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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Q2 2020 Gogo Inc. Earnings Conference Call. (Operator Instructions) Please be advised that today's conference may be recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Mr. Will Davis, Vice President of Investor Relations. Thank you. Please go ahead.

William G. Davis - *Gogo Inc. - VP of IR*

Thank you, Jimmy, and good morning, everyone. Welcome to Gogo's Second Quarter 2020 Earnings Conference Call. Joining me today to talk about our results are Oakleigh Thorne, President and CEO; Barry Rowan, 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 press release filed this morning and are more fully detailed under the Risk Factors in our annual report on Form 10-K and 10-Q and other documents we have filed with the SEC.

In addition, please note that the date of this conference call is August 10, 2020. Any forward-looking statements that we make today are based on assumptions as of this date. We undertake no obligation to update these statements as a result of more information or future events. During the call, we'll present both GAAP and non-GAAP financial measures. We've included a reconciliation and explanation of adjustments and other considerations of our non-GAAP measures to the most comparable GAAP measures in our second quarter earnings press release.

This call is being broadcast on the Internet and available on the Investor Relations section of the Gogo website at ir.gogoair.com. The earnings press release is also available on the website. After management comments, we'll host a Q&A session with the financial community only.

It is now my great pleasure to turn the call over to Oakleigh.

Oakleigh B. Thorne - *Gogo Inc. - President, CEO & Director*

Thanks, Will. Good morning, and welcome to our Q2 2020 earnings call. And it certainly was an extraordinary quarter, but for all the wrong reasons. I think I can sum it up by saying that if you sell Internet on airplanes and no one's on the plane, it's tough to make a living.

Anyhow, our consolidated revenue was down 55% from prior year, and despite very significant cost reductions, our EBITDA fell into negative territory for the first time since Q4 2013. The only positive metric was that we eked out a $1 million profit in unlevered free cash flow for the quarter.

That said, there are green shoots starting to emerge. We're seeing a really solid bounce back in our business aviation division and a slower recovery, but a recovery nonetheless, in our Commercial Aviation business. Our Commercial Aviation gross passenger opportunity numbers really tell the story, what we call GPO. In pre-COVID times, we were averaging 37 million passengers a month on Gogo-equipped aircraft. In April, that plummeted to 1.9 million passengers, down 95%. It recovered to 3.9 million in May, 7.1 million in June, and though we don't have final GPO numbers for July, we've continued to see steady increase in flights, load factors and user sessions in July and August, and I'll get into those in a little more detail in a moment.

Through all this turbulence, we remain laser-focused on our liquidity and on driving shareholder value. And as I outlined on our last earnings call, we've developed a 3-track plan of attack that we call our value creation plan. The first track is a COVID operating plan focused on preserving our liquidity through the end of the pandemic, the second track is the strategic initiative to combine our Commercial Aviation division's strength with another enterprise to position the combination for success in the Commercial Aviation IFC market. And the third is the financial track aimed at dealing with our convertible debt and backstopping the first 2 tracks should we need to do so.

With that said, let me now turn to the COVID operating plan. We now forecast that we will achieve savings greater than the high end of the range we shared on our last call. And unless there's another major setback from COVID, we believe we have enough liquidity to survive this pandemic. Our financial projections are based on the U.S. domestic passenger traffic market recovering to 50% of 2019 levels by the end of 2020, and 71% of 2019 levels by the end of 2021. And on the rest of the world, air traffic returning to 44% of 2019 levels by the end of 2020 and 72% of 2019 levels by the end of 2021.

Now I'm going to step through each of our 3 segments and share a lot of operating metrics. The pattern will be a bit repetitive, so I apologize, but I'm trying to share our pre-COVID levels and where we bottomed out at the bottom of the chasm, if you will, and then the recovery that we've seen so far.

So let me start with our Business Aviation division. Pre-COVID, we averaged about 3,500 flights a day. On April 12, we hit the bottom of the chasm with 397 flights. We view daily flights as an important metric because flight activity drives demand for in-flight connectivity. Since averaging 793 flights per day for the month of April, we've seen a nice comeback with 1,600 flights per day in May, 2,500 per day in June, 2,600 in July and up over 2,700 in August. The big issues for us in the quarter were: a, that 22% of our account suspended service; and b, another 22% downgraded their service plans. The good news is that 64% of those suspended accounts have now unsuspended and 80% of those that have downgraded plans have now upgraded. The best news is that 90% of those that suspended or downgraded have moved back to their original plans or higher price plans, which bodes well for a rebound in our ARPU going forward.

We ended the quarter with 5,400 ATG aircraft online, down from our high of 5,700 at the end of Q1. As we look ahead, we expect ATG units online to recover to our prior high in the first half of next year. With the combination of accounts and pay plans being reinstated and steady growth in aircraft online, we expect service revenue to begin recovering this quarter and remain on a fairly steady recovery track for the next several quarters. ATG units shipped in the quarter fell to 100 units from an average of 227 units a quarter last year. And we expect units shipped to grow this quarter and next though not to recover to last year's level this year.

On another positive note, in the next week or 2, we expect to surpass 1,000 AVANCE L5 installed and flying and also surpassed 450 L3s installed and flying. Customer satisfaction with this product has been very high, and it is by far our most successful product launch ever. In the longer term, we think that COVID-19 may actually be a catalyst for the business aviation industry. Dealers and fractional operators report a huge surge of sales inquiries which is good news, but we've not yet seen that turn into orders in our order book.

In our Commercial Aviation North American segment, we've seen steady growth in passenger traffic since April. Pre-COVID GPO was averaging $27 million a month and then collapsed to $1.5 million in April. It then started to recover and came -- went up to $3.3 million in May and $6 million in June. Flights per day are another good barometer for the health of our CA market. Pre-COVID, we were averaging a little more than 10,000 flights a day in our North American segment. At the bottom of the chasm in April, we saw a couple of days as well as 2,300 flights per day. In May, we averaged 2,700; in June, that grew to 3,500; in July, it grew to 5,300; and in August, we're averaging a little more than 6,000 flights a day. The good news is that over that same period, load factors also rose from the 10% to 20% range in April depending on what airline you're looking at, up to the 40% to 60% range this month, all of which bodes well for our Q3 gross passenger opportunity. All of these data points show that the CA North American market is recovering. It's still way off where it was last year, but it is recovering, nonetheless. And that recovery is starting to come through in our numbers.

Starting with sessions, pre-COVID, we were averaging 125,000 sessions a day, which then collapsed 91% of to 11,000 sessions a day in April. It started coming back with 15,000 a day in May and is now all the way up to 40,000 a day or 32% of pre-COVID levels in August.

Now I'd like to discuss sales not revenue, because given 606 accounting and other similar factors, sales are a better measure of daily cash-generating activity than revenue. Pre-COVID, our North American sales averaged just under $1 million per day. In May, that number collapsed to just under $200,000 a day. In June and July, it grew to $275,000 a day. And in August, it's run a little more than $300,000 a day. The downturn in our sales and the recovery are more muted than the session downturn and recovery because monthly service plans and other recurring revenue sources which accounted for about 25% of our daily sales pre-COVID are stickier than daily in-air sales and account for roughly -- I'm sorry, and the accounted for us, the 25% of our CA service sales in pre-COVID times.

We ended Q2 with 2,500 aircraft online in CA-NA down 25 -- sorry, 2,455 aircraft online in CA-NA, down 25 from the prior quarter but up 12 from prior year. Not all of those aircraft were active, though, in the quarter. Our low point was roughly 1,200 active aircraft per day in early May, about 2/3 of which were ATG regional jets. U.S. airlines relied heavily in regional jets at the bottom of the chasm because they're cheaper to fly than mainline jets. And if no one is on the plane, it doesn't really matter what jet you use. At the end of the quarter, we were up to about 1,500 active tails per day. And as of last week, we were up to more than 1,800 of active tails per day or 73% of our North American fleet.

It's tough to predict the impact of COVID on our fleet count going forward because airlines don't always retire all of the aircraft, they say they plan to retire, but we estimate that there are about 230 older Gogo installed aircraft that North American airlines may retire as they downsize their fleets over the coming year or so.

For the quarter and so far into Q3, we have run a little ahead of our forecast. But we believe our forecast for North America are pretty accurate and give us a good basis for projecting our liquidity. In our CA Rest of World segment, the downturn was about the same as the North American segment, but the recovery has been slower. Pre-COVID, our Rest of World GPO was running at 11 million passengers per month. And that collapsed to 480,000 or 95% in the month of April, and May was no better. There was a modest recovery in June to being down only 89%. And since that time, we have seen more recovery. Pre-COVID, Rest of World flight counts were running at about 2,600 per day. In April -- in the April chasm, that tanked to less than 400 per day, and then that's started climbing in mid-June and climbed steadily to an average of 700 per day in July and more than 900 per day in August. Roughly 3/4 of these flights are domestic flights in non-U. S. markets which is Japan, Brazil and Australia.

Load factors involved are extremely dispersed with higher factors on domestic non-U. S. flights and quite low factors on intercontinental flights. Positive trends are also starting to come through in our numbers. Pre-COVID, our Rest of World division was averaging 47,000 sessions a day which collapsed to 94% to 2,700 sessions in April but has grown to 6,000 a day in June and are running at more than 9,000 a day for August. Sales followed a similar muted pattern as North America running at 114,000 a day pre-COVID and dropping down 76% to 27,000 a day in April. And then started a steady recovery and are now back up to a little more than 40,000 a day in August.

Rest of World aircraft online actually grew in the quarter, up 9 to 842 and up 151 from prior year. Due to retirements and bankruptcies, we expect roughly 100 of our current Rest of World fleet to be installed over the next year or so. Again, these numbers are hard to predict because in this environment, airline fleet plans can change rapidly. These deinstalls will be offset by installations of backlog, which currently stands at 517 aircraft. Though we consider 105 of those to be at risk due to bankruptcies. Net-net, we still expect significant growth in our Rest of World fleet over the next several years, though there may be some declines in the short run.

Enough on green shoots. We can't count on an industry recovery, and we need to plan for the worst and hope for the best. So let me turn back to the cost side of our COVID operating plan. The first goal of our plan is to protect the health and safety of our employees and our customers. We've implemented work-from-home policies, and though all of our U.S. facilities are now open with extra safety precautions, only a fraction of employees are actually working from the office at this point in time. I'm really proud of the great job our team has done of working remotely. Despite furloughs and risks, they've stayed connected and work as a team.

After safety, our next priority was focusing on the financial health of Gogo and creating value for shareholders. Our approach has been to develop and continually pressure test multiple scenarios for the depth and duration of the COVID pandemic in our markets and then develop operating plans to address those scenarios. The operating plans, in turn, drive 16 cost levers that we can pull or push to manage our cash expenses. The Commercial Aviation market conditions are pretty consistent with the worst-case scenario we've developed back in March. And in the business aviation market, the dip was much deeper than we anticipated, but the recovery has been much faster.

Last call, we forecast $170 million in savings in 2020 and 2021 in the best case scenario; and $330 million in the worst-case scenario -- and are now projecting greater than the $330 million in-case savings because we're closer to the worst-case scenario out of the 16-lever plan. The latest and most significant lever was our announcement 2 weeks ago of a reduction of 14% in our workforce. 20% of our Commercial Airlines division workforce, and that accounts to 20% of our Commercial Airlines division workforce, is obviously seen has been the hardest hit by the pandemic. Including attrition since the beginning of the pandemic, we've now reduced headcount in our Commercial Aviation division by 30%.

We'd always stated that our RIF was our 16th lever, and sadly with airlines in such difficult circumstances, we had no choice but to move from furloughs to a RIF, if we were to meet our liquidity requirements. Pay reductions will continue, and our compensation committee has announced that it plans to pay our 2020 bonuses in stock unless the company should have adequate cash reserves to pay in cash. I won't go through the details of the other levers, again, other than to say that virtually every supplier we have is working with us to get through this pandemic, and we are very grateful for their help. We've also had help from some of our airline partners who have delayed installations or found other ways to help us reduce cash burn. We've tried to minimize the impact of our cost reductions on 2 levers that are product related, our Gogo 5G initiative and our 2Ka initiative. And though we've shifted some spending around on those, we've done so without affecting timing.

We believe these savings should be adequate to tie us through to sunnier days however, we continually model new scenarios in case this downturn is substantially deeper and longer than our current worst-case projections and we have plans to address those scenarios if need be.

I want to thank the Gogo team for the hard work and creativity they've displayed in developing these plans and also for the sacrifice all of them are making to ensure the long-term survival of our company. I also want to thank those that will be leaving us, August 14. Your departures have nothing to do with your individual knowledge, skills or effort. They're driven by circumstances no one could have predicted and that are beyond all of our control. We wish you the very best in the next stage of your careers.

Now let me turn to the strategic track. As we've said many times in the past, we have 2 valuable businesses, and management views our job as realizing the value of both those businesses for our shareholders. Our business aviation division operates in a very attractive industry with relatively little customer concentration, an underpenetrated market and a strong market position. We offer the industry's leading product at an attractive price relative to competitive solutions, and we have unique advantage due to our proprietary spectrum and ATG network.

Financially, our recurring revenue model generates strong cash flow which allows us to invest in enhancing our product offerings and maintaining our product advantage as we did with the launch of our AVANCE product line 2 years ago, and as we will do with Gogo 5G in 2021.

Our CA business operates in a much more challenged industry with high customer concentration, a more heavily penetrated market, and a number of competitors. Everyone agrees that IFC and Commercial Aviation is an attractive growth industry. Airlines are moving to free service, which will drive adoption. And OEMs and airlines are poised to drive more operational applications as the quality of in-flight broadband grows in the future. But the IFC -- but for IFC players to capture this attractive growth potential and drive innovation, the industry would benefit from fundamental changes through either horizontal or vertical business combinations.

Recently, we received questions about whether we are in a process to sell our Commercial Aviation division, and we'd like to make the following comments in reaction to those inquiries: We've long talked about the strategic benefits of combining our CA division, either a, with another service provider in driving scale economics; or b, with a satellite operator and driving utilization economics; or c, with an avionics company in facilitating data transfer as the connected aircraft becomes a reality.

COVID has accelerated consolidation discussions as industry players look to emerge from the crisis with the strongest portfolio of assets they can to capture future industry growth. Gogo Commercial Aviation brings an attractive and unique set of assets to such a combination for both strategic and financial buyers sponsoring such consolidation ideas. We helped create the IFC segment and have established a leading market share with many of the world's leading airlines. We have industry-leading competencies in engineering, software, sales, support and network management. We have the leading IFC product in the world in Gogo 2Ku. And we have an asset-light business model that affords us tremendous flexibility as the satellite industry moves quickly toward a multi-orbit, multi-spectrum future.

Several parties expressed interest in our CA business in the second quarter. And as a result, we retained BDT & Company as our primary advisers and launched a formal process this summer to evaluate our strategic options for that business. We've been in extensive discussions with multiple parties and feel optimistic that a deal may happen. However, we cannot be sure that we will be able to consummate a transaction. We do not want to impact our negotiations by saying too much publicly, but we'll not answer questions or comment further at this time, and we'll not be providing regular updates on this matter until it is appropriate to do so.

I would add that we've taken steps to facilitate a transaction by completing a series of steps that began 2 years ago to formally separate our 2 businesses. It started in 2018 when we split Business Aviation out organizationally as its own division. In 2019, we moved our ATG network and operations under the new business aviation division which aligned our networks with the division that most relied upon that particular network. So BA manages ATG and CA manages the satellite network.

At the beginning of 2020, we'd split up corporate expense to provide visibility to these costs which help investors more clearly see the value of the 2 businesses. And finally, in July, we completed the legal separation of the 2 businesses by establishing separate balance sheets and segregating assets, liabilities, contracts, licensees and employees by division. We are really proud of the Commercial Aviation team and the tremendous capabilities they've built and think it will have a bright future as part of a larger, more fully integrated entity.

Now let me finish with the financing track. Because we can't be sure that we'll be able to complete a strategic transaction and because there's some risk the pandemic will get worse and cause our revenue to fall further or not rise as quickly as we project in our current plans. We are also pursuing a financing track. Among the factors we need to consider is that our $238 million phased convertible notes become due in May of 2022. The we have no firm financial plan at the moment, but believe our 3-track value creation plan should afford us opportunities to improve our capital structure. Also, as you know, the CARES Act provides 2 potential opportunities for Gogo to receive assistance. The $32 billion short-term payroll protection grants for air carriers and contractors and the 29 billion in loans and loan guarantees for air carriers, including Part 145 repair stations like Gogo. We have not factored receiving government assistance into our financial planning. However, we have applied for $81 million under the grant program and $150 million under the loan program.

While we have not heard anything definitive on either application, we found a question-and-answer on a recently published treasury department frequently asked questions list that would indicate we will not be eligible for the loan program. We have still not received word on whether we will be accepted for the grant program, though we do continue conversations with treasury. Should we receive government assistance, we believe we would be required to roll back all or most of the furloughs and pay reductions that I discussed earlier and risk and, obviously, defer any other employee actions until after September 30.

With that, let me turn it over to Barry to do the numbers.

Barry L. Rowan - *Gogo Inc. - CFO & Executive VP*

Thanks, Oak. I'll start my comments with a summary of the financial impact of the COVID pandemic on our business as well as our response, and I'll conclude with an overview of the operational results for our BA and CA divisions.

Of course, Gogo has been significantly impacted by COVID-19. Commercial Aviation has been much harder hit than business aviation, and BA is already recovering reasonably well. Consolidated revenue was down by 48% from the first quarter of this year. CA revenue declined nearly 3x as much as BA as CA revenue was down 63% and BA declined 23% over the first quarter. The cost controls we have already implemented this year are running ahead of plan. As a result of these actions, we achieved breakeven unlevered free cash flow for the quarter, and we ended the quarter with $156 million in cash.

Let me build on Oak's comments by summarizing the financial dimensions of our response to COVID. As Oak described, and as we outlined on our last earnings call, we are executing on a 3-part value creation plan including the operational track, a strategic track and a financing track. Oak covered the strategic and financial tracks, so I will focus on the financial implications of our operational planning. Within the operational track, we continue to follow our 3-part planning and execution process, developing scenarios, identifying cost saving levers, and thirdly, actively monitoring the industry dynamics to assess where we are on the continuum of the scenarios.

On our last quarter call, we reported that we had identified cost savings that -- ranging from $170 million to $330 million through 2021. We also indicated that the level to which we executed on these plans will depend on how the COVID-19 impact unfolded relative to our best case and worst-case scenarios. You may recall that our worst-case scenario contemplated a full ground stop for 2 to 3 months. We're not completely at that point. But we are planning for a slow recovery in Commercial Aviation, which puts us very close to our worst-case scenario.

In response to the rapidly evolving COVID situation, we have now developed cost saving plans in excess of $340 million through 2021. This is above the 330 million we previously cited as the high end of the range of cost savings we thought we could achieve. While I won't go into each of them in detail, let me summarize the impact of the 16 levers of our cost savings plan.

Six out of the 16 levers are nonpersonnel related and these comprise about 2/3 of our projected savings. On our last quarterly call, we stated that about 3/4 of these cost savings were either directly in our control or represented savings where we had already reached agreement with the requisite counterparties. We've made even more progress since then.

Now as we look to the more than $340 million of savings we've identified through the end of 2021, approximately 95% of these savings have already been secured or are in our control. The 3 primary counterparties include airlines, equipment suppliers and Satcom providers. We've made significant progress in coming to agreements with our customers and suppliers to reduce our cost structure, and we are grateful for their partnership with us as we navigate through this turbulence.

One of the key drivers of the cost savings is that we have agreed with our airline partners to significantly delay installations. Pushing out these installations mutually benefits Gogo and the airlines and represents very significant cash savings to us between now and the end of 2021. At the time of our first quarter call, we had already renegotiated our purchase commitments to align with these installation delays, reducing our 2020 expenditures by at least $80 million. Netting the foregone airline proceeds we would have received for these installations, these delays represented approximately $40 million in net cash savings to Gogo during 2020. Since then, we have been able to reduce purchases even further, which is reflected in the higher overall cost savings I described.

Our satellite providers are also taking a partnership-like approach with us. We have now reached agreements with all of them. These concessions generally don't alter the fundamental long-term structure of the agreements and they typically provide for a reevaluation of the COVID impact on a rolling basis, but the cash savings are significant. We now expect savings through 2021 of over $70 million from the renegotiations with Satcom vendors as well as from delays in purchasing new capacity due to reduced demand.

We're also dramatically reducing nonessential spend and related line items across the board, while being mindful of our objective of maintaining the franchise value of Gogo. These expense categories represent over $60 million in savings through 2021. Unfortunately, our employees are having to share in the pain COVID has caused to our business. As about 1/3 of the cost savings are from personnel-related actions. While we put it off as long as possible pending potential government funding, we were forced to implement a reduction in force as announced at the end of July. We also modified our bonus program to enable the company to pay bonuses in the spring of 2021 in stock. The impact of this change to the plan is reflected in our second quarter numbers.

These cost-saving initiatives are already taking hold and, in fact, are running ahead of plan. Our best case and worst-case scenarios had identified cash cost savings excluding the impact of working capital through June of this year, ranging from $58 million to $67 million respectively. In fact, we achieved over $100 million in cash savings through June surpassing our worst-case planning scenario.

On a combined basis, our ED&D, sales and marketing and G&A expenses were down 35% versus the prior year and were down 27% from the first quarter of this year. This operational planning track has significantly reduced our burn rate and drove our strong cash flow performance for the quarter. We ended the quarter with $156.3 million in cash. This is $58 million lower than the $214.2 million exiting the first quarter, and the difference is wholly due to the $53 million of interest payments paid during the quarter and a repayment of $5 million on our ABL. This means that on an unlevered basis Gogo achieved breakeven free cash flow for the quarter.

We believe this is a significant achievement given how severely we've been impacted by the COVID pandemic, particularly in our Commercial Aviation business. As we look to next year, we will benefit from the full year impact of the cost savings we are implementing this year. Assuming the recovery stays on track and that we continue to execute on our cost savings plan, our projections suggest we could approach free cash flow breakeven for the full year 2021 on a levered basis. That is after paying our interest expense. I would also note that we are current on our interest payments and are in complete compliance with all of our debt covenants.

I will now turn to a discussion of our first quarter operating results beginning at the consolidated level. Total revenue was $96.6 million for the second quarter, down 55% over the prior year period. Service revenue was $74.3 million, down 57%, and equipment revenue declined 44% to 22.4 million from the year ago quarter. As I mentioned, the top line performance was very different between BA and CA. BA service revenue declined 20%, and our combined CA-NA and CA-ROW service revenue declined 75% over the second quarter of 2019.

Our cost controls helped mute the bottom-line impact as we reported adjusted EBITDA of negative $15.9 million. BA's bottom line performance was particularly impressive as they recorded near record segment profit margin of 50%. We recorded an additional $5 million in credit loss reserves under the new CECL standard, predominantly related to 1 airline that went into administration during the quarter, but there were no other material asset impairments recorded during the quarter. This is in contrast to asset impairment charges of $49.4 million recorded last quarter which reflected the initial impact of COVID-19.

I'll now discuss the operating results of our business segments, starting with business aviation. As hoped, BA is weathering the COVID crisis reasonably well, particularly on a relative basis. Total revenue declined year-over-year by 23% to $54.6 million for this quarter, with service revenue and equipment revenue declining by 20% and 36%, respectively. Service revenue, through the COVID period, has exceeded our internal expectations, reflecting the less significant impact on the BA industry versus CA, as well as the robustness of BA subscription model. While activations exceeded deactivations in June, the first time since the beginning of the COVID crisis, we are still seeing a cautiousness in the market around buying new equipment. We are expecting a substantial pickup in BA equipment revenue by the end of the year from this quarter's low point, but we'll continue to monitor equipment sales closely through both the OEM and aftermarket channels. Importantly, ATG units online decreased a very modest 1% from 5,462 to 5,399 over the prior year and 5.5% from the first quarter. We did see a more substantial 17% year-over-year decline in average monthly service revenue for ATG unit online from $3,091 to $2,570 as customers either downgraded their usage plans or shifted to pay-as-you-go plans. As Oak described, it's gratifying to see these customers largely returning to their pre-COVID plan as they start flying their planes again at more normalized levels.

BA did an excellent job in maintaining margins in the face of this revenue decline. Segment profit declined 13% to $27.2 million for the quarter. And as I mentioned, BA achieved a 50% segment profit margin. This was within 1% of BA's all-time high of 51% which was achieved in the first quarter of this year. This bottom-line performance was driven by a 69% overall gross margin for the quarter and tight expense control. Combined ED&D, sales and marketing and G&A expenses were $10.9 million, a 30% decrease over the same period last year. This reduction in operating expenses was despite investing $5 million more for the development of Gogo 5G this quarter versus the prior year quarter. So a portion of this incremental investment was capitalized.

Now let's turn to a discussion of our Commercial Aviation division results, starting with CA North America. CA-NA saw very substantial declines in revenue, with total revenue declining 72% to $30 million, and service revenue declining 74% to $25.5 million. This was primarily due to the impact of COVID-19. Revenue was also modestly impacted by the changes with American Airlines we have discussed on previous calls.

Equipment revenue declined 52% year-over-year to $4.5 million primarily due to not installing any 2Ku aircraft under the airline directed business model this quarter. The significant drop in service revenue resulted in service gross margin declining from 60% in the year ago quarter to 40% this quarter. The revenue decline also drove a swing in reportable segment profit from a $34.1 million profit a year ago to a $10.6 million loss in the second quarter of this year.

Aggressive cost control is a very important part of the CA story. CA-NA's ED&D, sales and marketing and G&A expenses were reduced in aggregate by 47% from the second quarter of last year. Aircraft online increased modestly to 2,455 from 2,433 a year ago. This was driven by an increase in 2Ku and RJ aircraft online partially offset by the removal of older mainline ATG and RJ aircraft and a small number of 2Ku retirements.

As you would expect, the ARPA numbers for CA parallel the revenue declines given the reduced load factors on the aircraft that are still flying. CA-NA ARPA was down 73% from $136,000 a year ago to $37,000 in the second quarter of this year. While we can't predict the impact of the COVID crisis on CA's revenues with any certainty, we do expect CA-NA service revenue to grow meaningfully in the second half from these devastating levels that we experienced this quarter.

Now let's turn our attention to CA-ROW. Total CA-ROW revenue decreased to $12 million down 67% from the second quarter of 2019. Service revenue decreased to $4.7 million, down 79% from the comparable period. This was the result of lower ARPA, which of course reflects the impact of COVID on global commercial air travel. Equipment revenue decreased to $7.3 million, down 49% from the year ago quarter, primarily due to fewer installations under the airline directed model. As with CA-NA, this reflects our pushout of installations with our airline partners across the board.

Reported segment loss expanded by 63% to $26.7 million from the second quarter of last year due to decline in revenue. This loss was meaningfully muted by significant reduction in ED&D and sales and marketing expenses, which parallel those in CA-NA. I would point out that the additional credit loss reserve I mentioned previously are recorded in CA-ROW G&A, which resulted in an increase in this expense category from a year ago.

CA-ROW aircraft online increased to 842 at the end of the second quarter, up 22% from 691 in the second quarter of last year. We exited this quarter with 622 Ku planes in backlog and 83% of that backlog is attributable to CA-ROW.

As I conclude my prepared remarks, I want to emphatically reaffirm our commitment to successfully steering Gogo through these challenging times. Of course, the impact of the pandemic on the aviation industry has been dramatic, but we have worked very hard to bring an objective perspective to this situation. We are executing on our 16 levers to achieve the cost reductions we have reported to date, and we'll continue to tightly manage our cost structure as the pandemic persists. And we will press forward with the industry consolidation opportunities we have discussed.

Finally, I want to join Oak in thanking our employees for the incredible commitment and work ethic you have demonstrated through these challenging times. You are truly our inspiration. Thank you again.

Operator, we're now ready for our first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Scott Searle with ROTH Capital.

Scott Wallace Searle - *ROTH Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

Oak and Barry, thanks for the detail. Very helpful. Appreciate the execution you guys have had in a very, very difficult environment. Maybe first, just in terms of the strategic process, I was wondering if a joint venture outcome is something that's amenable and something that's actually on the table. And you mentioned separating the balance sheets as well, I was wondering if you could provide any color on that front in terms of the debt levels or if any debt level that would assume to be going with the CA side. And then I had a follow-up on CA and BA.

Oakleigh B. Thorne - *Gogo Inc. - President, CEO & Director*

Yes. I mean we're not going to comment, Scott, on the potential forms of combination this time. Like I said, we're not going to answer further questions on that. In terms of the debt, though, that stays at RemainCo at the parent level. That would not be going with CA.

Scott Wallace Searle - *ROTH Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

Got you. And just a follow-up on the CA North American gross margins front, a lot better than I think people were expecting. It sounds like you've been very successful in terms of your renegotiation with your Satcom providers. But could you dig in a little bit more in detail in terms of what maybe the fixed or variable component is, if there were any onetime benefits in there? Or is this kind of a base case minimum of what we should expect in gross margins going forward, given really a difficult top line environment in the second quarter.

Barry L. Rowan - *Gogo Inc. - CFO & Executive VP*

Yes, Scott, it's Barry, let me take that one. The kinds of cost reductions that we have seen are clearly part of our plan and that we will see the benefit of those going forward. Particularly as we converted those furloughs to reductions in force, we will see that benefit going forward. So -- and that applies across the CA North America and Rest of World segment. We did see, as I mentioned, the negative impact on G&A in the ROW segment from the CECL -- from the CECL reserves. But in general, we expect to see the 2 benefits continuing to go forward. So the benefit of reducing our absolute level of operating expenses as well as seeing the benefit from the reductions in the Satcom costs. As I mentioned, these at cost reductions that we have been able to negotiate in partnership with the providers are generally reviewed on a rolling basis. So they don't want to get too far out over their skis until they see how the COVID crisis is going to unfold, but they have been very partnership-like with us and so we expect that to continue in the months and the next several quarters.

Scott Wallace Searle - *ROTH Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

Great. And lastly, just quickly on BA, you gave a lot of color there. It sounds like from reactivations, re-upping of plans, that you're kind of getting back into 90% plus kind of run rate of where BA had been on the services front. But surprised to see as well you're continuing to see new aircraft coming online. I'm wondering, are you seeing demand out there for new aircraft ramping up? Or is this execution against the existing backlog that had kind of been building up with ADSB? And I'm kind of wondering how that longer-term pipeline is looking.

Oakleigh B. Thorne - *Gogo Inc. - President, CEO & Director*

Yes. I mean, the order flow is way down. Like I said, we shipped 100 in Q2 versus an average of, I think, about 270 a quarter last year. And we don't expect to get back up to that 270 level this year. But we do think we'll have higher levels of orders in -- or shipments, rather, in Q3 and Q4. So -- and I think that things kind of froze in Q2, especially in April -- actually, March, April, so Q1, late Q1, Q2, early Q2 timeframe, people froze orders. We're starting to open up a little bit. So we do see new installs. We don't see the level, like I said, last year. We do see a lot of interest in fractionals, a lot of demand for charter. And we've not -- but we haven't seen that flow through yet as new orders in that area, as I said in my script.

Operator

Our next question comes from Lance Vitanza with Cowen.

Lance William Vitanza - *Cowen and Company, LLC, Research Division - MD & Cross-Capital Structure Analyst*

I just have 2, if I could. I know you talked a little bit about this on the prepared remarks, but obviously, a great job on cash flow in the second quarter. But to what extent do we expect the benefits there to perhaps reverse in Q3 or Q4? And then, I guess, to the extent that you don't expect any reversal in the back half of the year, to what extent would you expect it as the business ultimately recovers? In other words, are you going to have to start making good on deferrals for broadband capacity and the like?

Barry L. Rowan - *Gogo Inc. - CFO & Executive VP*

Yes. Lance, let me -- go ahead.

Oakleigh B. Thorne - *Gogo Inc. - President, CEO & Director*

Sorry, Barry. Just to be clear, our plans run through -- when we talk about our short-term kind of COVID operating plan, that runs through the end of '21. And I think I gave, in the call, our expectations for the recovery of air traffic by then. And so we don't have -- we're trying to push -- if we're deferring anything at all, it's out path to end of the pandemic. That's the punchline of what I was going to say. Barry, do you want to fill in a little more detail?

Barry L. Rowan - *Gogo Inc. - CFO & Executive VP*

Yes, on your question about kind of the near-term and then the longer-term cash flow, Lance. We do -- we have really enjoyed the benefit, in the first part of this year, from the expense reductions and also working capital management. So the working capital management, you can't expect that to continue. So we would expect the unlevered free cash flow to not be at this breakeven level for the balance of the year. We expect that to be negative for the rest of the year. But when I look at 2021, as we talked about, you see the benefit of these cost actions that we're implementing this year take hold and get the full year benefit next year. That's why we see moving then into a meaningfully positive unlevered free cash flow in 2021 and approaching breakeven free cash flow, including the payment of our interest expense in 2021. So it's really the combination of some uptick in the -- on the revenue side of the house and then the ongoing benefit and the full year benefit of the cost savings actions that we're taking this year.

Lance William Vitanza - *Cowen and Company, LLC, Research Division - MD & Cross-Capital Structure Analyst*

Okay. And in your prepared remarks, you mentioned the 6% converts due May of 2022. I suppose, in a perfect role, you'd have them refinanced by May of 2021 so they wouldn't go current. But if I remember correctly, the old convertible notes went current for a period of time, and the world didn't end. So given the trajectory of the recovery that you're seeing to date, I would imagine this is a situation in which you would want to wait as long as possible to refinance those notes, no?

Barry L. Rowan - *Gogo Inc. - CFO & Executive VP*

Well, our -- I mean, I think it's really important to point out that the value creation plan that we've described with the 3 tracks creates a lot of optionality to address the converts. The strategic track, a successful CA sales process is one example of the ways that value creation process could contribute to this optionality. The operations track and the cost savings resulting from that put us in a stronger liquidity position and probably adds to our optionality making the business more financeable. But our objective is generally to address the converts before they occur in May of 2021. But as you point out, it's not a completely bright line. And the last convert went current for 2 months so -- and then we're able to very successfully refinance that and the whole balance sheet at that point in time. So that's our general thought process and the objective. But as you point out, it's not a complete bright line with them going current.

Operator

And our next question comes from Louie DiPalma with William Blair.

Louie DiPalma - *William Blair & Company L.L.C., Research Division - Analyst*

When taking into account the splitting of the CA division with the BA division, do you have a high level of sense on what the cash burn for the CA division was in 2019?

Oakleigh B. Thorne - *Gogo Inc. - President, CEO & Director*

Barry?

Barry L. Rowan - *Gogo Inc. - CFO & Executive VP*

Yes, on an unlevered basis, the cash burn for CA 2019 for the full all of CA was about $24 million.

Louie DiPalma - *William Blair & Company L.L.C., Research Division - Analyst*

Sounds good, yes, that's what I was looking for as you guys are looking to sell this division. Whoever acquires it would probably also take into account the cash burn. So I was wondering what the all-in cost for that would be.

And secondly, also related to the CA division, SpaceX has been aggressively launching satellites and investing in what seems to be Ku-band satellite Internet. And previously, you guys touted your 2Ku antenna as having the ability to connect to both GEO and LEO satellites. And you also recently announced that you conducted a trial connecting your 2Ku terminal to OneWeb's LEO constellation. So I was wondering, is it also possible that the 2Ku system would be compatible with SpaceX's Starlink as well?

Oakleigh B. Thorne - *Gogo Inc. - President, CEO & Director*

Yes, it would be, Louie. I mean I think we are well-positioned for any type of nongeostationary satellites because we also have the ability to convert from 2Ku to 2Ka. And that will fly under Ka-LEOs just as well as 2Ku will under Ku-LEOs.

Louie DiPalma - *William Blair & Company L.L.C., Research Division - Analyst*

Sounds good. And one final one. How much CapEx and general spend remains for the ATG 5G network? You said you spent a little bit this quarter, and I think you spent a little bit in the past as well.

Barry L. Rowan - *Gogo Inc. - CFO & Executive VP*

Yes, as you may recall, Louie...

Oakleigh B. Thorne - *Gogo Inc. - President, CEO & Director*

No...

Barry L. Rowan - *Gogo Inc. - CFO & Executive VP*

Oh, go ahead.

Oakleigh B. Thorne - *Gogo Inc. - President, CEO & Director*

No, go ahead. Barry, go ahead.

Barry L. Rowan - *Gogo Inc. - CFO & Executive VP*

Oh, I was going to say the total cost of the ATG network is about $100 million. About 2/3 of that is CapEx, about 1/3 of that is OpEx. We are keeping the OpEx spend on track, so the development process itself is very much on track. So we have 3 major vendors there. The Cisco core is installed, the antenna prototypes from FIRST RF have been received and the board lab's complete sold out. The development is very much on track. The major part of the capital spend starts in 2021 as we deploy the towers, and that was about $50 million that was projected in 2021. So we can defer that if or as required. It's largely discretionary. We do think it's important to keep that program on track, but it's also, again, not a binary kind of decision because we can roll out cell sites to deploy that network and then add additional cell sites as required for capacity. But to get the initial coverage, you obviously don't have to roll out the full network. So 2021 is the major year of that investment.

Operator

Our next question comes from Rick Prentiss with Raymond James.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

I hope you, your family, employees are making it through this crisis safely. It sounds like you're addressing that. First question, obviously, you took the time to break out the BA from CA between the organization, then putting ATG and BA last year. If there was a sale of CA, how much revenue would need to be sent from CA to BA since BA is handling all the ATG network? In other words, I don't think there's any corporate eliminations right now, but 1 would assume there'd be some billing from BA to CA for that support?

Oakleigh B. Thorne - *Gogo Inc. - President, CEO & Director*

That's right. There'll be a commercial agreement between the 2 companies. And exactly what that would be is obviously going to be a subject of negotiation between us and a potential partner.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

And is that something that you'd wait for the partnership to be in place as opposed to putting a contract in place before then?

Oakleigh B. Thorne - *Gogo Inc. - President, CEO & Director*

I think it's a pretty important term for any transaction, Rick. So yes, it would -- I think everybody would want that in place before signing a deal.

Barry L. Rowan - *Gogo Inc. - CFO & Executive VP*

And Rick, as you probably know, there is currently a transfer price mechanism in place that BA charges to CA for the ATG-based megabyte that it delivers.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

And how much does that run? Do you -- I don't remember the number right now.

Barry L. Rowan - *Gogo Inc. - CFO & Executive VP*

I don't believe we disclosed that publicly. We can circle back with you.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

Okay. And on the next-gen 5G ATG network, when do you have to make a decision on the spending? As you watch the recovery of, hopefully, of the different segments out there, particularly BA is already recovering. Is it that you need the strategic decision made first? Or when does ATG need to get the green light to kind of move into the next spending phase?

Oakleigh B. Thorne - *Gogo Inc. - President, CEO & Director*

That would be sort of middle of next year, probably, Rick.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

So you've got some room.

Oakleigh B. Thorne - *Gogo Inc. - President, CEO & Director*

Yes, we've got time.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

Yes. And I know you don't want to talk about the strategic transaction possibilities. But did I hear you say kind of a summertime process in your prepared remarks.

Oakleigh B. Thorne - *Gogo Inc. - President, CEO & Director*

Yes. We had some inbound early in the second quarter. And we've launched a formal process in the second quarter, which is continuing now in the third.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

Okay. And the final one for me is on the CARES, it sounded like, based on the frequently asked questions, you might not be eligible for the loan, but you might still be on the grant. When do you expect to get further clarity on if that $81 million grant item and then the employee effect would actually occur?

Oakleigh B. Thorne - *Gogo Inc. - President, CEO & Director*

Well, frankly, we haven't formally been told anything on the loan program. We're just gleaning it from a fact that's been posted. We have some discussions going on right now with treasury, and we'll see where they lead. I really couldn't predict anything, Rick, around that. It's just -- it's been very unpredictable. So frankly, I'd just be stabbing the dark to give you any kind of time frame. Obviously, it should be before September 30 because if September 30th has passed, the whole point of these programs is kind of over.

William G. Davis - *Gogo Inc. - VP of IR*

Jimmy, let's make this our last question.

Operator

Understood. Our last question comes from Phil Cusick with JPMorgan.

Philip A. Cusick - *JPMorgan Chase & Co, Research Division - MD and Senior Analyst*

Following up on a couple of things. So if CA was sold, does the investment in 5G makes sense at the levels that BA will be using?

Oakleigh B. Thorne - *Gogo Inc. - President, CEO & Director*

Yes, absolutely. The people's expectations for the performance of in-flight connectivity are going to grow as they get better performance in their home or office environment. And so if you get -- if there's 2 data disparity between what they get in-flight and what they get elsewhere, you're making yourself vulnerable to new competitors coming in or new technologies. So yes, we think it's important to go through this kind of generational upgrades of the system in performance improvements.

Barry L. Rowan - *Gogo Inc. - CFO & Executive VP*

Let me just add. So really, for the RJ business, it's going to be -- for the RJ business, it's also going to be an important investment to make as they drive capacity and if and when the airlines start to go free as well and demand more performance.

Philip A. Cusick - *JPMorgan Chase & Co, Research Division - MD and Senior Analyst*

Okay. And then thinking about a CA deal, we've got -- Rest of World looks like it's not going to grow for the next few years. You just did a pretty substantial layoff. Are these things all in preparation of doing some kind of deal and making the asset more attractive? Or could some of these things be reversed if you did a combination?

Oakleigh B. Thorne - *Gogo Inc. - President, CEO & Director*

The reduction in force is really part of our COVID operating plan and our -- what we need to do to make sure we hit the minimum liquidity requirements we have for the business to get through the pandemic. I would -- that is not really related to any kind of strategic transaction. I didn't really follow your question as it pertains to the Rest of World. Yes, I mean you said yes, it's going to be losing money for the next couple of years. But where were you going...

Philip A. Cusick - *JPMorgan Chase & Co, Research Division - MD and Senior Analyst*

It sounded like it sounded like the planes under contract wasn't really going to be growing for the next few years either between potential bankruptcies of customers, deinstalls and a slower installed pace. Is that right?

Oakleigh B. Thorne - *Gogo Inc. - President, CEO & Director*

No. I think we said there's about 100 of the planes that are flying today or installed today that may go away. And then we've got about 500-plus in backlog. There are still, of those in backlog, 100 could be at risk because of the -- well, the airlines that are in bankruptcy. However, that doesn't always mean they don't install in the end. So that's a risk factor. But even if you lost all those, and you netted it out, we'd still be up more than 300 going forward.

Philip A. Cusick - *JPMorgan Chase & Co, Research Division - MD and Senior Analyst*

Okay, and then last thing, assuming that CA was sold or spun out, is BA large enough to remain a public standalone company? Or should that be sold or taken private as well?

Oakleigh B. Thorne - *Gogo Inc. - President, CEO & Director*

We don't have any plans around that right now. I'll say this. I've been CEO of a much smaller public company. You can be a $300 million or $400 million public company. And obviously, we would hope to grow that business also. So no plans around that at this time. So we'll just -- we'll see what we -- what the world looks like when we get there.

Operator

Thank you. And I'm showing no further questions in the queue at this time. I'd like to turn the call back to Oakleigh Thorne for any closing remarks.

Oakleigh B. Thorne - *Gogo Inc. - President, CEO & Director*

Thank you very much. So thank you very much for attending our Q2 earnings call. I'd like to finish by summarizing a few key points. First of all, in-flight connectivity is not going away because of this corona crisis. If anything, we think passenger adoption will accelerate in the future as more airlines offer free service and as the pandemic drives more people to be connected and stay connected. Second, the business aviation market is recovering quickly, and the Commercial Aviation market is recovering, though at a slower pace. Third, based on relatively conservative traffic assumptions, we are on track with the cost reductions we think we need to make to survive this pandemic. And fourth, as we've discussed, we have a formal process underway to combine our Commercial Aviation division into a larger enterprise. Though we can't be sure we'll complete that transaction, we're pleased with our progress to date.

So thank you for your attention, and we look forward to speaking with you again in the near future. As usual, stay safe.

Operator

Ladies and gentlemen, thank you for your participation on today's conference. This does conclude your program, and you may now disconnect.
