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GOGO - Q1 2015 Gogo Inc Earnings Call

EVENT DATE/TIME: MAY 07, 2015 / 12:30PM GMT



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PRESENTATION

Operator

Welcome to Gogo Inc.'s First Quarter 2015 Earnings Conference Call.

(Operator Instructions)

I would now like to introduce your host for today's conference, Treasurer and Vice President of Investor Relations, Ms. Alva.

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

Thank you, Andy, and good morning, everyone. Welcome to Gogo's First Quarter 2015 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 the course of this 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 this 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 February 27, 2015.

In addition, please note that the date of this conference call is today, May 7, 2015. 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 of Gogo's website at IR.Gogoair.com. The earnings press release is also available on our website. After Management's remarks, we will host a Q&A session. And now, it's my great pleasure to turn the call over to Michael.



Michael Small - Gogo Inc. - President & CEO

Thanks, Varvara, and thank you all for joining us on the call today. Once again, Gogo had an outstanding quarter. I want to spend a few minutes to give you my perspective on in-flight connectivity and activity and why Gogo wins, before I get into the details of the quarter.

It's now been about three years since we decided to go global. At the time, that decision seemed fairly obvious for the long run, even when we were focused predominantly on passenger connectivity. Now that the vision for in-flight connectivity has moved beyond the passenger to the all-encompassing connected aircraft, airlines increasingly demand connectivity everywhere their planes fly, maintenance and repair service wherever their planes land, and an exceptional level of quality and reliability for these mission-critical communication services. Global scale has absolutely essential to meet these requirements.

And as the concept of connected aircraft takes off, airlines also demand the most bandwidth at the lowest cost. Unlike service providers on the ground, there's no supplier community for hardware that supports what we do. So it's essential for an aero-communications provider to be highly specialized and invest in R&D, in addition to having global scale.

I believe Gogo is only service provider in this industry that checks all the boxes required to be the leading global aero-communication service provider. We have larger scale, we are global, we have industry-leading R&D and network engineering capabilities, and we have nearly 1,000 smart, specialized, and passionate employees around the world. Our passion for this industry and our scale and experience enables us to deliver highly reliable and sophisticated solutions.

As far as technology goes, our ATG/ATG-4 network was the first broadband solution that really worked. With growth in service adoption and data traffic, we need to move beyond this first generation solution and 2Ku does just that. 2Ku is our second generation technology. It is truly global, offers multiples of ATG's capacity, and does this at half the bandwidth cost of traditional Ku.

2Ku makes Gogo and our industry truly global. In terms of coverage, capacity, cost, and reliability, we see no competing solution that comes close. We are aggressively working to deploy our 2Ku solution. Even with the superior technology in hand, we are not sitting back; we are also busy working on our third-generation technology. Why? Because this is what the market leader does. No one will bring more capacity at lower cost to an aircraft than Gogo.

So why am I laying this out for you? Because these are the ingredients for profitable leadership in our industry, just as they are in other industries that serve aviation. Leading aircraft manufacturers, engine manufacturers, and avionics companies are all global and the top two hold most of the market share and make most of the money. The same will be true for aero-communication service providers and we at Gogo are playing to win.

Let me give you a few highlights for the quarter as we continue to execute on our three main strategic objectives: add new aircraft, bring more bandwidth to the sky, and hit our numbers. First, aircraft adds: over the last couple of months, we had two major customers re-commit to Gogo and expand their relationship with us. NetJets announced its selection of our Universal Cabin System, or UCS, smart router media server for up to 650 aircraft. Delta signed a contract to install 2Ku on 250 domestic aircraft and at least 25 new international aircraft. These are great validations by aviation industry leaders of two of Gogo's latest innovations, UCS and 2Ku.

Turning to aircraft installs for the quarter, we brought over 300 broadband aircraft online, about 130 at CA, and 190 at BA. We also announced the introduction of two new connectivity systems for the BA market, ATG 8000 and ATG 1000, which we expect will further drive BA ATG sales into aircraft online. It is clear to me that Gogo continues to lead the industry in aircraft wins and installs. I fully expect to see more aircraft awards soon.

Now, moving to our second goal, bringing more bandwidth to the sky, we finished the quarter with 730 aircraft equipped with our capacity-enhancing ATG-4. This represents roughly one-third of our CA-NA installed base of 2,200 and nearly 50% of the data traffic. We know ATG-4 is helping with our capacity crunch and we will continue with ATG-4 upgrades. We will also continue price optimization to manage capacity. Starting in 2016, we will begin to get significant capacity relief as 2Ku installations ramp up. We are making very good progress in getting 2Ku to commercial production by the end of this year. We have installed a 2Ku radome on our own Boeing 737. It's going through certification now and we expect this first 2Ku-equipped aircraft to be flying this summer.

Now, to address our third goal of hitting the numbers. Q1 was a record revenue in adjusted EBITDA quarter. Our revenue increased 21% to \$116 million and service revenue grew a very strong 32% to \$95 million. CA North America segment profit reached a 13% margin, while combined segment profit for CA-NA and BA reached a 23% margin. Finally, the placement of convertible notes in Q1 added \$212 million in net proceeds to our balance sheet. In conjunction with the convertible, we entered into a prepaid forward contract, making this funding anti-dilutive until our share price gets into the mid-\$40 range.

So, in sum, this was an outstanding quarter all around for Gogo. Before turning the call over to Norm, I want to emphasize three key points. First, in-flight connectivity will be a large global business, much larger than we thought only a couple of years ago before the entire aviation industry galvanized around a vision for connected aircraft. Second, Gogo has industry-leading R&D capabilities, scale and experience to capitalize on this large and attractive opportunity. Third, our business model is demonstrating inherent scalability, paving the way to profitability. We are in the early innings of what I expect will be the world's fastest global communication infrastructure deployment yet.

Again, thank you for joining the call and I'll turn it over to Norm to get into the financials.

Norman Smagley - Gogo Inc. - EVP & CFO

Thank you, Michael, and good morning, everyone. I can't tell you how happy I am to say that for the eighth quarter in a row, and let me repeat that, for the eighth quarter in a row, we hit record revenue, up 21% to \$116 million. Service revenue grew even faster, up 32% to \$95 million. Adjusted EBITDA grew faster yet, up 54% to a record \$8.2 million, representing a 7% margin.

Cash CapEx increased \$3 million to \$32 million for the quarter, including \$6 million for the buildout of our downtown Chicago location to consolidate our CA facilities. Our cash balance at the end of Q1 stood at \$400 million, reflecting the \$212 million of net proceeds from the convertible notes. In short, we are firing on all cylinders.

Turning to our business segments, CA North America service revenue was up 28% to \$72 million for the quarter. This was driven by a 22% increase in ARPA and a 7% increase in aircraft online. The 22% increase in ARPA to an annualized [134,000] was driven primarily by an 11% increase in the average revenue per session to \$11.73 and growth in Gogo Vision and other service revenue. Though reported connectivity take rate for the quarter of 7.2% was unchanged from the first quarter of last year, the underlying take actually increased about 10%, excluding the impact of sponsorships. The 7% increase in aircraft online to 2,200 was driven by installations for United, American, and AirCanada. CA segment profit grew 66% to \$9.6 million and the segment profit margin expanded from 10% to 13%, driven by the scalability of our operating infrastructure.

Now turning to BA, service revenue of \$22 million was up 38%, driving total revenue to a record \$42 million for the quarter. Our ATG aircraft online increased 33% to nearly 3,000 and ATG service ARPA increased 8% just under 2,200 per month. BA equipment revenue of \$20 million was down \$3 million, primarily due to changes in the ATG product mix, including normalized sales of our text and talk product. BA segment profit of \$16.8 million was up slightly from last year. Segment profit margin of 40% was down 3 percentage points, as a result of the changes in product mix I discussed earlier and higher operating expenses.

Finally, let's move to CA-Rest of World. We installed an additional 31 Ku-based aircraft and reported \$1.4 million in revenue for the quarter. There were two factors that impacted our reported revenue that I would like to highlight. First, certain CA-Rest of World transactions, previously forecast as revenue, were accounted for as a reduction to cost of service. Second, several of our intervals our Ku-equipped aircraft ended up flying North America routes, so the revenue from those flights was recorded in our CA-NA segment. Adjusting for these two items, Q1 revenue for rest of world would've been approximately \$2.6 million.

CA-Rest of World segment loss of \$18.3 million was up from \$16.9 million a year ago, but down \$4.8 million sequentially. The year-over-year increase came primarily from higher sales and marketing expenses and higher expenses associated with our global Ku satellite network. Sequentially, the decline in rest of world segment loss in Q1 was partly due to lower STC and related design expenses, as we completed substantially of our required Ku-based STCs in the fourth quarter of 2014. We do expect to see an increase in ED&D expenses for the balance of 2015, as we obtain STCs for the commercial launch of our 2Ku technology with our airline partners.



For the full year 2015, we are reiterating our guidance with one clarification. We estimate the reclassifications in CA-Rest of World I mentioned earlier to result in \$5 million reductions to both revenue and cost of service with no impact to adjusted EBITDA for the year. Therefore, we have updated our CA-Rest of World revenue guidance to range from \$10 million to \$15 million which flows through to our consolidated revenue guidance as well. We maintain all other guidance, including our adjusted EBITDA guidance of \$15 million to \$25 million for the year.

To wrap up, I am extremely pleased with our financial and operating results this quarter. With strong revenue and profitability growth and plenty of cash on hand, we're well-positioned to execute on our continued global expansion. Operator, we are ready for our first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Phil Cusick, JPMorgan.

Ava Zhang - JPMorgan - Analyst

Good morning this is Ava for Phil. Thanks for taking the questions. Michael, can you share with us any update on the international deals? Do you feel like there's a need to subsidize? And I have another follow-up.

Michael Small - Gogo Inc. - President & CEO

Good morning, Ava. I stated in my script we are very optimistic and fully expect additional international contracts and we are not disclosing the terms of those contracts.

Ava Zhang - JPMorgan - Analyst

Okay and then maybe another question would be, you went to the Hamburg air show. Can you share with us the reception to the 2Ku argument at the air show? And is there any strong interest that you have seen from the commercial airlines?

Michael Small - Gogo Inc. - President & CEO

We are getting exceptional response to 2Ku. As I've said over and over again, it is the solution that checks all the boxes; cost, capacity, coverage, and reliability. It's the most efficient, it's the fastest, it's the best global coverage and it depends on many, many Ku satellites that are out there already and we've already placed over 300, really north of 350 are in the marketplace and announced already, which is a pretty good first year out of the blocks. There is nothing else in the marketplace that comes close to 2Ku and I think that many of the airlines are realizing that.

Ava Zhang - JPMorgan - Analyst

Do you think there is a strong interest that could potentially convert into a world win or do you anticipate a pickup in RFP from here?

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

I'm not sure I follow. We expect additional announcements for international wins and we think 2Ku will be the primary technology around those announcements.

Ava Zhang - *JPMorgan - Analyst*

Okay, great. Thank you so much.

Operator

Simon Flannery, Morgan Stanley.

Armintas Sinkevicius - *Morgan Stanley - Analyst*

Good morning, this is Armintas for Simon. I was hoping to get an update on the 14 Gigahertz auction following the issuance of the convertible. And also, with the 2Ku installation on your own aircraft, if you could give us some color on how the GTO trial went, that would be helpful. Thank you.

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

Okay, so on 14G, the FCC held another round of hearings regarding the safety and security issues and I think that all went very positively and we are back into the waiting game but would expect that sometime soon we'd get a Report and Order. We continue to remain very interested in that it's rare in the wireless business that you see 500 megahertz coming your way and you get very excited when those moments come. So we're looking forward to that, but have no special insight into when the Report and Order will actually appear.

And then the second half of the question was -- GTO, we have no additional test results to share at this stage, but everything's on track and we have every reason to believe we'll see the performance we've been talking about, initially capable of 70 megabits per second. As the high throughput satellites come, it will reach 100 megabits per second, but it's not just the speed, it's the cost, it's the reliability that it depends on multiple satellites and that it truly has global coverage that I think makes 2Ku so special.

Armintas Sinkevicius - *Morgan Stanley - Analyst*

Thank you. And one follow-up on text and talk, if the contract or agreement with T-Mobile is still ongoing and if you have any plans for a commercial launch?

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

We still have the contract with T-Mobile is still going and we have yet to make any announcements about commercial launch. I would say that text and talk is substantial business for us in the business aviation side. It's on many aircraft. We actually are seeing some interesting things like very high percentage of our BA customers have chosen to add it. The usage of talking is relatively low. They wanted to have it there, but the world has moved on from talking. It's emailing and its texting. Talking is becoming a thing of the past.

Armintas Sinkevicius - *Morgan Stanley - Analyst*

Thank you, Michael.

Operator

Dick Ryan, Dougherty.

Dick Ryan - Dougherty and Company - Analyst

Congratulations on the strong quarter. Michael, can you give us an update on line fit, where you are in that progression?

Michael Small - Gogo Inc. - President & CEO

Yes, we've made exceptional progress with both Airbus and Boeing on line fit. It's a long process, but it's happening. The driving force is as you sign up for airlines for your technology, the more excited the airplane manufacturers are to support line fit. Our ATG solution is -- provisions for that are already line fit operable with Boeing and in their catalog and you will see a steady progression of more of our offerings getting to the catalogs with both Boeing and Airbus.

Dick Ryan - Dougherty and Company - Analyst

Any timing on the satellite offerings?

Michael Small - Gogo Inc. - President & CEO

We are not prepared to make those announce dates yet, but I would say it's happening as fast as it can happen at this stage. It's inherently, for very good reasons, it's a complex production process to make an aircraft. They are not going to allow any one of their partners to slow down the process, so it's rigorous. You've seen we've obtained is AS9100 certification, that's part of it. It's all happening and it's happening as rapidly as it can happen.

Dick Ryan - Dougherty and Company - Analyst

Okay, great. Norm, I think you mentioned a \$6 million figure for the new headquarters, but can I get the airborne equipment in first quarter?

Norman Smagley - Gogo Inc. - EVP & CFO

I'm sorry, what's your question?

Dick Ryan - Dougherty and Company - Analyst

Airborne equipment.

Norman Smagley - Gogo Inc. - EVP & CFO

Yes, what about it?

Dick Ryan - Dougherty and Company - Analyst

Just what the level was? I was trying to compare it. I think it was \$28 million in Q4. I was just trying to see what the airborne equipment level was in Q1?

Norman Smagley - Gogo Inc. - EVP & CFO

Yes, we don't disclose CapEx by component, Dick.

Dick Ryan - Dougherty and Company - Analyst

Okay, okay. Just optically, very strong first quarter, obviously. Your EBITDA as well over half way to your bottom end of your guidance. How should we look at kind of the OpEx going forward and some the other investments you need to make for the next three quarters since you've had such a strong performance out of the gate?

Norman Smagley - Gogo Inc. - EVP & CFO

We did have a very strong first quarter. We're not updating guidance or EBITDA or anything else other than we talked about in the script at this point.

Dick Ryan - Dougherty and Company - Analyst

Okay, thank you.

Operator

Andrew DeGasperi, Macquarie Capital.

Andrew DeGasperi - Macquarie Research - Analyst

Thanks. So first question on your take rates, I think this was the highest number you've had in over three years. I was wondering if you could maybe walk us through what the biggest driver was and if this is a sustainable rate or if anything could go even higher? And then secondly, there were reports that Inmarsat was looking to build an air to ground system in Europe. I was wondering if there's any truth to this or do you think it's feasible? Thanks.

Michael Small - Gogo Inc. - President & CEO

Take rates, we've had a solid quarter, even as we have raised our prices to the passenger. So to be up 10% year-over-year adjusted for the sponsorship activity in the face of a fairly significant price increase shows there's tremendous underlying demand. Take rates ultimately will be driven by bringing more capacity online. The best thing to happen to take rates will be ATG-4 deployment then also 2Ku and that's what'll drive take rates primarily.

There has been a long rumored European ATG system that Inmarsat has been proposing and it's still possible it will be built. We don't think it's arriving anytime soon.

Andrew DeGasperi - Macquarie Research - Analyst

Great, thanks.



Operator

Andrew Spinola, Wells Fargo.

Andrew Spinola - Wells Fargo Securities, LLC - Analyst

Thanks. I wanted to follow-up on that question about take rates. With the extra capacity from ATG-4 that you're getting, are you passing a lot of that capacity along to the customer or do you have reasonable headroom left from those installs to potentially raise take rates further in CA-NA?

Michael Small - Gogo Inc. - President & CEO

That's a balancing act. Some of the additional capacity goes to an improved experience for each customer, some of it goes to allow additional customers online. As we said in the script, why 1/3 of the planes have ATG-4 on them, just shy of half of the megabytes, half the data goes through the ATG-4 plane. So they have a combination of somewhat higher take rate and somewhat higher megabytes per passenger. Even so, there's demand for many, much, much more. The demand for bandwidth is insatiable.

Andrew Spinola - Wells Fargo Securities, LLC - Analyst

Fair enough. Given the extra capacity, do you think you'll continue to raise prices or need to raise prices to limit take rates or do you think that we'll see pricing sort of flattish for the rest of the year from here?

Michael Small - Gogo Inc. - President & CEO

So we just implemented, in early April, a fairly significant price increase after having tested it through the first quarter. My long-term hope is we get out of the price increase business and we get into the bring the more bandwidth to the air business. But until 2Ku gets into the marketplace in 2016, we're going to have to do a balancing act here. So there may be some more price optimizations that we'll have to do over the course of the next year or so.

Andrew Spinola - Wells Fargo Securities, LLC - Analyst

Yes, definitely worse problems to have. Norm, a question for you on this accounting change. Was there any lost revenue associated with the accounting change or was it all just the planes being moved to North America?

Norman Smagley - Gogo Inc. - EVP & CFO

No, no lost revenue at all. We recognize revenue between the two segments based on the flight origination and destination. So, if a flight begins and ends in North America, it's a North America revenue. If it either begins or ends outside of North America, it's Rest of World revenue. So, strictly a classification between the two segments

Andrew Spinola - Wells Fargo Securities, LLC - Analyst

Right. Can you give us any sense of how much of the cost of service benefit was to Rest of World in the quarter?

Norman Smagley - Gogo Inc. - EVP & CFO

You know, we don't disclose, at the segment level, that kind of information. So it wasn't gigantic.

Michael Small - Gogo Inc. - President & CEO

We did get the reclass for the year, though.

Norman Smagley - Gogo Inc. - EVP & CFO

We did estimate \$5 million for the year.

Andrew Spinola - Wells Fargo Securities, LLC - Analyst

Oh, you did?

Norman Smagley - Gogo Inc. - EVP & CFO

Yes, we did say that on the script.

Andrew Spinola - Wells Fargo Securities, LLC - Analyst

Okay.

Norman Smagley - Gogo Inc. - EVP & CFO

That's why we took CA-Rest of World revenue down \$5 million and cost of service down \$5 million.

Andrew Spinola - Wells Fargo Securities, LLC - Analyst

Right, but no change to the EBITDA guidance. Any reason for that?

Norman Smagley - Gogo Inc. - EVP & CFO

It's strictly a movement within the P&L and which category you're recognizing it. Just like we recognize our equipment revenue, we don't recognize equipment revenue, but we take it as a credit to cost of service, so it reduces our cost. This is the same thing. We can recognize, though, that those payments as revenue, instead, it reduces our cost of service. So bottom line impact is zero.

Andrew Spinola - Wells Fargo Securities, LLC - Analyst

Yes, I'm sorry. That makes perfect sense. Last question for me, I'm actually surprised you're able to fly the international planes over the US. I didn't realize you had a satellite presence over the US just yet. I ask partly because I've been wondering about how much maybe that's impacting your cost of service without too much revenue being attributed to that. So what's the status of your satellite presence in the US?

Norman Smagley - Gogo Inc. - EVP & CFO

So we have satellite coverage since 2012. In terms of cost of service, when the capacity was not being utilized, it was going to cost of service in Rest of World. To the extent that we are using capacity in CA-North America, it will go to CA-North America cost of service.

Andrew Spinola - Wells Fargo Securities, LLC - Analyst

Got it. Thank you very much.

Michael Small - Gogo Inc. - President & CEO

We needed a global satellite network. A plane from Atlanta could fly to Japan and it's going to go over the US for a while, so there's just a lot of -- we had global coverage since 2012, which is why you've seen the big cost of service in the international operations, which now we're finally getting to put to use.

Andrew Spinola - Wells Fargo Securities, LLC - Analyst

Make sense. Thanks for the color.

Operator

John Hodulik, UBS.

Lisa Friedman - UBS - Analyst

Hi, it's Lisa for John. I just wanted to ask about your target that you had previously discussed, about roughly 500 new installs this year, split 75/25 between US and Rest of World. It looked like first quarter was particularly strong in CA-North America and so I'm wondering if that's going to be the run rate going forward or if there's any remaining AirTran deinstalls or anything else that will affect that with seasonality or anything else going forward?

Michael Small - Gogo Inc. - President & CEO

Hi, Lisa, so our guidance for 500 to 1,000 Rest of World aircraft was only --

Norman Smagley - Gogo Inc. - EVP & CFO

500 installs for this year.

Michael Small - Gogo Inc. - President & CEO

For this year, I'm sorry. I'm sorry. We're roughly on track for that. We did 130 CA net new installs in the first quarter, so we're reasonably on pace for that.

Norman Smagley - Gogo Inc. - EVP & CFO

You have to remember installs do slow down in the summer months, Lisa, because airlines don't want to take their planes out of service. So for Ku, it will slow down.



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

Yes, there's nothing inherently regular about when install is done. It's when planes are available to us. It's when scheduling happens, it's when the deals are cut. So you will not see the same consistency in installs that you see in our revenue and our [EBITDA] where we're very predictable recurring revenue business. But the installs happen when they happen.

Lisa Friedman - *UBS - Analyst*

Right, so it sounds like it will be sort of lumpy through 2Q and 3Q, particularly due to the peak summer travel season. And then I guess the question is, does the installs that are remaining from AirTran, is there any expectation of when those will happen or is that, again, just as planes are available?

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

We don't do the deinstalls.

Lisa Friedman - *UBS - Analyst*

That's up to Southwest, then?

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

Right, yes.

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

There's very few of those left. That's essentially done.

Lisa Friedman - *UBS - Analyst*

Okay, thank you.

Operator

Louie DiPalma, William Blair.

Louie DiPalma - *William Blair & Company - Analyst*

Thanks. This is Louie on behalf of Jim Breen. The margin for the Commercial Aviation North American segment increased for the second quarter in a row and reached an all-time high. I was just wondering, has the revenue share with the North American airline partners stabilized? And on a related note, do you need to still obtain more STCs for that business?

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

Rev share is stable quarter-to-quarter. What you're seeing is the leveraging of our operating infrastructure. As we've said many times on the calls, we have a relatively fixed base in our cost of service delivery, so as revenue increases, we continue to get more operating leverage.

Louie DiPalma - *William Blair & Company - Analyst*

Great, thanks.

Operator

Jon Carmel, Arbiter.

Jon Carmel - *Arbiter - Analyst*

Question, the GAO put out a report asking the FAA to look into in-flight connectivity and cyberterrorism. What are you guys doing about this and are you partnering with any of your competitors to come out with an industry standard?

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

We take cybersecurity very seriously and although you have to do capture to get on our service and that's one of the many measures we take, we go through rigorous certification processes with the FCC and the FAA and we work with various governmental and industry groups to ensure that our systems remain secure.

Jon Carmel - *Arbiter - Analyst*

Thanks.

Operator

Andrew Spinola, Wells Fargo.

Andrew Spinola - *Wells Fargo Securities, LLC - Analyst*

Michael, I thought it was noteworthy on the Inmarsat call the other day that they seem to be increasingly talking about an interest on their part in hybrid solutions, sort of ATG satellite. I'm wondering what your view is on that. Do you think -- is it going to be a competitive advantage for you to have ATG and satellite potentially longer term? Or do you think the technologies maybe will be more suitable separate for different applications, different size planes, things like that?

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

I think there are a limited number of circumstances where there's a real advantage to having both on the plane. But it comes down to really, fleet by fleet, plane by plane analysis where it makes sense. You may need global coverage and then you need satellite or you need over water coverage. The only reason you'd add air-to-ground is if it really lowered your bandwidth costs in addition.

So there will be some circumstances, long-haul global international wide-body fleets, they'd probably just satellite. Most regional RJs are going to be just air-to-ground and we see some situations in the US where some planes fly to the Caribbean and they're almost always over land mass and then they may want ATG and a supplemental satellite solution, but even that's not always obvious to us.



Andrew Spinola - Wells Fargo Securities, LLC - Analyst

Makes sense. A curiosity on my part, do you think that this sort of proliferation of options from Inmarsat, ATG, Epic, SES, ViaSat, things like that, all these different technological solutions is one of the main reasons that it seems to be taking longer for airlines to make a decision? Or do you think that it's just strictly the complexity of the decision that they're making?

Michael Small - Gogo Inc. - President & CEO

Yes, I'd add one additional factor is until 2Ku arrived, there was no great global solution, so not only was it confusing, none of them looked only attractive. Now we think there's one hits the cost, coverage, capacity and reliability boxes, checks them all, that makes it much easier for an airline to say yes. So the idea of in-flight connectivity was around long before Gogo's ATG solution was available, but it never worked because you never checked all the boxes.

ATG checked all the boxes over North America. It now doesn't cover the rest of the world, which airlines want. It doesn't have, with only 3 megahertz of spectrum all the [tests] they want, but that checked the boxes. The number one thing that's going to make the rest of the world take off is there's finally a technology that really works for the airlines

Andrew Spinola - Wells Fargo Securities, LLC - Analyst

Thank you.

Operator

Louie DiPalma, William Blair.

Louie DiPalma - William Blair & Company - Analyst

Thanks. In the context of yesterday's live TV Amazon instant video announcement, Mike, can you generally talk about the capacity capabilities of 2Ku and how many simultaneous streaming users that it can support?

Michael Small - Gogo Inc. - President & CEO

2Ku will have as much capacity and as much speed as anything in the marketplace and possibly more because our antenna is twice as efficient, possibly more because we're going to architect this specifically for aviation, rather than backyard dishes. So it's going to have the most speed and capacity of anything in the marketplace at the best cost.

Louie DiPalma - William Blair & Company - Analyst

Thanks.

Operator

I'm showing no further questions or comments at this time. With that said, I would now like to turn the conference back over to CEO Mr. Michael Small, for any further remarks.



Michael Small - Gogo Inc. - President & CEO

Thank you, operator. Thanks, everyone, for joining us. We're very excited about this quarter and we're very optimistic about what's to come. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program and you may now disconnect.

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