Global Eagle Entertainment Inc.
Form 10-Q
August 09, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

þ	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2013
OR	
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	FOR THE TRANSITION PERIOD FROM __________ TO ________

COMMISSION FILE NUMBER 001-35176
GLOBAL EAGLE ENTERTAINMENT INC.
(Exact name of registrant as specified in its charter)

Delaware	27-4757800
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

4353 Park Terrace Drive

Westlake Village, California	91361
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (818) 706-3111

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

(Class)	(Outstanding as of August 9, 2013)	
COMMON STOCK, $0.0001 PAR VALUE	36,061,336	SHARES*
NON-VOTING COMMON STOCK, $0.0001 PAR VALUE	19,118,233	SHARES

* Excludes 3,053,634 shares held by Advanced Inflight Alliance AG, a majority-owned subsidiary of the registrant.

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PART I — FINANCIAL INFORMATION
GLOBAL EAGLE ENTERTAINMENT INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	June 30, 2013	December 31, 2012
ASSETS	(unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	$110,140	$2,088
Accounts receivable, net	47,046	8,292
Content library, current	10,560	—
Inventories	9,225	7,386
Prepaid and other current assets	11,024	3,344
TOTAL CURRENT ASSETS:	187,995	21,110
Property, plant & equipment, net	14,099	4,639
Goodwill	39,928	—
Intangible assets	97,970	—
Other non-current assets	12,936	3,688
TOTAL ASSETS	$352,928	$29,437
LIABILITIES, REDEEMABLE PREFERRED STOCK AND EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$54,410	$8,178
Deferred revenue	4,506	8,539
Warrant liabilities	30,220	8,178
Notes payable and accrued interest	7,944	14
Other current liabilities	12,325	—
TOTAL CURRENT LIABILITIES:	109,405	24,909
Deferred tax liabilities	22,903	—
Deferred revenue, non-current	6,944	3,075
Other non-current liabilities	6,788	38
TOTAL LIABILITIES	146,040	28,022
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE PREFERRED STOCK:		
Series A-1, $0.0001 par value; 0 and 9,794,142 shares authorized, issued and outstanding, at June 30, 2013 and December 31, 2012, respectively	—	9,245
Series A-2, $0.0001 par value; 0 and 19,887,000 shares authorized, issued and outstanding, at June 30, 2013 and December 31, 2012, respectively	—	21,454
Series B-1, $0.0001 par value; 0 and 73,783,872 shares authorized, issued and outstanding, at June 30, 2013 and December 31, 2012, respectively	—	27,488
Series B-2, $0.0001 par value; 0 and 62,326,439 shares authorized, issued and outstanding, at June 30, 2013 and December 31, 2012, respectively	—	19,981
Series C-1, $0.0001 par value; 0 and 105,868,792 shares authorized, 0 and 84,695,034 shares issued and outstanding, at June 30, 2013 and December 31, 2012, respectively	—	24,535
Series C-2, $0.0001 par value; 0 and 107,187,927 shares authorized, 0 and 85,750,341 shares issued and outstanding, at June 30, 2013 and December 31,	—	19,837

2012, respectively				
TOTAL REDEEMABLE PREFERRED STOCK	—		122,540	
EQUITY (DEFICIT):				
Preferred stock, $0.0001 par value; 1,000,000 shares authorized, 0 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	—		—	
Common stock, $0.0001 par value; 375,000,000 shares authorized, 38,778,289 and 23,405,785 shares issued, 35,724,655 and 20,352,151 shares outstanding, at June 30, 2013 and December 31, 2012, respectively	4		2	
Non-voting common stock, $0.0001 par value; 25,000,000 shares authorized, 19,118,233 and 0 shares issued and outstanding, at June 30, 2013 and December 31, 2012, respectively	2		—	
Treasury stock, 3,053,634 and 0 shares at June 30, 2013 and December 31, 2012, respectively	—		—	
Additional paid-in capital	366,669		8,238	
Subscriptions receivable	(466	)	(453	)
Accumulated deficit	(168,962	)	(128,912	)
Accumulated other comprehensive loss	(512	)	—	
Total Stockholders' Equity (Deficit)	196,735		(121,125	)
Non-controlling interest	10,153		—	
TOTAL EQUITY (DEFICIT)	206,888		(121,125	)
TOTAL LIABILITIES, REDEEMABLE PREFERRED STOCK AND EQUITY (DEFICIT)	$352,928		$29,437	

The accompanying notes are an integral part of these condensed consolidated financial statements.

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GLOBAL EAGLE ENTERTAINMENT INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(In thousands, except per share amounts)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Revenue	$62,831	$16,836	$105,344	$35,343
Operating expenses:				
Cost of sales	49,820	18,722	85,569	36,604
Sales and marketing expenses	2,399	777	4,686	1,992
Product development	2,327	850	3,664	1,499
General and administrative	12,745	3,030	36,804	5,927
Amortization of intangible assets	3,016	6	4,249	12
Total operating expenses	70,307	23,385	134,972	46,034
Loss from operations	(7,476)	(6,549)	(29,628)	(10,691)
Other income (expense):				
Interest expense, net	(282)	(7,132)	(459)	(10,399)
Change in fair value of derivatives	(4,725)	—	(9,340)	—
Other income (expense), net	13	(92)	(30)	(119)
Loss before income taxes	(12,470)	(13,773)	(39,457)	(21,209)
Income tax provision	(559)	—	(593)	—
Net loss	(13,029)	(13,773)	(40,050)	(21,209)
Net income attributable to non-controlling interests	(108)	—	(69)	—
Cumulative preferred stock dividends and accretion	—	(1,772)	(942)	(3,148)
Net loss attributable to Global Eagle Entertainment common stockholders	$(13,137)	$(15,545)	$(41,061)	$(24,357)
Basic and diluted	$(0.24)	$(0.76)	$(0.84)	$(1.20)
Weighted average common shares basic and diluted	54,843	20,352	49,094	20,352

The accompanying notes are an integral part of these condensed consolidated financial statements.

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GLOBAL EAGLE ENTERTAINMENT INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net loss	$(13,029)	$(13,773)	$(40,050)	$(21,209)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(390)	—	(613)	—
Unrealized (loss) gain on available for sale securities	(1,250)	—	101	—
Total other comprehensive loss	(1,640)	—	(512)	—
Comprehensive loss	(14,669)	(13,773)	(40,562)	(21,209)
Comprehensive loss attributable to non-controlling interests	95	—	11	—
Comprehensive loss attributable to Global Eagle Entertainment common stockholders	$(14,574)	$(13,773)	$(40,551)	$(21,209)

The accompanying notes are an integral part of these condensed consolidated financial statements.

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GLOBAL EAGLE ENTERTAINMENT INC.
CONDENSED CONSOLIDATED STATEMENT OF EQUITY (DEFICIT) (UNAUDITED)
(In thousands)

	Common Stock		Common Stock Non-Voting		Treasury Stock		Additional Paid-in Capital	Subscriptions Receivable	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Global Eagle Entertainment Inc. Stockholders' Equity	Non-Controlling Interest	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount							
Balance, December 31, 2012	20,352	$ 2	—	$ —	—	$ —	$ 8,238	$ (453)	$ (128,912)	$ —	$ (121,125)	$ —	$ (121,125)
Reclassification of MLBAM warrants	—	—	—	—	—	—	2,696	—	—	—	2,696	—	2,696
Reclassification of Series C warrants	—	—	—	—	—	—	2,879				2,879		2,879
Change in fair value of common stock warrants	—	—	—	—	—	—	93	—	—	—	93	—	93
Warrants for common stock issued for services and equipment	—	—	—	—	—	—	359	—	—	—	359	—	359
Exercise of warrants and common stock options	—	—	—	—	—	—	28	—	—	—	28	—	28
Preferred stock dividends	—	—	—	—	—	—	(818)	—	—	—	(818)	—	(818)
Accretion of redeemable preferred stock	—	—	—	—	—	—	(124)	—	—	—	(124)	—	(124)
Recapitalization as a result of Row 44 Merger	15,373	2	4,750	1	—	—	229,025	—	—	—	229,028	—	229,028
Stock purchase of AIA	—	—	14,368	1	—	—	144,256	—	—	—	144,257	25,287	169,544
Shares of the Company acquired in stock purchase of AIA	—	—	—	—	3,054	—	(30,659)	—	—	—	(30,659)		(30,659)
Conversion of Sponsor	—	—	—	—	—	—	(393)	—	—	—	(393)	—	(393)

promissory note
to warrants

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GLOBAL EAGLE ENTERTAINMENT INC.
CONDENSED CONSOLIDATED STATEMENT OF EQUITY (DEFICIT) (UNAUDITED) (continued)
(In thousands)

	Common Stock		Common Stock Non-Voting		Treasury Stock		Additional	Subscriptions	Accumulated	Accumulated Other	Total Global Eagle Entertainment Inc.	Non-Controlling	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-in Capital	Receivable	Deficit	Comprehensive Income (Loss)	Stockholders' Equity	Interest	Stockholders' Equity (Deficit)
Waiver modification of sponsor warrants	—	—	—	—	—	—	9,900	—	—	—	9,900	—	9,900
Stock-based compensation	—	—	—	—	—	—	1,376	—	—	—	1,376	—	1,376
Interest income on subscription receivable	—	—	—	—	—	—	—	(13)	—	—	(13)	—	(13)
Purchase of subsidiary share from non-controlling interest shareholders	—	—	—	—	—	—	(187)	—	—	—	(187)	(15,192)	(15,379)
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	(613)	(613)		(613)
Change in unrealized gain on available for sale securities, net of tax	—	—	—	—	—	—	—	—	—	101	101	—	101
Comprehensive income (loss) attributable to non-controlling interest	—	—	—	—	—	—	—	—	—	—	—	(11)	(11)
Net loss	—	—	—	—	—	—	—	—	(40,050)	—	(40,050)	69	(39,981)
Balance, June 30, 2013	35,725	$4	19,118	$2	3,054	$—	$366,669	$(466)	$(168,962)	$(512)	$196,735	$10,153	$206,888

The accompanying notes are an integral part of these condensed consolidated financial statements.

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GLOBAL EAGLE ENTERTAINMENT INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	Six Months Ended June 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(40,050)	$(21,209)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	11,678	492
Non-cash interest on convertible promissory notes	16	9,629
FX effect on intercompany borrowings	845	—
Change in fair value of derivative financial instruments	9,340	—
Stock-based compensation	1,376	675
Warrants for common stock issued for services	359	280
Common stock issued for services	—	550
Deferred income taxes	(1,532)	—
Other	(46)	(27)
Changes in operating assets and liabilities:		
Accounts receivable	(2,493)	(2,356)
Inventory	(5,795)	(792)
Prepaid expenses and other current assets	(345)	(1,126)
Deposits and other assets	(3,320)	(604)
Accounts payable and accrued expenses	(21,765)	(2,987)
Accrued interest	—	799
Deferred revenue	(163)	(2,496)
Other long-term liabilities	2,142	—
NET CASH USED IN OPERATING ACTIVITIES	(49,753)	(19,172)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(7,247)	(1,746)
Proceeds from sale of available for sale investments	5,937	—
Cash received from Row 44 Merger	159,227	—
Cash received from AIA Stock Purchase	22,136	—
Purchases of investments and other, net	(1,500)	—
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	178,553	(1,746)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Acquisition of non-controlling interest	(15,378)	—
Proceeds from issuance of notes payable	—	10,000
Long-term borrowings, net of costs	(80)	—
Payments on notes payable	(3,600)	(7)
Purchase of common stock warrants	(795)	—
Proceeds from the exercise of common stock options	291	5
Proceeds from the issuance of preferred stock and warrants	—	24,981
Repayment of short-term borrowings	(327)	—
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(19,889)	34,979
Effects of exchange rate movements on cash and cash equivalents	(859)	—
Net increase in cash and cash equivalents	108,052	14,061

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,088	8,810
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$110,140	$22,871

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Global Eagle Entertainment Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1. Business

Global Eagle Entertainment Inc., together with its consolidated subsidiaries (the “Company”) is a Delaware corporation headquartered in Westlake Village, California. The Company's business is focused on providing Wi-Fi Internet Connectivity and Content to the airline industry.

Connectivity

The Company's Connectivity service offering provides airline partners and their passengers Wi-Fi connectivity over Ku-band satellite transmissions. The Company's Connectivity services are delivered through its wholly owned subsidiary, Row 44 ("Row 44"), which combines specialized network equipment, media applications and premium content services that allow airline passengers to access in-flight Internet, live television, on-demand content, shopping and travel-related information.

Content

The Company's Content services offering selects, manages, and distributes wholly-owned and licensed media content, video and music programming, applications, and video games to the airline industry through its majority-owned subsidiary, Advanced Inflight Alliance AG ("AIA").

Prior to January 31, 2013, the Company was known as Global Eagle Acquisition Corp. (“GEAC”), which was formed in February 2011 to effect a merger, capital stock exchange, asset acquisition or similar business combination with one or more businesses. Effective in the first quarter of 2013, and in conjunction with the business combination transaction (the "Business Combination") in which GEAC acquired Row 44 and 86% of the issued and outstanding shares of AIA, GEAC changed the Company's name from Global Eagle Acquisition Corp. to Global Eagle Entertainment Inc. (the “Company”, “Global Eagle”, “GEE” “we”, “us”, or “our”). Refer to Note 3. "Business Combination" of this Form 10-Q fo additional information.

Note 2. Basis of Presentation and Summary of Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying condensed consolidated financial statements follows.

Basis of Presentation

The accompanying interim condensed consolidated balance sheet as of June 30, 2013, the condensed consolidated statements of operations and condensed consolidated statements of comprehensive income (loss) for the three and six month periods ended June 30, 2013 and 2012, condensed consolidated statements of cash flows for the six month periods ended June 30, 2013 and 2012 and the condensed consolidated statement of stockholders' equity (deficit) for the six month period ended June 30, 2013 are unaudited.

In the opinion of the Company's management, the unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of the Company's statement of financial position as of June 30, 2013 and its results of operations for the three and six month periods ended June 30, 2013 and 2012 and its cash flows for the six month periods ended June 30, 2013 and 2012. The results for the three and six month period ended June 30, 2013 are not necessarily indicative of the results expected for the full year. The consolidated balance sheet as of December 31, 2012 has been derived from the Company's audited financial statements included in the Company's Current Report on Form 8-K/A filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1974, as amended, on August 9, 2013.

The interim unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”), for interim financial information and with the instructions to Securities and Exchange Commission (“SEC”) Form 10-Q and Article 10 of SEC Regulation S-X. They do not include all of the information and footnotes required by GAAP for complete financial statements. Therefore, these financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto, included in the Company's Current Report on Form 8-K/A filed with the Securities and Exchange Commission on August 9, 2013.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. Acquisitions are included in the Company's condensed consolidated financial statements from the date of the acquisition. The Company's Business Combination purchase accounting resulted in all assets and liabilities of acquired businesses being recorded at their estimated fair values on the acquisition dates. All intercompany balances and transactions have been eliminated in consolidation, including AIA's historical investment in Row 44.

Investments that the Company has the ability to control, and where it is the primary beneficiary of, are consolidated. Any non-controlling interests in a Company's subsidiary earnings or losses, such as AIA, are included in other income (expense) in the Company's condensed consolidated statements of operations. Any investments in affiliates over which the Company has the ability to exert significant influence, but does not control and where it is not the primary beneficiary of, are accounted for using the equity method of accounting. Investments in affiliates for which the Company has no ability to exert significant influence are accounted for using the cost method of accounting.

Use of Estimates

The preparation of the Company's unaudited condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue (relative selling price of deliverables) and expenses during the reporting period. Significant items subject to such estimates and assumptions include revenue, allowance for doubtful accounts, fair value of issued common stock warrants, the assigned value of acquired assets and assumed liabilities in business combinations, valuation of media content inventory, useful lives and impairment of property and equipment, intangible assets, goodwill and other assets, the fair value of the Company's equity-based compensation awards, and deferred income tax assets and liabilities. Actual results could differ materially from those estimates. On an ongoing basis, the Company evaluates its estimates compared to historical experience and trends, which form the basis for making judgments about the carrying value of assets and liabilities.

Segments of the Company

Prior to January 1, 2013, the Company reported its operations under one segment, its Connectivity business through its wholly owned subsidiary, Row 44. Beginning with the acquisition of AIA in January 2013, and due to the preliminary nature of the Company's reporting structure in the first quarter of 2013, the Company elected to report its operations in three segments: Row 44's Connectivity business and AIA's Content and Content Service Providing businesses. The Content and Content Service Providing activities were legacy segments reported by AIA prior to the January 2013 Business Combination. Beginning in the second quarter of 2013, management began initiatives to refine its reporting structure of the consolidated Company and reevaluate the metrics used in its key decision making activities. As a result of these activities, the Company now combines AIA's Content and Content Service Providing into a single segment, Content. Prior segment disclosures have been amended to reflect the revised segment definitions and a reconciliation is provided below.

The decision to refine the segment levels from three to two segments is principally based upon the Company's chief operating decision makers (“CODMs”), and how they manage the Company's operations at two segments from a consolidated basis for purposes of evaluating financial performance and allocating resources. The CODMs review separate revenue, expense and operating income (loss) information separately for its Connectivity and Content businesses. Total segment operating income provides the CODMs, investors and equity analysts a measure to analyze operating performance of each of the Company's business segments and its enterprise value against historical data and competitors' data, although historical results may not be indicative of future results (as operating performance is highly contingent on many factors, including customer tastes and preferences). All other financial information is reviewed by the CODMs on a consolidated basis.

Segmental revenue, expenses and contribution profit for the three and six month periods ended June 30, 2013 and 2012 derived from the Company's Connectivity and Content segments were as follows (in thousands):

	Three Months Ended June 30, 2013			Six Months Ended June 30, 2013		
	Connectivity	Content	Consolidated	Connectivity	Content	Consolidated
Revenue:						
Licensing	$—	$38,405	$38,405	$—	$61,709	$61,709
Service	12,379	5,678	18,057	18,673	9,550	28,223
Equipment	6,369	—	6,369	15,412	—	15,412
Total Revenue	18,748	44,083	62,831	34,085	71,259	105,344
Operating Expenses:						
Cost of Sales	16,975	32,845	49,820	32,221	53,348	85,569
Contribution Profit	1,773	11,238	13,011	1,864	17,911	19,775
Other Operating Expenses			20,487			49,403
Loss from Operations			$(7,476)			$(29,628)

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
	Connectivity	Connectivity
Revenue:		
Licensing	$—	$—
Service	2,604	4,683
Equipment	14,232	30,660
Total Revenue	16,836	35,343
Operating Expenses:		
Cost of Sales	18,722	36,604
Contribution Loss	(1,886)	(1,261)
Other Operating Expenses	4,663	9,430
Loss from Operations	$(6,549)	$(10,691)

Revenue Recognition

The Company recognizes revenue when four basic criteria are met: persuasive evidence of a sales arrangement exists; performance of services has occurred; the sales price is fixed or determinable; and collectability is reasonably assured. The Company considers persuasive evidence of a sales arrangement to be the receipt of a signed contract. Collectability is assessed based on a number of factors, including transaction history and the credit worthiness of a customer. If it is determined that the collection is not reasonably assured, revenue is not recognized until collection becomes reasonably assured, which is generally upon receipt of cash. The Company records cash received in advance of revenue recognition as deferred revenue.

The Company extends credit to its customers. An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of the Company's customers to make required payments. Management specifically analyzes the age of customer balances, historical bad debt experience, customer credit-worthiness, and changes in customer payment terms when making estimates of the collectability of the Company's trade accounts receivable balances. If the Company determines that the financial condition of any of its customers has deteriorated, whether due to customer specific or general economic issues, an increase in the allowance may be made. After all attempts to collect a receivable have failed, the receivable is written off.

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Global Eagle Entertainment Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)

For arrangements with multiple deliverables, the Company allocates revenue to each deliverable if the delivered item(s) has value to the customer on a standalone basis and, if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Company. The fair value of the selling price for a deliverable is determined using a hierarchy of (1) Company specific objective and reliable evidence, then (2) third-party evidence, then (3) best estimate of selling price. The Company allocates any arrangement fee to each of the elements based on their relative selling prices.

The Company's revenue is principally derived from the following services:

Connectivity

Equipment Revenue. Equipment revenue is recognized when title and risk pass to the buyer, which is generally upon shipment or destination depending on the contractual arrangement with the customer. In determining whether an arrangement exists, the Company ensures that a binding arrangement is in place, such as a standard purchase order or a fully executed customer-specific agreement. In cases where a customer has the contractual ability to accept or return equipment within a specific time frame, the Company will provide for return reserves when and if necessary, based upon historical experience.

Included in equipment revenue are certain deferred obligations that exist pursuant to the Company's contractual arrangements and typically include, but are not limited to, technical support, regulatory support, network support and installation support. These support-based arrangements are customarily bundled with the Company's contracts and are accounted for as a single unit of account. To the extent that these support services have value on a standalone basis, the Company allocates revenue to each element in the arrangement based upon their relative fair values. Fair value is determined based upon the best estimate of the selling price, and the fair value of undelivered elements is deferred and recognized over the performance or contractual period. The most significant of the deferred obligations are typically network support, which includes 24/7 operational support for the airlines, which the Company incurs significant and periodic external and internal costs to deliver on a daily basis.

Service Revenue. Service revenue includes in-flight Wi-Fi Internet services, live television, on-demand content, shopping and travel-related information. Service revenue is recognized after it has been rendered and the customer can use the service, which customarily is in the form of (i) enplanement for boarded passengers, (ii) usage by passengers, depending upon the specific contract, and (iii) other revenues such as advertising sponsorship. The Company assesses whether performance criteria have been met and whether its service fees are fixed or determinable based on a reconciliation of the performance criteria and an analysis of the payment terms associated with the transaction. The reconciliation of the performance criteria generally includes a comparison of third-party performance data to the contractual performance obligation and to internal or customer performance data in circumstances where that data is available.

When the Company enters into revenue sharing arrangements where it acts as the primary obligor, the Company recognizes the underlying revenue on a gross basis. In determining whether to report revenue gross for the amount of fees received from its customers, the Company assesses whether it maintains the principal relationship, whether it bears credit risk and whether it has latitude in establishing prices with the airlines.

In certain cases, the Company records service revenue based on available and preliminary information from its network operations. Amounts collected on the related receivables may vary from reported information based upon third party refinement of estimated and reported amounts owing that generally occurs typically within thirty days of the period end. For the three and six months ended June 30, 2012 and 2013, the difference between the amounts recognized based on preliminary information and cash collected was not material.

Content

Licensing Revenue. Content licensing revenue is principally generated through the sale or license of media content, video and music programming, applications, and video games to the airlines, and to a lessor extent through various services such as encoding and editing of media content. Revenue from the sale or license of content is recognized when the content has been delivered and the contractual performance obligations have been fulfilled, generally at the time a customer's license period begins. For certain arrangements, revenue is not recognized until the license period commences even if delivery and performance obligations have already occurred.

Services Revenue. Content services revenue, such as technical services, the encoding of video products, development of graphical interfaces or the provision of materials, are billed and recognized as services are performed.

Table of Content
Global Eagle Entertainment Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)

Costs of Sales

Connectivity

Connectivity costs of sales consist primarily of equipment fees paid to third party manufacturers, certain revenue recognized by the Company and shared with its customers or partners as a result of its revenue-sharing arrangements, Internet connection and satellite charges and other platform operating expenses associated with the Company's Connectivity business, including depreciation of the systems internally developed software and website development costs and hardware used to build and operate the Company's Connectivity platform, and personnel costs relating to information technology.

Content