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GOGO - Q1 2014 Gogo Inc Earnings Conference Call

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PRESENTATION

Operator

Welcome to the Gogo Inc first-quarter 2014 earnings conference call.

(Operator Instructions)

As a reminder, this conference call is being recorded.

I'll now introduce your host for today's conference, Varvara Alva, Vice President of Investor Relations. You may begin.

Varvara Alva *- Gogo Inc - VP of IR*

Thank you, Ashley.

Good morning, everyone. Welcome to Gogo's first quarter 2014 earnings conference call. Joining me today to talk about our results are Michael Small, President and CEO; and Norman Smagley, Executive Vice President and CFO. Before we get started, I would like to take this opportunity to remind you that during the course of this call, we 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 press release and are more fully detailed under the caption Risk Factors and our 10-K, which was filed with the SEC on March 14, 2014.

In addition, please note that the date of this conference call is May 12, 2014. Any forward-looking statements that we may make today are based on assumptions as of this date. We undertake no obligation to update these statements as a result of new information or future events. During this call, we will present both GAAP and non-GAAP financial measures. The 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 the Gogo's website at ir.gogoair.com. The earnings release is also available on our website. After management's remarks, we will host a Q&A session.

Now, I'd like to turn the call over to Michael.

Michael Small - *Gogo Inc - President & CEO*

Thanks, Varvara.

Welcome to Gogo's first quarter earnings call. Q1 was a great quarter. Throughout the quarter, we were focused on three main goals: first, sign new aircraft; second, create more and lower cost bandwidth; and third, continue to hit our numbers. Here is how we stacked up against those goals. In terms of new aircraft, in April, we announced a deal with Air Canada for 130 aircraft. This increases our already significant lead in North America. In terms of increasing bandwidth and lowering its cost, we unveiled 2Ku and continue to rapidly rollout ATG in North America.

Our third and final goal was to continue to hit our numbers; I'm happy to announce that we reported continued strong financial results and saw both CA-North America and BA segments demonstrate significant operating leverage year-over-year. In addition to hitting these goals, we also announced some major milestone announcements for our business. We've launched connectivity service on Delta's international fleet and received additional certifications from the FAA to install our satellite equipment. In April, we announced our technical service agreement with Boeing. This agreement enables us to pursue line-fit installations of our ATG-4 and satellite solutions.

I'd like to now provide a little more color on each of our achievements starting with the financials. We reported record quarterly revenue of $95.7 million and adjusted EBITDA of $5.3 million. We accomplished this despite the nearly $17 million investment we made in our international expansion for the quarter. Both CA-North America and BA delivered record revenue and profitability, demonstrating strong operating leverage.

CA-North America had $57.1 million in revenue, up 32% from the prior year. Average annual revenue per aircraft or ARPA was over $110,000 per aircraft annualized, up 20% from the same period last year. The segment profit increased to $5.8 million. Performance in this segment was driven by strong revenue growth and reductions in both cost of service and other operating expenses as a percent of revenue versus the year ago.

Switching over to BA. Our BA segment continued to post exceptional results. Revenues hit $38.6 million for the quarter, up 47% year-over-year. The segment profit was $16.5 million, up 74% versus the year ago. I think this was a great financial quarter for Gogo. Norm will get into more financial details a bit later on the call.

Now, I'd like to switch gears and talk about our achievements in increasing bandwidth to aircraft, including our recently announced 2Ku technology. The most important things you need to know about 2Ku are that it revolutionizes connectivity for the global aviation industry, and it's exclusive to Gogo.

We firmly believe 2Ku gives us a competitive edge. When it comes to international aircraft, 2Ku is the fastest solution in the market, offers the lowest cost of bandwidth, has the best coverage and offers significant operational advantages for airlines. When I say fast, the 2Ku antenna is expected to deliver peak speeds of 70 megabits per second to the aircraft initially. It's the highest in the industry. That speed is expected to increase to over 100 megabits per second when newer spot beam Ku satellites are launched.

The antenna is two times more spectrally efficient than other antennas. This ultimately means cheaper bandwidth. It's also the most efficient way to deliver broadcast and IPTV. In terms of coverage, the unique, only Gogo has it, circular shape of the antenna eliminates the skew angle problem that exists today with traditional satellite-based connectivity systems in tropical regions.

So what does it mean? It means passengers on planes flying, for example, from London to Sidney or Atlanta to Sao Palo won't suffer up to three hours of degraded service when the aircraft is flying over tropical regions.

Operationally, we expect the low profile of the antenna to save an airline approximately $25,000 of fuel burned on a typical aircraft per year. I've said it before, I see 2Ku as a game changer for the industry. It opens a range of possibilities in how we can serve our airline partners.

I want to make one thing clear. GTO and 2Ku are essentially the same technology. We purposely engineered GTO to leverage our ATG network; therefore, GTO will only work over North America. We designed 2Ku to work anywhere, including over water. So any aircraft, whether international or North American flying over water, are great candidates for this technology. GTO will offer the same benefits of 2Ku, namely superior speed and efficiency; however, the equipment will cost modestly less and weigh less, which will save on fuel burn.

Performance wise, these technologies are very similar. Development of both technologies remains on schedule. While 2Ku and GTO are right around the corner, ATG-4 is here now. I'm extremely excited about its performance. At the end of Q1, we had nearly 2,100 commercial aircraft in North America, 534 of those had ATG-4. During the quarter, we upgraded close to 100 aircraft to ATG-4. We are well on our way to hitting our goal of 800 by the end of the year. As you know, ATG-4 triples the peak speeds of the aircraft to 10 megabits per second.

This performance upgrade has greatly relieved capacity constraints on our busiest flights. Our internal analysis shows that it's been a real benefit to customers. When compared to ATG, ATG-4 had significantly lower average latency, higher customer satisfaction scores and lower customer care chat rates. Also early indications point to increased take rates. As a result, Virgin America, which is now almost full fleet with ATG-4, has concluded they have more time to adopt Next Generation capacity enhancements as a result of this strong performance of the ATG-4.

Now I want to add a little more detail on our airline wins and installations of new aircraft. We're extremely excited that Air Canada awarded their entire domestic fleet of 130 aircraft to us. As you know, they also have announced trials of both 2Ku and Global Xpress connectivity technologies on their international aircraft. We expect those trials to start in 2015. In March, we launched connectivity service on 5 of Delta's 180 international aircraft.

In addition to Delta, Japan Airlines installations are also underway. As you might have seen, last week, we announced the certification for the Boeing 777-300 aircraft and now have four different aircraft types certifications to install our Ku band in-play connectivity system, including a 747-400, 777-200 and 777-300 Boeing aircraft and an A330 Airbus aircraft. We are on target to meet our goal of having 50 to 100 aircraft flying outside of North America by the end of 2014.

To wrap up, I am very pleased with our results and achievements to date. We bring industry leading and mission critical communications infrastructure and services to global aviation, adding GTO and 2Ku to our technology portfolio, which also includes Global Xpress, Ku, ATG-4, ATG, SwiftBroadband and Iridium materially strengthens our position in competing for global aircraft. Whether developed internally or in conjunction with our partners, Inmarsat, Qualcomm, ZTA, Cisco, Honeywell, Intelsat, STS and others, we have proven our leadership in bringing more bandwidth at lower cost to any aircraft type no matter where it flies.

Our industry leading portfolio of technology solutions continues to be a driver of our growth and a competitive differentiator. In addition, Gogo has uniquely positioned itself as an aircraft communications service provider offering complete end-to-end and highly reliable solutions to the global aviation industry. That is why we expect to continue to increase our aircraft count and revenue per aircraft. To date, 8,300 of approximately [40,000] total addressable global commercial and business aircraft have Gogo services.

We believe the rapidly improving connectivity cost and performance, combined with the competitive pressure from the initial IFC deployments outside of North America, will prompt more airlines to select IFC providers sooner rather than later. We are well-positioned to increase our share. We have the relevant scale in this industry to succeed.

We are the pioneer and leader. We will focus on continuing to execute our plan which will keep us out in front of any existing or potential new competitor. Big companies entered this business in the past and failed. We are a tough competitor to unseat. I am excited about our long-term prospects.

Let me now turn this over to Norm to take you through the numbers.

Norman Smagley - *Gogo Inc - EVP & CFO*

Thanks, Michael.

Good morning, everyone. Thanks for joining us.

As Michael mentioned, we had a great quarter. We saw significant strength in the operating performance of both our CA-North America and Business Aviation segments. We're very pleased with the growth trends in these businesses. We achieved record revenue of $95.7 million for the quarter, up 35% versus the first quarter of last year. Our service revenue of $72.3 million was up 32%. Our equipment revenue of $23.4 million was up 48% versus last year. On adjusted EBITDA, $5.3 million was up 87% versus the first quarter of last year, despite a $10.7 million increase in our CA rest of world segment loss to $16.9 million this quarter.

Now, let's talk about our operating segments starting with CA-North America. Revenue of $57.1 million was up 32% versus last year, driven by a 31% increase in connectivity revenue. We ended the quarter with 2,056 aircraft online, up 9% from the same period last year. Our average monthly service revenue per aircraft or ARPA reached nearly $9,200 a month, up 20% from last year. This indicates an annual run rate of just over $110,000. Also growth was driven primarily by an 11% increase in take rate to 6.9% and an increase in the average revenue per session of $0.25 to $10.55.

For the quarter, CA-North America cost of service declined to 48% of service revenue. This represents an improvement of over 3 percentage points versus last year driven by the inherent scalability of our infrastructure. In addition, other operating expenses excluding depreciation and amortization as a percent of revenue declined 10 percentage points primarily driven by G&A and engineering design and development. G&A increased marginally in absolute terms year-over-year, driven by headcount increases to support business growth and higher public Company expenses.

ED&D declined marginally on absolute terms on a year-over-year basis, driven by the timing of costs incurred in connection with STCs, the development of our Next Generation products and technologies and increased focus on CA rest of world development activities.

Our CA-North America revenue -- I'm sorry -- our CA-North America segment profit of $5.8 million for the quarter was up $6.2 million from the segment loss of $0.4 million a year ago, an improvement of 11% in segment profit margin. We expect our year-over-year performance for the upcoming quarters to fluctuate from the first quarter due to variability in the timing of operating expenses like technology development milestones and STCs. We do expect overall operating expenses to decline as a percent of revenue versus prior year, demonstrating continued improvement in operating leverage in the business.

I'd like to take a moment to discuss the segment profit trends for CA-North America. In 2011 to 2013, technotronics improved by 29 percentage points despite a significant increase in rev share percentage paid to airlines as expected for the terms of zero cap airline contracts and increases in engineering and G&A to enable us to develop and support multiple technologies and to become a public Company. This clearly demonstrates the operating leverage and inherent profitability of the business model.

Let's now turn to BA. As Michael mentioned, BA had another record quarter. Revenue of $38.6 million was up 47% versus the first quarter of last year. Service revenue was up 44%. Equipment revenue was up 49%.

During the first quarter, we continued to see strong demand for our ATG broadband service. We shipped 241 ATG systems and the number of ATG aircraft online increased to 2,250. We also sold an additional 272 Text & Talk units during the quarter bringing the total to 824 since our product introduction in September 2013. Given the high initial sales of Text & Talk, we do expect continuous sales pace to be somewhat lower.

Text & Talk is truly a transformative new product in the business aviation cabin, as our customers can now send and receive phone calls and text messages while in flight using their own phone. We sold 153 satellite-based systems, ended the quarter with nearly 5,300 satellite equipped aircraft online. BA segment profit increased 47% to $16.5 million, driving segment profit margin of 36% to 43%, as equipment cost of goods sold decreased from 49% of revenue to 40%. This improvement was driven by the product mix and sales of Text & Talk.

At the end of the quarter, we've also turned off our Airfone service as part of the plan we announced last year to integrate Airfone customers into our existing suite of products and services. As a result, we expect to see further declines in our cost of service as a percent of service revenue as expenses to decommission the old Airfone network will be recorded as other operating expense. We expect to complete the shutdown of the Airfone network by the end of this year.

Finally, let's discuss CA rest of world, which as you know, carries the cost of our global satellite network and other operating expenses with no meaningful revenue, partially launched service on Delta International aircraft and finished the quarter with five aircraft online. For the quarter, we generated just under $100,000 of revenue. Our segment loss increased to $16.9 million, up $10.7 million versus last year. The increase in segment loss was driven by a $1.2 million reduction in non-recurring revenue, a $6.3 million increase in cost of service, due primarily to increased satellite transponder and teleport fees.

We also incurred $3.2 million of increase in other operating expenses due primarily to increased development and certification expenses for our satellite connectivity systems. We expect our operating expenses to fluctuate on a quarter-to-quarter basis, primarily due to the timing of STC announcements and Next Generation technology development milestones. On a consolidated basis, our adjusted EBITDA increased to $5.3 million for the quarter, driven by a $6.2 million increase in CA-North America segment profit, a $7 million increase in BA segment profit, partially offset by a $10.7 million increase in CA rest of world segment loss.

As you'll recall, we previously provided our adjusted EBITDA guidance for the year of $8 million to $18 million. Given the expected quarter-to-quarter variability of our technology, development and STC certification milestones at both CA-North America and CA rest of world, we leave our guidance for the year unchanged. Net loss attributable to common stock decreased to $16.9 million for the quarter or $0.20 per share versus a $32.5 million net loss attributable to common stock, or $4.70 per share(sic-see press release "$4.77") loss for the first quarter of last year. Cash capital expenditures increased to $28.6 million for the quarter, up slightly from the $27.1 million for the first quarter of last year, as a result of investments on our ATG network primarily in Canada and the timing of receiving airborne lease incentive payments.

I'd like to discuss our free cash flow for the quarter. It's important to understand the timing of certain working capital items that impact our cash. For the quarter, free cash flow, which we define as the sum of net cash used in operating and investing activities was a negative $45.4 million, a decrease of $11.7 million from the negative $33.7 million for the first quarter of last year and a decrease of $28.4 million from the negative $17 million for the fourth quarter 2013. Compared to the first quarter of last year, most of the decrease was due to higher payroll and bonus-related payments which are paid in the first quarter of each year.

Versus the fourth quarter of 2013, the decrease was driven by the payment of annual bonuses, as well as differences in the timing of payments particularly for satellite capacity and airborne equipment. As we ship equipment to the airlines for installation, we will receive payments for the equipment.

Overall, the average of the cash used in the fourth quarter of 2013 and the first quarter of 2014 is much more indicative of the rate of cash we expect to use this year. We ended the quarter with nearly $220 million of cash on the balance sheet. To wrap up, I'm extremely pleased with our operating and financial results for the quarter.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jill Cusick, JPMorgan.

Phil Cusick - *JPMorgan - Analyst*

It's Phil Cusick from JPMorgan. So I guess we'll start with the big topic that people are focused on. There's been a lot of talk about competition lately.

Can you talk about the competitive environment for RFPs internationally? Can you also address your view on AT&T's announcement a couple weeks ago? What are the risks to your business from that? Thank you.

Michael Small - *Gogo Inc - President & CEO*

Thanks, so good morning. I'll address the second half first, the AT&T issue. I think the simple answer is our Next Generation solutions both GTO and 2Ku will be faster and will be flying sooner than AT&T's proposed solutions. We keep seeing competitors talking about what they will do tomorrow and comparing it to what we did yesterday and that's an erroneous comparison.

Gogo repeatedly keeps winning the today versus today comparison. That's why we have our 8,000 plus aircraft between BA and CA. The bottom line is we are the Company with the shiny new products. We intend to keep it that way.

I'd also say the more nuanced issue is that because we have the most aircraft, we are able to and do invest the most, not only in new technology but in making what we have run better.

I would say that the market is often -- doesn't see our prowess in running airborne networks because yes, our networks are congested today. But I would say, what telecommunications network hasn't been congested in the early explosives growth stage of the industry? Would ask AT&T about their Manhattan experience after the introduction of the iPhone. It's literally littered with -- the history of the industry is littered with similar examples.

So what really matters is getting the best network solutions to the market faster and at lower cost than competition and then running them better. That's been the basis for our success so far. I believe that's why we're going to continue to win, regardless of who tries to enter the market.

There is no doubt that people see the attraction of connecting aircraft. I don't think there's -- I have yet to run into a person who disagrees with that vision of the future that all aircraft will be connected. We are seeing competition. But we are winning our share. We've been announcing a major new airline every quarter with a significant sized fleet. We keep doing that, Gogo's going to be in very good shape.

Phil Cusick - *JPMorgan - Analyst*

Speaking of that, can you talk about the competitive environment for RFPs internationally? Do you still feel good about announcing a couple more airline deals this year?

Michael Small - *Gogo Inc - President & CEO*

Yes. We're highly confident, we'll announce additional meaningful new contracts this year.

Phil Cusick - *JPMorgan - Analyst*

Thank, Michael.

Operator

John Hodulik, UBS.

John Hodulik - *UBS - Analyst*

Just some more information on the whole Boeing line-fit process. How big is this for the Company? How long would it take to get line-fit? Maybe are there any other milestones we should look for? Thanks.

Michael Small - *Gogo Inc - President & CEO*

So line-fit in the long run is critical. In the short run, it's more nice to have. An average aircraft lasts 30 to 40 years, so if you want to make a rapid entry into our business you have to retrofit the installed base. There's just not enough annual new deliveries.

Flip it around in the long run every new aircraft was new at some point in time. So when you enter an avionics-based business, initially your business is retrofit. Over time, it becomes line-fit. It is a long and involved process, because it's a complex process to engineer an aircraft and to conform with all the requirements.

We are well down that path with Boeing. We've gotten all the paperwork out of the way. It's now down to the engineering.

You'll start seeing that being relevant in the near term for our ATG. Our ability to line-fit, that's going to happen quicker. The satellite will be one year plus out. Again as I said, it's important to us to solve that problem for the long run. But it's not the immediate issue as far as getting aircraft installed.

John Hodulik - *UBS - Analyst*

All right. Thanks, Michael.

Operator

James Breen, William Blair.

James Breen - *William Blair & Company - Analyst*

Can you just talk about the margin side? It seems like you had pretty good leverage on the cost side in this quarter. EBITDA margins were up quite a bit. How do you expect that to trend at both the EBITDA and gross margin line? Thanks.

Norman Smagley - *Gogo Inc - EVP & CFO*

Yes. So the rest of this year, you'll see a variability in that segment profit margin, both -- in CA-North America in particular. A lot of it is based on the timing of getting STCs and hitting other development milestones. So we will see an overall improvement in operating leverage this year versus last year. But quarter-to-quarter there will be variability.

James Breen - *William Blair & Company - Analyst*

Great. What are some of the factors in terms of how that is variable on the quarterly basis? Is it installs on the planes? Equipment revenue?

Norman Smagley - *Gogo Inc - EVP & CFO*

No, it's not really that. It's more a factor on the spending side. For STCs, for example, we recognize the expense as certain development milestones are hit.

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Also on other technologies, antenna development or what have you, software development, we don't recognize the expense until milestones are hit. The timing of those milestones are not consistent quarter-to-quarter. Those are the kinds of things that drive the variability primarily.

James Breen - *William Blair & Company - Analyst*

Okay. Then just on the satellite side, as you are launching some of these services in the back half of this year, can you talk about what the costs that you have in place now in terms of transponder space -- is that going to have to increase over the next couple years as you launch more planes with the new solutions?

Norman Smagley - *Gogo Inc - EVP & CFO*

Yes. This year and next year we don't really see any significant increases. Potentially in 2016, we may have to take on some more, but it would be incremental -- it would be marginal and incremental, it wouldn't be significant increases.

Michael Small - *Gogo Inc - President & CEO*

So just to add some color, we have a global Ku network in place. At the end of the first quarter, as we just described, there were five planes flying on that. So we obviously have a tremendous opportunity to leverage what's happening. Very little additional coverage is required. Over time, as the number of aircraft increase in some locations, we will have to add additional capacity. But we basically have paid for the fixed cost of the coverage.

Going forward, it will be driven by capacity. But we have a tremendous amount of unutilized capacity now. So a high percentage of the revenue growth will drop to the bottom line as we start to see the ramp internationally.

James Breen - *William Blair & Company - Analyst*

Then just lastly on the CapEx, the number was up quite a bit from the fourth quarter. How do you see that moving throughout the year?

Norman Smagley - *Gogo Inc - EVP & CFO*

Again, that's timing. We're -- right now we're building inventory to do the Delta and general installs so when we purchase the equipment it counts as CapEx. It will -- if you look at net cash CapEx later on when we get the reimbursement for it, as it's installed you'll see the offset.

James Breen - *William Blair & Company - Analyst*

Great, thank you.

Michael Small - *Gogo Inc - President & CEO*

So we kept the guidance on CapEx.

Norman Smagley - *Gogo Inc - EVP & CFO*

Yes.

James Breen - *William Blair & Company - Analyst*

Great, thanks.

Operator

Simon Flannery, Morgan Stanley.

Unidentified Participant - *Morgan Stanley - Analyst*

This is [Armin] in for Simon. Thanks for taking the question. Just wanted to get an update on where you are with Aeromexico and Air Canada in terms of finalizing those contracts?

Also wondering about the international take rates now that you have five aircraft in the air? Lastly, just an update on GTO timing and any conversations you're having with airlines around that? Thank you.

Michael Small - *Gogo Inc - President & CEO*

Okay. So we continue to make good progress on negotiating final definitive agreements with both Aeromexico and Air Canada. I think they're moving along faster than typical. It's always a process. But we're also actively working on the implementation plan, the installation plan, parallel with it. It's very similar to the process we've done with other airlines, except probably on a somewhat more expedited basis than has been typical.

The five planes, way too early to disclose results. I'm not even sure that we will be in a position to give you a lot of data even at the end of the next quarter. But during the course of the year, we will continue to get more and more data and begin to provide it.

Then finally, the last, GTO remains on schedule. As I mentioned in the prepared remarks, may push out when we trial it with Virgin America, because basically, they're seeing the tremendous performance of ATG-4. The complaints including on flights with more than 50 users have all but dried up from their perspective.

So before they add something more to their aircraft it will take a little more time. But I am highly confident we have GTO flying on a plane this year. The development of that is on track. The performance we're seeing in the lab and on the ground -- by the way, it does work -- in the lab and on the ground is very good.

Unidentified Participant - *Morgan Stanley - Analyst*

Thank you.

Operator

Jay Schildkraut, Evercore.

Jay Schildkraut - *Evercore Partners - Analyst*

A couple of questions here. First, if you could talk to us a little bit about what's going on with spectrum for air to ground. We understand that you're using 3 megahertz of spectrum to deliver an EVDO product. You have 1 megahertz spectrum that sort of is waiting to potentially be employed. What's your perspective on that?

Then maybe give us a broader view on ATG spectrum in general. I know that you guys have the ability to offer LTE, but you're constrained by the fact that you don't have the spectrum in which to deliver LTE. The government has looked at 14 gig as potentially auctioning some of that for air to ground usage. How do you feel about that auction versus say, maybe the government reallocating other spectrum for usage for air to ground? Then I'll follow-up with a different question. Thanks.

Michael Small - *Gogo Inc - President & CEO*

So, spectrum is valuable. Our 3 megahertz is what revolutionized connectivity in North America to aircraft. Everybody would like more. I would say that the value of spectrum on the ground is higher than in the air, just due to the -- that there's 300 million people that use cell phones on the ground. There's maybe 20,000 aircraft between BA and CA in the US. So you're unlikely to see spectrum taken away from the ground for the air.

Right now, we have the only spectrum that is clearly authorized for air to ground. I do suspect, people are going to search hard as we have been for ways to bring additional spectrum to bear.

I would also comment that, as far as spectral efficiency, our EVDO Rev B is as good as LTE, to be able to offer broader channels, where right now we're using 1.5 megahertz with the guard bands channels in each direction. If you can make those 5 or 10, you can increase the speed to the aircraft.

I do not see a terrestrial solution that is going to match our speeds of GTO or 2Ku, 70 megabits per second growing to 100. I also know that the satellite clearly work over water with expanded coverage and will be better for a TV solution. The air to ground is often better for the smaller aircraft that never fly over water and lower cost, lower drag.

So there will be a tradeoff. I do not see an air to ground solution really beating our 10 megahertz -- 10 megabits per second in our ATG-4 by a whole lot.

Jay Schildkraut - *Evercore Partners - Analyst*

Great. Thanks, Michael. If I can also ask a question about customer satisfaction? Sort of measuring that? Maybe there are kind of different levels of measuring customer satisfaction. You talked about with Virgin America: A, the planes that had ATG-4 seeing complaints drop to zero.

But customer sat, it incurs and lives at the end-user level, the guy or lady who jumps on the plane, but it also occurs at the carrier level, the airline level. Maybe if you could give us some color -- I don't know how you think about it or how you measure that or if there's a net promoter score, but I think some insight into the relationships you have with the end-user customers and with the carrier customers might be helpful as we think about the competitive landscape.

Michael Small - *Gogo Inc - President & CEO*

So there's -- we do measure both the customer satisfaction as well as airline partner satisfaction. They don't always necessarily go in parallel. So you've got, first the passenger, there's a couple different ways to look at it. Some people, for business purposes say, I've just now reclaimed several hours in my travel experience to actually get some work done. This is the best thing that ever happened to me. It's worth any price I could pay for it. I just want it to work. It doesn't have to be particularly fast, as long as the e-mails goes through. They absolutely love our service and will pay anything for it.

Then there's the consumer who is getting increasingly video intensive and kind of expects Wi-Fi to be free. They're not there yet -- our service. So you have bi-modal distribution there. Got to be very clear about what it does and doesn't do on the plane. So ATG-4 really solves a problem for the hard core business traveler because now it reliantly, no matter how many people on the plane, does what they want it to do. We've seen that loud and clear in our results.

The airlines, also in addition to wanting their passengers to be happy, they want it to work every day, every flight. They measure, does your planes take off working with them. We're getting to extraordinary levels of reliability and few number of dropped calls. When you really think about it, it is the cellular length to a plane.

We are actually outperforming by experience on the ground. We have a more reliable system in the air to maintain that link. We are getting better every day at doing that. We fly over 7,500 flights every single day. We measure against that reasonably sizeable universe.

I don't even think any of our competitors have the ability to begin to measure it. They don't have enough planes flying enough flights a day to really get their arms around it. Across that measure, Gogo does exceptionally well, the ability to make its network work every day on every flight.

Jay Schildkraut - *Evercore Partners - Analyst*

All right. That's great. If I could sneak one more question in here. Can we get the updated statistics around Gogo Vision? Planes installed? Or up and operating? Then, if there's any early color in terms of what you're seeing from a demand or an economics perspective that would be helpful. Thank you very much.

Michael Small - *Gogo Inc - President & CEO*

Sure. Quickly on Gogo Vision, it's now on a lot of planes that are equipped. It's about, I guess, we said well north of 1,000. It's -- any reason I can't give -- it's about 1,400 planes equipped right now. We are working across both IOS and Android. We're working across a wide range of device types.

It still is not a significant revenue stream for us because we invested a long time -- invested a lot to make sure it works every day on every plane across a wide variety of devises and operating systems and browsers. I think you will see that becoming an increased revenue stream, even later this year and certainly next year. But to date, it's been relatively modest.

Jay Schildkraut - *Evercore Partners - Analyst*

Thank you for taking the questions.

Michael Small - *Gogo Inc - President & CEO*

Thanks.

Operator

(Operator Instructions)

Carter Mansbach, Jupiter Wealth Strategies.

Carter Mansbach - *Jupiter Wealth Strategies - Analyst*

Congratulations on a great quarter. I have two questions for you. First of all, in the way of marketing on commercial airlines. When I go to the websites and look at all of the different airlines, the only one that has in-flight on the front page is Virgin.

I'm wondering if you have any kind of communication, sort of as a marketing campaign, by the airlines to put out more information when the investor or the person going on the plane actually looks at it? Perhaps as texting rolls out, they will be more apt to do things.

Now the second thing is, I don't want to belabor this AT&T point, but I'm not sure the shareholders are aware that Michael in your past life you were CEO of Centennial Communications, which is was taken over by AT&T at a 200% profit. Having some communication with them in past.

I'm curious to know two things. One is why they would announce something when they're not coming out with it for 18 months? The second thing, if you could talk a little further to us understanding the barrier of entry for a company being FAA/FCC and the like? Thank you.

Michael Small - *Gogo Inc - President & CEO*

So we'll do the second one first. It is a long process to get into a business. There will have to be some FCC approvals to make sure. I mean, we don't have the specifics yet, but it is not obvious that the spectrum is clean and ready to grow. So we'll have to find that out.

There's also a lot of intellectual property in the industry around building air to ground systems that they will have to navigate. They will have to get all their equipment certified by the FAA. Then specific installations of that equipment on specific aircraft approved.

You've got to build the nationwide network. The nationwide network that they have for the ground will not be very useful for the air. Some specific examples are you need to be able to see over 100 miles in every direction on a cell site. So it's almost got to be on a mountaintop, usually not where you put them for the ground network.

If it's going to be a high speed network, it will need fiber to all the cell sites. We have fiber to virtually all our cell sites. I guarantee the rural cell sites don't have fiber to them. They are generally 2G cell sites on the ground. So there's a lot of work to get all the way there.

What they have on the ground will not be highly useful for the Aero market. There is a lot of specialized knowledge to get into this business. So that's probably why -- you almost have to announce it going in advance because it takes a long time. Everything in my view, everything would have to be perfect to hit the -- as soon as the end of next year, it's not impossible but it's the happy path.

Then the first half of your question on the marketing. To be very blunt, selling the service is not the challenging part, it's getting enough capacity to the aircraft. So we are focusing on maximizing the revenue from the capacity we have and maximizing the performance from the customer satisfaction from the capacity we have. As we keep introducing more capacity, it will allow revenue to keep growing. We see that very clearly with ATG-4.

It has also been the history of wireless. When we first started with analog wireless, in the late 1980s and early 1990s, we were struggling for capacity. You could only do 30 users per cell site.

Then the first generation of digital came along and we struggled to get any data rate out at all. It was a useless service for the longest time. So it has always been in wireless and really all telecommunications even -- remember how excited you were for the 56k modem on the internet at one point?

Why anybody thinks it's any different in this scenario than it has ever been in any other scenario -- so it's really getting more capacity to a plane and making it easier to use and building better products that drives the growth.

To me, the harder argument is to figure out why there won't be 100% penetration. All the planes have connectivity, all the passengers and the crew and all the components of the plane will benefit by connectivity over time.

I listened to all the arguments on why wireless would only be 1% penetration on the ground. Then why it would never get above 20. Now, it's by 100% of people and there's 50 billion devices around the world to get connected. So, yes, the demand is there. It's almost inevitable.

It would have to be dramatically different than it's been on the ground, which I can't think of a reason why. In fact, I only know that the aircraft is more expensive than most other things in the world. I know that the passengers on a plane are far higher demographics than the average person in the world. So demand is not our problem.

Carter Mansbach - *Jupiter Wealth Strategies - Analyst*

So lastly, you guys expect to be rolling out Texting second half of the year still?

Michael Small - *Gogo Inc - President & CEO*

Correct. It's actually in beta on commercial now. We took a subset of our monthly subscribers and I've started with them -- as Norm described, it's performing very well in Business Aviation.

Carter Mansbach - *Jupiter Wealth Strategies - Analyst*

All right. Well, again, thanks for your time. Congratulations on a great quarter.

Norman Smagley - *Gogo Inc - EVP & CFO*

Carter, I have two points. In terms of the marketing and the airlines reaching out to their passengers, one thing to realize is the airlines are beginning to integrate purchase of Wi-Fi in the purchase path when you're on their website to buy a ticket. So when you're on Delta right now, if you buy a ticket before you consummate the transaction, you'll be asked if you want to buy a Wi-Fi session for that flight.

American is also working on that. I'm not sure if it's launched yet. But they are also online to do the same thing.

Secondly, though they may not have it on the front page of their website, many of their advertising campaigns are focused around Wi-Fi as airlines use that one against each other for competitive positioning. So they are using it and relying on it in a variety of ways.

Michael Small - *Gogo Inc - President & CEO*

All right. Next question please?

Operator

Thank you. I'm not showing any further questions in queue. I'd like to turn the call back over to Michael Small for any further remarks.

Michael Small - *Gogo Inc - President & CEO*

All right. Thank you very much. It was a tremendous quarter for Gogo. We're building a great business. We're impressed with the revenue growth and also thrilled that our capacity solutions keep getting better. The ATG-4 feedback is very positive.

Adding Air Canada to our growing list of international airlines, we are very pleased to do that. So thank you. Look forward to talking to you post this call.

Operator

Thank you, ladies and gentlemen. Thank you for participating in today's conference. This concludes today's program. You may disconnect. Everyone have a great day.