THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

GOGO - Q2 2014 Gogo Inc Earnings Call

EVENT DATE/TIME: AUGUST 11, 2014 / 12:30PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Varvara Alva *Gogo Inc. - VP of IR & Treasurer*

Michael Small *Gogo Inc. - President & CEO*

Norman Smagley *Gogo Inc. - EVP & CFO*

CONFERENCE CALL PARTICIPANTS

Jonathan Schildkraut *Evercore Partners - Analyst*

Ava Zhang *JPMorgan - Analyst*

Armintas Sinkevicius *Morgan Stanley - Analyst*

Andrew DeGasperi *Macquarie Securities Group - Analyst*

Lisa Friedman *UBS - Analyst*

Carter Mansbach *Jupiter Wealth Strategies - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Gogo Inc. second-quarter 2014 earnings conference call. (Operator Instructions).

As a reminder this conference is being recorded. I would like to introduce your host for today's conference, Ms. Varvara Alva, Vice President of Investor Relations and Treasurer. Ma'am, you may begin.

Varvara Alva - *Gogo Inc. - VP of IR & Treasurer*

Thank you, events. Good morning, everyone. Welcome to Gogo's second-quarter 2014 earnings conference call.

Joining me today to talk about our results are Michael Small, President and CEO, and Norman Smagley, Executive Vice President and CFO.

Before we get started I would like to take this opportunity to remind you that during this course of the call we may make forward-looking statements regarding future events and the future financial performance of the Company. We caution you to consider the risk factors that could cause actual results to differ materially from those in the forward-looking statements on the conference call. These risk factors are described in our earnings press release and are more fully detailed under the caption risk factors in our 10-K, which was filed with the SEC on March 14.

In addition, please note that the date of the conference call is August 11, 2014. Any forward-looking statements that we may make today are based on assumptions as of this date. We undertake no obligation to update these statements as a result of new information or future events.

During this call we will present both GAAP and non-GAAP financial measures. A reconciliation of GAAP to non-GAAP measures is included in today's earnings press release.

This call is being broadcast on the Internet and is available on the Investor Relations section on the Gogo's website at ir.gogoair.com. The earnings press release is also available on our website.

Finally, after management's remarks we will host a Q&A session. And now I would like to turn the call over to Michael.

Michael Small - *Gogo Inc. - President & CEO*

Thanks, Varvara. Good morning, everyone. Welcome to Gogo's second-quarter earnings call.

Q2 was another great quarter for Gogo. Building on our position as the leading global aero communication service provider we kept our focus on three main goals for the quarter.

First, sign new aircraft. Second, create more and lower-cost bandwidth. And third, continue to hit our numbers.

We made great progress towards all three goals during the quarter. But before I get into that I want to take a moment to welcome two new directors to our Board, Christopher Payne and Sam Gilliland.

Christopher is a 24-year veteran of the technology and e-commerce industry and currently serves as senior vice president of North American marketplaces at eBay. Previously he helped launch Bing for Microsoft and expand Amazon's product lines beyond books.

Sam Gilliland was most recently chairman and CEO for the past 10 years of Sabre Holdings, a global travel technology company. Prior to that he held various senior leadership positions at Sabre including president and CEO of Travelocity. Both Christopher and Sam have great and relevant backgrounds and will bring valuable insights to Gogo's Board.

I'd like to now provide some color on each of our Q2 achievements starting with the financials. This was another great financial quarter for Gogo. We reported record quarterly revenue of $99.5 million and adjusted EBITDA of $3.1 million.

Our consolidated revenue grew 25% year-over-year. Segment profit from CA-North America and BA combined was $21.9 million, which was up 67% year-over-year and resulted in a 22% segment profit margin for the quarter.

Our adjusted EBITDA of $3.1 million for the quarter was down $0.7 million versus last year and included nearly $19 million of investment in international which, I am very pleased to say, is now up and running. We made great progress in operationalizing our international business in Q2 and are confident that our investment in international will create significant shareholder value as we scale our business globally.

During the quarter we received multiple STCs and expanded our mobile satellite coverage. In July, as scheduled, we launched connectivity service on Japan Airlines and we now generate revenue on both Delta International and JAL flights.

We had 19 international aircraft online at the end of Q2 and expect both Delta and JAL installations to accelerate this fall. We are still on track to finish this year with between 50 and 100 international aircraft online. We are clearly out of the starting blocks and off and running internationally.

Now I'd like to switch gears and talk about our progress on increasing bandwidth to the aircrafts. For the quarter we converted another 53 aircraft to our ATG-4 technology bringing the total to 587. We expect to pick up the installation pace in the second half of the year and bring the total ATG-4 aircraft to 800 by yearend.

ATG-4 triples the peak speeds of the aircraft and has proven to lower latency and increase customer satisfaction scores. While ATG-4 definitely released capacity constraints near term, 2Ku and GTO are the fastest, highest capacity solutions in the market. Both are expected to deliver peak speeds of 70 megabits per second to the aircraft when they are first launched and more than 100 megabits per second when newer spot beam Ku satellites are available.

During Q2 we significantly advanced our technology roadmap discussions with our airline partners. More and more airlines are considering either 2Ku or GTO as the next logical step in their technology deployment.

We recently decided to purchase a Boeing 737-500 for less than $4 million to adequately test and demo our revolutionary new technologies. We expect to have our test aircraft flying with GTO by Q1 2015 and with 2Ku shortly thereafter.

On the North American side, we signed a deal with American Airlines for its regional jets with an initial commitment of 30 aircraft. This is another indication of how important it is for airlines to have ubiquity of service across their full fleet. Ubiquity drives higher passenger usage, increases subscriptions and opens up a whole host of opportunities for connectivity-enabled operational deficiencies.

On August 1 we launched Delta Studio powered by Gogo Vision on more than 800 Delta aircraft. This is important for two reasons.

First, it marks a shift in how Gogo builds and delivers its products. This is Gogo's first B2B version of its in-flight entertainment platform which allows Delta and other airline partners to build customized experiences for their passengers. We are significantly bolstering our B2B capabilities.

Second, it features a unique new seat selection technology. What this means is that Delta Studio has the ability to provide unique content, products and services to each passenger based on where he or she sits. This allows for real-time customer relationship management at the seat level.

In addition to Delta Studio, we announced that the FAA issued an STC to the next generation of Gogo Vision on Alaska Airlines. This version works on our new airborne server called ACPU-2 and does not require connectivity to the ground. We now have Gogo Vision installed on over 1,500 planes making us easily the world's largest provider of wireless in-flight entertainment to the passenger-owned devices.

Now turning to BA. Gogo Vision is also beginning to take off at BA. We continue to expand Gogo Cloud, our content delivery network which is now installed at 10 signature FBO locations.

Gogo Cloud wirelessly delivers new content to an aircraft while it is parked on the ground. We plan to expand Gogo Cloud to provide a nationwide content delivery network for business aviation.

In addition, during the quarter we introduced our next-generation Iridium solutions and announced that all Gogo BA terminals will be FANS compliant by yearend. FANS, which stands for Future Air Navigation System, is also known as safety services. It allows for direct digital communication between the pilot and air traffic control.

Furthermore, FANS-ready solutions not only apply to the BA market. Inevitably safety services will become part of our operational apps package for commercial aircraft too.

Gogo is now well positioned to take advantage of what we believe will be an increase in the demand for next-gen safety services in the global aviation industry. FANS over Iridium is a great example of how Gogo leverages engineering talent across both BA and CA. We developed FANS over Iridium for BA and we'll be supplying these solutions at CA as well.

Other good examples are Gogo Vision and Text & Talk. We developed these products at CA and recently introduced them into BA. The scale and shared expertise of being in both business and commercial aviation segments is one of Gogo's unique competitive strengths.

Gogo has uniquely positioned itself as a global aero communications service provider offering end-to-end, highly reliable and flexible solutions to the aviation industry. We have made remarkable progress this year.

We have had strong growth in both revenues and profitability at CA-NA and BA segments. Our global services is operational on international aircraft for two major airlines, Gogo Vision is operational in a big way and all the evidence I see is that we offer the highest level of reliability in the industry.

With nearly 2,100 commercial aircraft online and 7,700 ATG and satellite business aircraft, Gogo touches over 20% of the world's aircraft, giving us a relevant scale to succeed in this exciting industry, transform aviation and deliver exceptional long-term shareholder value. I would now like to turn the call over to Norm to take you through the numbers.

Norman Smagley - *Gogo Inc. - EVP & CFO*

Thank you, Michael. Good morning, everyone.

As Michael mentioned, we had a great quarter. We achieved record revenue of $99.5 million for the quarter, up 25% versus the second quarter of last year. Our service revenue of $79.2 million was up 28% and our equipment revenue of $20.4 million was up 17%.

Our consolidated results include strong growth and segment profit at both CA-North America and BA and a nearly $19 million investment in our international expansion. As a result of that expansion our adjusted EBITDA of $3.1 million was down $0.7 million versus last year.

In July we announced a $75 million increase in our credit facility at a cost about 4 percentage points lower than our previous borrowings. This reflects the market's recognition of our strong execution track record.

Let's now turn to the performance of our operating segments. CA-North America revenue of $62.1 million was up 25% versus last year driven by an increase in connectivity revenue. We ended the quarter with 2,058 aircraft online, up [76] (corrected by company after the call) versus Q2 of last year.

Our average monthly service revenue per aircraft, or ARPA, reached nearly $10,000, up 18% from last year. This indicates a run rate of nearly 120,000 per aircraft. ARPA growth was driven primarily by a 14% increase in take rate to 6.7% and a 3% increase in the average revenue per session to $10.70.

I'd like to mention that we have revised our reported GTO number for Q1 of this year to $71.3 million from $74.7 million to reflect updated operational data that became available following the filing of our first-quarter report. This had only a minor impact on take rate and ARPP.

For the quarter CA-North America cost of service declined to 46% of service revenue from 50% last year driven by the continued scalability of our infrastructure. In addition, other operating expenses as a percent of revenue excluding depreciation and amortization declined by 2 percentage points from 43% to 41% primarily driven by G&A.

Our CA-North America segment profit more than doubled to $6.4 million for the quarter versus $2.7 million a year ago. Our segment profit margin doubled to 10% up from 5% a year ago. Needless to say we are very pleased with these results.

Let's now turn to BA. Revenue of $37.1 million was up 26% versus the second quarter of last year. Service revenue of $17.1 million was up 36% and equipment revenue of $20.1 million was up 19%.

During the second quarter we continued to see strong demand for our ATG broadband service. We shipped 233 ATG systems versus 201 for the prior year and the number of ATG aircraft online increased 43% to 2,415, up from 1,684.

We shipped an additional 55 Text & Talk units during the quarter. This brings the total Text & Talk units sold since product launch last September to 879 with 628 units online at the end of Q2. This represented 36% penetration of our installed base, a very rapid adoption.

We sold 119 satellite-based systems, down 54 versus prior year as a result of recent softness in the market. We expect shipments to pick up in the second half of 2014. Satellite aircraft online as of Q2 was 5,241, up 136 from Q2 of last year.

BA segment profit increased 48% to $15.5 million. Segment profit margin increased from 36% to 42%. This was driven by a 4 percentage point decrease in cost of sales from 39% to 35% of revenue and a 2 percentage point decrease in other operating expenses from 26% to 24% of revenue, excluding D&A.

Finally, let's discuss CA Rest of World. We are now officially in revenue-generating mode recognizing $259,000 of revenue driven by Delta International as 19 of their aircraft came online. Our segment loss increased to $18.8 million, which reflects the cost of our global satellite network and other operating expenses.

The $9.4 million increase in segment loss versus the prior-year period was driven by a $5.5 million increase in cost of service due primarily to increased satellite transponder and teleport fees. We also incurred $4.1 million of increases in other operating expenses due primarily to SEC certification expenses for our satellite connectivity systems and increased development spending.

As a result on a consolidated basis, our adjusted EBITDA decreased $0.7 million to $3.1 million for the quarter. As you recall we previously provided our adjusted EBITDA guidance for the year of $8 million to $18 million. Despite the strong adjusted EBITDA performance in the first half we are now guiding toward the low end of our EBITDA guidance for 2014 driven by the increased spending in CA Rest of World.

The higher spending reflects the cost of clearing heightened regulatory requirements for bird strike, a higher number of aircraft configurations and therefore STCs under our initial international contracts and the beginning of STC certification efforts for 2Ku. Our net loss attributable to common stock for the quarter decreased to $18.7 million, or $0.22 per share versus a $72.6 million loss, or $4.98 per share loss for Q2 of last year. Cash capital expenditures decreased to $26.9 million for the quarter, down from $28.8 million for the second quarter of last year driven by higher airborne equipment proceeds received from our airline partners this quarter.

We ended the quarter with $196 million of cash on the balance sheet. Particularly with the additional funding of $75 million we are well capitalized to execute our plan.

To wrap up, I'm extremely pleased with our operating and financial results for the quarter. Operator, we are now ready to take our first question.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Jonathan Schildkraut, Evercore.

Jonathan Schildkraut - *Evercore Partners - Analyst*

Great, good morning and thank you for taking the questions. A couple, if I may.

First, ARPA was obviously a very strong number in the quarter. Norm, you mentioned a couple of the reasons driving some of the ARPA increase. Could you let us know if there were any incremental services that were driving some of that growth, or was it just purely sort of the take rate in the cost per session?

And then I guess my second question is really around install rates and backlog. So could you remind us if there's any seasonality associated with installing equipment onto new aircraft and then just remind us where we are in terms of the backlog of planes both domestically and internationally. Thanks.

Norman Smagley - *Gogo Inc. - EVP & CFO*

Sure. So, in ARPA there was no new particular service that was launched to drive that. It really was continued organic growth, increase in natural adoption driving take rate up.

In terms of install seasonality, there is seasonality in the summer months. The airlines are really deploying every aircraft they have to meet the peak summer travel season. So installations naturally decline in the second and third quarters, pick up back in the fall after the summer travel season.

Jonathan Schildkraut - *Evercore Partners - Analyst*

Great. In terms of backlog of aircraft?

Norman Smagley - *Gogo Inc. - EVP & CFO*

So right now we have a backlog of about 250 aircraft waiting for installation.

Jonathan Schildkraut - *Evercore Partners - Analyst*

That's all domestic, or it is split between domestic and rest of the world?

Norman Smagley - *Gogo Inc. - EVP & CFO*

That's just North America. Overseas we have Delta and JAL and we have only installed about 25 planes in total.

Michael Small - *Gogo Inc. - President & CEO*

Out of 300.

Jonathan Schildkraut - *Evercore Partners - Analyst*

All right. Thank you. I will circle back into the queue.

Operator

Phil Cusick, JPMorgan.

Ava Zhang - *JPMorgan - Analyst*

Hi, this is Ava for Phil. I have a question on the EBITDA margin on CA-North America.

It looks like you delivered a pretty good quarter and margin was at 10%. Should we expect margin to stay stable, or is there some room for expansion in the second half? Thanks.

Michael Small - *Gogo Inc. - President & CEO*

Well we are really not going to add to margin quarter by quarter. But our guidance for the year in terms of EBITDA other than the adjustment for CA Rest of World we are maintaining that right now.

Ava Zhang - *JPMorgan - Analyst*

Okay, and if I can just ask another question. On the BA side it looks like you disconnected 11 satellite units in 2Q. Can you give us some color on what might have driven that disconnect?

Norman Smagley - *Gogo Inc. - EVP & CFO*

So there is a natural movement of planes as owners sell their aircraft. When the aircraft gets sold it generally gets disconnected and there is a lag between that point-of-sale and when the new owner reestablishes service. That fluctuates quarter to quarter, yes.

Michael Small - *Gogo Inc. - President & CEO*

Yes, we are actually learning that we need to increase our, I guess you call it, retention efforts when there is an aircraft transaction to try and minimize the lag. Now that we have such a large installed base of planes, it is worth investing more in that.

Ava Zhang - *JPMorgan - Analyst*

Okay, got it. It was because of aircraft transaction, not because of voluntary churn?

Michael Small - *Gogo Inc. - President & CEO*

Correct. A very high percentage of the churn is related to aircraft transactions.

Ava Zhang - *JPMorgan - Analyst*

Okay, thank you.

Operator

Armintas Sinkevicius, Morgan Stanley.

Armintas Sinkevicius - *Morgan Stanley - Analyst*

Good morning. Thank you for taking the question.

On the international side can you provide us an update on the Air Canada and Aeromexico contracts? And then also any initial takes on the international flights with Delta Airlines and Japan Airlines, how did the take rates and pricing compare to the flights that we see in the US?

And lastly on the domestic side, what are your thoughts around Talk & Text and when we should start to see that come through? Thank you.

Michael Small - *Gogo Inc. - President & CEO*

Okay. Aeromexico and Air Canada we are in the final stages of negotiating the definitive agreements and expect those to conclude very shortly. The Air Canada agreement is for the domestic fleet initially with an option for the international fleet.

The take rates internationally we have had 19 planes installed at the end of Q2 and then slowly steadily installing them during the summer months. It will accelerate in the fourth quarter. We think it is way too early to comment on take rates with so few planes installed.

What we are very pleased with is the technical performance of the planes. We think our brand of Ku outperforms anything else we see in the marketplace from our flight tests. So we are very pleased with how it is performing.

On Text & Talk domestically, we do expect aggressive launch and CA yet this year. Our big launch for new services most recently was Gogo Vision on Delta. We also expect that to continue to deploy across other airlines in more significant ways.

We do think in the remainder of the year both Gogo Vision and Text & Talk will start to combine to have some revenue impact. Up until now they have had minimal but we think that will change during the rest of the year.

Armintas Sinkevicius - *Morgan Stanley - Analyst*

Thank you.

Operator

Andrew DeGasperi, Macquarie Capital.

Andrew DeGasperi - *Macquarie Securities Group - Analyst*

Good morning and thanks for taking my question. So first question I want to ask you, Global Eagle last week said they signed a sponsorship and ad representation agreement with Delta. Just want to understand if you provide that service and if you do not do you plan on offering it in the future?

Michael Small - *Gogo Inc. - President & CEO*

We are very gratified that Global Eagle wants to be a advertising sales organization for our new platform. It is the largest employment in the world of wireless IFE on Delta with over 800 planes and I think it's an exciting new offering. Delta has put a lot of marketing muscle behind launching that and we do think there will be lots of opportunities to get sponsorships or advertising sales around that.

But it is our Gogo Vision powering it. It is Delta's branded offering tailored to their customers and I think there will be lots of ad sale opportunities. Going forward the way the deal works we will participate in the economics of any sponsorships that happen.

Andrew DeGasperi - *Macquarie Securities Group - Analyst*

Great. And secondly, I read that Delta had mentioned retiring its 747 fleet. Believe they said that 25% of their aircraft would be retired this year.

Just wondering if that plays any -- if you know the timing around that for the whole fleet? And in general would this impact your aircraft online for the rest of the world segment this year, like any volatility or anything to that effect?

Michael Small - *Gogo Inc. - President & CEO*

Yes, well, there are -- they have 16 747s. So they are talking about 4 of them retiring, which could impact -- will impact our plane count. But we will still fall safely within the range of 50 to 100.

Andrew DeGasperi - *Macquarie Securities Group - Analyst*

Great. Thank you.

Operator

John Hodulik, UBS.

Lisa Friedman - *UBS - Analyst*

Hi, it's Lisa Friedman for John. I just wanted to see if you could give a little more color around the revenue model for Delta Studio, Gogo Vision and what it may look like with other carriers going forward.

I know that they are providing it to some end users for free. They are charging some end users. The charges are different depending on where you are sitting in the cabin.

So how do you see that flow into your financial statements and how material might it be by the end of the year? Thanks.

Michael Small - *Gogo Inc. - President & CEO*

Good question. We aren't yet going to disclose the full business model there but Delta pays us and then it is Delta's choice on how they charge their customers. So we get paid whether Delta gives the service away for free or charges their customer.

Lisa Friedman - *UBS - Analyst*

And do you expect that with any other airlines the arrangement would look similar?

Michael Small - *Gogo Inc. - President & CEO*

We have increasingly move towards a B2B model particularly with our new services like Gogo Vision, Text & Talk where we are prepared to do different deals with different airlines and maybe in some cases even with third parties to support those services. So give us a little more time, we will be back to you on the business model but I will say I do expect revenues to become apparent to investors here starting in the second half of this year as we build those businesses.

Lisa Friedman - *UBS - Analyst*

Okay, thanks, and one more if I could. With the new financing that you were able to obtain at the more favorable rates will we see you repaying some higher rate debt, and apologies if the detail is going to be in the Q. Thanks.

Norman Smagley - *Gogo Inc. - EVP & CFO*

No, we don't expect to prepay any of the existing debt. We are still in the very expensive period where calling the debt would engender a hefty premium.

Lisa Friedman - *UBS - Analyst*

Okay. Thanks so much.

Operator

Jonathan Schildkraut, Evercore.

Jonathan Schildkraut - *Evercore Partners - Analyst*

Great. I was wondering if we could swing back to some of the commentary around EBITDA pressure relative to prior expectations. You mentioned, Norm, in your prepared remarks I think bird strike applications, STC is covering more different types of planes and the STTs for the Ku aircraft.

So just if we kind of run through this, in terms of the ROW I think on the last announcement we had about 125 aircraft in the backlog covered by your current STCs. I just wanted to make sure that I was up-to-date on that number.

And then maybe if you could give us a little bit more color where the delta versus your prior set of expectations in terms of the STCs that you are talking about today came from, that would be helpful. Thanks.

Norman Smagley - *Gogo Inc. - EVP & CFO*

Sure. When we got into the detail installation planning for both Delta and JAL it became apparent that there were more variations of the aircraft than we had originally anticipated in our projections for the year. So we needed to do additional STCs.

International STCs are more expensive than domestic ones, so it affected the EBITDA related to Rest of World. Likewise, as there's more and more interest in 2Ku and we are further along in the development cycle, we are beginning to work on STCs for 2Ku a bit earlier than anticipated, as well.

In terms of clearing the bird strike versus original projections that turned out to be a little more expensive as well. So in fact roll those three things together, it will have an impact on the Rest of World EBITDA for the year, which will obviously impact the overall guidance.

Jonathan Schildkraut - *Evercore Partners - Analyst*

Right. Now in terms of that two questions I guess.

One is, can you give us a range or quantify the incremental cost that you are now looking at? Second, just in terms of understanding how the middle of the model rolls forward this will not impact, or at least I am asking, whether this will impact what your expectations are for operating leverage. It would seem like it wouldn't impact them at all as we look forward into the model?

Norman Smagley - *Gogo Inc. - EVP & CFO*

Yes, so Jonathan, as you know, we only offer guidance on consolidated EBITDA. We don't really give guidance on segment profit by division.

So I will take the fifth on your question regarding impact on CA Rest of World, in particular. But since we had a $10 million range and we are now guiding to the lower end you can get a sense of relative impact from Rest of World.

Jonathan Schildkraut - *Evercore Partners - Analyst*

That's helpful.

Michael Small - *Gogo Inc. - President & CEO*

Yes, and I would also add that we are in a totally different place with the rest of the world. A year ago we were struggling with those STCs but we are beyond that.

We are up and running. We are getting real customer feedback. We are getting real airline feedback on how it is going.

We are making improvements daily. We are pleased with the operational performance.

I now know that the international business begins to ramp in a real way starting in Q4 you will start to see the revenues build. For a long time we were struggling to get out of the starting blocks and so we are by that point now.

And so to me running the Company, that is a major change. The predictability, the visibility of what we are doing in international is at a whole different point than it was at the start of this year.

Jonathan Schildkraut - *Evercore Partners - Analyst*

You know, Michael, maybe you could dive a little bit deeper on that. At the Analyst Day not too long ago you gave us some updated color on where you thought the Company was relative to what had been allocated on an ROW basis, what your market share was. Have there been any changes in numbers, is there any incremental color you can offer today?

Michael Small - *Gogo Inc. - President & CEO*

The incremental color I would offer is that first our credibility because we are flying, that has changed. People are recognizing that we know how to run this business better than anybody else based on the number of planes we are flying. And that matters, making it work every day for every passenger in every airline.

We also are seeing a phenomenal increase in the interest in 2Ku. It is a better solution. It is by a factor of 2 in cost and capacity and by a substantial margin in coverage around the globe and has certain other operational benefits but those are the two biggies.

And the airline industry is beginning to get their heads around it and it is very easy for them to fall in the trap. I have heard about the other solution for years, so that had more brand credibility in their heads. But we are overcoming that rapidly with the benefits of 2Ku.

Jonathan Schildkraut - *Evercore Partners - Analyst*

All right, thanks for taking the questions.

Operator

(Operator Instructions). Carter Mansbach, Jupiter Wealth Strategies.

Carter Mansbach - *Jupiter Wealth Strategies - Analyst*

Congratulations on another sold quarter. I want to ask you two questions regarding Delta Vision. I want to push a little bit on this because I can't seem to wrap my head around the revenue base.

I know you've had Gogo Vision for quite a while. I know that Delta is really pushing it right now. What I want to understand is, will it be by consumption?

So let's say hypothetically there's 100 people on a plane and 70 use it, do you get paid the same versus if 2 people use it? Will it be a consistent model, will it be a consistent revenue stream versus hoping that someone swipes their card and pays $20 for Internet access? Will it be something that will be consistent for the street to look at on a daily basis, or on a quarterly basis, I should say?

Michael Small - *Gogo Inc. - President & CEO*

I'm not going to give you a direct answer to that because we are not at that stage where we want to do that. We want a couple more deals to take shape before we are prepared to explain the underlying economics.

I still believe that there is substantial increase by multiples of the average revenue per aircraft that will be a function of engaging every passenger over time, the crew and all the aircraft components, navigation system, the engines, the brakes, on and on. And we cannot just think about this business as Internet sessions to passengers.

I think you're going to see that model develop in material ways during, of course, the remainder of this year and into next year. But it's not in our interest to start disclosing that now as we are continuing to negotiate additional contracts with other parties.

Carter Mansbach - *Jupiter Wealth Strategies - Analyst*

Okay, fair enough. One last follow-up on that. In your mindset, if someone actually takes out their iPad and they're watching let's say Seinfeld and they have it in their hands, they're already engaged, do you think you will see an increase in people wanting to sign up for Wi-Fi because they are already holding the product in their hands, they may get bored and say hey, I want to go on Twitter or Facebook or whatever?

Michael Small - *Gogo Inc. - President & CEO*

That's a really interesting question. I believe why our penetration is still relatively low at 7% or so that anything that engages passengers with the portable lead to increased take rates across the board but you could argue the opposite that new services cannibalize the existing service. First we have a lot of levers to control that, should it happen, but secondly I think the odds are totally in our favor that stimulating engagement is going to be good for everything.

Carter Mansbach - *Jupiter Wealth Strategies - Analyst*

Okay, great. Thanks so much for taking my questions and again, congrats on a sold quarter.

Operator

At this time I'm showing no further questions. I'd like to turn the call back over to Mr. Small for any closing remarks.

Michael Small - *Gogo Inc. - President & CEO*

Okay, I will give one more second for questions and if one comes in while I am doing closing remarks. But in the next to last question I made the comment that I feel great about the progress we have made this year in that we are now a multiservice, multinational B2B company where a year or so ago we were more a B2C, one product to North America Company and that has been quite a transformation in a course of a year and it positions us very well for growth in the future.

So, thank you everyone. We look forward to engaging with you and your other questions in the next few days. Thank you, everyone.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes your program.

You may all disconnect. Everyone have a great day.