

THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

GOGO - Q3 2014 Gogo Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 10, 2014 / 1:30PM GMT



## CORPORATE PARTICIPANTS

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

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

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

## CONFERENCE CALL PARTICIPANTS

**Simon Flannery** *Morgan Stanley - Analyst*

**Ava Zhang** *JPMorgan - Analyst*

**Lisa Friedman** *UBS - Analyst*

**Andrew De Gasperi** *Macquarie Securities - Analyst*

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

**Carter Mansbach** *Jupiter Wealth Strategies - Analyst*

## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the Gogo Inc. third-quarter 2014 earnings conference call. (Operator Instructions). As a reminder this conference call is being recorded. I would now like to introduce your host for today's conference, Vavara Alva, Vice President Investor Relations and Treasurer. Please go ahead.

---

### Vavara Alva - Gogo Inc. - VP of IR & Treasurer

Thank you, Kate. Good morning, everyone. Welcome to Gogo's third-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 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 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 this conference call is November 10, 2014, and 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 to GAAP versus non-GAAP measures is included in today's earnings press release.

This call is being broadcast on the Internet and is available in the Investor Relations section of the Gogo 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 is my pleasure to turn the call over to Michael.



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

Thanks, Vavara. Good morning. I want to thank everyone for joining us on the call. This has been an outstanding quarter for Gogo. We had three exciting new airline deals, hit major milestones with some of our newer products, continued to add capacity to our network and hit \$100 million in revenue for the first time. These are just a few examples of how we continue to hit our goals, to sign new airlines, add capacity to the network and hit our numbers.

First let's get into our airline deals. We continue to make waves on the international front and are thrilled to add Virgin Atlantic and Vietnam Airlines as our airline partners. We also finalized our agreements with Air Canada and AeroMexico. Here in the US we also announced a deal with United for more than 200 regional jets and a trial of 2Ku on their premium service fleet.

In sum, we keep winning new airlines and building deeper relationships with existing airline partners. We now have a backlog of approximately 1,000 new aircraft in commercial aviation; roughly 750 of those are North America and 250 are in the rest of the world. About 250 of the CA North America backlog represents fleet upgrades replacing the aircraft we are already on.

I feel great about Business Aviation too. For the quarter we installed more than 200 ATG aircraft. We now have 2,600 BA aircraft on our ATG network. We also installed more than 80 satellite connected aircraft which brings that total to 5,300 online.

So what does this mean? With a backlog in CA and the trends in BA we expect a record pace of aircraft installations between now and the end of 2015. Moving forward most of the commercial aircraft in the US are spoken for. We feel great about our position here.

We will continue to focus on the rest of the world but we like our track record so far. We've won about 50% of the international aircraft awarded since we entered that market in 2012.

On the BA side we see a big opportunity for growth as well. Only about 13% of BA aircraft in North America have broadband connectivity today leaving many thousands more for us to sign up.

Now let's get into capacity and our technologies. We continue to add capacity to our network with ATG-4. We've brought 60 ATG-4 aircraft online in the quarter and now have more than 600 ATG-4 aircraft flying or merely a third of our commercial connected aircraft. We expect to have between 700 and 750 ATG-4 aircraft online by the end of the year.

The great news about ATG-4 is we know it is working, customers say so and latency statistics are much improved. When we get GTO and 2Ku to market things will improve even more. We expect to fly our test plane with GTO by Q1 of 2015 and have 2Ku flying shortly thereafter.

I'm also especially excited by 2Ku. I'm convinced 2Ku will be as revolutionary to global airlines as ATG was for North American airlines. So far, judging by our recent wins, it looks like the market shares my sentiment. In a little more than six months we've signed five airlines to either a trial or full adoption of 2Ku. In my experience this is an extraordinarily rapid rate of adoption in the global aviation industry.

In Business Aviation we have also made technology improvements. With Iridium we have introduced the next-generation systems and added FANS over Iridium to handset product. Through our relationship with Inmarsat, we also expect to offer BA customers access to the global express network when it is launched.

Before I move on I want to highlight something about our technology portfolio. Our strategy of offering numerous technologies in our portfolio is working. Take a look at our recent wins: Virgin Atlantic and AeroMexico chose 2Ku; Vietnam Airlines chose GX; Air Canada chose ATG and ATG-4 and will trial 2Ku and GX; and United chose ATG-4 and will trial 2Ku on five of its premium service aircraft.

We know the requirements of each airline and each airline fleets vary which is why we continue to offer the broadest portfolio of technology solutions in the market.

Now I want to talk about some of my other products and services, particularly Gogo Vision and Gogo Text for Commercial Aviation. What is great about these products is they help grow our average revenue per aircraft, they're bandwidth light and have solid incremental margins. They are also great products for reaching the leisure traveler.

In August we rolled out on-demand wireless entertainment for Delta's passengers known as Delta Studios; it is powered by our Gogo Vision platform. Overall Gogo Vision is now on 1,600 aircraft which easily makes us the world's largest provider of wireless in-flight entertainment that is delivered to passengers' devices.

We also have a new version of Gogo Vision that leverages new airborne equipment to deliver content on board a plane without connectivity to the ground. This is a big deal because Gogo Vision is now positioned to address virtually all of the more than 40,000 aircraft in our addressable market.

We've also made improvements to Gogo Vision -- the Gogo Vision product for BA. As you know, Gogo Cloud wirelessly delivers new content to private aircraft at certain FBO locations. We've expanded the network of those locations to 13 at quarter end.

The sales of our universal cabin system product have grown steadily and we've seen strong interest in this product by some of our key customers. Universal cabin system is the platform over which Gogo Vision wireless entertainment service is offered to Business Aviation.

A second product that I'm equally excited about is Gogo Text messaging. Last year in September we launched this product in Business Aviation and this September we launched it for Commercial Aviation in partnership with T-Mobile. We are very pleased to enter -- to enable T-Mobile to extend their network into the sky and offer their customers free in flight text messaging. While the service has just launched we are extremely excited about the partnership.

All right, let me switch gears now and talk a little bit about our financial performance. Norm will get into the details in a second. As I mentioned before, this is our first \$100 million plus revenue quarter. Our revenue of \$104 million grew 22% year over year. Segment profit for CA North America and BA combined was \$21 million, up 57% from the same period last year.

It is worth noting that we continue to see strong operating leverage at CA North America and we are very pleased with this trend. BA equipment sales had a bit of softness in Q3, but still continue at record highs. Finally, we are pleased to see the start of CA Rest of the World service revenue growth. We expect to continue to see it build as we install more aircraft and grow revenue per aircraft.

Before I turn it over to Norm I want to give you a general idea of how we see the market and how Gogo is positioned for the future. We have invested nearly \$1 billion to establish our position as a leading global air communication service provider to the aviation industry.

You have probably heard me say this before, but I want to highlight the two words that make us different from other telecommunication service providers, aero and global.

We believe we are the leader in this business because we specialize in delivering the most reliable and flexible connectivity solutions to commercial and business aircraft operating anywhere in the world. Our scale enables us to innovate and develop next-generation products and services specific for aviation. This in turn enables us to address aviation needs ever more efficiently.

There are more than 40,000 commercial and business aircraft operating globally today. The number is projected to top 70,000 in the next 20 years with the majority of the growth coming from outside North America.

Today Gogo serves roughly 9,000 aircraft representing more than 20% of global aviation. Based on analogies and trends we see on the ground, it is inevitable that most, if not all, aircraft will get connected and we believe this industry could hit \$30 billion of annual revenue within 20 years.

We have tremendous room to grow both aircraft online and revenue per aircraft as we continue to work with our airline partners and business jet owners to fundamentally change aviation. But again, we believe we are in a great position because of those two words, aero and global. We see this as a huge competitive advantage. Again, thanks for joining the call and I'd like to turn this over to Norm.

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

Thanks, Michael, good morning, everyone. As Michael mentioned we had a great quarter. We achieved record revenue of \$104 million breaking the \$100 million mark for the first time. I like the sound of that so much I'm going to say it again just because you haven't heard it. We achieved record revenue of \$104 million for the quarter.

The year before I joined the Company only for short years ago we had full-year revenue of \$37 million. Now we're doing almost that much in one month. Truly an amazing milestone for us. The \$104 million represents a 22% increase in total revenue versus Q3 of last year.

Our service revenue of \$81.6 million was up 28% and our equipment revenue increased 4% to \$22.4 million. Our consolidated results include continued revenue and profitability growth in both the CA North America and BA segments and reflect increased investment in CA Rest of World of \$19.4 million. As a result of this investment our adjusted EBITDA of \$1.2 million was down \$0.9 million versus last year.

Let's now turn to the performance of our operating segments. CA North America had another very strong quarter in both revenue and segment profit. This was our third consecutive positive segment profit quarter as we continue to grow our top-line and benefit from the continued scalability of our operating expenses.

CA North America revenue of \$63.3 million was up 25% versus last year driven by an increase in connectivity service revenue. We ended the quarter with 2,044 aircraft online, up 33 from Q3 of last year. As Michael mentioned, our CA North America backlog now stands at approximately 750 aircraft. We expect to see a significant increase in aircraft online as we install Air Canada, the United regional jets and others between now and the end of 2015.

Our average monthly service revenue per aircraft, or ARPA, surpass \$10,000, up 22% from last year, which equates to an annual run rate in excess of \$120,000. ARPA growth was driven primarily by a 7% increase in take rate to 6.2% and an increase in the average revenue per session of 8% to \$11.43.

For the quarter CA North America cost of service declined to 47% of service revenue, down from 51% last year driven by the scalability of our infrastructure. In addition, other operating expenses, excluding G&A, as a percent of revenue declined 7 percentage points to 42% primarily driven by G&A personnel-related cost.

Our CA North America segment profit of \$5.5 million increased by more than \$7.1 million from a loss of \$1.6 million a year ago. The segment profit margin for the quarter was 9% and, as I mentioned before, was the third positive segment profit quarter in a row -- another great accomplishment.

Let's now turn to BA. revenue of \$40.2 million was up 16% versus Q3 of last year. Service revenue increased 38% to \$18.9 million and equipment revenue increased 2% to \$21.4 million. The growth in service revenue was driven by higher ATG and satellite aircraft online and higher average service revenue per aircraft online for both ATG and satellite systems.

Our equipment revenue for the quarter of \$21.4 million increased \$0.3 million versus last year as a result of stronger Iridium satellite and Universal Cabin System sales offset in part by softer ATG sales.

In the third quarter of last year we introduced two new products in the market, ATG 2000 and Text & Talk. As a result our third-quarter ATG equipment revenue last year benefited from the record shipment of 260 ATG units and 117 Text & Talk units. This compares to 243 ATG units and 71 Text & Talk units we shipped in this quarter. In addition, we sold 164 satellite-based units, down slightly versus last year.



BA segment profit for the quarter was \$15 million. Our segment profit margin decreased from 42% to 37% for the quarter. Segment profit was impacted by an inventory write-off related to our legacy satellite systems and changes in product mix. In addition, BA operating expenses increased to support the continued growth of the business.

Finally, CA Rest of World ended the quarter with 35 aircraft online which included both Delta and JAL aircraft and generated revenue of \$545,000. Our segment loss increased \$8.4 million to \$19.4 million.

The increase in segment loss versus prior year was driven by a \$2.9 million increase in cost of service primarily due to increased satellite transponder and teleport fees and increases in other operating expenses to support our international expansion, primarily continued development of our next generation products and technologies and the cost of obtaining additional FCCs.

As a result on a consolidated basis our adjusted EBIT decreased \$0.9 million to \$1.2 million for the quarter. Our net loss attributable to common stock for the quarter was \$24.9 million or \$0.29 per share versus an \$18.7 million net loss or \$0.22 per share loss for the Q3 of last year.

Cash capital expenditures increased to \$29.8 million for the quarter from \$24.5 million last year driven by the purchase of our test plane and CapEx related to the build out of our new BA headquarters facility. We ended the quarter with \$243 million of cash on the balance sheet.

For the full year 2014 we are leaving overall guidance for total revenue and adjusted EBITDA unchanged. We expect total revenue of between \$400 million and \$422 million and full year adjusted EBITDA at the low end of the range of \$8 million to \$18 million. We now expect cash CapEx of \$100 million to \$120 million, down \$5 million from previous guidance.

To wrap up, I'm extremely pleased with our operating and financial results for this quarter as a revenue record-breaking quarter. Operator, we are now ready for our first question.

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Simon Flannery, Morgan Stanley.

---

### Simon Flannery - Morgan Stanley - Analyst

So, if we can start with BA -- or CA North America. You had a very nice revenue per session but the take rate slowed quite a bit sequentially. Can you just talk about the dynamics there, what is going on with pricing, what is going on with mix and any sort of one-time factors in that?

And then on BA, I think you talked a little bit about some demand softness -- and thank you for the color on ATG year over year. Is that related to weakness in jet deliveries? Or what exactly is the driver there and any outlook you can have on that would be great. Thanks.

---

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

Hi, Simon, Michael. On CA North America pricing there was no -- nothing unusual there. We continue to modestly increase pricing over time as demand rises and to try and keep service levels. We balance supply and demand. This quarter is always a little lower just based on the seasonality. So there is nothing unusual.



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

We also have to focus on ARPA growth, Simon, which was 22% year over year which is really what we are looking to in terms of a key metric. Take rate -- it is a function of take rate and ARPS and we are really looking for the total impact. 22% is consistent if not a little higher with past quarter-over-quarter performance.

---

**Simon Flannery** - Morgan Stanley - Analyst

Right.

---

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

And the BA side -- Norm, comment more. Just quite simply equipment sales there are not as consistent. That market fluctuates and you deal with relatively small number of aircraft being delivered in any given quarter. We see nothing in the underlying trends. Norm will refer to -- I think explain some of the things that hit the quarter over quarter (multiple speakers).

---

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

So if you think about -- if you look at third quarter last year, Simon, we introduced the Text & Talk that quarter, we also introduced ATG 2000. So total units for ATG in the third quarter of last year were 260, there were 243 in this year's third quarter. That is well within normal range of quarter to quarter fluctuation. So that is number one.

Number two, Text & Talk launched in September, we got a nice pickup from that and that spike continued into the fourth quarter, even into January of this year. So, on a relative basis Text & Talk this quarter, in terms of run rate is going to be lower as we get into a normal month-to-month selling of that product.

And ATG 2000 the same thing, we had a very nice [plum] from that and we are going into a more normal month-to-month sales mode right now.

---

**Simon Flannery** - Morgan Stanley - Analyst

You're not [wasting] softness in the jet market?

---

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

No, there was -- early in the -- late in the second quarter/early in the third quarter we hit a few slightly softer months, it has bounced back. Just to put this in context, the rate at which we are selling our products into the BA market is truly extraordinary.

When we talk to our dealers, this is by order of magnitude the fastest adopted non-mandated technology they have ever seen. So this is still at an extraordinarily healthy rate, rapid rate of adoption in the BA -- for the BA industry and just ordinary fluctuations.

---

**Simon Flannery** - Morgan Stanley - Analyst

Great, thank you.

---

**Operator**

Phil Cusick, JPMorgan.



**Ava Zhang** - *JPMorgan - Analyst*

Good morning, Mike and Norm, this is Ava for Phil. Thanks for taking my questions. So first on the CA North America side, decommissioning sort of (inaudible) 3Q aircraft losses, can you remind us how many aircraft in total are scheduled for de-installs and over how many quarters is that going to be?

And then another question on the BA side. Margin seemed a little bit soft this quarter and I think Norm mentioned in the prepared remarks there are several different factors. Can you just give us a little bit more color on that? Thank you.

---

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

So the installs, as we put in the script on CA, we are forecasting approximately 250 replacement aircraft. And that actually extends over several years. The new deliveries go that we are seeing will go well towards the end of this decade and they are at a pretty steady rate.

The only -- we will be finishing off the old AirTran aircraft pretty much in 2015 for all practical purposes. That was a total of 52, about half of which have been de-installed at this stage.

---

**Ava Zhang** - *JPMorgan - Analyst*

Would we still have like 26 more to go or 52?

---

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

I don't know the exact number on the AirTran.

---

**Ava Zhang** - *JPMorgan - Analyst*

Okay.

---

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

40 left to go? There is about 40 left to go on AirTran and then most of the rest --.

---

**Ava Zhang** - *JPMorgan - Analyst*

Okay, thank you.

---

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

Most of the rest is the American fleet, they are getting a whole bunch of new aircraft and they are largely replacement aircraft.

---

**Ava Zhang** - *JPMorgan - Analyst*

Got it.



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

Right, so it shouldn't affect the net number. On the BA margin, the scrap was really primarily related to some obsoleted Iridium-related inventory and that was one of the big issues. The second issue was product mix and we saw a jump in Iridium accessories which had lower margin than the base units and additional [UCS] sales, which is a lower margin as well.

---

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

In the press release we report cost of sales or equipment revenue and it is up about \$2 million quarter over quarter. And it is roughly split equally between those two issues, the inventory write-off and the product mix.

---

**Ava Zhang** - JPMorgan - Analyst

Okay, got it, thank you so much.

---

**Operator**

John Hodulik, UBS.

---

**Lisa Friedman** - UBS - Analyst

Hi, it is Lisa Friedman for John. I just wanted to ask about additional competition. I understand there is a Company called SmartSky that has come on the scene and they are looking to tackle the Business Aviation market.

And then also I believe Inmarsat wants to build an LTE 4G network for aviation usage across the pond and then there is also the AT&T plans here in the US. So are you seeing the competitive activity pick up? Is there room for more than one provider particularly in the BA market where there's just so many more planes?

---

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

Well, first, we have invested about \$1 billion building this business, we think it takes a lot to specialize in aviation and it takes a lot to be global. We think it is very difficult to enter this market with only an ATG network anymore because airlines are going to demand connectivity anywhere so it is going to greatly restrict the planes you could serve.

The US, all the planes are under contract essentially between us and competitor -- existing competitors, there's very few new ones to get. It is very challenging even in BA, while there are many more planes to build a nationwide network and to support them on the incremental planes you are likely to get it would be a very challenging proposition in our view.

We take all competitors seriously, that is why we continue to invest heavily in this business, keep coming up with our new portfolio of technologies -- technological solutions.

I would point out that SmartSky is using unlicensed spectrum. In our view that is an extraordinarily risky way if that is your sole spectrum position is unlicensed it could perhaps be a supplemental solution. But as your base solution unlicensed spectrum is very risky; you cannot guarantee that spectrum will stay clean for any period of time.

---



**Lisa Friedman** - UBS - Analyst

Okay, thanks. And then also on texting, do you have any more color on sort of usage trends so far with the T-Mobile customer base or anything coming down the pipe in terms of agreements with other carriers or other sponsors to get the app onto more people's devices?

---

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

No, we are not going to give any comment on usage at this stage, remind everybody that both the T-Mo deal for texting and the Delta Studio came in towards the later part of the quarter. But you will start seeing non-connectivity revenue and nonretail revenue start growing in coming quarters as a result of those two agreements.

---

**Lisa Friedman** - UBS - Analyst

Okay, thanks so much.

---

**Operator**

Andrew De Gasperi, Macquarie.

---

**Andrew De Gasperi** - Macquarie Securities - Analyst

Just wanted to get an update on this quarter's rest of world segment. I just wanted to know how many Delta 747 disconnects were there included in this number.

And secondly, sort of a long-term potential tailwind. There was reported in the press that SpaceX and (inaudible) were looking to launch a small satellite constellation. If that project takes off do you think you could potentially benefit from lower bandwidth costs or is this technology not really compatible? Thanks.

---

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

I can't comment on the SpaceX or anybody else's new constellations. I would say in general the trends will be more efficient network solutions over time, there will be a lot of new developments.

I would say that that is still only a small portion of the total equation of being in our business. And no one will be able to take better advantage of the new technological developments than Gogo quite simply because we have the most planes to use it across.

There is only -- there is a total of 16 747s in the Delta fleet and they have been debating about decommissioning four of them in a reasonable period of time. So it is not a big number.

---

**Andrew De Gasperi** - Macquarie Securities - Analyst

Got it. Thank you very much.

---

**Operator**

Andrew Spinola, Wells Fargo.

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

You made the comment previously that you are looking to grow overall ARPA and not just average revenue per session. And I was wondering given the T-Mobile deal and the Delta Studio deal, do you think we can see that other revenue line in commercial North America become more material in the near term and possibly start to accelerate growth in ARPA? Or is it going to be too small such that fluctuations in ARPS are going to still overwhelm it for the foreseeable future?

---

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

We have advised over and over again the right way to look at this is average revenue per aircraft as the range of services keep expanding and it is not going to be just Gogo Vision and text & talk, there's going to be a whole wealth of operational applications. And increasingly even sponsorship or third-party paying such as the T-Mo deal. It is going to be -- it can go in a lot of different directions between ARPS and take rate.

So far we only report take rate for connectivity sessions. We are starting to get significant meaningful to take rate and Gogo Vision and it will start building for texting. So I would continually send you back to ARPA as the long-term stable measure and to see how fast we can grow that. And that is why we were very pleased with the 22% increase year over year in ARPA.

---

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

Definitely. You made the comment before, Michael, about managing the capacity with pricing to a certain extent. And just wondering where you stand right now with capacity in terms of trying to understand your ability to increase the take rate going forward.

I know it was up this quarter maybe against a difficult compare, but can you continue to grow the take rate? Can you continue to grow capacity by adding new base stations and ATG installs and things like that or is the ARPS going to be largely levered to pricing as opposed to take rate?

---

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

We will continue to grow take rate. The biggest lever we have to add capacity at the moment is the deployment of ATG-4. We're on the 600 plus aircraft today, going to over 700 by year end. And that clearly helps the aircraft that have ATG-4 relative to the ones that don't, and somewhat helps the overall network capacity.

Next year we will be able to grow take rate because of the ATG-4. We will also be able to grow revenue as we introduce new services, Gogo Vision, text & talk and some of the operational apps. And we will probably get some out of price increase too, continuing through next year.

GTO and 2Ku is a substantial increase in capacity, and all of a sudden we will be in -- really focusing on take rate rather than maximizing revenue per megabyte, which is kind of the mentality at the moment.

---

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

Got it. And then last one for me. I think you sort of mentioned the international trials in the press release. And I was wondering, you had made a comment previously that the international carriers could kind of go either way; they could go trials or they could go to straight to deployment.

And just wondering if you are seeing more carriers look to do trials as opposed to going straight to deployment. And any color on maybe how many of these trials are new or further along in the process. Thanks.

---

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

So we have five airlines that are using -- agreed to use 2Ku. Two of them are deployments, AeroMexico and Virgin Atlantic. And the other three are indications or commitments to trial the service. From my experience in telecommunication, no one has ever turned done anything that delivers more bandwidth. It will be addictive; you will have to do it.

And as soon as it is up there and flying and people see how well it works, there is no way to turn it down. Because you are talking about going from the world of 3 to 10 megabits second to the world of 70 to 100 plus megabits second. That is a big difference. You're also picking up global coverage, not just over CONUS or North America, you are also being able to get live television solutions, too. So I think it's going to be irresistible.

---

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

Agreed. Thank you.

---

**Operator**

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

---

**Carter Mansbach** - *Jupiter Wealth Strategies - Analyst*

Congratulations on a very solid quarter. I have two questions, one is setting up for 2015. I see that you are hiring a lot of folks, I see that you have a new facility, a big increase in jets going forward to install. Do you think that 2015 is a year where you will start to see more of a hockey stick and more closer to profitability?

---

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

Well, we don't forecast that. The trends we commented on is we are finally seeing revenue grow in international Rest of World. So for a long time we were spending more money to fill the global infrastructure, to get the global network in place, the ability to install and maintain planes around the world, the ability to take care of airline partners, account management around the world and sales.

So that is in place and so we're going to start seeing the revenue growth -- really fourth quarter is -- the quarter we are in is the first time you're going to see a number that begins to mean something. I guess we had \$0.5 million of revenue last quarter, but that is going to start to accelerate.

We have -- the pace of installs is picking up in international and we have all but one of our STCs for the international -- the two international partners and we are in full install mode now.

On the other businesses, you're seeing continued steady, I won't even say steady, rapid improvement in profitability in BA and you've seen the operating leverage in CA. Those trends are going to continue and they have been solid, but at some point here we will reverse the trends in international where the losses stop being such a drag on overall performance.

---

**Carter Mansbach** - *Jupiter Wealth Strategies - Analyst*

Okay, fantastic. Second question, last question is I want to understand the monetization of Gogo Vision. I'm not asking for specifics, but I want to understand is it a set amount that let's say, Delta, United is going to pay you? Is it by use? If a lot of people are adopting it and watching TV, watching movies do you get paid more?



And lastly, I want to understand the advertising aspect of it. Because obviously they are not going to give it away for free, Delta or United. If they are giving it away for free they have to monetize it in some way besides raising prices.

So if there are adds eventually which, I'm sure there will be, on this Gogo Vision or Delta vision, will you guys share in the profits of that? So if you give me an overview of the monetization of Gogo Vision in the three parts that I asked.

---

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

Yes. We are still exploring multiple monetization models and I think we have tried -- everyone who wants it suggests it and I'm not prepared to yet predict where it sells out. I do see airlines -- basically in the US all the major airlines have committed in one fashion or another to getting video to customers' devices in varying degrees. So that is going to happen. Yes, it is going to be part of the package and it is going to be a meaningful contributor to our long-run profitability.

---

**Carter Mansbach** - *Jupiter Wealth Strategies - Analyst*

So it just -- I want to know is it a set amount that are you are getting it from Delta or United?

---

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

Carter, I know what you want to know, and we are not disclosing that at this stage.

---

**Carter Mansbach** - *Jupiter Wealth Strategies - Analyst*

Okay. Can you tell me if it is by use or not, that is all I ask and I will stop, I promise.

---

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

No, we are not saying that, no.

---

**Carter Mansbach** - *Jupiter Wealth Strategies - Analyst*

Well, congratulations on a great quarter, guys, I look forward to hearing from you next year.

---

**Operator**

I'm not showing any further questions in the queue at this time. I'd like to turn the call back over to Michael Small, President and CEO, for closing remarks.

---

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

Thank you, everyone. We had another solid quarter and we continue to build our position as a leading global aero communications service provider with far more planes broadband connected than anybody else on the face of the planet. Thanks, everyone.



**Operator**

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone have a good day.

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2014, Thomson Reuters. All Rights Reserved.