

THOMSON REUTERS STREETEVENETS

EDITED TRANSCRIPT

GOGO - Q2 2015 Gogo Inc Earnings Call

EVENT DATE/TIME: AUGUST 06, 2015 / 12:30PM GMT



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

Lisa Friedman *UBS - Analyst*

Dick Ryan *Dougherty & Company - Analyst*

Jonathan Schildkraut *Evercore ISI - Analyst*

Andrew DeGasperi *Macquarie Research - Analyst*

Armintas Sinkevicius *Morgan Stanley - Analyst*

Philip Cusick *JPMorgan - Analyst*

Andrew Spinola *Wells Fargo Securities, LLC - Analyst*

Louis DiPalma *William Blair & Company - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Gogo second-quarter 2015 earnings conference call.

(Operator Instructions)

I would now like to introduce your host for today's conference, Miss Alva, VP Investor Relations and Treasurer. Please go ahead, Ma'am.

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

Thank you, and good morning, everyone. Welcome to Gogo's second quarter 2015 earnings conference call.

Joining me today to talk about our results are Michael Small, our 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 FCC on February 27, 2015.

In addition, please note that the date of this conference call is August 6, 2015. Any forward-looking statements we will 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. 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. Finally, 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, Varvara, and thank you all for joining the call.

Q2 was another outstanding quarter for Gogo. Financially, we broke many records and I am particularly pleased with our segment profit performance in CA North America. I'm excited to be speaking with you this morning from Gogo's new location in the heart of downtown Chicago. Since our last call we have consolidated commercial aviation under one roof.

Before I get into our quarterly update, I want to remind you of a big opportunity in front of us. As we discussed during our Analyst Day in June, connected aircraft is the future of the global aviation industry. Why am I so confident in this? The Internet of things is proliferating, sweeping across all industries. Aviation is no different.

Airlines will simply have to be connected, as the opportunities for operational improvement, reduced maintenance, improved safety, and better customer service are so great. And it's not just an idea; it is real, it is big, and it is already underway. What does this mean for Gogo?

With a win rate exceeding 70% since 2Ku's announcement, and with our systems flying on over 50% of global broadband connected commercial aircraft today, Gogo will lead this revolution. To do this, we will continue to advance our industry-leading expertise by delivering innovative platforms and services, designing, building, and running the best network solutions, and signing installing the most aircraft in the industry.

Now let me turn to a brief update on the quarter. First, winning new aircraft. We are thrilled to be working with GOL. This is a huge win for us. This is our first commitment in South America, and the seventh airline that selected 2Ku. I was just in Brazil with GOL and I can say they are incredibly excited to transform the passenger experience by being the first South American airline to offer broadband.

So, what is special about this win? First, it's a large and full fleet. It includes the entire 140 aircraft in GOL's fleet. Second, it demonstrates the importance of 2Ku in the tropical region. And finally, it is our first selection for our new live TV product. We are very excited about that. So with GOL's win, we have now been awarded more than 500 aircraft across four airlines and trials with three others for 2Ku, and we won't stop there.

Now turning to bandwidth. We fully expect 2Ku, our second generation technology, will be flying on our own Boeing 737 this summer, and commercially launched before the end of the year. Getting 2Ku to market this year is critical. As far as we can see, 2Ku is the best global solution to market.

We believe it wins on four key factors: cost, coverage, capacity and reliability. And specifically in North America, it will enhance the passenger experience and free up capacity for planes operating on our ATG network when Delta begins to deploy 2Ku in 2016.

As revolutionary as it was at the time, our ATG network is now congested. On top of that, the addition of regional jets has added pressure to that network. As expected, these constraints slowed ARPA growth relative to prior quarters in CA North America. We continue to do price optimization of our connectivity products to balance the customer experience, which had the intended effect on take-rates. We know more capacity is coming, starting in 2016, and until then ARPA growth is expected to moderate as we continue to manage through our current network congestion.

Let's now turn to financial results. We delivered another record quarter. Revenue grew 22% to \$121 million, and adjusted EBITDA more than tripled to \$10.8 million. Combined segment profit for CA North America and BA reached \$29 million in Q2. Another record, improved 31% from the prior year.

Operationally, we added 300 aircraft in the quarter. This is more than three aircraft per day across different aircraft types, technologies, and geographies. In addition, we added about 120 aircraft with our wireless in-flight entertainment product: Gogo Vision. And by the way, Boeing is now providing line jet ATG-4 provisions on the 737, and we are moving down the path to get 2Ku line fit with both Airbus and Boeing.



On the business aviation side, we shipped a total of 380 units, of which 227 were ATG, consistent with our average over the past four quarters. We're also making good progress with our BA segmentation strategy, targeting smaller aircraft with ATG 1000 and 2000, and large private aircraft with ATG 8000. This strategy is gaining traction on both ends. Overall, we continued to make great progress on our three goals of winning new aircraft, bringing more bandwidth to the sky, and hitting our numbers.

So this wraps up my quarterly remarks, but before turning the call over to Norm, I want to reiterate and emphasize a few key points. First, our top priority is bringing 2Ku online this year. Cost, coverage, capacity, and reliability of this technology, we believe, is simply unmatched in the market today. Second, more bandwidth will unlock ARPA growth from both passenger connectivity and from connected aircraft applications.

And finally, to be successful in this industry, you need scale and experience. With over 5,500 broadband aircraft, 5,400 satellite aircraft, and 20 million flight hours of experience, Gogo leads this industry. And that is why I feel confident that we will continue to grow and expand our leadership in North America and internationally.

With that I want to thank you for joining the call, and I'll turn it over to Norm to go over our financial results.

Norman Smagley - Gogo Inc - EVP & CFO

Thank you, Michael, and good morning, everyone.

Well, this is another quarter, ninth in a row to be precise, I get to say we hit record revenue. This time up 22% to \$121 million. Even better, I get to say this for the first time, service revenue exceeded \$100 million in a single quarter, growing 28% to \$101 million. This is nearly equal to our full-year service revenue in 2011.

The combined segment profit of CA North America and BA increased 31% to \$29 million for the quarter, representing a 24% combined segment profit margin. Adjusted EBITDA more than tripled to a record \$10.8 million, representing a 9% margin.

Let's now turn to our operating segments. CA North America service revenue was up 22% to \$75 million for the quarter. This was driven by a 13% increase in ARPA, and a 9% increase in aircraft online.

The 13% increase in ARPA to an estimated \$136,000 annually, was driven primarily by a 19% increase in the average revenue per session, and growth in Gogo Vision and other service revenue, partially offset by a decrease in take-rates from 6.7% to 5.9%. More than half of the take-rate reduction was due to lower sponsorship revenue in the current quarter, with the balance being driven by price increases and the addition of more regional jets, which have lower take-rates and ARPA than mainline aircraft.

During the quarter we installed 105 aircraft, and our airline partners returned 56 aircraft primarily due to expected fleet refresh programs. As a result, we ended the quarter with 2249 aircraft online, up 9% year over year. In terms of profitability, CA North America continues to demonstrate operating leverage. Segment profit increased 74% to \$11.2 million, driving segment profit margin to 15%, up 50% year over year.

Now turning to BA. Service revenue increased 39% to \$24 million, driving total revenue to a record \$43 million for the quarter. ATG aircraft online increased 31% to nearly 3200, and APG service ARPU increased nearly 11% to more than \$2,200 per month.

BA equipment revenue \$19.5 million was down slightly, primarily due to changes in the ATG product mix and pricing changes, particularly on the low end product, partially offset by increased sales of Universal Cabin Systems. We are still in the early stages of our market segmentation strategy, but are very encouraged by the market's reaction to the latest product offerings, such as ATG 2000, geared towards smaller aircraft.

BA segment profit of \$17.5 million was up 13% from last year. Segment profit margin was a solid 41%.

Finally let's move to CA rest-of-world. We installed an additional 32 KU based aircraft, and reported \$2.3 million in revenue for the quarter. Segment loss of \$18 million was down \$0.8 million from a year ago and \$0.3 million sequentially due to lower cost service.

Our consolidated cash CapEx decreased \$4 million to \$23 million for the quarter, due to increased airborne equipment proceeds, and lower ATG number CapEx. Our cash balance at the end of Q2 was \$392 million. I've been sleeping pretty well lately.

For the full year, we expect adjusted EBITDA at the higher end of our previously announced guidance range of \$15 million to \$25 million. Even after increased engineering expenses in the second half of the year, primarily for STCs related to the commercial launch of 2Ku with our airline partners, next-gen ATG development, and line fit.

Overall guidance for the total revenue and cash CapEx remain unchanged. Our strong service revenue and profitability growth continued to demonstrate the very attractive underlying economics in our business. I cannot be more pleased with these financial results.

Operator, we're now ready to take our first questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

John Hodulik, UBS.

Lisa Friedman - UBS - Analyst

Good morning everyone. It's Lisa Friedman for John.

Norm, I just want to ask about the guidance. It looks like you've already done about almost \$20 million in EBITDA in the first half, so I was just surprised you didn't raise the guidance range, and so maybe you could just give us color around that.

Norman Smagley - Gogo Inc - EVP & CFO

Sure guidance range as I mentioned going through the results, we expect a significant increase in engineering expenses in the second half of the year, primarily for STCs related to 2Ku launches with our airline partners, and next-gen ATG development as we look towards that technology, as well as increasing line fit expenditures to get 2Ku line-fit for both Boeing and Airbus.

Lisa Friedman - UBS - Analyst

On that topic we have gotten a number of questions about Virgin America's decision to use Viasat for their new deliveries from Airbus. I believe that was because they wanted the product be line-fit. Do you have any sense of when you may be able to be line-fit for 2Ku for Boeing and Airbus, going forward?

Michael Small - Gogo Inc - President & CEO

Lisa, it is Michael. We haven't disclosed that date, but we are making excellent progress on line-fit with both those airlines. We do -- I would like to point out though, that since we announced 2Ku, we have sold over 500, and in that time period we have seen 10 now aircraft sold by the competition. So we think 2Ku is winning in the marketplace and will continue to win in the marketplace.



Lisa Friedman - UBS - Analyst

Thank you.

Operator

Dick Ryan, Dougherty.

Dick Ryan - Dougherty & Company - Analyst

Great, thank you. Michael, back on the line-fit question. How about your first generation KU satellite antenna? Are you working on line-fit for that solution at all?

Michael Small - Gogo Inc - President & CEO

We are investing a little in line-fit of that product, but it is primarily -- that is an end of life solution. It is the last generation solution, 2Ku is the next generation solution. So our focus will be -- our primary focus will be on 2Ku. We are technology agnostic and respond to what our airline partners want, so we sell virtually everything in the marketplace. It's just in our opinion, 2Ku is the right answer in virtually all cases.

Dick Ryan - Dougherty & Company - Analyst

Okay. Any timing on that line-fit effort, or is it just with Boeing or Airbus, or would it be both?

Michael Small - Gogo Inc - President & CEO

We're working on it with both, and the timelines are long. Inherent to the process of getting into the factory at Boeing and Airbus. They cannot afford any vendor slowing down the process, so it is rigorous. But we are well underway. It's happening.

Dick Ryan - Dougherty & Company - Analyst

Okay. And Norm, I know it is still early in rest-of-world. Revenue per aircraft looks to be -- I think it is \$17,000 per aircraft, or maybe 50% below CA-NA? Can you give us what your expectations are, over the near-term and longer-term? Does that track where CA-NA goes?

Norman Smagley - Gogo Inc - EVP & CFO

So the trend for rest-of-world for ARPA is very positive. We're moving in the right direction, along with our expectations. We're very pleased with the results so far. In the longer term, we could see ARPA in rest-of-world planes being higher than North America.

Dick Ryan - Dougherty & Company - Analyst

Okay.



Michael Small - *Gogo Inc - President & CEO*

Higher because, ultimately ARPA is driven by the amount of bandwidth you have, and we're going to be putting higher bandwidth solutions in the rest-of-world, and our second generation technology instead of first generation technology. So ARPA will be fine, as far as we're concerned with the rest of the world, even superior to what we've seen to date in the US.

Dick Ryan - *Dougherty & Company - Analyst*

Okay, and just Norm, one housekeeping. Do you have a number of aircraft for ATG-4?

Michael Small - *Gogo Inc - President & CEO*

We will get back to you in a moment.

Dick Ryan - *Dougherty & Company - Analyst*

Okay, great, thanks.

Norman Smagley - *Gogo Inc - EVP & CFO*

780.

Dick Ryan - *Dougherty & Company - Analyst*

Great. Thanks, Norm.

Operator

Jonathan Schildkraut, Evercore ISI.

Jonathan Schildkraut - *Evercore ISI - Analyst*

Great. Two questions, or maybe three if I may. First, Norm, if I could dive a little deeper on the guidance.

You have given us some sense here as to the incremental expenses to look for in the back part of the year, but just listening to your commentary, it sounds like most of those expenses will land in the ROW segment? And the reason I ask that question is that we are starting to see some real operating leverage materialize in the North American segment, and I just I'm wondering if we can expect to continue to see that pattern going forward, with the incremental expenses again falling in ROW?

Norman Smagley - *Gogo Inc - EVP & CFO*

2Ku STC related expenses will be -- there will be some in North America, as well. We do have to get the Delta fleets domestically for STCs. So, will be some spending there. And Next-gen ATG is primarily -- actually, entirely a North America expense. Line-fit will be shared. It will hit both.



Jonathan Schildkraut - *Evercore ISI - Analyst*

Okay, can you give us -- quantify any of these expenses for us? Or just, we should back into it using the top end of the EBITDA guidance range?

Norman Smagley - *Gogo Inc - EVP & CFO*

Yes we're not going to disclose is that this point forward-looking numbers.

Jonathan Schildkraut - *Evercore ISI - Analyst*

All right. Great. I was wondering also if we might get some backlog numbers, in terms of what is left in the backlog to install between North America and the rest of the world?

Michael Small - *Gogo Inc - President & CEO*

Sure. We'll pull up the precise numbers.

Jonathan Schildkraut - *Evercore ISI - Analyst*

Michael maybe this is a time to ask you a question, then. 2Ku, obviously it has been the big focus for the Company, and we have seen some progress over the course of the year. It was great to hear you talk about it in number one priority as we look to the end of the year, really setting up for 2016.

I was wondering if you might give us a little perspective, through your experience? First of all, is the pace at which this is coming to market as you expected, faster, slower? And what are the more challenging hurdles that are out there for us to look at as lines of demarcation, over the next few months?

Michael Small - *Gogo Inc - President & CEO*

So 2Ku is the global solution that is really going to make our industry take off outside of North America in my opinion. We have held our timelines remarkably well for developing a new technology.

We are very close on the STC for our own 737, and I couldn't be more thrilled to have seven airlines select 2Ku for over 500 aircraft literally just 15, 16 months since we announced it. So it is going very well, and the fact that we have over 500 already, we have crossed the threshold of having enough planes to support this technology, and I fully expect there will be a lot more coming.

Jonathan Schildkraut - *Evercore ISI - Analyst*

All right. Thank you for that.

Norman Smagley - *Gogo Inc - EVP & CFO*

So Jonathan, on the backlog, we have about 300 in backlog in the rest-of-world, and on a net basis, after inspecting the installs for the airlines, we have about 400 in North America, which is roughly 700, gross.

Jonathan Schildkraut - *Evercore ISI - Analyst*

Great. Thank you for the answers and taking the questions.

Norman Smagley - *Gogo Inc - EVP & CFO*

Sure.

Operator

Andrew DeGasperi, Macquarie Capital.

Andrew DeGasperi - *Macquarie Research - Analyst*

Thanks. First I wanted to ask you if -- do you have any visibility on aircraft retirements for the rest of the year? Or is this something that hits you out of the blue?

Michael Small - *Gogo Inc - President & CEO*

We do have, we have very good visibility over even a years' time on aircraft count. What happens in any particular quarter, there can be movement based on airlines decision. While we had a heavy quarter, we are very confident in our long-run forecast in aircraft count.

Andrew DeGasperi - *Macquarie Research - Analyst*

Got it. Secondly, I was wondering if you could discuss your usage statistics for Gogo Vision. Do you feel, generally, that passengers are aware of the product, or do you think that could be improved?

Michael Small - *Gogo Inc - President & CEO*

Well it varies by airline and how much they promoted it. It's continuing to build, and I do think you'll see in uptake. It is now a meaningful number of views, even relative to our connectivity sessions. It's a product the airlines and the passengers love.

It's an inexpensive, lightweight solution, getting video to the way the customer or passengers would rather see it, which is on their own device than on an outdated seat-back screen. So I think the product is going to do very well, and we position it as a value-add to our core connectivity product. Ultimately connectivity is transformative, and Gogo vision is a nice application in the broader picture.

Andrew DeGasperi - *Macquarie Research - Analyst*

Great, last question. 14 GHz auction, I think recently Google made some opposition to that, and Qualcomm before that. Do you have any comments on that?

Michael Small - *Gogo Inc - President & CEO*

I'm not aware that it was Google, but there are some that have objected along the way. The notice of proposed rule making and the commentary it has closed, and so I am not sure that the FCC, well certainly not in a formal process would consider any additional objections. We are actually awaiting that report and order.

As we said over and over again, we cannot predict even that it will be issued, much less when, but we are operating on the assumption that it could be at any time, so we are prepared in the event that the FCC does issue it. In our base business planning, it is all about 2Ku. That drives our forecasting and how we think about the business.

If 14G happens, we think it is a real asset in the United States. It is not a global solution, so it is a real positive, but it isn't fundamentally what is going to drive our growth on a global basis.

Andrew DeGasperi - *Macquarie Research - Analyst*

Great, thank you.

Operator

Armintas Sinkevicius, Morgan Stanley.

Armintas Sinkevicius - *Morgan Stanley - Analyst*

Good morning. Thank you for taking the questions.

I had two on the North American business. With regards to pricing, I know there was some price increases in April that help drive ARPA higher, but the take rate was down quite significantly. If you could talk about your thoughts on pricing going forward? How it relates to pricing elasticity, and how much the business customers are willing to continue to pay? And also there is a sentence in the slide deck from the analyst day that said relaunching talk-and-text. So, I was wondering if you had any updates on the app?

Michael Small - *Gogo Inc - President & CEO*

So we still have pricing power. The elasticity works in our favor, but we have actually finally found where you actually see a reduction in which volume as you raise price.

We also know that the answer ultimately is more bandwidth, and with 2Ku so clearly on the horizon for us now, we are going to temporarily use of price increases until 2Ku arrives and provides more bandwidth. We have that power, but I just think the negative customer perception we trade by doing that is just not worth it at this stage. Although we do have that flexibility.

And the texting app, it is now actually available in the iTunes store. And with in-app payment. So it is still beta version, but available. Then we will increasingly promote that going forward. I encourage you all to download it. It is pretty slick and easy. You will like it.

Armintas Sinkevicius - *Morgan Stanley - Analyst*

Okay and then actually just one more follow up. Sort of a housekeeping item, but international airlines, if you could update us on the conversations you're having there?

Michael Small - *Gogo Inc - President & CEO*

We continue to believe we will sign additional international airlines, including in the remainder of this year. 2Ku continues to resonate, Gogo's leadership and experience continues to resonate, and as we indicated, we are focusing on larger fleets and even full fleets because we think that's the best way to grow our business economically, efficiently, and deliver the best result for our airline partners.



Armintas Sinkevicius - Morgan Stanley - Analyst

Thank you.

Operator

Phil Cusick, JPMorgan.

Philip Cusick - JPMorgan - Analyst

Hello. Thanks. First, following up on that, do you still feel good, Michael, about three to five major deals this year? And any feel for when carriers could start awarding those?

Michael Small - Gogo Inc - President & CEO

Three to five is -- your number may be gleaned from things that we may have said, but we haven't officially said three to five. And we're pretty good way there. We have two any way you want to cut it. This year we got Delta's -- some of their international fleet new orders there, and we have the big one from GOL with 140 planes. And I've said I think will get more, so that by definition hits at least the low end of your range.

Philip Cusick - JPMorgan - Analyst

And how about in terms of carriers awarding those deals? Any feel on timing?

Michael Small - Gogo Inc - President & CEO

On timing?

Philip Cusick - JPMorgan - Analyst

Yes.

Michael Small - Gogo Inc - President & CEO

No, other than we think we will get another one this year, is the only indication we have given on timing. Gogo has won 70% plus of all the aircraft awarded since we announced 2Ku on a global basis, so I think we have a winning track record. I think that will continue.

Philip Cusick - JPMorgan - Analyst

Okay and second, we have gotten a lot of questions on the Virgin deal with Viasat. I know you didn't have a contract on the 10 planes that went to Viasat, but how long is the contract on the existing Virgin fleet? And any idea on how they plan to market that Viasat offer versus the fleet-wide Gogo offer that they have today?



Michael Small - *Gogo Inc - President & CEO*

I don't know how they will handle marketing the two different services on different aircraft. The deal still has a few years remaining on the existing aircraft.

Philip Cusick - *JPMorgan - Analyst*

Okay. Thanks Michael.

Operator

Andrew Spinola, Wells Fargo.

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

Michael, I think you made a comment earlier in the call that there will be some additional capacity on the ATG network in 2016, and I just wanted to confirm, is that as you move the long-haul Delta domestic planes over to satellite that you will be freeing up the capacity? Is that what you are referring to?

Michael Small - *Gogo Inc - President & CEO*

Exactly. There is a double benefit of 2Ku. The planes that get installed, of course, get a lot more capacity, but they are come off the ATG network, freeing up capacity for the remaining aircraft on the air to ground network.

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

Got it. Makes sense that as you move to 2Ku, you will have more and more capacity, but just in terms of managing the transition, is there anything that you can do on the supply side with the ATG network? Whether it is add more sell sites, improve the backhaul? Anything that you can invest into also add capacity for the next couple of years?

Michael Small - *Gogo Inc - President & CEO*

Every day we invest in the ATG network to squeeze out more capacity, and we've been doing that for the last five years and we will continue to do that, but it can only yield so much. There is just laws of physics with 3 MHz of spectrum in use.

We are maybe the worlds most efficient user of 3 MHz of spectrum, and I do think we can possibly -- yes, we actually do have line-of-sight ways to get a little bit more out of existing.

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

Alright, makes sense. Thank you very much.

Operator

Louis DiPalma, William Blair.



Louis DiPalma - *William Blair & Company - Analyst*

Good morning. I think Virgin America was one of the first adopters of the ATG technology, and as you discussed in the previous answer, that contract comes up for renewal in, I believe, 2018. Do you expect Virgin to renew that contract for its existing fleet?

Michael Small - *Gogo Inc - President & CEO*

I would expect that, yes, because Gogo will have the best solutions in the marketplace. You know, I understand the pressure to find more bandwidth, and to me 2Ku is that answer.

It is going to be the best solution. And there is going to be plenty of time for us to demonstrate that, and it will become clearer and clearer in the marketplace over the next few months, as we fly it on our plane and then begin to fly it commercially.

Louis DiPalma - *William Blair & Company - Analyst*

Great. And with capacity constraints on the ATG network, you appear to be focusing on network optimization and low-bandwidth services. Michael, do you expect T-Mobile to renew the exclusive texting partnership, and does that expire soon? As in the third quarter or the second half of this year?

Michael Small - *Gogo Inc - President & CEO*

I won't comment on the terms of that agreement, but we will see some low-bandwidth texting type solutions coming in. It will not be the big driver of our results, but it will be one of those things we can do to manage the limited bandwidth, and we will use that.

Louis DiPalma - *William Blair & Company - Analyst*

Okay. Lastly, can you discuss adoption of ATG-4 within the business aviation segment?

Michael Small - *Gogo Inc - President & CEO*

We just introduced ATG-4 into the business aviation segment. It's called ATG 8000, and we are just beginning to sell it, and I do think that will be applicable to a certain number of aircraft.

It's part of our segmentation strategy, so we will be able to upsell a few of the larger, more valuable aircraft. Then we will introduce ATP 1000 or 2000, or have introduced it, to the lower-end aircraft.

Louis DiPalma - *William Blair & Company - Analyst*

Excellent, and thus far, have you been successful at penetrating that lower end market?

Michael Small - *Gogo Inc - President & CEO*

We've seen good traction, yes. The segmentation strategy is working quite well. ATG 2000 is out in the marketplace. 1000 is coming later this year. So it is lower equipment prices matter at the low end of the market, as the planes become less valuable, but it is also about connecting more cockpit



applications. Because the person flying the plane that is probably using the connectivity, and there is just not -- to easily pop open your laptop and surf in the back of a lot of those planes.

Louis DiPalma - *William Blair & Company - Analyst*

Thanks for taking the question.

Michael Small - *Gogo Inc - President & CEO*

Thanks.

Operator

Jonathan Schildkraut.

Jonathan Schildkraut - *Evercore ISI - Analyst*

Thanks. Sorry, follow-up question. Michael, you been talking a lot about managing capacity in ATG-4 network. I am just wondering, I think you still have one megahertz of spectrum in the 800 band that is not in use.

Is that a possibility to bring that into use, or is the expense to adding that frequency to existing equipment and/or tower sites too expensive as a reasonable solution? Thanks.

Michael Small - *Gogo Inc - President & CEO*

So the one megahertz is a valuable asset, but it is simply getting a third more capacity. Straightforward math going from 3 to 4 MHz, is a nice help, but it's not transformative. It doesn't begin to compare to what 2Ku can do for us. That is much more impactful, and realistically, a much shorter time frame at this stage.

The one megahertz can also be used in the more creative ways paired with potentially other future spectrum, and that could have a more transformative impact also than simply a 33% increase. So, for the optionality value of how we can use it in the future, we haven't deployed it and also it is quite clear to us that 2Ku is a much more impactful way to go.

Jonathan Schildkraut - *Evercore ISI - Analyst*

Okay thank you Michael.

Michael Small - *Gogo Inc - President & CEO*

Thank you John.

Operator

I'm showing no further questions in the queue.

I would now like to turn the call back over to Mr. Michael Small, President and CEO.

Michael Small - *Gogo Inc - President & CEO*

Thank you, everybody, for joining us today.

We are very pleased with the quarter. It demonstrates the underlying operating leverage in our North America business and we are very confident that you'll see comparable trends as we expand around the world. It really is the same business in the rest of the world as we've seen in the US.

So thank you, everyone. Have a great day.

Operator

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

©2015, Thomson Reuters. All Rights Reserved.