research and development costs are reported as a component of engineering, design and development expenses in our consolidated statements of operations.

Software Development Costs We capitalize costs for network and non-network software developed or obtained for internal use during the application development stage. These costs include purchased software and direct costs associated with the development and configuration of internal use software that supports the operation of our service offerings. These costs are included in goodwill and intangible assets, net in our consolidated balance sheets and, when the software is placed in service, are amortized on a straight-line basis over their estimated useful lives. Costs incurred in the preliminary project and post-implementation stages, as well as maintenance and training costs, are expensed as incurred.

With respect to software sold as part of our equipment sales, we capitalize software development costs once technological feasibility has been established. Capitalized software costs are amortized on a product-by-product basis, based on the greater of the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product or the straight-line method over the remaining estimated economic life of the product.

Warranty We provide warranties on parts and labor related to our products. Our warranty terms range from two to ten years. Warranty reserves are established for costs that are estimated to be incurred after the sale, delivery and installation of the products under warranty. The warranty reserves are determined based on known product failures, historical experience and other available evidence, and are included in accrued liabilities in our consolidated balance sheets.

See Note 5, Composition of Certain Balance Sheet Accounts, for the details of the changes in our warranty reserve.

Asset Retirement Obligations We have certain asset retirement obligations related to contractual commitments to remove our network equipment and other assets from leased cell sites upon termination of the site lease and to remove equipment from aircraft when the service contracts terminate. The asset retirement obligations are classified as a noncurrent liability in our consolidated balance sheets.

See Note 5, Composition of Certain Balance Sheet Accounts, for the details of the changes in our asset retirement obligations.

Fair Value of Financial Instruments We group financial assets and financial liabilities measured at fair value into three levels of hierarchy based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

See Note 10, Fair Value of Financial Assets and Liabilities, for further information.

Derivatives In March 2015, we entered into a prepaid forward transaction in which we purchased 7.2 million shares of our common stock for approximately $140 million, with an expected settlement date on or around March 1, 2020.

Because the transaction is indexed to our own stock and classified within stockholders equity, we do not account for the prepaid forwards as a derivative instrument in accordance with Accounting Standards Codification (ASC) 815, *Derivatives and Hedging*.

See Note 7, Long-Term Debt and Other Liabilities, Note 9, Common Stock and Preferred Stock, and Note 10, Fair Value of Financial Assets and Liabilities, for further information.

Convertible Notes Proceeds received from the issuance of 2022 Convertible Notes and 2020 Convertible Notes (as defined in Note 7, Long-Term Debt and Other Liabilities) are initially allocated between a liability component (long-term debt) and an equity component (additional paid-in capital), within the consolidated balance sheet. The fair value of the liability component is measured using rates determined for similar debt instruments without a conversion feature. The carrying amount of the equity component, representing the conversion option, is determined by deducting the fair value of the liability component from the aggregate face value of 2022 Convertible Notes and 2020 Convertible Notes.

See Note 7, Long-Term Debt and Other Liabilities, for further information.

Net Loss Per Share We calculate basic and diluted net loss per share using the weighted-average number of common shares outstanding during the period.

See Note 3, Net Loss Per Share, for further information.

Stock-Based Compensation Expense Compensation cost is measured and recognized at fair value for all stock-based payments, including stock options. For time-based vesting stock options, we estimate fair value using the Black-Scholes option-pricing model, which requires assumptions, such as expected volatility, risk-free interest rate, expected life, and dividends. Restricted stock units (RSUs) and restricted stock are measured based on the fair market value of the underlying stock on the date of grant. For awards with a market condition (which we have used on a limited basis), we estimated fair value using the Monte Carlo Simulation model, which requires assumptions, such as volatility, risk-free interest rate, expected life and dividends. Our stock-based compensation expense is recognized over the applicable vesting period, and is included in the same operating expense line items in the consolidated statements of operations as the base cash compensation paid to the underlying employees.

See Note 12, Stock-Based Compensation, for further information.

Leases In addition to our arrangements with commercial airlines which we account for as leases as noted above, we also lease certain facilities, equipment, cell tower space and base station capacity. We review each lease agreement to determine if it qualifies as an operating or capital lease.

For leases that contain predetermined fixed escalations of the minimum rent, we recognize the related rent expense on a straight-line basis over the term of the lease. We record any difference between the straight-line rent amounts and amounts payable under the lease as deferred rent, in either accrued liabilities or as a separate line within noncurrent liabilities, as appropriate, in our consolidated balance sheets.

For leases that qualify as a capital lease, we record a capital lease asset and a capital lease obligation at the beginning of the lease term at an amount equal to the present value of minimum lease payments during the term of the lease, excluding that portion of the payments that represent executory costs. The capital lease asset is depreciated on a straight-line method over the shorter of its estimated useful life or lease term.

See Note 15, Leases, for further information.

Advertising Costs Costs for advertising are expensed as incurred.

Debt Issuance Costs We defer loan origination fees and financing costs related to our various debt offerings as deferred financing costs. Additionally, we defer fees paid directly to the lenders related to amendments with our various debt offerings as deferred financing costs. We amortize these costs over the term of

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the underlying debt obligation using the effective interest method, and include them in interest expense in the consolidated statement of operations. The fees incurred but not paid directly to the lenders in connection with amendments are expensed as incurred to interest expense. Deferred financing costs associated with future debt issuances are written off in the period during which we determine that the debt will no longer be issued.

See Note 7, Long-Term Debt and Other Liabilities for further information.

Comprehensive Loss - Comprehensive loss for the years ended December 31, 2018, 2017 and 2016 is net loss plus unrealized gains and losses on foreign currency translation adjustments.

Recently Issued Accounting Pronouncements

Revenue recognition related new pronouncements:

On January 1, 2018, we adopted Accounting Standards Codification Topic 606, *Revenue From Contracts With Customers* (ASC 606) using the modified retrospective method. As a result, we recognized the cumulative effect of initially applying ASC 606 as an adjustment to the opening balance of retained earnings as of January 1, 2018. Our historical financial statements have not been restated and continue to be reported under the revenue accounting standard in effect for those periods.

Prior to the adoption of ASC 606, equipment revenue (and related cost) under some of our CA-NA and CA-ROW segment contracts was deferred and recognized over the life of the contract as the equipment and connectivity services did not meet the requirements to be treated as separate units of accounting. Under ASC 606, these same equipment transactions qualify as standalone performance obligations and, therefore, equipment revenue (and related cost) is recognized upon acceptance by our airline customers. Adoption of the new standard did not materially affect the amount or timing of equipment revenue recognized from our BA segment. Our service revenue across all segments continues to be recognized as the services are provided to customers.

In conjunction with the adoption of ASC 606, we also adopted Accounting Standard Codification Subtopic 340-40, *Other Assets and Deferred Costs Contracts with Customers* (ASC 340-40), which requires the capitalization of costs incurred to obtain or fulfill a contract with a customer. Prior to the adoption of ASC 340-40, we expensed all fulfillment and other costs associated with airline-directed contracts, which were comprised predominantly of costs incurred to obtain supplemental type certificates (STCs); these costs are now required to be capitalized and amortized to expense over the life of the contract (and are included within engineering, design and development in our consolidated financial statements). Costs associated with our turnkey contracts are not eligible for capitalization under ASC 340-40 and will continue to be expensed as incurred.

The cumulative effect of the adoption of ASC 606 and ASC 340-40 to our consolidated balance sheet as of January 1, 2018 was as follows (*in thousands)*:

	Balance at December 31, 2017	Impact of ASC 606	Balances with Adoption of ASC 606
Assets			

Inventories	$ 45,543	$ 974	$ 46,517
Prepaid expenses and other current assets	20,310	603	20,913
Property and equipment, net	656,038	(4,405)	651,633
Other non-current assets	67,107	(30,006)	37,101
Liabilities			
Current deferred revenue	43,448	(7,182)	36,266
Other non-current liabilities	134,655	(48,378)	86,277
Equity			
Accumulated deficit	(1,089,369)	22,726	(1,066,643)

During the fourth quarter 2018, we identified an additional $0.9 million of property and equipment, net that should have been included in the transition adjustments as of January 1, 2018. The schedule above reflects the additional adjustment.

See Note 4, Revenue Recognition, for additional information.

On January 1, 2018, we adopted ASU 2016-04, *Recognition of Breakage for Certain Prepaid Stored-Value Products* (ASU 2016-04), which amends the guidance on extinguishing financial liabilities for certain prepaid stored-value products by requiring that entities that sell prepaid stored-value products recognize breakage proportionally as the prepaid stored-value product is being redeemed rather than immediately upon sale of the product. Adoption of this standard did not have a material impact on our consolidated financial statements.

All other new pronouncements:

In March 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases* (ASU 2016-02), which introduces a lessee model that records most leases on the balance sheet. ASU 2016-02 also aligns certain underlying principles of the new lessor model with those in ASC 606, the FASB s new revenue recognition standard. Furthermore, ASU 2016-02 eliminates the required use of bright-line tests used in current GAAP for determining lease classification. It also requires lessors to provide additional transparency into their exposure to the changes in value of their residual assets and how they manage that exposure. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those annual reporting periods. ASU 2016-02 required entities to adopt the new leases standard using a modified retrospective method and initially apply the related guidance at the beginning of the earliest period presented in the financial statements. During July 2018, the FASB issued ASU 2018-11, which allows for an additional and optional transition method under which an entity would record a cumulative-effect adjustment at the beginning of the period of adoption (cumulative-effect method). We will adopt this guidance as of January 1, 2019 using the cumulative-effect method. We have finalized implementation of a new lease accounting information system and continue to evaluate the impact of the adoption of this guidance on our consolidated financial statements. We anticipate an increase in our assets and liabilities due to the recognition of the required right-of-use asset and corresponding lease obligations for leases that are currently classified as operating leases. The primary impact of ASU 2016-02 relates to our tower leases and base stations, and our leases of facilities and equipment. See Note 15, Leases, for further information on our lease arrangements.

On January 1, 2018, we adopted ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15), which amends ASC 230, *Statement of Cash Flows*, the FASB s standard for reporting cash flows in general-purpose financial statements. The amendment addresses the diversity in practice related to the classification of certain cash receipts and payments including debt prepayment or debt extinguishment costs. We adopted this guidance using the full retrospective method. Adoption of this guidance did not have a material impact on our consolidated financial statements as we have historically reported debt prepayment and debt extinguishment costs in a manner consistent with ASU 2016-15.

On January 1, 2018, we adopted ASU 2016-16, *Intra-Entity Transfers of Assets Other Than Inventory* (ASU 2016-16), which removes the prohibition in ASC 740, *Income Taxes*, against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. This is intended to reduce the complexity of GAAP and diversity in practice related to the tax consequences of certain types of intra-entity asset transfers, particularly those involving intellectual property. Adoption of this standard did not have a material impact on our consolidated financial statements.

On January 1, 2018, we adopted ASU 2016-18, *Restricted Cash A Consensus of the FASB Emerging Issues Task Force* (ASU 2016-18), which amends ASC 230, *Statement of Cash Flows*, to clarify guidance on the classification and presentation of restricted cash in the statement of cash flows using the full retrospective method. Adoption of this standard did not have a material impact on our consolidated financial statements. See

our consolidated statements of cash flows for the reconciliation of cash presented in the statements of cash flows to the cash presented on the balance sheet.

On January 1, 2018, we adopted ASU 2017-09, *Scope of Modification Accounting* (ASU 2017-09), which amends the scope of modification accounting for share-based payment arrangements. The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718, *Compensation Stock Compensation*. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. Adoption of this standard did not have a material impact on our consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* (ASU 2018-02), which permits entities to reclassify tax effects stranded in accumulated other comprehensive income as a result of tax reform to retained earnings. Companies that elect to reclassify these amounts must reclassify stranded tax effects for all items accounted for in accumulated other comprehensive income. ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. We are currently assessing the impact of ASU 2018-02 on our consolidated financial statements and related disclosures.

In June 2018, the FASB issued ASU 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting* (ASU 2018-07), which expands the scope of ASC 718, *Compensation Stock Compensation*, to include share-based payment transactions for acquiring goods or services from nonemployees. ASU 2018-07 is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. We are currently assessing the impact of ASU 2018-07 on our consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement* (ASU 2018-13), which changes the disclosure requirements for fair value measurements by removing, adding and modifying certain disclosures. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. We are currently assessing the impact of ASU 2018-13 on our disclosures.

3. Net Loss Per Share

Basic and diluted net loss per share have been calculated using the weighted-average number of common shares outstanding for the period.

The shares of common stock effectively repurchased in connection with the Forward Transactions (as defined and described in Note 7, Long-Term Debt and Other Liabilities) are considered participating securities requiring the two-class method to calculate basic and diluted earnings per share. Net earnings in future periods will be allocated between common shares and participating securities. In periods of a net loss, the shares associated with the Forward Transactions will not receive an allocation of losses, as the counterparties to the Forward Transactions are not required to fund losses. Additionally, the calculation of weighted average shares outstanding as of December 31, 2018, 2017 and 2016 excludes approximately 7.2 million shares that will be repurchased as a result of the Forward Transactions.

As a result of the net loss for each of the years ended December 31, 2018, 2017 and 2016 for the periods where such shares or securities were outstanding, all of the outstanding shares of common stock underlying stock options, deferred stock units and restricted stock units were excluded from the computation of diluted shares outstanding because they were anti-dilutive.

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31, 2018, 2017 and 2016; however, because of the undistributed losses, the shares associated with the

Forward Transactions are excluded from the computation of basic earnings per share as undistributed losses are not allocated to these shares (*in thousands, except per share amounts*):

	For the Years Ended December 31,		
	2018	**2017**	**2016**
Net loss	$ (162,031)	$ (171,995)	$ (124,505)
Less: Participation rights of the Forward Transactions			
Undistributed losses	$ (162,031)	$ (171,995)	$ (124,505)
Weighted-average common shares outstanding-basic and diluted	80,038	79,407	78,915
Net loss attributable to common stock per share-basic and diluted	$ (2.02)	$ (2.17)	$ (1.58)

4. Revenue Recognition

Remaining Performance Obligations

As of December 31, 2018, the aggregate amount of the transaction price in our contracts allocated to the remaining unsatisfied performance obligations is approximately $972 million, most of which relates to our commercial aviation contracts. Approximately $195 million represents future equipment revenue that is expected to be recognized within the next one to three years. The remaining $777 million 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 contract (approximately 5-10 years). We have excluded from this amount: all variable consideration derived from our connectivity or entertainment services that is allocated entirely to our performance of obligations related to such services; consideration from contracts that have an original duration of one year or less; revenue from passenger services on airlines operating under the turnkey model; and revenue from contracts that have been executed but have not yet met the accounting definition of a contract since the airline has not yet determined which products in our portfolio it wishes to select, and, as a result, we are unable to determine which products and services will be transferred to the customer.

Disaggregation of revenue

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

	For the Year Ended December 31, 2018			
	CA-NA	**CA-ROW**	**BA**	**Total**
Service revenue				
Connectivity	$ 339,791	$ 63,955	$ 195,022	$ 598,768
Entertainment, CAS and other	27,577	2,447	1,355	31,379
Total service revenue	$ 367,368	$ 66,402	$ 196,377	$ 630,147

Equipment revenue				
ATG [1]	$ 53,410	$	$ 72,159	$ 125,569
Satellite [1]	48,439	67,992	18,165	134,596
Other			3,452	3,452
Total equipment revenue	$ 101,849	$ 67,992	$ 93,776	$ 263,617
Customer type				
Airline passenger and aircraft owner/operator	$ 216,466	$ 21,738	$ 196,377	$ 434,581
Airline, OEM and aftermarket dealer [2]	196,106	105,026	93,776	394,908
Third party	56,645	7,630		64,275
Total revenue	$ 469,217	$ 134,394	$ 290,153	$ 893,764

(1) ATG and satellite equipment revenue for the CA-NA segment includes the $45.4 million related to the accounting impact of the transition of one of our airline partners to the airline-directed model. Approximately $43.4 million was included in ATG equipment revenue and approximately $2.0 million was included in satellite equipment revenue.

(2) Airline, OEM and aftermarket dealer revenue includes all equipment revenue for our three segments, including the $45.4 million accounting impact of the transition of one of our airline partners to the airline-directed model.

Contract balances

Our current and non-current deferred revenue balances totaled $60.1 million and $61.1 million as of December 31, 2018 and January 1, 2018, respectively. Deferred revenue includes, among other things, equipment, multi-packs, subscriptions, sponsorship activities and airline-directed connectivity and entertainment services.

Our current and non-current contract asset balances totaled $59.9 million and $5.1 million as of December 31, 2018 and January 1, 2018, respectively. Contract assets represents the aggregate amount of revenue recognized in excess of billings for our airline-directed contracts.

Our STC balances were $16.5 million and $7.6 million as of December 31, 2018 and January 1, 2018, respectively. We recognized $1.0 million of deferred STC costs as part of our engineering, design and development costs in our consolidated statement of operations for the year ended December 31, 2018. As noted above, STC costs for our airline-directed contracts are capitalized and expensed on a straight-line basis over the life of the contract.

Impact of adoption of ASC 606

The following table presents the post adoption impact of ASC 606 on our consolidated balance sheet and the statement of operations *(in thousands)*:

	As of December 31, 2018		
	As Reported	**Impact of ASC 606**	**Balances Without Adoption of ASC 606**
Assets			
Prepaid expenses and other current assets	$ 34,695	$ (12,054)	$ 22,641
Other non-current assets	84,212	79,123	163,335
Liabilities			
Current deferred revenue	38,571	28,209	66,780
Other non-current liabilities	80,191	71,247	151,438
Equity			
Accumulated deficit	(1,228,674)	(24,165)	(1,252,839)

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	For the Year Ended December 31, 2018		
	As Reported	Impact of ASC 606	Balances Without Adoption of ASC 606
Revenue:			
Service revenue	$ 630,147	$ 14,918	$ 645,065
Equipment revenue	263,617	(115,241)	148,376
Operating expenses:			
Cost of equipment revenue	222,244	(94,440)	127,804
Engineering, design and development	120,090	2,340	122,430
Net loss	(162,031)	(8,223)	(170,254)

5. Composition of Certain Balance Sheet Accounts

Inventories as of December 31, 2018 and 2017 were as follows (*in thousands*):

	December 31,	
	2018	2017
Work-in-process component parts	$ 30,340	$ 35,009
Finished goods [(1)]	162,705	10,534
Total inventory	$ 193,045	$ 45,543

(1) The increase in our inventories is primarily due to the allocation of a portion of our uninstalled airborne equipment (*i.e.*, shipsets forecasted for installation under an airline-directed contract) within our CA-NA and CA-ROW segments from property and equipment, net, to inventories. Historically, all uninstalled airborne equipment for the CA-NA and CA-ROW segments was classified as property and equipment, net, as the majority of our installations were performed under our turnkey model agreements. See Note 2, Summary of Significant Accounting Policies, for additional information on the turnkey model treatment. As our uninstalled airborne equipment is increasingly being deployed under airline-directed model agreements, we now allocate our uninstalled airborne equipment between property and equipment, net, and inventories, based on our forecasts of estimated future installations by contract type.

Prepaid expenses and other current assets as of December 31, 2018 and 2017 were as follows (*in thousands*):

	December 31,	
	2018	2017
Contract assets [(1)]	$ 10,423	$
Prepaid satellite services	7,755	3,360
Restricted cash	1,535	500
Other	14,982	16,450

Total prepaid expenses and other current assets	$ 34,695	$ 20,310

(1) Changes between December 31, 2018 and 2017 are due to the adoption of ASC 606 and additional activity during the year ended December 31, 2018. See Note 4, Revenue Recognition, for additional information.

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Property and equipment as of December 31, 2018 and 2017 were as follows (*in thousands*):

	December 31,	
	2018	2017
Office equipment, furniture, fixtures and other	$ 52,320	$ 46,445
Leasehold improvements	44,838	42,522
Airborne equipment (1) (2)	642,151	765,652
Network equipment	205,463	199,304
	944,772	1,053,923
Accumulated depreciation	(432,905)	(397,885)
Property and equipment, net	$ 511,867	$ 656,038

(1) Changes between December 31, 2018 and 2017 relate to the accounting impact of the transition of one of our airline partner agreements to the airline-directed model and the adoption of ASC 606 (see Note 2, Summary of Significant Accounting Policies, for additional information).
(2) Changes between December 31, 2018 and 2017 also relate to the allocation of uninstalled airborne equipment to inventory (see inventories above for additional information).

Other non-current assets as of December 31, 2018 and 2017 consist of the following (*in thousands*):

	December 31,	
	2018	2017
Contract assets (1)	$ 49,517	$
Deferred STC costs (1)	16,453	
Deferred cost of equipment revenue (2)		40,986
Restricted cash	5,426	6,873
Other	12,816	19,248
Total other non-current assets	$ 84,212	$ 67,107

(1) Changes between December 31, 2018 and 2017 are primarily due to the adoption of ASC 606 and additional activity during the year. See Note 4, Revenue Recognition, for more information.
(2) Changes between December 31, 2018 and 2017 are primarily due to the adoption of ASC 606. See Note 2, Summary of Significant Accounting Policies, for additional information.

Accrued liabilities as of December 31, 2018 and 2017 consist of the following (*in thousands*):

	December 31,

	2018	2017
Employee compensation and benefits	$ 19,463	$ 25,621
Airborne equipment and installation costs	25,119	44,059
Airline-related accrued liabilities, including revenue share	45,077	30,905
Accrued interest	46,694	47,649
Accrued satellite network costs	19,557	12,667
Warranty reserve	12,291	2,424
Other	44,258	38,490
Total accrued liabilities	$ 212,459	$ 201,815

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Other non-current liabilities as of December 31, 2018 and 2017 consist of the following (*in thousands*):

	December 31,	
	2018	**2017**
Deferred rent	$ 35,897	$ 37,354
Deferred revenue [(1)]	21,482	73,192
Asset retirement obligations	9,696	9,668
Deferred tax liabilities	2,162	5,983
Other	10,954	8,458
Total other non-current liabilities	$ 80,191	$ 134,655

(1) Changes between December 31, 2018 and 2017 are primarily due to the adoption of ASC 606. See Note 2, Summary of Significant Accounting Policies, for more information.

Changes in our warranty reserve, which is included in accrued liabilities, for the years ended December 31, 2018, 2017 and 2016 consist of the following (*in thousands*):

	Warranty Reserve
Balance January 1, 2017	$ 2,576
Accruals for warranties issued	348
Settlements of warranties	(500)
Balance December 31, 2017	2,424
Accruals for warranties issued	10,172
Settlements of warranties	(305)
Balance December 31, 2018	$ 12,291

Changes between December 31, 2018 and 2017 relate to the accounting impact of the transition of one of our airline agreements to the airline-directed model, additional activity under airline-directed models are associated with remediation of quality issues associated with our 2Ku technology. See Note 2, Summary of Significant Accounting Policies, for additional information.

Changes in our non-current asset retirement obligations for the years ended December 31, 2018 and 2017 consist of the following (*in thousands*):

	Asset Retirement Obligation

Balance January 1, 2017	$	8,527
Liabilities incurred [(1)]		370
Liabilities settled		(252)
Accretion expense		981
Foreign exchange rate adjustments		42
Balance December 31, 2017		9,668
Liabilities incurred [(2)]		(760)
Liabilities settled		(192)
Accretion expense		1,035
Foreign exchange rate adjustments		(55)
Balance December 31, 2018	$	9,696

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(1) Includes $0.2 million related to a change in estimate in the expected cash flows for our estimated liabilities.
(2) Includes $0.8 million related to a change in estimate in the expected cash flows for our estimated liabilities.

6. Intangible Assets

Our intangible assets are comprised of indefinite- and finite-lived intangible assets. We own the rights to both 3MHz of ATG spectrum in the nationwide 800 MHz Commercial Air-Ground Radiotelephone band (the 3 MHz FCC License), which is used in the operation of our ATG network, and the license for 1 MHz of ATG spectrum in the nationwide 800MHz Commercial Air-Ground Radiotelephone band (1 MHz FCC License) acquired in the Airfone Acquisition. Together we refer to the 3 MHz FCC License and the 1 MHz FCC License as the FCC Licenses. While the FCC Licenses were issued with 10-year terms, such licenses are subject to renewal by the FCC, and renewals of licenses held by others have occurred routinely and at nominal cost. Moreover, we have determined that there are currently no legal, regulatory, contractual, competitive, economic, or other factors that limit the useful life of the FCC Licenses. As a result, the FCC Licenses are treated as indefinite-lived intangible assets which we do not amortize. We reevaluate the useful life of the FCC Licenses each year to determine whether events and circumstances continue to support an indefinite useful life. Our annual impairment assessment of the FCC Licenses for 2018, 2017, and 2016 indicated no impairment.

Our software relates to the development of internal use software which is used to run our network and support our service offerings. Software also includes software embedded in the equipment that we sell to our customers.

Our goodwill balance, all of which related to our BA segment, was $0.6 million as of December 31, 2018 and 2017.

Our intangible assets, other than goodwill, as of December 31, 2018 and 2017 were as follows (*in thousands, except for weighted average remaining useful life*):

	Weighted Average Remaining Useful Life (in years)	As of December 31, 2018			As of December 31, 2017		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:							
Software	2.3	$ 164,580	$ (116,873)	$ 47,707	$ 145,063	$ (93,523)	$ 51,540
Service customer relationships	1.3	8,081	(6,804)	1,277	8,081	(5,788)	2,293
Other intangible assets	5.7	3,000	(1,396)	1,604	1,500	(1,103)	397
OEM and dealer relationships		6,724	(6,724)		6,724	(6,724)	
Total amortized intangible assets		182,385	(131,797)	50,588	161,368	(107,138)	54,230
Unamortized intangible assets:							
FCC Licenses		32,283		32,283	32,283		32,283

Total intangible assets	$ 214,668	$ (131,797)	$ 82,871	$ 193,651	$ (107,138)	$ 86,513

Amortization expense for the years ended December 31, 2018, 2017 and 2016 was $26.5 million, $24.9 million and $21.6 million, respectively.

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

Years ending December 31,	Amortization Expense
2019	$ 22,037
2020	$ 14,421
2021	$ 9,598
2022	$ 2,674
2023	$ 999
Thereafter	$ 859

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

7. Long-Term Debt and Other Liabilities

Long-term debt as of December 31, 2018 and December 31, 2017 was as follows (*in thousands*):

	December 31, 2018	December 31, 2017
Senior Secured Notes	$ 702,670	$ 705,520
2022 Convertible Notes	190,083	
2020 Convertible Notes	149,195	311,544
Total debt	1,041,948	1,017,064
Less deferred financing costs	(17,055)	(16,196)
Total long-term debt	$ 1,024,893	$ 1,000,868

Senior Secured Notes

On June 14, 2016 (the Issue Date), Gogo Intermediate Holdings LLC (GIH) (a wholly owned subsidiary of Gogo Inc.) and Gogo Finance Co. Inc. (a wholly owned subsidiary of GIH) (the Co-Issuer and, together with GIH, the Issuers), issued $525 million aggregate principal amount of 12.500% senior secured notes due 2022 (the Original Senior Secured Notes) under an Indenture, dated as of June 14, 2016 (the Original Indenture), among the Issuers, us, as guarantor, certain subsidiaries of GIH, as guarantors (the Subsidiary Guarantors and, together with us, the Guarantors), and U.S. Bank National Association, as trustee (in such capacity, the Trustee) and as collateral agent (in such capacity, the Collateral Agent). On January 3, 2017, the Issuers issued $65 million aggregate principal amount of additional 12.500% senior secured notes due 2022 (the January 2017 Additional Notes). The January 2017 Additional Notes were issued at a price equal to 108% of their face value resulting in gross proceeds of $70.2 million. On September 20, 2017, the Issuers, the Guarantors and the Trustee entered into the first supplemental indenture (the Supplemental Indenture and, together with the Original Indenture, the Indenture) to modify certain covenants, as discussed below. On September 25, 2017, the Issuers issued $100 million aggregate principal amount of additional 12.500% senior secured notes due 2022 (the September 2017 Additional Notes). The September 2017 Additional Notes were issued at a price equal to 113% of their face value resulting in gross proceeds of $113.0 million.

Additionally, we received approximately $2.9 million for interest that accrued from July 1, 2017 through September 24, 2017, which was paid when we paid in full our January 2018 interest payment in January 2018. We refer to the Original Senior Secured Notes, the January 2017 Additional Notes and the September 2017 Additional Notes collectively as the Senior Secured Notes.

As noted above, on September 20, 2017, the Issuers, the Guarantors and the Trustee entered into the Supplemental Indenture to (i) increase the amount of additional secured indebtedness under the Credit Facilities

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(as defined in the Indenture) that may be incurred by the Issuer and its Restricted Subsidiaries (as defined in the Indenture) under the Indenture by $100 million (from $75 million to $175 million in aggregate principal amount), (ii) permit the Issuer and its Restricted Subsidiaries to incur additional secured indebtedness in connection with vendor financing arrangements not to exceed $50 million in aggregate principal amount at any time outstanding and (iii) permit the Issuer and its Restricted Subsidiaries to make additional dividends or distributions to Gogo in an aggregate amount of up to $15 million during any twelve-month period to pay interest on any indebtedness or preferred stock with a maturity later than July 1, 2022. The Supplemental Indenture became effective immediately upon execution, following our receipt of consents from holders of a majority of the outstanding principal amount of the Existing Notes (excluding Existing Notes held by the Issuers or any affiliates of the Issuers) to the Supplemental Indenture and amendments to the collateral agency agreement governing the Senior Secured Notes (the Consent Solicitation). In connection with the Consent Solicitation, GIH paid $1.4 million in fees (Consent Fees) to holders of Existing Notes who validly tendered (and did not revoke) their consents prior to the expiration of the Consent Solicitation.

As of December 31, 2018 and 2017, the outstanding principal amount of the Senior Secured Notes was $690.0 million and $690.0 million, respectively, the unamortized debt premium and Consent Fees were $12.7 million and $15.5 million, respectively, and the net carrying amount was $702.7 million and $705.5 million, respectively.

Interest on the Senior Secured Notes accrues at the rate of 12.500% per annum and is payable semi-annually in arrears on January 1 and July 1, which commenced on January 1, 2017 (other than the January 2017 Additional Notes, for which interest payments commenced on July 1, 2017, and the September 2017 Additional Notes, for which interest payments commenced on January 1, 2018). The Senior Secured Notes mature on July 1, 2022. The January 2017 Additional Notes and September 2017 Additional Notes have the same terms as the Original Senior Secured Notes, except with respect to the issue date and issue price, and are treated as a single series for all purposes under the Indenture and the security documents that govern the Senior Secured Notes.

We paid approximately $11.4 million, $2.0 million and $2.5 million, respectively, of aggregate origination fees and financing costs related to the issuance of the Original Senior Secured Notes, the January 2017 Additional Notes and the September 2017 Additional Notes, which have been accounted for as deferred financing costs. Additionally, as noted above, we paid approximately $1.4 million of Consent Fees, which partially offset the net carrying value of the Senior Secured Notes. The deferred financing costs on our consolidated balance sheet are being amortized over the contractual term of the Senior Secured Notes using the effective interest method. Total amortization expense was $2.6 million, $2.3 million and $1.0 million, respectively, for the years ended December 31, 2018, 2017 and 2016. As of December 31, 2018 and 2017, the balance of unamortized deferred financing costs related to the Senior Secured Notes was $10.0 million and $12.6 million, respectively, and is included as a reduction to long-term debt in our consolidated balance sheet. See Note 8, Interest Costs, for additional information.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

commencing on July 1 of the following years:

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

In addition, at any time prior to July 1, 2019, the Issuers may redeem up to 35% of the aggregate principal amount of the Senior Secured Notes with the proceeds of certain equity offerings at a redemption price of

112.500% of the principal amount redeemed, plus accrued and unpaid interest, if any, to (but not including) the date of redemption; provided, however, that Senior Secured Notes representing at least 65% of the principal amount of the Senior Secured Notes remain outstanding immediately after each such redemption.

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

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

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

The Indenture provides for events of default, which, if any of them occur, would permit or require the principal, premium, if any, and interest on all of the then outstanding Senior Secured Notes issued under the Indenture to be due and payable immediately. As of December 31, 2018, no event of default had occurred.

Convertible Notes

2022 Convertible Notes

On November 21, 2018, we issued $215.0 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. We granted an option to the initial purchasers to purchase up to an additional $32.3 million aggregate principal amount of 2022 Convertible Notes to cover over-allotments, of which $22.8 million was subsequently exercised during December 2018, resulting in a total issuance of $237.8 million aggregate principal amount of 2022 Convertible Notes. The 2022 Convertible Notes mature on May 15, 2022, unless earlier repurchased or converted into shares of our common stock under certain circumstances described below. Upon maturity, we have the option to settle our obligation through cash, shares of common stock, or a combination of cash and shares of common stock. We pay interest on the 2022 Convertible Notes semi-annually in arrears on May 15 and November 15 of each year. Interest payments begin on May 15, 2019.

The $237.8 million of proceeds received from the issuance of the 2022 Convertible Notes was initially allocated between long-term debt (the liability component) at $188.7 million and additional paid-in capital (the equity component) at $49.1 million, within the consolidated balance sheet. The fair value of the liability component was measured using rates determined for similar debt instruments without a conversion feature. The carrying amount of the equity component, representing the conversion option, was determined by deducting the fair value of the liability component from the aggregate face value of the 2022 Convertible Notes. If we or the note holders elect not to settle the debt through conversion, we must settle the 2022 Convertible Notes at face value. Therefore, the liability component will be accreted up to the face value of the 2022 Convertible Notes, which will result in additional

non-cash interest expense being recognized in the consolidated statements of operations through the 2022 Convertible Notes maturity date (see Note 8, Interest Costs, for additional information). The effective interest rate on the 2022 Convertible Notes, including accretion of the notes to par and debt issuance cost amortization, was approximately 13.6%. The equity component will not be remeasured as long as it continues to meet the conditions for equity classification.

As of December 31, 2018, the outstanding principal on the 2022 Convertible Notes was $237.8 million, the unamortized debt discount was $47.7 million and the net carrying amount of the liability component was $190.1 million.

We incurred approximately $8.1 million of issuance costs related to the issuance of the 2022 Convertible Notes, of which $6.4 million and $1.7 million were recorded to deferred financing costs and additional paid-in capital, respectively, in proportion to the allocation of the proceeds of the 2022 Convertible Notes. The $6.4 million recorded as deferred financing costs on our consolidated balance sheet is being amortized over the term of the 2022 Convertible Notes using the effective interest method. Total amortization expense of the deferred financing costs was $0.2 million for the year ended December 31, 2018. Amortization expense is included in interest expense in the consolidated statements of operations. As of December 31, 2018, the balance of unamortized deferred financing costs related to the 2022 Convertible Notes was $6.2 million and is included as a reduction to long-term debt in our consolidated balance sheets. See Note 8, 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 is equivalent to an initial conversion price of approximately $6.00 per share of our common stock. Upon conversion, we currently expect to deliver cash up to the principal amount of the 2022 Convertible Notes then outstanding. With respect to any conversion value in excess of the principal amount, we currently expect to deliver shares of our common stock. We may elect to deliver cash in lieu of all or a portion of such shares. The shares of common stock subject to conversion are excluded from diluted earnings per share calculations under the if-converted method as their impact is anti-dilutive.

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

- during any fiscal quarter beginning after the fiscal quarter ended December 31, 2018, if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during the last 30 consecutive trading days of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price of the 2022 Convertible Notes on each applicable trading day;

- during the five business day period following any five consecutive trading day period in which the trading price for the 2022 Convertible Notes is less than 98% of the product of the last reported sale price of our common stock and the conversion rate for the 2022 Convertible Notes on each such trading day; or

- upon the occurrence of specified corporate events.

None of the above events allowing for conversion prior to January 15, 2022 occurred during the year ended December 31, 2018. Regardless of whether any of the foregoing circumstances occurs, a holder may convert its 2022 Convertible Notes, in multiples of $1,000 principal amount, at any time on or after January 15, 2022 until the second scheduled trading day immediately preceding May 15, 2022.

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

circumstances for a holder who elects to convert its notes in connection with such make-whole fundamental change.

2020 Convertible Notes

On March 3, 2015, we issued $340.0 million aggregate principal amount of 3.75% Convertible Senior Notes due 2020 (the 2020 Convertible Notes) in a private offering to qualified institutional buyers, pursuant to Rule

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

During November 2018, we repurchased $199.9 million of outstanding principal amount of the 2020 Convertible Notes. As a result of the repurchase, the carrying value of the 2020 Convertible Notes were accreted up $17.9 million to face value. Additionally, we expensed $1.3 million of unamortized deferred financing costs and paid $0.5 million of fees in connection with the repurchase. These three items comprise the loss on extinguishment of debt of $19.7 million in our consolidated statement of operations.

The $361.9 million of proceeds received from the issuance of the 2020 Convertible Notes was initially allocated between long-term debt (the liability component) at $261.9 million and additional paid-in capital (the equity component) at $100.0 million, within the consolidated balance sheet. The fair value of the liability component was measured using rates determined for similar debt instruments without a conversion feature. The carrying amount of the equity component, representing the conversion option, was determined by deducting the fair value of the liability component from the aggregate face value of the 2020 Convertible Notes. If we or the note holders elect not to settle the debt through conversion, we must settle the 2020 Convertible Notes at face value. Therefore, the liability component will be accreted up to the face value of the 2020 Convertible Notes, which will result in additional non-cash interest expense being recognized in the consolidated statements of operations through the 2020 Convertible Notes maturity date (see Note 8, Interest Costs, for additional information). The effective interest rate on the 2020 Convertible Notes, including accretion of the notes to par and debt issuance cost amortization, was approximately 11.5%. The equity component will not be remeasured as long as it continues to meet the conditions for equity classification.

As of December 31, 2018 and 2017, the outstanding principal on the 2020 Convertible Notes was $162.0 million and $361.9 million, respectively, the unamortized debt discount was $12.8 million and $50.4 million, respectively, and the net carrying amount of the liability component was $149.2 million and $311.5 million, respectively.

We incurred approximately $10.4 million of issuance costs related to the issuance of the 2020 Convertible Notes, of which $7.5 million and $2.9 million were recorded to deferred financing costs and additional paid-in capital, respectively, in proportion to the allocation of the proceeds of the 2020 Convertible Notes. The $7.5 million recorded as deferred financing costs on our consolidated balance sheet is being amortized over the term of the 2020 Convertible Notes using the effective interest method. Total amortization expense of the deferred financing costs was $1.4 million, $1.5 million and $1.4 million, respectively, for the years ended December 31, 2018, 2017 and 2016. Additionally, as noted above, we expensed $1.3 million of unamortized deferred financing fees as a result of the repurchase. Amortization expense is included in interest expense in the consolidated statements of operations. As of December 31, 2018 and 2017, the balance of unamortized deferred financing costs related to the 2020 Convertible Notes was $0.9 million and $3.6 million, respectively, and is included as a reduction to long-term debt in our consolidated balance sheets. See Note 8, Interest Costs, for additional information.

The 2020 Convertible Notes had an initial conversion rate of 41.9274 common shares per $1,000 principal amount of 2020 Convertible Notes, which is equivalent to an initial conversion price of approximately $23.85 per share of our common stock. Upon conversion, we currently expect to deliver cash up to the principal amount of the 2020

Convertible Notes then outstanding. With respect to any conversion value in excess of the principal amount, we currently expect to deliver shares of our common stock. We may elect to deliver cash in lieu of all or

a portion of such shares. The shares of common stock subject to conversion are excluded from diluted earnings per share calculations under the if-converted method as their impact is anti-dilutive.

Holders may convert the 2020 Convertible Notes, at their option, in multiples of $1,000 principal amount at any time prior to December 1, 2019, but only in the following circumstances:

- during any fiscal quarter beginning after the fiscal quarter ended June 30, 2015, if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during the last 30 consecutive trading days of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price of the 2020 Convertible Notes on each applicable trading day;

- during the five business day period following any five consecutive trading day period in which the trading price for the 2020 Convertible Notes is less than 98% of the product of the last reported sale price of our common stock and the conversion rate for the 2020 Convertible Notes on each such trading day; or

- upon the occurrence of specified corporate events.

None of the above events allowing for conversion prior to December 1, 2019 occurred during the year ended December 31, 2018. Regardless of whether any of the foregoing circumstances occurs, a holder may convert its 2020 Convertible Notes, in multiples of $1,000 principal amount, at any time on or after December 1, 2019 until maturity.

In addition, if we undergo a fundamental change (as defined in the indenture governing the 2020 Convertible Notes), holders may, subject to certain conditions, require us to repurchase their 2020 Convertible Notes for cash at a price equal to 100% of the principal amount of the 2020 Convertible Notes to be purchased, plus any accrued and unpaid interest. In addition, if specific corporate events occur prior to the maturity date, we will increase the conversion rate for a holder who elects to convert its 2020 Convertible Notes in connection with such a corporate event in certain circumstances.

Forward Transactions

In connection with the issuance of the 2020 Convertible Notes, we paid approximately $140 million to enter into prepaid forward stock repurchase transactions (the Forward Transactions) with certain financial institutions (the Forward Counterparties), pursuant to which we purchased approximately 7.2 million shares of common stock for settlement on or around the March 1, 2020 maturity date for the 2020 Convertible Notes, subject to the ability of each Forward Counterparty to elect to settle all or a portion of its Forward Transactions early. In the future, we may request that any Forward Counterparty modify the settlement terms of its Forward Transaction to provide that, in lieu of the delivery of the applicable number of shares of our common stock to us to settle a portion of its Forward Transaction in accordance with its terms, such Forward Counterparty would pay to us the net proceeds from the sale by such Forward Counterparty (or its affiliate) of a corresponding number of shares of our common stock in a registered offering (which may include block sales, sales on the NASDAQ Global Select Market, sales in the over-the-counter market, sales pursuant to negotiated transactions or otherwise, at market prices prevailing at the time of sale or at negotiated prices). Any such sales could potentially decrease (or reduce the size of any increase in) the market price of our common stock. The Forward Counterparties are not required to effect any such settlement in cash in lieu of delivery of shares of our common stock and, if we request for any Forward Counterparty to effect any such settlement, it will be entered into in the discretion of the applicable Forward Counterparty on such terms as we may agree with such

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

Amended and Restated Senior Term Facility

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

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

We paid $22.2 million of loan origination fees and financing costs related to the Amended and Restated Senior Term Facility, all but $4.1 million of which were accounted for as deferred financing costs. Total amortization expense of the deferred financing costs was $1.4 million for the year ended December 31, 2016. Amortization expense is included in interest expense in the consolidated statements of operations. As noted above, deferred financing costs related to the Amended and Restated Senior Term Facility were written off as of June 14, 2016.

Restricted Cash

Our restricted cash balances were $7.0 million and $7.4 million, respectively, as of December 31, 2018 and 2017 and primarily consist of letters of credit. Certain of the letters of credit require us to maintain restricted cash accounts in a similar amount, and are issued for the benefit of the landlords at our current office locations in Chicago, IL, Bensenville, IL and Broomfield, CO.

8. Interest Costs

The following is a summary of our interest costs for the years ended December 31, 2018, 2017 and 2016 *(in thousands)*:

	For the Years Ended December 31,		
	2018	**2017**	**2016**
Interest costs charged to expense	$ 100,274	$ 89,915	$ 62,348
Amortization of deferred financing costs	4,280	3,743	3,803
Accretion of Convertible Notes	21,105	19,520	17,496
Amortization of debt premium of Senior Secured Notes	(2,850)	(1,234)	
Interest expense	122,809	111,944	83,647
Interest costs capitalized to property and equipment	32	26	205
Interest costs capitalized to software	364	1,075	1,300

Total interest costs	$ 123,205	$ 113,045	$ 85,152

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.

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9. Common Stock and Preferred Stock

Common Stock We have one class of common stock outstanding as of December 31, 2018 and 2017. Our common stock is junior to our preferred stock, if and when issued.

Our Third Amended and Restated Certificate of Incorporation authorizes a total of 500,000,000 shares of common stock with a par value of $0.0001 per share.

Our Third Amended and Restated Certificate of Incorporation authorizes 100,000,000 shares of new preferred stock with a par value of $0.01 per share. No shares of this new preferred stock have been issued. The preferred stock may be issued, from time to time, in one or more series as authorized by the Board of Directors, which has the authority to designate the terms of any series of preferred stock issued, including, without limitation, the number of shares to be included in such series of preferred stock, any dividend, redemption, conversion rights or voting powers and the designations, preferences and relative participating, optional or other special rights.

10. Fair Value of Financial Assets and Liabilities

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

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

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

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

Long-Term Debt:

Our financial assets and liabilities that are disclosed but not measured at fair value include the Senior Secured Notes, the 2022 Convertible Notes and the 2020 Convertible Notes, which are reflected on the consolidated balance sheet at cost. The fair value measurements are classified as Level 2 within the fair value hierarchy since they are based on quoted market prices of our instruments in markets that are not active. We estimated the fair value of the Senior Secured Notes, 2022 Convertible Notes and 2020 Convertible Notes by calculating the upfront cash payment a market participant would require to assume these obligations. The upfront cash payments used in the calculations of fair value on our December 31, 2018 consolidated balance sheet, excluding any issuance costs, is the amount that a market participant would be able to lend at December 31, 2018 to an entity with a credit rating similar to ours and achieve sufficient cash inflows to cover the scheduled cash outflows under the Senior Secured Notes, the 2022 Convertible Notes and the 2020 Convertible Notes. The calculated fair value of our 2022 Convertible Notes and 2020 Convertible Notes is correlated to our stock price and as a result, significant changes to our stock price could have a significant impact on their calculated fair values.

The fair value and carrying value of long-term debt as of December 31, 2018 and 2017 was as follows *(in thousands)*:

	December 31, 2018		December 31, 2017	
	Fair Value [1]	Carrying Value	Fair Value [1]	Carrying Value
Senior Secured Notes	$ 737,000	$ 702,670[2]	$ 782,000	$ 705,520[2]
2022 Convertible Notes	216,000	190,083[3]		
2020 Convertible Notes	150,000	149,195[4]	330,000	311,544[4]

(1) Fair value amounts are rounded to the nearest million.
(2) Carrying value of the Senior Secured Notes includes unamortized debt premium and Consent Fees of $12.7 million and $15.5 million, respectively, as of December 31, 2018 and 2017. See Note 7, Long-Term Debt and Other Liabilities, for further information.
(3) Carrying value of the 2022 Convertible Notes excludes unamortized debt discount of $47.7 million as of December 31, 2018. See Note 7, Long-Term Debt and Other Liabilities, for further information.
(4) Carrying value of the 2020 Convertible Notes excludes unamortized debt discount of $12.8 million and $50.4 million, respectively, as of December 31, 2018 and 2017. See Note 7, Long-Term Debt and Other Liabilities, for further information.

We have held-to-maturity financial instruments where carrying value approximated fair value. There were no fair value adjustments to these financial instruments during the years ended December 31, 2018, 2017 and 2016.

11. Business Segments and Major Customers

We operate our business through three operating segments: Commercial Aviation North America, or CA-NA, Commercial Aviation Rest of World, or CA-ROW and Business Aviation, or BA.

CA-NA Segment: Our CA-NA segment provides in-flight connectivity and wireless digital entertainment solutions to commercial airline passengers flying routes that generally begin and end within North America, which for this purpose includes the United States, Canada and Mexico.

CA-ROW Segment: Our CA-ROW business provides in-flight connectivity and wireless digital entertainment solutions to passengers flying on foreign-based commercial airlines and flights outside of North America for North American-based commercial airlines. The routes included in our CA-ROW segment are those that begin and/or end outside of North America (as defined above) for which our international service is provided.

BA Segment: Our BA business provides equipment for in-flight connectivity along with voice and data services to the business aviation market. BA services include Gogo Biz, our in-flight broadband service that utilizes both our ATG network and our ATG spectrum, Passenger Entertainment, our in-flight entertainment service, and satellite-based voice and data services through strategic alliances with satellite companies. Customers include business aircraft manufacturers, owners, and operators, as well as government and military entities.

The accounting policies of the operating segments are the same as those described in Note 2, Summary of Significant Accounting Policies. Intercompany transactions between segments are excluded as they are not included in management s performance review of the segments. Our foreign revenue accounted for less than 15% of our consolidated revenue for the year ended December 31, 2018 and less than 10% for the years ended December 31, 2017 and 2016. We do not segregate assets between segments for internal reporting. Therefore, asset-related information has not been presented. We do not disclose assets outside of the United States as they totaled less than 15% of our consolidated assets as of December 31, 2018 and less than 10% of our consolidated assets as of December 31, 2017. For our airborne assets, we consider only those assets installed in aircraft associated with international commercial airline partners to be owned outside of the United States.

Management evaluates performance and allocates resources to each segment based on segment profit (loss), which is calculated internally as net income (loss) attributable to common stock before interest expense, interest income, income taxes, depreciation and amortization, and certain non-cash items (including amortization of deferred airborne lease incentives, stock-based compensation expense, adjustment to deferred financing costs, loss on extinguishment of

debt, amortization of STC costs and the accounting impact of the transition to the

airline-directed model). Segment profit (loss) is a measure of performance reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segments and evaluating segment performance. In addition, segment profit (loss) is included herein in conformity with ASC 280-10, *Segment Reporting*. Management believes that segment profit (loss) provides useful information for analyzing and evaluating the underlying operating results of each segment. However, segment profit (loss) should not be considered in isolation or as a substitute for net income (loss) attributable to common stock or other measures of financial performance prepared in accordance with GAAP. Additionally, our computation of segment profit (loss) may not be comparable to other similarly titled measures computed by other companies.

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

	For the Year Ended December 31, 2018			
	CA-NA	**CA-ROW**	**BA**	**Total**
Service revenue	$ 367,368	$ 66,402	$ 196,377	$ 630,147
Equipment revenue *(1)*	101,849	67,992	93,776	263,617
Total revenue	$ 469,217	$ 134,394	$ 290,153	$ 893,764
Segment profit (loss)	$ 26,228	$ (94,537)	$ 139,739	$ 71,430

	For the Year Ended December 31, 2017			
	CA-NA	**CA-ROW**	**BA**	**Total**
Service revenue	$ 393,484	$ 53,542	$ 170,880	$ 617,906
Equipment revenue	7,129	4,323	69,732	81,184
Total revenue	$ 400,613	$ 57,865	$ 240,612	$ 699,090
Segment profit (loss)	$ 66,802	$ (106,978)	$ 99,409	$ 59,233

	For the Year Ended December 31, 2016			
	CA-NA	**CA-ROW**	**BA**	**Total**
Service revenue	$ 357,250	$ 24,198	$ 132,845	$ 514,293
Equipment revenue	14,273	1,180	66,804	82,257
Total revenue	$ 371,523	$ 25,378	$ 199,649	$ 596,550
Segment profit (loss)	$ 71,870	$ (87,637)	$ 82,874	$ 67,107

(1) CA-NA equipment revenue for the year ended December 31, 2018 includes the accounting impact of the transition of one of our airline partners to the airline-directed model. See Note 2, Summary of Significant Accounting Policies, for additional information.

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

	For the Years Ended December 31,		
	2018	**2017**	**2016**
CA-NA segment profit	$ 26,228	$ 66,802	$ 71,870
CA-ROW segment loss	(94,537)	(106,978)	(87,637)
BA segment profit	139,739	99,409	82,874
Total segment profit	71,430	59,233	67,107
Interest income	4,292	2,964	1,635
Interest expense	(122,809)	(111,944)	(83,647)
Depreciation and amortization	(133,617)	(145,490)	(105,642)
Transition to airline-directed model	21,551		
Amortization of deferred airborne lease incentives *(1)*	31,650	41,816	29,519
Amortization of STC costs	(1,023)		
Stock compensation expense	(16,912)	(19,821)	(17,621)
Loss on extinguishment of debt	(19,653)		(15,406)
Adjustment of deferred financing fees			792
Other income (expense)	(233)	(750)	72
Loss before income taxes	$ (165,324)	$ (173,992)	$ (123,191)

(1) Amortization of deferred airborne lease incentive only relates to our CA-NA and CA-ROW segments. See Note 15, Leases, for further information.

Major Customers and Airline Partnerships Under the turnkey model, we refer to the airline as a partner, and under the airline-directed model, we refer to the airline as a customer.

During the year ended December 31, 2018, American Airlines accounted for approximately 22% of consolidated revenue, while no other customer accounted for more than 10% of consolidated revenue during the prior year periods. Revenue earned from American Airlines for the year ended December 31, 2018 included $45.4 million of equipment revenue recognized due to the airline s transition to the airline-directed model in January 2018. See Note 2, Summary of Significant Accounting Policies, for additional information. Revenue earned from passengers on aircraft operated by American Airlines, which was under the turnkey model during the years ended December 31, 2017 and 2016, accounted for approximately 21% and 23% of consolidated revenue, respectively.

Revenue earned from passengers on aircraft operated by Delta Air Lines, which is under the turnkey model, accounted for approximately 23%, 26% and 27% of consolidated revenue, respectively, for the years ended December 31, 2018, 2017 and 2016.

American Airlines accounted for approximately 11% of consolidated accounts receivable as of December 31, 2018 and one customer accounted for approximately 15% of consolidated accounts receivable as of December 31, 2017. Delta Air Lines, one of our airline partners, accounted for approximately 11% and 21%, respectively, of consolidated

accounts receivable as of December 31, 2018 and 2017.

12. Stock-Based Compensation

As of December 31, 2018, we maintained three stock-based employee compensation plans: the Gogo Inc. 2016 Omnibus Incentive Plan (the 2016 Omnibus Plan), the Gogo Inc. 2013 Omnibus Incentive Plan (the 2013 Omnibus Plan), and The Aircell Holdings Inc. Stock Option Plan (the 2010 Plan), collectively referred

to as the Stock Plans. Our Stock Plans provide 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 (DSUs) 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.

Under the Stock Plans, 27,906,570 shares of common stock were reserved for issuance. As of December 31, 2018, 7,841,256 shares remained available for grant under our Stock Plans.

The contractual life of granted options is 10 years. All options that are unvested as of the date on which a recipient s employment terminates, as well as vested options that are not exercised within a prescribed period following termination, are forfeited and become available for future grants. Options granted to date include options that (a) vest 20% upon grant with the remainder vesting in equal annual increments over a four-year period, (b) vest over a four-year period with 25% vesting on the anniversary of each grant date, (c) vest 25% after one year from grant date and in equal monthly increments for the following three years or (d) vest on the date of grant for options granted to non-employee members of our board of directors. Beginning in 2013, we granted RSUs that vest in equal annual increments over a four-year period. Vested RSUs will be settled, at the discretion of the Compensation Committee, in shares of our common stock or in cash equal to the value of the applicable number of shares of our common stock on the vesting date. We also granted directors DSUs that were vested at grant. DSUs will be settled in shares of our common stock 90 days after the director ceases to serve as a director. Beginning in 2014, we granted restricted stock, which vests in equal annual increments over a four-year period. These shares are deemed issued as of the date of grant, but not outstanding until they vest. We intend to settle RSU, DSU and restricted stock awards in stock and we have the shares available to do so. In June 2016, the Compensation Committee approved grants of both non-market based awards and market based awards. The contractual term and time-based vesting provisions for the non-market based awards are consistent with prior grants as noted above. The market based awards vest based on achieving one or more predetermined market conditions and completion of the same time-based vesting requirements applicable to the non-market based awards.

The following is a summary of our stock-based compensation expense included in the consolidated statements of operations for the years December 31, 2018, 2017 and 2016 *(in thousands)*:

	2018	2017	2016
Cost of service revenue	$ 1,659	$ 1,748	$ 1,499
Cost of equipment revenue	210	185	117
Engineering, design and development	3,347	3,656	3,046
Sales and marketing	4,267	4,751	4,962
General and administrative	7,429	9,481	7,997
Total stock-based compensation expense	$ 16,912	$ 19,821	$ 17,621

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A summary of stock option activity for the year ended December 31, 2018 is as follows:

	Number of Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value *(in thousands)*
Options outstanding January 1, 2018	10,387,376	$ 13.96	6.22	$ 8,924
Granted	2,537,353	$ 9.20		
Exercised	(2,500)	$ 8.37		
Forfeited	(776,246)	$ 11.19		
Expired	(1,431,825)	$ 15.61		
Options outstanding December 31, 2018	10,714,158	$ 12.81	6.25	$
Options exercisable December 31, 2018	6,363,744	$ 14.24	4.76	$

As of December 31, 2018, total unrecognized compensation costs related to unvested stock options were approximately $12 million which is expected to be recognized over a weighted average period of approximately 2.4 years. The total grant date fair value of stock options vested in 2018, 2017 and 2016 was approximately $9 million, $10 million and $9 million, respectively.

We estimate the fair value of stock options using the Black-Scholes option-pricing model. Weighted average assumptions used and weighted average grant date fair value of stock options granted for the years ended December 31, 2018, 2017, and 2016 were as follows:

	2018	2017	2016
Approximate risk-free interest rate	2.7%	2.3%	1.3%
Average expected life (years)	6.03	6.14	6.12
Dividend yield	N/A	N/A	N/A
Volatility	49.2%	45.3%	45.3%
Weighted average grant date fair value of common stock underlying options granted	$ 8.97	$ 11.97	$ 8.72
Weighted average grant date fair value of stock options granted	$ 4.42	$ 5.59	$ 3.88

The risk-free interest rate assumptions were based on the U.S. Treasury yield curve for the term that mirrored the expected term in effect at the time of grant. The expected life of our stock options was determined based upon a simplified assumption that the stock options will be exercised evenly from vesting to expiration, as we do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected life. The dividend yield was based on expected dividends at the time of grant. We have not been a public company long enough to calculate volatility based exclusively on our own common stock. Therefore, the expected volatility is calculated as of each grant date based on a weighting of our own common stock and reported data for a peer group of publicly traded companies for which historical information is available.

The following table summarizes the activities for our unvested RSUs and DSUs for the year ended December 31, 2018:

	Number of Underlying Shares	Weighted Average Grant Date Fair Value
Unvested January 1, 2018	1,717,857	$ 11.27
Granted	2,747,836	$ 5.11
Vested	(653,447)	$ 11.53
Forfeited/canceled	(588,266)	$ 8.24
Unvested December 31, 2018	3,223,980	$ 6.51

As of December 31, 2018, there was approximately $15 million of unrecognized compensation cost related to unvested employee RSUs. This amount is expected to be recognized over a weighted-average period of approximately 1.9 years. The total grant date fair value of RSUs and DSUs vested in 2018 was approximately $8 million.

The following table summarizes the activity for our restricted stock for the year ended December 31, 2018:

	Number of Underlying Shares	Weighted Average Grant Date Fair Value
Unvested January 1, 2018	214,144	$ 13.62
Granted		$
Vested	(93,266)	$ 15.23
Forfeited/canceled	(2,825)	$ 12.42
Unvested December 31, 2018	118,053	$ 12.38

As of December 31, 2018, there was approximately $1 million of unrecognized compensation cost related to unvested employee restricted stock. This amount is expected to be recognized over a weighted-average period of approximately 1.9 years.

ESPP - In June 2013, the Board of Directors and stockholders approved the Employee Stock Purchase Plan (ESPP), which became effective on June 26, 2013 and during 2017, increased the number of shares reserved under the ESPP. The ESPP allows eligible employees to purchase a limited number of shares of common stock during pre-specified offering periods at a discount established by the Compensation Committee not to exceed 15% of the fair market value of the common stock at the beginning or end of the offering period (whichever is lower). Under the ESPP, 1,200,000 shares were reserved for issuance and 320,905 shares of common stock were issued during the year ended December 31, 2018.

13. Employee Retirement and Postretirement Benefits

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 $5.1 million, $5.9 million, and $4.1 million for the years ended December 31, 2018, 2017 and 2016, respectively.

14. Income Tax

For financial reporting purposes, loss before income taxes included the following components for the years ended December 31, 2018, 2017, and 2016 (*in thousands*):

For the Years Ended December 31,

	2018	2017	2016
United States	$ (128,361)	$ (138,881)	$ (108,363)
Foreign	(36,963)	(35,111)	(14,828)
Loss before income taxes	$ (165,324)	$ (173,992)	$ (123,191)

Significant components of the (benefit) provision for income taxes for the years ended December 31, 2018, 2017, and 2016 are as follows (*in thousands*):

	For the Years Ended December 31,		
	2018	2017	2016
Current:			
Federal	$	$	$
State	467	235	451
Foreign	61	49	24
	528	284	475
Deferred:			
Federal	(3,908)	(2,590)	764
State	87	309	75
	(3,821)	(2,281)	839
Total	$ (3,293)	$ (1,997)	$ 1,314

The benefit (provision) for income taxes differs from income taxes computed at the federal statutory tax rates for the years ended December 31, 2018, 2017, and 2016 as a result of the following items:

	For the Years Ended December 31,		
	2018	2017	2016
Federal statutory rate	21.0%	35.0%	35.0%
Effect of:			
Impact of change in tax rate	0.1	(47.0)	
Change in valuation allowance	(24.8)	12.5	(38.5)
State income taxes-net of federal tax benefit	4.0	2.4	3.8
Other	1.7	(1.8)	(1.4)
Effective tax rate	2.0%	1.1%	(1.1)%

Components of the net deferred income tax asset as of December 31, 2018 and 2017 are as follows (*in thousands*):

	December 31, 2018	December 31, 2017
Deferred income tax assets:		
Compensation accruals	$ 3,407	$ 4,854
Stock options	15,552	13,256
Inventory	1,102	702
Warranty reserves	1,014	605
Deferred rent	9,603	9,868
Deferred revenue	37,501	51,295
Federal net operating loss (NOL)	143,433	129,064
State NOL	24,623	21,122
Interest carryforward	22,029	
UNICAP adjustment	2,311	3,241
Finite-lived intangible assets	7,576	8,756
Other	11,576	7,500
Total deferred income tax assets	279,727	250,263
Deferred income tax liabilities:		
Fixed assets	(53,944)	(59,885)
Indefinite-lived intangible assets	(6,528)	(5,983)
Convertible Notes discount	(14,612)	(12,243)
Other	(2,272)	(170)
Total deferred income tax liabilities	(77,356)	(78,281)
Total deferred income tax	202,371	171,982
Valuation allowance	(204,533)	(177,965)
Net deferred income tax liability	$ (2,162)	$ (5,983)

We assess the realizability of the deferred tax assets by considering whether it is more likely than not that some portion or all of the deferred tax assets would not be realized through the generation of future taxable income. We generated net losses in fiscal years 2018, 2017, and 2016, which means we are in a domestic three-year cumulative loss position. As a result of this and other assessments in fiscal year 2018, we concluded that a full valuation allowance is required for all deferred tax assets and liabilities except for deferred tax liabilities associated with indefinite-lived intangible assets.

As of December 31, 2018, the federal net operating loss (NOL) carryforward amount was approximately $574 million and the state NOL carryforward amount was approximately $419 million. The federal NOLs begin to expire in 2031. The state NOLs expire in various tax years and began to expire in 2016.

Utilization of our NOL and tax credit carryforwards may be subject to substantial annual limitations due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such annual

limitations could result in the expiration of the NOL and tax credit carryforwards before their utilization. The events that may cause ownership changes include, but are not limited to, a cumulative stock ownership change of greater than 50% over a three-year period.

We are subject to taxation in the United States, Canada, Switzerland, Japan, Mexico, Brazil, Singapore, the United Kingdom, Hong Kong, Australia, China, France, Germany, the Netherlands and India. With few exceptions, as of December 31, 2018, we are no longer subject to U.S. federal, state, local or foreign examinations by tax authorities for years before 2015.

As a result of the passage of H.R. 1, originally known as the Tax Cuts and Jobs Act (U.S. Tax Reform) in December 2017, the tax effected amounts of the deferred tax assets and liabilities decreased. A large portion of this change in the deferred tax balances resulted in an offsetting change to the deferred tax asset valuation allowance and did not affect tax expense. For the deferred tax liabilities that are not offset by changes to the valuation allowance, our net deferred tax liability was reduced by approximately $3 million.

As of December 31, 2018, 2017 and 2016, we did not have any unrecognized tax benefits.

We record penalties and interest relating to uncertain tax positions in the income tax provision line item in the consolidated statement of operations. No penalties or interest related to uncertain tax positions were recorded for the years ended December 31, 2018, 2017 or 2016. As of December 31, 2018 and 2017, we did not have a liability recorded for interest or potential penalties.

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

15. Leases

Arrangements with Commercial Airlines Pursuant to contractual agreements with our airline partners, we place our equipment on commercial aircraft operated by the airlines for the purpose of delivering our service to passengers on the aircraft. There are currently two types of commercial airline arrangements: turnkey and airline-directed. See Note 2, Summary of Significant Accounting Policies, for additional information on airline-directed arrangements.

We recognized $31.7 million, $41.8 million, and $29.5 million, respectively, for the years ended December 31, 2018, 2017 and 2016, as a reduction to our cost of service revenue in our consolidated statements of operations. As of December 31, 2018, deferred airborne lease incentives of $24.1 million and $129.1 million, respectively, are included in current and non-current liabilities in our consolidated balance sheet. As of December 31, 2017, deferred airborne lease incentives of $42.1 million and $142.9 million, respectively, are included in current and non-current liabilities in our consolidated balance sheet. The decrease in our deferred airborne lease incentives and the amortization of the deferred airborne lease incentives relate to the accounting impact of the transition of one of our airline agreements to the airline-directed model. See Note 2, Summary of Significant Accounting Policies, for additional information.

Under the turnkey model, the revenue share paid to our airline partners represents operating lease payments. They are deemed to be contingent rental payments, as the payments due to each airline are based on a percentage of our CA-NA and CA-ROW service revenue generated from that airline s passengers, which is unknown until realized. Therefore, we cannot estimate the lease payments due to an airline at the commencement of our contract with such airline. This rental expense is included in cost of service revenue and is partially offset by the amortization of the deferred airborne lease incentives discussed above. Such rental expenses totaled a net charge of $24.5 million, $30.5 million, and $41.6 million, respectively, for the years ended December 31, 2018, 2017 and 2016. The decrease in rental expense was due to the transition of one of our airline agreements to the airline-directed model. See Note 2, Summary of Significant Accounting Policies, for additional information.

Leases and Cell Site Contracts We have lease agreements relating to certain facilities and equipment, which are considered operating leases. Rent expense for such operating leases was $12.6 million, $12.0 million and $11.8 million, respectively, for the years ended December 31, 2018, 2017 and 2016. Additionally, we have operating leases with wireless service providers for tower space and base station capacity on a volume usage basis (cell site leases), some of which provide for minimum annual payments. Our cell site leases generally provide for an initial noncancelable term with various renewal options. Total cell site rental expense was $10.5 million, $9.5 million and $9.4 million, respectively, for the years ended December 31, 2018, 2017 and 2016.

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Annual future minimum obligations for operating leases for each of the next five years and thereafter, other than the arrangements we have with our commercial airline partners, as of December 31, 2018, are as follows (*in thousands*):

Years ending December 31,	Operating Leases
2019	$ 21,902
2020	$ 19,867
2021	$ 19,742
2022	$ 18,420
2023	$ 14,826
Thereafter	$ 78,100

Equipment Leases We lease certain computer and network equipment under capital leases, for which interest has been imputed with annual interest rates ranging from approximately 8% to 14%. As of December 31, 2018, the computer equipment leases were classified as part of office equipment, furniture, and fixtures and other in our consolidated balance sheet at a gross cost of $6.3 million. As of December 31, 2018, the network equipment leases were classified as part of network equipment in our consolidated balance sheet at a gross cost of $7.5 million. Annual future minimum obligations under capital leases for each of the next five years and thereafter, as of December 31, 2018, are as follows (*in thousands*):

Years ending December 31,	Capital Leases
2019	$ 707
2020	218
Thereafter	
Total minimum lease payments	925
Less: Amount representing interest	(72)
Present value of net minimum lease payments	$ 853

The $0.9 million present value of net minimum lease payments as of December 31, 2018 has a current portion of $0.7 million included in current portion of long-term debt and capital leases and a non-current portion of $0.2 million included in other non-current liabilities.

16. Commitments and Contingencies

Contractual Commitments - We have agreements with vendors to provide us with transponder and teleport satellite services. These agreements vary in length and amount and as of December 31, 2018 commit us to purchase transponder and teleport satellite services totaling approximately $98.9 million in 2019, $89.4 million in 2020, $76.9 million in 2021, $66.1 million in 2022, $58.6 million in 2023 and $159.0 million thereafter.

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

A contract with one of our airline customers required us to provide the airline customer with a cash rebate of $1.8 million in June 2018, which has not yet been paid.

Damages and Penalties We have entered into a number of agreements with our airline partners that require us to provide a credit or pay liquidated damages to our airline partners on a per aircraft, per day or per

hour basis if we are delayed in delivering our equipment, unable to install our equipment on aircraft by specified timelines or fail to comply with service level commitments. The maximum amount of future credits or payments we could be required to make under these agreements is uncertain because the amount of future credits or payments is based on certain variable inputs.

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

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

Linksmart Litigation On April 20, 2018, Linksmart Wireless Technology, LLC filed suit against us and eight of our airline partners in the U.S. District Court for the Central District of California alleging that our redirection server and login portal infringe a patent owned by the plaintiff. We are required under our contracts with these airlines to indemnify them for defense costs and any liabilities resulting from the suit. The Court has stayed the suits against our airline customers pending resolution of the suit against Gogo. Linksmart has also filed suit against other defendants asserting the same patent. One of these defendants has filed an inter parties review against the asserted patent and must meet a certain threshold to continue. Linksmart sought to stay the suit against Gogo until the earlier of (i) a decision by the U.S. Patent and Trade Office that the threshold for review has not been met and that the review may not continue or (ii) if the review continues, its resolution. We agreed and the court has granted our request to stay our case until the first to occur of such events. Cases against the other defendants have also been stayed pending the inter parties review. The outcome of the inter parties review and this matter overall is inherently uncertain. No amounts have been accrued for any potential losses under this matter, as we cannot reasonably predict the outcome of the litigation or any potential losses.

Securities Litigation On December 10, 2018, two purported stockholders of the Company filed an amended putative class action lawsuit in the United States District Court for the Northern District of Illinois, Eastern Division styled Pierrelouis v. Gogo Inc., naming the Company, its former Chief Executive Officer and Chief Financial Officer and its current Chief Financial Officer and President, Commercial Aviation as defendants purportedly on behalf of all purchasers of our securities from February 27, 2017 through May 4, 2018. The complaint asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, alleging misrepresentations or omissions by us purporting to relate to our 2Ku antenna s reliability and installation and remediation costs. The plaintiffs seek to recover from us and the individual defendants an unspecified amount of damages. In February 2019, we filed a motion to dismiss the amended complaint. That motion remains pending. We believe that the claims are without merit and intend to defend them vigorously. In accordance with Delaware law, we will indemnify the individual named defendants for their defense costs and any damages they incur in connection with the suit. We have filed a claim with the issuer of our Directors and Officers insurance policy with

respect to this suit. 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.

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Derivative Litigation - On September 25, 2018 and September 26, 2018, two purported stockholders of the Company filed substantively identical derivative lawsuits in the United States District Court for the Northern District of Illinois, Eastern Division, styled Nanduri v. Gogo Inc. and Hutsenpiller v. Gogo Inc., respectively. Both lawsuits were purportedly brought derivatively on behalf of us and name us as a nominal defendant and name as defendants each member of the Company s Board of Directors, its former Chief Executive Officer and Chief Financial Officer and its current Chief Executive Officer, Chief Financial Officer and President, Commercial Aviation. The complaints assert claims under Section 14(a) of the Securities Exchange Act of 1934, breach of fiduciary duty, unjust enrichment, and waste of corporate assets, and allege misrepresentations or omissions by us purporting to relate to our 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 two lawsuits were consolidated and are stayed pending resolution of the motion to dismiss in the Securities Litigation. We believe that the claims are without merit and intend to defend them vigorously. The plaintiffs seek to recover, on our behalf, an unspecified amount of damages from the individual defendants. We have filed a claim with the issuer of our Directors and Officers insurance policy with respect to these suits. No amounts have been accrued for any potential costs under this matter, as we cannot reasonably predict the outcome of the litigation or any potential costs.

17. Quarterly Data (Unaudited)

Summarized quarterly financial information is as follows for each quarterly period for the years ended December 31, 2018 and 2017 (*in thousands, except per share amounts*):

	For the Three Month Periods Ended			
	Mar 31, 2018	June 30, 2018	Sep 30, 2018	Dec 31, 2018
Total revenue	$ 231,825	$ 227,458	$ 217,257	$ 217,224
Operating loss	(2,171)	(7,449)	(7,610)	(9,691)
Net loss	(27,419)	(37,207)	(37,717)	(59,688)
Net loss attributable to common stock	(27,419)	(37,207)	(37,717)	(59,688)
Net loss attributable to common stock per share basic and diluted	$ (0.34)	$ (0.47)	$ (0.47)	$ (0.74)
Weighted average number of shares basic and diluted	79,696	79,783	80,196	80,303

	For the Three Month Periods Ended			
	Mar 31, 2017	June 30, 2017	Sep 30, 2017	Dec 31, 2017
Total revenue	$ 165,406	$ 172,800	$ 172,874	$ 188,010
Operating loss	(14,698)	(17,336)	(17,801)	(14,427)
Net loss	(41,367)	(44,209)	(45,281)	(41,138)
Net loss attributable to common stock	(41,367)	(44,209)	(45,281)	(41,138)
Net loss attributable to common stock per share basic and diluted	$ (0.52)	$ (0.56)	$ (0.57)	$ (0.52)
Weighted average number of shares basic and diluted	79,139	79,334	79,543	79,603

Note: The quarterly periods during 2018 reflect the impact of adoption of ASC 606. The historical financial statements have not been restated and are reported under the revenue accounting standard in effect for those periods. See Note 2, Summary of Significant Accounting Policies Recently Issued Accounting Pronouncements, for further information.

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18. Condensed Financial Information of Registrant

The following presents the condensed financial information of our parent company on a standalone basis.

Gogo Inc.

Condensed Balance Sheets

(in thousands)

	December 31, 2018	December 31, 2017
Assets:		
Cash and cash equivalents	$ 161,113	$ 9,734
Short-term investments	39,323	192,893
Prepaid expenses and other current assets	738	913
Other non-current assets	101	100
Total assets	$ 201,275	$ 203,640
Liabilities and stockholders deficit:		
Total current liabilities	$ 3,998	$ 4,847
Long-term debt	332,211	307,968
Other non-current liabilities	2,162	5,983
Investments and payables with subsidiaries	131,665	76,406
Total liabilities	470,036	395,204
Total stockholders deficit	(268,761)	(191,564)
Total liabilities and stockholders deficit	$ 201,275	$ 203,640

Gogo Inc.

Condensed Statements of Operations and Comprehensive Loss

(in thousands)

	For the Years Ended December 31,		
	2018	2017	2016
Interest income	$ (3,123)	$ (1,681)	$ (978)
Interest expense	36,984	34,577	32,461
Loss on extinguishment of debt	19,653		
Total other (income) expense	53,514	32,896	31,483

Income (loss) before income taxes	(53,514)	(32,896)	(31,483)
Income tax provision (benefit)	(3,354)	(2,045)	1,276
Equity losses of subsidiaries	111,871	141,144	91,746
Net loss	(162,031)	(171,995)	(124,505)
Comprehensive loss	$ (162,031)	$ (171,995)	$ (124,480)

Gogo Inc.

Condensed Statements of Cash Flows

(in thousands)

	For the Years Ended December 31,		
	2018	**2017**	**2016**
Net loss	$ (162,031)	$ (171,995)	$ (124,505)
Accretion of debt discount	21,105	19,520	17,496
Amortization of deferred financing costs	1,648	1,484	1,392
Loss on extinguishment of debt	19,653		
Subsidiary equity losses	111,871	141,144	91,746
Deferred income taxes	(3,821)	(2,281)	839
Other operating activities	(674)	(609)	(319)
Net cash used in operating activities	(12,249)	(12,737)	(13,351)
Acquisition of short-term investments	(39,323)	(192,893)	(213,905)
Redemption of short-term investments	192,893	213,905	179,593
Investments and advances with subsidiaries	(19,595)	601	(23,312)
Net cash provided by (used in) investing activities	133,975	21,613	(57,624)
Financing activities:			
Proceeds from issuance of convertible notes	237,750		
Repurchase of convertible notes	(200,438)		
Payment of debt issuance costs	(8,054)		
Other financing activities	396	(227)	271
Net cash provided by (used in) financing activities	29,654	(227)	271
Increase (decrease) in cash, cash equivalents and restricted cash	151,380	8,649	(70,704)
Cash, cash equivalents and restricted cash at beginning of period	9,834	1,185	71,889
Cash, cash equivalents and restricted cash at end of period	$ 161,214	$ 9,834	$ 1,185
Cash, cash equivalents and restricted cash at end of period	161,214	9,834	1,185
Less: current restricted cash			114
Less: non-current restricted cash	101	100	
Cash and cash equivalents at end of period	$ 161,113	$ 9,734	$ 1,071

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Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure
None.

Item 9A. 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 December 31, 2018 that are designed to provide reasonable assurance that information required to be disclosed in this report is recorded, processed, summarized and reported within required time periods. 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 December 31, 2018.

(b) Management s Annual Report on Internal Control Over Financial Reporting

The management of Gogo Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a 15(f) and 15d 15(f) under the Securities Exchange Act of 1934. Gogo s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of its published financial statements in accordance with accounting principles generally accepted in the United States of America.

The management of Gogo, with the participation of the Company s Chief Executive Officer and Chief Financial Officer, have assessed the effectiveness of Gogo s internal control over financial reporting as of December 31, 2018, based on the criteria set forth in Internal Control-Integrated Framework (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, the Company s management concluded that our internal control over financial reporting was effective as of December 31, 2018.

Deloitte & Touche LLP, the Company s independent registered public accounting firm, has issued an attestation report on our internal control over financial reporting as of December 31, 2018, which report is included on Page 145 of this Form 10-K under the caption entitled Report of Independent Registered Public Accounting Firm.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

(c) Changes in Internal Control over Financial Reporting

There have been no material 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.

Item 9B. Other Information

None.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Gogo Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Gogo Inc. and subsidiaries (the Company) as of December 31, 2018, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2018, of the Company and our report dated February 21, 2019, expressed an unqualified opinion on those financial statements and included an explanatory paragraph related to the Company s adoption of FASB ASC 606, *Revenue from Contracts with Customers*, effective January 1, 2018.

Basis for Opinion

The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company s internal control over financial reporting is a process designed 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. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Chicago, Illinois

February 21, 2019

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Part III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated by reference to our Proxy Statement for the 2019 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission (SEC) within 120 days of the fiscal year ended December 31, 2018.

Item 11. Executive Compensation

The information required by this item is incorporated by reference to our Proxy Statement for the 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2018.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information appearing under the caption Security Ownership of Certain Beneficial Owners and Management in our Proxy Statement for the 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2018 is incorporated herein by reference.

The following table sets forth the number of shares of our common stock reserved for issuance under our equity compensation plans as of the end of 2018:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (#) (a)	Weighted average exercise price of outstanding options, warrants and rights ($) (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(#) (c)
Equity compensation plans approved by security holders	14,342,717 (1)	12.81 (2)	8,324,436 (3)
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	14,342,717	12.81	8,324,436

(1) Represents the number of shares associated with options, Restricted Stock Units and Deferred Share Units outstanding as of December 31, 2018.
(2) Represents the weighted average exercise price of the 10,714,158 options disclosed in column (a).
(3) Represents the number of shares remaining available for future issuance under our Stock Option Plan, 2016 Omnibus Incentive Plan, 2013 Omnibus Incentive Plan and Employee Stock Purchase Plan. Of this number, only 5,402,448 shares are available for issuance with respect to Restricted Stock Units, Deferred Share Units and other awards based on the full value of stock (rather than an increase in value) under our 2016 Omnibus Incentive Plan and 2013 Omnibus Incentive Plan.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference to our Proxy Statement for the 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2018.

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Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated by reference to our Proxy Statement for the 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2018.

Part IV

Item 15. Exhibits, Financial Statement Schedules

We have filed the following documents as part of this Form 10-K:

1. Consolidated Financial Statements:

	Page No.
Report of Independent Registered Public Accounting Firm	98
Consolidated Balance Sheets	99
Consolidated Statements of Operations	100
Consolidated Statements of Comprehensive Loss	101
Consolidated Statements of Cash Flows	102
Consolidated Statements of Stockholders Equity (Deficit)	103
Notes to Consolidated Financial Statements	104

2. Financial Statement Schedules:

All schedules have been omitted because they are not required, not applicable, not present in amounts sufficient to require submission of the schedule, or the required information is otherwise included.

3. Exhibits

Exhibit Number	Description of Exhibits
3.1	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))
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to Form 10-Q filed on August 7, 2013 (File No. 001-35975))
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))
4.2	Registration Rights Agreement, dated as of December 31, 2009, by and between AC Holdco Inc. and the Class A Holders, the Ripplewood Investors, the Thorne Investors and the other investors named therein (incorporated by reference to Exhibit 4.3 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))
4.3	Indenture, dated as of March 9, 2015, by and between Gogo Inc. and U.S. Bank National

	Association (incorporated by reference to Exhibit 4.1 to Form 8-K filed on March 9, 2015 (File No. 001-35975))
4.4	Global 3.75% Convertible Senior Note due 2020, dated March 9, 2015 (incorporated by reference to Exhibit 4.2 to Form 8-K filed on March 9, 2015 (File No. 001-35975))
4.5	Indenture, dated as of June 14, 2016, between Gogo Intermediate Holdings LLC, Gogo Finance Co. Inc., Gogo Inc., the Subsidiary Guarantors party thereto and U.S. Bank National Association, as trustee and collateral agent (incorporated by reference to Exhibit 4.1 to Form 8-K filed on June 14, 2016 (File No. 001-35975))
4.6	Form of 12.500% Senior Secured Note due 2022 (incorporated by reference to Exhibit 4.2 to Form 8-K filed on June 14, 2016 (File No. 001-35975))
4.7	First Supplemental Indenture, dated as of September 20, 2017, by and among Gogo Intermediate Holdings LLC, Gogo Finance Co. Inc., each of the guarantors party thereto and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to Form 8-K filed on September 20, 2017 (File No. 001-35975))

Exhibit Number	Description of Exhibits
4.8	Indenture, dated November 21, 2018, between Gogo Inc. and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 to Form 8-K filed on November 21, 2018 (File No. 001-35975))
4.9	Form of 6.00% Convertible Senior Note due 2022, dated November 21, 2018 (incorporated by reference to Exhibit 4.2 to Form 8-K filed on November 21, 2018 (File No. 001-35975))
10.1.1	Amended and Restated In-Flight Connectivity Services Agreement, dated as of April 7, 2011, by and between Delta Air Lines, Inc. and Aircell LLC (incorporated by reference to Exhibit 10.1.1 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))
10.1.2	Amendment No. 1 to the Amended and Restated In-Flight Connectivity Services Agreement, dated as of September 27, 2011, by and between Delta Air Lines Inc. and Gogo LLC (f/k/a Aircell LLC) (incorporated by reference to Exhibit 10.1.2 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))
10.1.3	International In-Flight Connectivity Services Agreement, dated as of March 20, 2013, by and between Delta Air Lines Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.3 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))
10.1.4	Development, Test, and Deployment Products Standard Terms and Conditions, dated as of September 26, 2007, by and between Qualcomm Incorporated and Aircell LLC (incorporated by reference to Exhibit 10.1.8 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))
10.1.5	Master Supply and Services Agreement, dated as of August 17, 2011, by and between ZTE USA, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.12 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))
10.1.6	Product Development and Manufacturing Agreement, dated as of October 3, 2011, by and between XipLink, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.41 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))
10.1.7	Single Licensee Software Escrow Agreement, dated as of February 2, 2013, by and between XipLink, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.43 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))
10.1.8	Amendment No. 1 to the Product Development and Manufacturing Agreement, dated as of October 3, 2011, by and between XipLink, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.44 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))
10.1.9	Amendment No. 2 to the Product Development and Manufacturing Agreement, dated as of October 3, 2011, by and between XipLink, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.45 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))
10.1.10	Amendment No. 1 to the International In-Flight Connectivity Services Agreement, dated as of February 25, 2014, by and between Delta Air Lines, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.50 to Form 10-Q filed on May 12, 2014 (File No. 001-35975))
10.1.11	Amendment No. 2 to the Amended and Restated In-Flight Connectivity Services Agreement, dated as of February 25, 2014, by and between Delta Air Lines, Inc. and Gogo LLC (f/k/a Aircell LLC) (incorporated by reference to Exhibit 10.1.51 to Form 10-Q filed on May 12, 2014 (File

	No. 001-35975))
10.1.12	Amended and Restated Manufacturing Services and Product Supply Agreement, dated as of May 19, 2014 between Qualcomm Technologies, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.53 to Form 10-Q filed on August 11, 2014 (File No. 001-35975))

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Exhibit Number	**Description of Exhibits**
10.1.13	Amendment No. 3, dated as of April 1, 2015, to the Amended and Restated In-Flight Connectivity Services Agreement, by and between Delta Air Lines, Inc. and Gogo LLC (f/k/a Aircell LLC) (incorporated by reference to Exhibit 10.1.45 to Form 10-Q filed on August 6, 2015 (File No. 001-35975))
10.1.14	Amendment No. 2, dated as of April 1, 2015, to the International In-Flight Connectivity Services Agreement, by and between Delta Air Lines, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.46 to Form 10-Q filed on August 6, 2015 (File No. 001-35975))
10.1.15	2Ku In-Flight Connectivity Services Agreement, dated as of April 1, 2015, by and between Delta Air Lines, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.47 to Form 10-Q filed on August 6, 2015 (File No. 001-35975))
10.1.16	Product Development and Manufacturing Agreement, dated as of November 13, 2012, by and between ThinKom Solutions, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.48 to Form 10-Q/A filed on November 9, 2015 (File No. 001-35975))
10.1.17	Product Development and Manufacturing Agreement Exhibit A, Revision 1, dated as of March 27, 2012, by and between ThinKom Solutions, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.49 to Form 10-Q filed on August 6, 2015 (File No. 001-35975))
10.1.18	Product Development and Manufacturing Agreement Exhibit A-2, dated as of September 12, 2013, by and between ThinKom Solutions, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.50 to Form 10-Q filed on August 6, 2015 (File No. 001-35975))
10.1.19	Product Development and Manufacturing Agreement Exhibit A-2, Revision 1, dated as of June 10, 2014, by and between ThinKom Solutions, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.51 to Form 10-Q filed on August 6, 2015 (File No. 001-35975))
10.1.20	Amendment No. 1 to the Product Development and Manufacturing Agreement, dated as of June 10, 2014, by and between ThinKom Solutions, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.52 to Form 10-Q filed on August 6, 2015 (File No. 001-35975))
10.1.21	Amendment No. 2 to the Product Development and Manufacturing Agreement, dated as of January 31, 2015, by and between ThinKom Solutions, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.53 to Form 10-Q filed on August 6, 2015 (File No. 001-35975)
10.1.22	Amendment No. 3 to the Product Development and Manufacturing Agreement, dated as of May 12, 2015, by and between ThinKom Solutions, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.54 to Form 10-Q filed on August 6, 2015 (File No. 001-35975))
10.1.23	Amendment No. 1 to the Amended and Restated Manufacturing Services and Product Supply Agreement, dated December 10, 2015, by and between Qualcomm Technologies, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.30 to Form 10-K filed on February 25, 2016 (File No. 001-35975))
10.1.24	Amendment No. 2 to the Master Supply and Services Agreement, dated as of December 31, 2015, by and between ZTE USA, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.31 to Form 10-K filed on February 25, 2016 (File No. 001-35975))
10.1.25	

	Master Services Agreement, dated as of August 17, 2012, by and between New Skies Satellites B.V. and Gogo LLC (incorporated by reference to Exhibit 10.1.35 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))
10.1.26	Service Order, dated as of February 18, 2016, by and between New Skies Satellites B.V. and Gogo LLC (incorporated by reference to Exhibit 10.1.31 to Form 10-Q filed on May 6, 2016 (File No. 001-35975))
10.1.27	Service Order, dated as of February 18, 2016, by and between New Skies Satellites B.V. and Gogo LLC (incorporated by reference to Exhibit 10.1.32 to Form 10-Q filed on May 6, 2016 (File No. 001-35975))

Exhibit Number	Description of Exhibits
10.1.28	Agreement, dated as of March 6, 2016, by and between IntelSat Corp. and Gogo LLC (incorporated by reference to Exhibit 10.1.33 to Form 10-Q filed on May 6, 2016 (File No. 001-35975))
10.1.29	Amended and Restated Product Development and Manufacturing Agreement, dated as of April 1, 2016, by and between ThinKom Solutions, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.36 to Form 10-Q filed on August 4, 2016 (File No. 001-35975))
10.1.30	Amendment No. 1 to the 2Ku In-Flight Connectivity Services Agreement, dated as of April 1, 2016, by and between Delta Air Lines, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.38 to Form 10-Q filed on August 4, 2016 (File No. 001-35975))
10.1.31	Amendment No. 2 to the 2Ku In-Flight Connectivity Service Agreement, dated as of October 14, 2016 by and between Delta Air Lines, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.37 to Form 10-K filed on February 27, 2017 (File No. 001-35975))
10.1.32	Letter Agreement, dated September 1, 2016, by and between Gogo LLC and ThinKom Solutions Inc. (incorporated by reference to Exhibit 10.1.39 to Form 10-K filed on February 27, 2017 (File No. 001-35975))
10.1.33	Letter Agreement, dated September 6, 2016, by and between Gogo LLC and ThinKom Solutions Inc. (incorporated by reference to Exhibit 10.1.40 to Form 10-K filed on February 27, 2017 (File No. 001-35975))
10.1.34	Statement of Work #1, dated November 4, 2016, to the 2Ku In-Flight Services Agreement by and between Delta Air Lines, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.41 to Form 10-K filed on February 27, 2017 (File No. 001-35975))
10.1.35	Statement of Work #2, dated December 16, 2016, to the 2Ku In-Flight Services Agreement by and between Delta Air Lines, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.42 to Form 10-K filed on February 27, 2017 (File No. 001-35975))
10.1.36	Letter Agreement, dated February 1, 2017, by and between Gogo LLC and American Airlines, Inc. (incorporated by reference to Exhibit 10.1.43 to Form 10-Q filed on May 4, 2017 (File No. 001-35975))
10.1.37	Unified In-Flight Connectivity Hardware, Services and Maintenance Agreement, dated as of February 1, 2017, by and between Gogo LLC and American Airlines, Inc. (incorporated by reference to Exhibit 10.1.44 to Form 10-Q filed on May 4, 2017 (File No. 001-35975))
10.1.38	Amendment #1, dated April 3, 2017, to the Statement of Work #1 to the 2Ku In-Flight Connectivity Services Agreement by and between Delta Air Lines, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.47 to Form 10-Q filed on August 7, 2017 (File No. 001-35975))
10.1.39	Amendment #1, dated April 3, 2017, to Statement of Work #2 to the 2Ku In-Flight Connectivity Services Agreement by and between Delta Air Lines, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.48 to Form 10-Q filed on August 7, 2017 (File No. 001-35975))
10.1.40	Amendment #3 to the 2Ku In-Flight Connectivity Services Agreement dated April 13, 2017 by and between Delta Air Lines, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.49 to Form 10-Q filed on August 7, 2017 (File No. 001-35975))

10.1.41	Statement of Work #4, dated May 4, 2017, to the 2Ku In-Flight Connectivity Services Agreement by and between Delta Air Lines, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.50 to Form 10-Q filed on August 7, 2017 (File No. 001-35975))
10.1.42	Amendment #1 to the Unified In-Flight Connectivity Hardware, Services and Maintenance Agreement, dated as of July 28, 2017, between Gogo LLC and American Airlines, Inc. (incorporated by reference to Exhibit 10.1.51 to Form 10-Q filed on November 2, 2017 (File No. 001-35975))

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Exhibit Number	Description of Exhibits
10.1.43	Amendment No. 3 to the Master Supply and Services Agreement, dated as of July 1, 2017, by and between ZTE USA, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.54 to Form 10-Q filed on November 2, 2017 (File No. 001-35975))
10.1.44	Amendment #4 to the 2Ku In-Flight Connectivity Services Agreement, dated as of June 22, 2017, between Delta Air Lines, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.44 to Form 10-Q filed on May 4, 2018 (File No. 001-35975))
10.1.45	Amendment #5 to the 2Ku In-Flight Connectivity Services Agreement, dated as of July 12, 2017, between Delta Air Lines, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.45 to Form 10-Q filed on May 4, 2018 (File No. 001-35975))
10.1.46	Service Order Amendment, dated as of April 30, 2018, by and between New Skies Satellites B.V. and Gogo LLC (incorporated by reference to Exhibit 10.1.46 to Form 10-Q filed on August 8, 2018 (File No. 001-35975))
10.1.47	Amendment No. 6 to the 2Ku In-Flight Connectivity Services Agreement dated as of June 22, 2018, by and between Delta Air Lines, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.47 to Form 10-Q filed on November 6, 2018 (File No. 001-35975))
10.1.48	Qualcomm Technologies, Inc. Master Software Agreement dated June 13, 2018, by and between Qualcomm Technologies, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.48 to Form 10-Q filed on November 6, 2018 (File No. 001-35975))
10.1.49	Qualcomm Technologies, Inc. AMSS6695 Software Addendum to Master Software Agreement dated June 13, 2018, by and between Qualcomm Technologies, Inc. and Gogo LLC (incorporated by reference to Exhibit 10.1.49 to Form 10-Q filed on November 6, 2018 (File No. 001-35975))
10.1.50	Access Point Patent License Agreement dated July 6, 2018, by and between Qualcomm Incorporated and Gogo LLC (incorporated by reference to Exhibit 10.1.50 to Form 10-Q filed on November 6, 2018 (File No. 001-35975))
10.1.51	Amendment #2 to the Unified In-Flight Connectivity Hardware, Services and Maintenance Agreement, dated as of August 24, 2017, between Gogo LLC and American Airlines, Inc.
10.1.52	Amendment #3 to the Unified In-Flight Connectivity Hardware, Services and Maintenance Agreement, dated as of September 4, 2018, between Gogo LLC and American Airlines, Inc.
10.1.53	Amendment #4 to the Unified In-Flight Connectivity Hardware, Services and Maintenance Agreement, dated as of November 15, 2018, between Gogo LLC and American Airlines, Inc.
10.1.54	Service Order Amendment, dated as of October 11, 2018, by and between New Skies Satellites B.V. and Gogo LLC
10.1.55	Service Order Amendment, dated as of December 7, 2018, by and between New Skies Satellites B.V. and Gogo LLC
10.1.56	Statement of Work #3, dated November 28, 2018, to the 2Ku In-Flight Connectivity Services Agreement by and between Delta Air Lines, Inc. and Gogo LLC
10.2.1 #	Employment Agreement, by and between Aircell Holdings Inc., Aircell LLC and Michael J. Small, effective as of July 29, 2010 (incorporated by reference to Exhibit 10.2.1 to Gogo Inc. Registration

	Statement on Form S-1 (File No. 333-178727))
10.2.2 #	Employment Agreement, by and between Aircell LLC and John Wade, effective as of November 10, 2008 (incorporated by reference to Exhibit 10.2.4 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))
10.2.3 #	Amendment No. 1 to the Employment Agreement, by and between Aircell LLC and John Wade, effective as of January 31, 2009 (incorporated by reference to Exhibit 10.2.5 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))

Exhibit Number	Description of Exhibits
10.2.4 #	Employment Agreement, by and between Aircell Inc. and Anand Chari, effective as of July 12, 2006 (incorporated by reference to Exhibit 10.2.6 to Amendment No. 2 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))
10.2.5 #	Amendment No. 1 to the Employment Agreement, by and between Aircell Inc. and Anand Chari, effective as of January 1, 2009 (incorporated by reference to Exhibit 10.2.7 to Amendment No. 2 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))
10.2.6 #	Change in Control Severance Agreement, dated as of March 6, 2013, by and between Gogo Inc. and Michael J. Small (incorporated by reference to Exhibit 10.2.9 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))
10.2.7 #	Form of Change in Control Severance Agreement, for officers other than Michael J. Small (incorporated by reference to Exhibit 10.2.10 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))
10.2.8#	Amendment No. 2 to the Employment Agreement, between Gogo LLC (f/k/a Aircell LLC) and Anand Chari, effective as of April 1, 2015 (incorporated by reference to Exhibit 10.2.11 to Form 10-Q filed on August 6, 2015 (File No. 001-35975))
10.2.9#	Amendment No. 2 to the Employment Agreement, between Gogo LLC (f/k/a Aircell LLC) and John Wade, effective as of April 1, 2015 (incorporated by reference to Exhibit 10.2.11 to Form 10-Q filed on August 6, 2015 (File No. 001-35975))
10.2.10#	Employment Agreement, by and between Gogo LLC and Barry Rowan, effective as of April 24, 2017 (incorporated by reference to Exhibit 10.2.14 to Form 10-Q filed on May 4, 2017 (File No. 001-35975))
10.2.11#	Change in Control Severance Agreement, dated as of April 24, 2017, by and between Gogo Inc. and Barry Rowan (incorporated by reference to Exhibit 10.2.15 to Form 10-Q filed on May 4, 2017 (File No. 001-35975))
10.2.12#	Employment Agreement, dated March 4, 2018, between Gogo Inc., Gogo LLC and Oakleigh Thorne (incorporated by reference to Exhibit 10.2.12 to Form 10-Q filed on May 4, 2018 (File No. 001-35975))
10.2.13#	Separation Agreement and General Release, dated March 5, 2018, between Gogo LLC, Gogo Inc. and Michael Small (incorporated by reference to Exhibit 10.2.13 to Form 10-Q filed on May 4, 2018 (File No. 001-35975))
10.2.14#	Employment Agreement, dated April 7, 2010, between Aircell LLC and Jonathan Cobin (incorporated by reference to Exhibit 10.2.14 to Form 10-Q filed on May 4, 2018 (File No. 001-35975))
10.2.15#	Amendment No. 1 to the Employment Agreement, by and between Gogo LLC and Jonathan Cobin, effective as of November 30, 2017 (incorporated by reference to Exhibit 10.2.15 to Form 10-Q filed on May 4, 2018 (File No. 001-35975))
10.2.16#	Amendment No. 3 to the Employment Agreement, by and between Gogo LLC and Anand Chari, effective as of November 30, 2017 (incorporated by reference to Exhibit 10.2.16 to Form 10-Q filed on May 4, 2018 (File No. 001-35975))

10.2.17#	Amendment No. 3 to the Employment Agreement, by and between Gogo LLC and John Wade, effective as of November 30, 2017 (incorporated by reference to Exhibit 10.2.17 to Form 10-Q filed on May 4, 2018 (File No. 001-35975))
10.2.18#	Amendment No. 1 to the Form of Change in Control Severance Agreement for officers (incorporated by reference to Exhibit 10.2.18 to Form 10-Q filed on May 4, 2018 (File No. 001-35975))

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Exhibit Number	**Description of Exhibits**
10.2.19#	Transition Agreement and General Release, dated May 1, 2018, between Gogo LLC and Anand Chari (incorporated by reference to Exhibit 10.2.19 to Form 10-Q filed on August 8, 2018 (File No. 001-35975))
10.3.1 #	Aircell Holdings Inc. Stock Option Plan (incorporated by reference to Exhibit 10.3.1 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))
10.3.2 #	Amendment No. 1 to the Aircell Holdings Inc. Stock Option Plan, effective as of June 2, 2010 (incorporated by reference to Exhibit 10.3.2 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))
10.3.3 #	Amendment No. 2 to the Aircell Holdings Inc. Stock Option Plan, dated as of December 14, 2011(incorporated by reference to Exhibit 10.3.3 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))
10.3.4 #	Amendment No. 3 to the Aircell Holdings Inc. Stock Option Plan, effective as of May 31, 2013 (incorporated by reference to Exhibit 10.3.4 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))
10.3.5 #	Form of Stock Option Agreement for Aircell Holdings Inc. Stock Option Plan (incorporated by reference to Exhibit 10.3.4 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))
10.3.6 #	Form of Stock Option Agreement for Aircell Holdings Inc. Stock Option Plan (for June 2013 grants) (incorporated by reference to Exhibit 10.3.6 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))
10.4.1 #	Gogo Inc. Omnibus Incentive Plan (incorporated by reference to Exhibit 10.5 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))
10.4.2 #	Form of Stock Option Agreement for Gogo Inc. Omnibus Incentive Plan (incorporated by reference to Exhibit 10.5.2 to Form 10-K filed on March 14, 2014 (File No. 001-35975))
10.4.3 #	Form of Restricted Stock Unit Agreement for Gogo Inc. Omnibus Incentive Plan (incorporated by reference to Exhibit 10.4.3 to Form 10-K filed on February 27, 2015 (File No. 001-35975))
10.4.4 #	Form of Restricted Stock Agreement for Gogo Inc. Omnibus Incentive Plan (incorporated by reference to Exhibit 10.4.4 to Form 10-K filed on February 27, 2015 (File No. 001-35975))
10.4.5 #	Gogo Inc. 2016 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.4.5 to Form 10-Q filed on August 4, 2016 (File No. 001-35975))
10.4.6 #	Form of Stock Option Agreement for Gogo Inc. 2016 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.4.6 to Form 10-Q filed on August 4, 2016 (File No. 001-35975))
10.4.7 #	Form of Performance Stock Option Agreement for Gogo Inc. 2016 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.4.7 to Form 10-Q filed on August 4, 2016 (File No. 001-35975))
10.4.8 #	Form of Restricted Stock Unit Agreement for Gogo Inc. 2016 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.4.8 to Form 10-Q filed on August 4, 2016 (File No. 001-35975))
10.4.9 #	

	Form of Performance Restricted Stock Unit Agreement for Gogo Inc. 2016 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.4.9 to Form 10-Q filed on August 4, 2016 (File No. 001-35975))
10.5.1 #	Gogo Inc. Annual Incentive Plan (as amended as of April 14, 2016) (incorporated by reference to Exhibit 10.4.10 to Form 10-Q filed on August 4, 2016 (File No. 001-35975))
10.6 #	Gogo Inc. Section 409A Specified Employee Policy (incorporated by reference to Exhibit 10.7 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))

Exhibit Number	Description of Exhibits
10.7.1 #	Form of Indemnification Agreement entered into between Gogo Inc. and each of its Directors (incorporated by reference to Exhibit 10.7.1 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))
10.7.2 #	Form of Indemnification Agreement entered into between Gogo Inc. and each of its Officers (incorporated by reference to Exhibit 10.7.2 to Gogo Inc. Registration Statement on Form S-1 (File No. 333-178727))
10.8.1	Collateral Agreement, dated as of June 14, 2016, among Gogo Intermediate Holdings LLC, Gogo Finance Co. Inc., Gogo Inc., the Subsidiary Guarantors and U.S. National Bank Association, as trustee and collateral agent (incorporated by reference to Exhibit 10.1 to Form 8-K filed on June 14, 2016 (File No. 001-35975))
10.8.2	Collateral Agency Agreement, dated as of June 14, 2016, among Gogo Intermediate Holdings LLC, Gogo Finance Co. Inc., Gogo Inc., the Subsidiary Guarantors and U.S. National Bank Association, as trustee and collateral agent (incorporated by reference to Exhibit 10.2 to Form 8-K filed on June 14, 2016 (File No. 001-35975))
10.8.3	Patent Security Agreement, dated as of June 14, 2016, by Gogo LLC, in favor of U.S. Bank National Association, as collateral agent (incorporated by reference to Exhibit 10.3 to Form 8-K filed on June 14, 2016 (File No. 001-35975))
10.8.4	Trademark Security Agreement, dated as of June 14, 2016, by Gogo LLC, in favor of U.S. Bank National Association, as collateral agent (incorporated by reference to Exhibit 10.4 to Form 8-K filed on June 14, 2016 (File No. 001-35975))
10.8.5	Copyright Security Agreement, dated as of June 14, 2016, by Gogo LLC, in favor of U.S. Bank National Association, as collateral agent (incorporated by reference to Exhibit 10.5 to Form 8-K filed on June 14, 2016 (File No. 001-35975))
10.8.6	Trademark Security Agreement, dated as of June 14, 2016, by Gogo Business Aviation LLC, in favor of U.S. Bank National Association, as collateral agent (incorporated by reference to Exhibit 10.6 to Form 8-K filed on June 14, 2016 (File No. 001-35975))
10.8.7	Reaffirmation Agreement, dated as of January 3, 2017, among Gogo Intermediate Holdings LLC, Gogo Finance Co. Inc., Gogo Inc. and the Subsidiary Guarantors party thereto (incorporated by reference to Exhibit 10.1 to Form 8-K filed on January 3, 2017 (File No. 001-35975))
10.8.8	Additional Secured Debt Designation, dated as of January 3, 2017, by and between Gogo Intermediate Holdings LLC and Gogo Finance Co. Inc. (incorporated by reference to Exhibit 10.2 to Form 8-K filed on January 3, 2017 (File No. 001-35975))
10.8.9	Amendment Number 1 to Collateral Agreement, dated as of September 20, 2017, made by Gogo Inc., Gogo Intermediate Holdings LLC, Gogo Finance Co. Inc. and certain of their Subsidiaries in favor of U.S. Bank National Association, as collateral agent (incorporated by reference to Exhibit 4.2 to Form 8-K filed on September 20, 2017 (File No. 001-35975))
10.8.10	Reaffirmation Agreement, dated as of September 25, 2017, among Gogo Intermediate Holdings LLC, Gogo Finance Co. Inc., Gogo Inc. and the Subsidiary Guarantors party thereto (incorporated by reference to Exhibit 10.1 to Form 8-K filed on September 25, 2017 (File No. 001-35975))

10.8.11	Additional Secured Debt Designation, dated as of September 25, 2017, by and between Gogo Intermediate Holdings LLC and Gogo Finance Co. Inc. (incorporated by reference to Exhibit 10.2 to Form 8-K filed on September 25, 2017 (File No. 001-35975))
10.9.1 #	Director Compensation Policy, adopted June 16, 2015 (incorporated by reference to Exhibit 10.9.1 to Form 10-Q/A filed on February 25, 2016 (File No. 001-35975))

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Exhibit Number	Description of Exhibits
10.9.2 #	Form of Director Deferred Share Unit Agreement for Gogo Inc. Omnibus Incentive Plan (incorporated by reference to Exhibit 10.10.2 to Form 10-K filed on March 14, 2014 (File No. 001-35975))
10.9.3 #	Form of Director Stock Option Agreement for Gogo Inc. Omnibus Incentive Plan (incorporated by reference to Exhibit 10.10.3 to Form 10-K filed on March 14, 2014 (File No. 001-35975))
10.10.1	Forward Stock Purchase Confirmation, dated as of March 3, 2015, by and between Gogo Inc. and JPMorgan Chase Bank, National Association, London Branch (incorporated by reference to Exhibit 10.1 to Form 8-K filed on March 9, 2015 (File No. 001-35975))
10.10.2	Forward Stock Purchase Confirmation, dated as of March 3, 2015, by and between Gogo Inc. and Merrill Lynch International, acting through its agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference to Exhibit 10.2 to Form 8-K filed on March 9, 2015 (File No. 001-35975))
10.11.1	Purchase Agreement, dated November 16, 2018, by and among Gogo Inc., J.P. Morgan Securities LLC and Morgan Stanley & Co. LLC (incorporated by reference to Exhibit 10.1 to Form 8-K filed on November 21, 2018 (File No. 001-35975))
10.11.2	Affiliate Purchase Agreement, dated November 16, 2018, by and between Thorndale Farm Private Equity Fund 2, LLC and Gogo Inc (incorporated by reference to Exhibit 10.2 to Form 8-K filed on November 21, 2018 (File No. 001-35975))
21.1	List of Subsidiaries
23.1	Consent of Independent Registered Public Accounting Firm Deloitte & Touche LLP
24.1	Power of Attorney (included on signature page)
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

* This certification accompanies the Form 10-K 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-K), irrespective of any general incorporation language contained in such filing.

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# Indicates management contract or compensatory plan or arrangement.
Certain provisions of this exhibit have been omitted and separately filed with the Securities and Exchange Commission pursuant to a request for confidential treatment.

Item 16. Form 10-K Summary

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Gogo Inc. (the registrant) has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 21, 2019.

Gogo Inc.

By: /s/ Oakleigh Thorne
Name: Oakleigh Thorne
Title: President and Chief Executive Officer
(Principal Executive Officer)

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Barry Rowan and Marguerite M. Elias, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power to act separately and full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-facts and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as they or he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or either of them or his or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

This Power of Attorney shall not revoke any powers of attorney previously executed by the undersigned. This Power of Attorney shall not be revoked by any subsequent power of attorney that the undersigned may execute, unless such subsequent power of attorney specifically provides that it revokes this Power of Attorney by referring to the date of the undersigned s execution of this Power of Attorney. For the avoidance of doubt, whenever two or more powers of attorney granting the powers specified herein are valid, the agents appointed on each shall act separately unless otherwise specified.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Gogo Inc. and in the capacities indicated, on February 21, 2019.

Signature	Title
/s/ Oakleigh Thorne Oakleigh Thorne	President and Chief Executive Officer and Director (Principal Executive Officer)
/s/ Barry Rowan Barry Rowan	Executive Vice President and Chief Financial Officer (Principal Financial Officer)

/s/ Michael P. Bayer Michael P. Bayer	Senior Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)
/s/ Ronald T. LeMay Ronald T. LeMay	Chairman of the Board
/s/ Robert L. Crandall Robert L. Crandall	Director
/s/ Hugh W. Jones Hugh W. Jones	Director
/s/ Michele Coleman Mayes Michele Coleman Mayes	Director
/s/ Robert H. Mundheim Robert H. Mundheim	Director
/s/ Christopher D. Payne Christopher D. Payne	Director
/s/ Charles C. Townsend Charles C. Townsend	Director
/s/ Harris N. Williams Harris N. Williams	Director