

Edgar Filing: Global Eagle Entertainment Inc. - Form 10-Q

Global Eagle Entertainment Inc.
Form 10-Q
November 09, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED September 30, 2016

OR

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)

4553 Glencoe Avenue, Suite 300

Los Angeles, California 90292

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (310) 437-6000

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 No

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 No

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 Accelerated filer Non-accelerated filer Smaller reporting company

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

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 November 4, 2016)
COMMON STOCK, \$0.0001 PAR VALUE	85,309,744 SHARES*

* Excludes 3,053,634 shares held by a wholly-owned subsidiary of the registrant.

Table of Contents

GLOBAL EAGLE ENTERTAINMENT INC.
INDEX TO FORM 10-Q

Item No.	Description	Page
	PART I — Financial Information	
Item 1.	<u>Condensed Consolidated Financial Statements:</u>	
	<u>Condensed Consolidated Balance Sheets as of September 30, 2016 (Unaudited) and December 31, 2015</u>	<u>1</u>
	<u>Condensed Consolidated Statements of Operations (Unaudited) for the three and nine months ended September 30, 2016 and 2015</u>	<u>2</u>
	<u>Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited) for the three and nine months ended September 30, 2016 and 2015</u>	<u>3</u>
	<u>Condensed Consolidated Statement of Stockholders' Equity (Unaudited) for the nine months ended September 30, 2016</u>	<u>4</u>
	<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2016 and 2015</u>	<u>5</u>
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>6</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>43</u>
Item 3.	<u>Quantitative and Qualitative Disclosure About Market Risk</u>	<u>66</u>
Item 4.	<u>Controls and Procedures</u>	<u>67</u>
	PART II — Other Information	
Item 1.	<u>Legal Proceedings</u>	<u>68</u>
Item 1A.	<u>Risk Factors</u>	<u>68</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>76</u>
Item 3.	<u>Defaults Upon Senior Securities</u>	<u>76</u>
Item 4.	<u>Mine Safety Disclosures</u>	<u>76</u>
Item 5.	<u>Other Information</u>	<u>77</u>
Item 6.	<u>Exhibits</u>	<u>77</u>
	<u>Signature</u>	<u>78</u>

Table of Contents

PART I — FINANCIAL INFORMATION

GLOBAL EAGLE ENTERTAINMENT INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (In thousands, except share and per share amounts)

	September 30, 2016	December 31, 2015
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 56,155	\$ 223,552
Accounts receivable, net	118,148	93,449
Inventories	30,901	14,998
Prepaid and other current assets	50,345	27,209
TOTAL CURRENT ASSETS:	255,549	359,208
Content library	20,592	16,083
Property, plant and equipment, net	149,620	39,066
Goodwill	364,543	93,796
Intangible assets, net	228,333	117,684
Equity method investments	104,791	—
Other non-current assets	17,058	12,024
TOTAL ASSETS	\$ 1,140,486	\$ 637,861
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 175,106	\$ 112,330
Accrued legal settlements	16,855	6,200
Deferred revenue	11,745	10,449
Warrant liabilities	6,235	24,076
Notes payable, current	387	749
Other current liabilities	10,666	12,111
TOTAL CURRENT LIABILITIES:	220,994	165,915
Deferred tax liabilities, non-current	38,452	22,324
Deferred revenue, non-current	8,247	6,345
Notes payable, non-current	441,137	69,815
Other non-current liabilities	42,826	19,701
TOTAL LIABILITIES	751,656	284,100
COMMITMENTS AND CONTINGENCIES		
EQUITY:		
Preferred stock, \$0.0001 par value; 1,000,000 shares authorized, 0 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	—	—
Common stock, \$0.0001 par value; 375,000,000 shares authorized, 88,363,378 and 81,676,390 shares issued, 85,309,744 and 78,622,756 shares outstanding, at September 30, 2016 and December 31, 2015, respectively	9	8
Treasury stock, 3,053,634 shares at September 30, 2016 and December 31, 2015	(30,659) (30,659)
Additional paid-in capital	744,985	688,696
Subscriptions receivable	(547) (528)
Accumulated deficit	(324,675) (303,457)

Edgar Filing: Global Eagle Entertainment Inc. - Form 10-Q

Accumulated other comprehensive loss	(283) (299)
TOTAL GLOBAL EAGLE ENTERTAINMENT INC. STOCKHOLDERS' EQUITY	388,830	353,761	
TOTAL LIABILITIES AND EQUITY	\$ 1,140,486	\$ 637,861	

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

1

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	\$146,909	\$110,114	\$372,991	\$312,795
Operating expenses:				
Cost of sales	103,348	71,456	255,202	206,965
Sales and marketing expenses	8,390	4,819	19,553	13,058
Product development	7,916	7,766	25,078	21,447
General and administrative	44,728	18,602	82,395	54,297
Provision for legal settlements	1,545	3,500	41,688	4,250
Amortization of intangible assets	9,166	7,286	24,055	19,274
Restructuring charges	—	66	—	368
Total operating expenses	175,093	113,495	447,971	319,659
Loss from operations	(28,184)	(3,381)	(74,980)	(6,864)
Other income (expense):				
Interest expense, net	(6,412)	(803)	(7,829)	(1,631)
Income from equity method investments	2,065	—	2,065	—
Change in fair value of derivatives	1,191	(1,877)	17,982	13,866
Other income (expense), net, including related party loan impairment	631	(576)	(4,623)	(1,815)
(Loss) income before income taxes	(30,709)	(6,637)	(67,385)	3,556
Income tax benefit (expense)	50,063	(235)	46,167	(872)
Net income (loss)	\$19,354	\$(6,872)	\$(21,218)	\$2,684
Net income (loss) per common share – basic	\$0.23	\$(0.09)	\$(0.27)	\$0.03
Net income (loss) per common share – diluted	\$0.23	\$(0.09)	\$(0.27)	\$(0.14)
Weighted average common shares – basic	82,874	77,753	79,892	77,249
Weighted average common shares – diluted	85,081	77,753	79,892	78,449

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

Table of Contents

GLOBAL EAGLE ENTERTAINMENT INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(In thousands)

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	2015		2015	
Net income (loss)	\$19,354	\$(6,872)	\$(21,218)	\$2,684
Other comprehensive gain (loss):				
Unrealized foreign currency translation gains (losses)	174	(78)	16	(267)
Other comprehensive gain (loss)	174	(78)	16	(267)
Comprehensive income (loss)	\$19,528	\$(6,950)	\$(21,202)	\$2,417

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

Table of Contents

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

	Common Stock		Treasury Stock		Additional	Subscription	Accumulated	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Receivable	Deficit	Other Comprehensive Loss	Stockholders' Equity
Balance at December 31, 2015	81,676	\$ 8	(3,054)	\$(30,659)	\$688,696	\$ (528)	\$(303,457)	\$ (299)	\$ 353,761
Issuance of common stock for Emerging Markets Communication Acquisition	5,467	1	—	—	40,606	—	—	—	40,607
Issuance of common stock for legal settlements	1,751	—	—	—	13,705	—	—	—	13,705
Repurchase and retirement of common stock	(614)	—	—	—	(5,219)	—	—	—	(5,219)
Exercise of stock options	26	—	—	—	254	—	—	—	254
Restricted stock units vested and distributed, net of tax	58	—	—	—	(242)	—	—	—	(242)
Purchase of subsidiary shares from non-controlling interests	—	—	—	—	(876)	—	—	—	(876)
Stock-based compensation	—	—	—	—	8,061	—	—	—	8,061
Interest income on subscription receivable	—	—	—	—	—	(19)	—	—	(19)
Other comprehensive income	—	—	—	—	—	—	—	16	16
Net loss	—	—	—	—	—	—	(21,218)	—	(21,218)
Balance at September 30, 2016	88,364	\$ 9	(3,054)	\$(30,659)	\$744,985	\$ (547)	\$(324,675)	\$ (283)	\$ 388,830

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

Table of Contents

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

	Nine Months Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	\$(21,218)	\$2,684
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	36,937	25,857
Non-cash interest expense, net	1,239	440
Change in fair value of derivative financial instrument	(17,982)	(13,866)
Stock-based compensation	8,061	6,248
Issuance of shares for legal settlements	13,705	—
Impairment of related party loan	4,516	—
(Earnings) losses on equity method investments	(2,065)	—
Deferred income taxes	(58,352)	(4,921)
Other	795	555
Changes in operating assets and liabilities:		
Accounts receivable	(634)	(6,077)
Inventory	(2,792)	(4,245)
Content library	(2,303)	(426)
Prepaid expenses and other assets	14,036	(335)
Deposits and other assets	(2,931)	1,820
Accounts payable and accrued expenses	686	671
Deferred revenue	(5,734)	212
Other liabilities	(1,937)	3,393
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(35,973)	12,010
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(29,484)	(14,710)
Acquisitions, net of cash acquired	(91,626)	(55,242)
Payment of deferred acquisition contingency	—	(5,000)
Issuance of loan to related party	(4,400)	—
Purchase of investments	(12,975)	(2,324)
Net proceeds from sale of available for sale securities	13,023	580
NET CASH USED IN INVESTING ACTIVITIES	(125,462)	(76,696)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of notes payable	1,339	
Proceeds from issuance of convertible senior notes	—	81,250
Repayments of notes payable	(2,272)	(636)
Net proceeds from share-based payments	12	5,472
Purchase of common stock	(5,219)	—
Convertible senior note issuance fees	—	(831)
Other financing activities, net	—	(476)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(6,140)	84,779
Effects of exchange rate movements on cash and cash equivalents	178	313
Net (decrease) increase in cash and cash equivalents	(167,397)	20,406

Edgar Filing: Global Eagle Entertainment Inc. - Form 10-Q

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	223,552	197,648
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$56,155	\$218,054
SIGNIFICANT NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of common stock for Emerging Markets Communications	\$40,607	\$—
Issuance of common stock for legal settlements	13,705	—
Issuance of common stock in exchange for warrants	—	12,608

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

Table of Contents

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

Note 1. Business

Global Eagle Entertainment Inc. ("GEE") is a Delaware corporation headquartered in Los Angeles, California. GEE and its consolidated subsidiaries are referred to collectively herein as the "Company." The Company provides a wide range of in-flight, maritime and land-based connectivity solutions, including Wi-Fi, movies, television, music and interactive software, as well as portable entertainment solutions, content management services, e-commerce solutions and original content development. The Company's business is comprised of two reporting segments: Connectivity and Content.

As discussed further in Note 3, on July 27, 2016 (the "EMC Acquisition Date"), the Company completed the acquisition of Emerging Markets Communications ("EMC") (the "EMC Acquisition"). EMC is a communications services provider that offers land-based sites and marine vessels globally a multimedia platform delivering communications, Internet, live television, on-demand video, voice, cellular and 3G/LTE services. EMC leverages its satellite-terrestrial-cellular broadband network with fully meshed Multiprotocol Label Switching ("MPLS") interconnected teleports. EMC has a portfolio of patented technologies. EMC owns and operates its own ground infrastructure and global field support centers, permitting EMC to deploy support to customers around the world. Key aspects of EMC's services include:

• **Connectivity**—EMC provides global satellite bandwidth (C-Band, Ku-Band, Ka-Band), terrestrial broadband network, cellular and 3G services, remote fiber network and fully meshed MPLS interconnected teleports;

• **Access**—EMC provides access to live television worldwide, video (on demand and subscription), 3G cellular services, Internet, voice, data, high-definition video conferencing and universal portals, including through its proprietary SpeedNet product; and

• **Support**—EMC has field support centers worldwide, each of which has a spare parts inventory, a 24 hour/7 days network operations center, certified technicians, system integration and project management.

The Company re-evaluated its reporting segments as a result of the EMC Acquisition and concluded that the Company's chief operating decision maker ("CODM") would continue to manage the Company's operations for purposes of evaluating financial performance and allocating resources under its existing reporting segments, "Connectivity" and "Content", See Note 2 for further discussion on the Company's reporting segments.

Connectivity

The Company's Connectivity service offering provides its customers, including their passengers and crew, with operational solutions and Wi-Fi connectivity over C, Ka and Ku-band satellite transmissions. The Company's Connectivity segment offers (i) specialized network equipment and technology, 3G cellular services, high-definition video conferencing, media applications and premium content services that enable passengers and crew to access the Internet, live television, on-demand content, shopping and travel-related information and (ii) operational solutions that allow customers to improve their internal operation management.

Content

The Company's Content service offering selects, manages, provides lab services and distributes wholly-owned and licensed media content, video and music programming, advertising, applications and video games to the airline, maritime and other "away from home" non-theatrical markets.

Table of Contents

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

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

The following is a summary of the significant accounting policies consistently applied in the preparation of the accompanying condensed consolidated financial statements.

Basis of Presentation

The accompanying interim condensed consolidated balance sheet as of September 30, 2016, the condensed consolidated statements of operations and the condensed consolidated statements of comprehensive (loss) income for the three and nine months ended September 30, 2016 and 2015, the condensed consolidated statements of cash flows for the nine months ended September 30, 2016 and 2015, and the condensed consolidated statement of stockholders' equity for the nine months ended September 30, 2016, 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 Company's audited consolidated financial statements for the year ended December 31, 2015, and include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of the Company's condensed consolidated balance sheet as of September 30, 2016, its condensed consolidated statements of operations for the three and nine months ended September 30, 2016 and 2015 and its condensed consolidated statements of cash flows for the nine months ended September 30, 2016 and 2015. The results for the nine months ended September 30, 2016 are not necessarily indicative of the results expected for the full 2016 year. The consolidated balance sheet as of December 31, 2015 has been derived from the Company's audited financial statements included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 17, 2016 (the "2015 Form 10-K"). The presentation of the provision for legal settlements included in the condensed consolidated statements of operations for the three and nine months ended September 30, 2015 and the presentation of accrued legal settlements included in the condensed consolidated balance sheet as of December 31, 2015 have been reclassified to conform to the current year presentation. In addition, the Company made an immaterial correction pertaining to the classification of its content library as of December 31, 2015 and as a result the Company reclassified the presentation of its current content library of \$12.3 million to non-current assets.

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 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 2015 Form 10-K.

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 purchase accounting for acquisitions resulted in all assets and liabilities of acquired businesses being recorded at their estimated fair values on the acquisition date. All intercompany balances and transactions have been eliminated in consolidation.

Investments that the Company has the ability to control, and where it is the primary beneficiary, are consolidated. Investments in affiliates for which the Company has no ability to exert significant influence are accounted for using the cost method of accounting. The Company had no such investments accounted for under the cost method for the nine months ended September 30, 2016 and 2015. Investments in affiliates over which the Company has the ability to exert significant influence, but do not control and where the Company is not the primary beneficiary, are accounted for using the equity method of accounting. As a result of the acquisition of EMC on July 27, 2016, the Company has two such equity affiliates, as discussed further below. The Company had no such investments accounted for under the equity method of accounting for the nine months ended September 30, 2015.

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

Use of Estimates

The preparation of the Company's 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 (allocated on the basis of the 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, the assigned value of acquired assets and assumed and contingent liabilities associated with business combinations, legal settlements, valuation of media content library and equipment 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 convertible debt instruments, 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

As noted above, the Company reports its operations under two reporting segments, Connectivity and Content. The Company's Connectivity segment provides customers and their passengers with Wi-Fi connectivity over C, Ka and Ku band satellite transmissions. This reporting segment, to a lesser extent, also provides airlines with operations data solutions. The Company's Content segment selects, manages, and distributes owned and licensed media content, digital media offerings, video and music programming, applications, and video games to the airline, maritime and non-theatrical markets.

The decision to report under two reporting segments is principally based upon how the Company's CODM manages the Company's operations as two reporting segments for purposes of evaluating financial performance and allocating resources. The CODM reviews revenue, cost of sales expense and contribution profit information separately for the Connectivity and Content segments. Total segment contribution profit provides the CODM, 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 CODM on a consolidated basis.

Segment revenue, expenses and contribution profit for the three and nine month periods ended September 30, 2016 and 2015 derived from the Company's Content and Connectivity segments were as follows (in thousands):

	Three Months Ended September 30,					
	2016			2015		
	Content	Connectivity	Consolidated	Content	Connectivity	Consolidated
Revenue:						
Licensing and services	\$79,014	\$ 59,231	\$ 138,245	\$81,574	\$ 24,838	\$ 106,412
Equipment	—	8,664	8,664	—	3,702	3,702
Total revenue	79,014	67,895	146,909	81,574	28,540	110,114
Operating expenses:						
Cost of sales						
Licensing and services	53,132	42,428	95,560	53,995	14,654	68,649
Equipment	—	7,788	7,788	—	2,807	2,807

Edgar Filing: Global Eagle Entertainment Inc. - Form 10-Q

Total cost of sales	53,132	50,216	103,348	53,995	17,461	71,456
Contribution profit	25,882	17,679	43,561	27,579	11,079	38,658
Other Operating Expenses			71,745			42,039
(Loss) from Operations			\$ (28,184)			\$ (3,381)

8

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

	Nine Months Ended September 30,					
	2016			2015		
	Content	Connectivity	Consolidated	Content	Connectivity	Consolidated
Revenue:						
Licensing and services	\$241,330	\$ 110,625	\$ 351,955	\$227,037	\$ 71,602	\$ 298,639
Equipment	—	21,036	21,036	—	14,156	14,156
Total revenue	241,330	131,661	372,991	227,037	85,758	312,795
Operating expenses:						
Cost of sales						
Licensing and services	161,708	75,381	237,089	152,044	42,730	194,774
Equipment	—	18,113	18,113	—	12,191	12,191
Total Cost of sales	161,708	93,494	255,202	152,044	54,921	206,965
Contribution profit	79,622	38,167	117,789	74,993	30,837	105,830
Other operating expenses			192,769			112,694
Loss from operations			\$ (74,980)			\$ (6,864)

Investments in Equity Affiliates

Wireless Maritime Services, LLC (“WMS”)

In connection with the EMC acquisition on July 27, 2016, the Company acquired a 49% equity interest in WMS. The remaining 51% equity interest in WMS is owned by AT&T. AT&T is the managing member of WMS and is responsible for its day to day affairs. Certain matters including determination of capital contributions and distributions and business plan revisions require approval of WMS’s board of directors, which consists of five voting members, three members of which are from AT&T and two of which are from the Company. Profits and losses for any fiscal year are allocated between the Company and AT&T in proportion to their respective percentage ownership interests, after giving effect to any special allocations made pursuant to the WMS operating agreement. EMC's carrying value of the investment in WMS was adjusted to fair value as a result of the acquisition of EMC. The excess of the fair value over the underlying equity in net assets of WMS is primarily comprised of amortizable intangible assets and nonamortizable goodwill. The Company's carrying value in its investment in WMS will be subsequently adjusted for contributions, distributions and net income (loss) attributable to WMS, including the amortization of the cost basis difference associated with the amortizable intangible assets.

Santander Teleport (“Santander”)

Also in connection with the Company's acquisition of EMC on July 27, 2016, the Company acquired an investment in a teleport in Santander, Spain, which provides various telecommunication services, including teleport and terrestrial services. The Company holds a 49% interest in Santander while the remaining 51% is held by Erzia Technologies (“Erzia”), a Spanish company. Erzia is responsible for the day to day management of Santander. Certain matters including determination of capital contributions, capital expenditures over budget, and distributions require approval of Santander’s board of directors. The governing board of directors for Santander consists of three members from Erzia and two members from the Company. Profits and losses for any fiscal year are allocated between the Company and Erzia in proportion to their respective percentage ownership interests. EMC's carrying value of the investment in Santander approximated its fair value on the date the Company acquired EMC and will be subsequently adjusted for contributions, distributions, and net income (loss) attributable to Santander.

Table of Contents

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

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 or standard purchase order. Collectability is assessed based on a number of factors, including transaction history and the creditworthiness of a customer. If it is determined that 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.

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.

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 its customers, among other factors.

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 arrival at 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 (based upon historical experience) necessary.

In certain cases where the Company sells its equipment to an aviation customer on a stand-alone basis, it may charge a fee for obtaining Supplemental Type Certificates ("STC") obtained from the Federal Aviation Administration, which allow its equipment to operate on certain model/type of aircraft. To the extent that the Company contracts to charge STC fees in equipment-only sales, the Company will record these fees as revenue. The Company recognized STC fee revenue of \$0.4 million and \$1.1 million during the three and nine months ended September 30, 2016. No STC fee revenue was recognized during the three and nine months ended September 30, 2015.

Included in equipment revenue are certain deferred obligations, which 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 and is included in equipment revenue. The most significant of the deferred obligations typically is network support, which includes 24/7 operational support for customers for which the Company incurs significant and periodic external and internal costs to deliver on a daily basis.

Service Revenue. Connectivity service revenue includes Wi-Fi Internet services, live television, on-demand content, music streaming, shopping and click-through advertising revenue from travel-related information. Service revenue is recognized after the service has been rendered and the customer can use such service, which customarily is in the form of (i) enplanement for boarded passengers, (ii) usage by passengers, depending upon the specific customer contract, and/or (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

Table of Contents

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

associated with the customer 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.

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 reported amounts owed that typically occurs within thirty days of the end of the period end. For all periods presented, 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 customers, the aviation, maritime and non-theatrical markets, and to a lesser 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. In certain cases, the Company estimates licensing revenues from customers. The Company believes it has the ability to reasonably estimate the amounts that will ultimately be collected and therefore recognizes these amounts when earned.

Services Revenue. Content services, such as technical services, delivery of digital media advertising, the encoding of video and music products, development of graphical interfaces or the provision of materials, are billed and revenue is recognized as services are performed and/or when the committed advertisement impressions have been delivered. Obligations pursuant to the Company's advertising revenue arrangements typically include a minimum number of impressions or the satisfaction of other performance criteria. Revenue from performance-based arrangements is recognized as the related performance criteria are met. We assess whether performance criteria have been met and whether the 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. Where we enter into revenue-sharing arrangements with our customers, such as those relating to advertising, and when we are considered the primary obligor, we report the underlying revenue on a gross basis in our consolidated statements of operations, and record these revenue-sharing payments to our customers in service costs.

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 revenue-sharing arrangements, Internet connection and satellite charges and other platform operating expenses associated with the Company's Connectivity business, including depreciation of internally developed software, website development costs, hardware and services used to build and operate the Company's Connectivity platform, and personnel costs relating to information technology.

Content

Content cost of sales consist primarily of the costs to license or purchase media content, and direct costs to service content for the airlines. Included in Content cost of sales is amortization expense associated with the purchase of film content libraries acquired in business combinations of \$0.1 million for the nine months ended September 30, 2015. There was no amortization expense included in Content cost of sales associated with the purchase of film content libraries acquired in business combinations for the three and nine months ended September 30, 2016 and for the three months ended September 30, 2015.

Table of Contents

Global Eagle Entertainment Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Sales and marketing

Sales and marketing expense is primarily comprised of personnel costs related to the Company's sales and marketing staff, advertising costs, including promotional events and other brand building and product marketing expenses, corporate communications, certain professional fees, occupancy costs and travel expenses.

Advertising costs are expensed as incurred. Advertising expenses for the three and nine months ended September 30, 2016 and 2015 were not material.

Product Development

Product research and software development costs, other than certain internal-use software costs qualifying for capitalization, are expensed as incurred. Costs of computer software or websites developed or obtained for internal use that are incurred in the preliminary project and post-implementation stages are expensed as incurred. Certain costs of developing internal-use software incurred during the application and development stage, which include employee and outside consulting compensation and related expenses, costs of computer hardware and software, website development costs and costs incurred in developing additional features and functionality of the services, are capitalized. The estimated useful life of costs capitalized is evaluated for each specific project. Capitalized costs are generally amortized using the straight-line method over a three-year estimated useful life, beginning in the period in which the software is ready for its intended use. Unamortized amounts are included in property and equipment, net in the accompanying condensed consolidated balance sheets. Capitalized software development costs totaled \$1.8 million and \$6.0 million for the three and nine months ended September 30, 2016, respectively, and \$0.9 million and \$2.6 million for the three and nine months ended September 30, 2015, respectively.

The Company's product development expenditures are focused on developing new products and services, and obtaining STCs as required by the Federal Aviation Administration for each model/type of aircraft prior to providing Connectivity services. To the extent that the Company is contracted to obtain STCs, and customers reimburse these costs, the Company will record these reimbursements directly against its product development expenses.

Stock-Based Compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as an expense over the requisite service period, which is the vesting period, on a straight-line basis. The Company uses the Black-Scholes option pricing model to determine the grant date fair value of stock options. This model requires the Company to estimate the expected volatility and the expected term of the stock options, which are highly complex and subjective variables. The variables take into consideration, among other things, actual and projected employee stock option exercise behavior. The Company uses an expected volatility of its stock price during the expected life of the options that is based on the historical performance of the Company's stock price as well as including an estimate using similar companies. Expected term is computed using the simplified method as the Company's best estimate given its lack of actual exercise history. The Company has selected a risk-free rate based on the implied yield available on U.S. Treasury securities with a maturity equivalent to the expected exercise term of the stock option. Stock-based awards are comprised principally of stock options and restricted stock units ("RSUs").

Stock option awards issued to non-employees are accounted for at fair value determined using the Black-Scholes option-pricing model. Management believes that the fair value of the stock options is more reliably measured than the fair value of the services received. The fair value of each non-employee stock-based compensation award is

re-measured each period until performance is completed, which generally is on each vesting date.

Stock Repurchases

Shares of the Company's stock repurchased by the Company are accounted for when the transaction is settled. Repurchased shares held for future issuance are classified as treasury stock. Shares formally or constructively retired are deducted from common stock at par value and from additional paid in capital for the excess of cash paid over par value. If additional paid in capital has been exhausted, the excess over par value is deducted from retained earnings. Direct costs incurred to acquire the shares are included in the total cost of the repurchased shares.

Table of Contents

Global Eagle Entertainment Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an initial maturity of 90 days or less to be cash equivalents.

Restricted Cash

The Company maintains certain letters of credit agreements with its customers that are secured by the Company's cash for periods of less than one year and up to three years. As of September 30, 2016 and December 31, 2015, the Company had restricted cash of \$20.1 million and \$4.4 million, respectively. As of September 30, 2016 and December 31, 2015, there was \$18.6 million and \$2.3 million, respectively, of restricted cash included in other current assets in the condensed consolidated balance sheets. As of September 30, 2016 and December 31, 2015, there was \$1.5 million and \$2.1 million of restricted cash included in other non-current assets, respectively, in the condensed consolidated balance sheets.

Investment securities

Marketable investment securities, all of which are considered available-for-sale, are stated at fair value based on market quotes. Unrealized gains and losses, net of deferred taxes, have not been significant and are recorded as a component of other comprehensive income.

Long-Lived Assets

The Company evaluates the recoverability of its long-lived assets with finite useful lives, including its indefinite lived intangible assets acquired in business combinations, for impairment when events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Such trigger events or changes in circumstances may include: a significant decrease in the market price of a long-lived asset, a significant adverse change in the extent or manner in which a long-lived asset is being used, significant adverse change in legal factors or in the business climate, including those resulting from technology advancements in the industry, the impact of competition or other factors that could affect the value of a long-lived asset, a significant adverse deterioration in the amount of revenue or cash flows we expect to generate from an asset group, an accumulation of costs significantly in excess of the amount originally expected for the acquisition or development of a long-lived asset, current or future operating or cash flow losses that demonstrate continuing losses associated with the use of a long-lived asset, or a current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The Company performs impairment testing at the asset group level that represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable and the expected undiscounted future cash flows attributable to the asset group are less than the carrying amount of the asset group, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. Fair value is determined based upon estimated discounted future cash flows. During both the three and nine months ended September 30, 2016, the Company recorded an impairment loss of approximately \$0.9 million. Assets to be disposed of would be separately presented on the balance sheets and reported at the lower of their carrying amount or fair value less costs to sell, and would no longer be depreciated or amortized.

Inventory

Equipment inventory. Equipment inventory, which is classified as finished goods, is comprised of individual equipment parts and assemblies and is stated at the lower of cost or market. The Company provides inventory write-downs based on excess and obsolete inventories determined primarily by future demand forecasts. The write-down is measured as the difference between the cost of the inventory and market, based upon assumptions about future demand; and is charged to the provision for inventory, which is a component of cost of goods sold. At the point of the loss recognition, a new, lower cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

Table of Contents

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

At September 30, 2016 and December 31, 2015, there were approximately \$6.8 million and \$7.8 million, respectively, of deferred equipment costs included in inventory and other non-current assets. The deferred equipment costs pertain to certain costs expended in advance of services for certain customers, and are being amortized ratably over the underlying terms of the agreements through 2020.

The Company generally is not directly responsible for warranty costs related to equipment it sells to its customers. The vendors that supply each of the individual parts, which comprise the assemblies sold by the Company to customers, are responsible for the equipment warranty directly to the customer.

Content Library

The useful life of licensed film rights within the content library corresponds to the respective period over which the film rights will be licensed and generate revenues. Licensed film rights are amortized ratably over their expected revenue streams and included in cost of sales in the condensed consolidated statements of operations. Certain film rights in the Company's portfolio may be used in perpetuity under certain conditions.

Additions to the content library represent minimum guaranteed amounts or flat fees to acquire the distribution film rights. Amounts owed in excess of the capitalized minimum guarantees are expensed and accrued as a liability when the Company's revenues from exploiting the film right have fully recouped the minimum guarantee based on the contractual royalty rates.

The content library is periodically tested for impairment, but no less than annually. The marketability of the given film right can determine whether an impairment loss is necessary. If the estimated future cash flows for a given film right are lower than its carrying amount as of the reporting date, an impairment loss is recognized in such period.

Property, Plant, & Equipment, net

Property, plant and equipment is measured at cost less accumulated depreciation and/or impairment losses. Straight-line depreciation is based on the underlying assets' useful lives. The estimated useful life of technical and operating equipment is three to 10 years. Leasehold improvements are amortized on the straight-line method over the shorter of the remaining lease term or estimated useful life of the asset. Buildings are amortized on the straight-line method over 30 years.

Upon the sale or retirement of property or equipment, the cost and related accumulated depreciation or amortization are removed from the Company's financial statements with the resulting gain or loss reflected in the Company's results of operations. Repairs and maintenance costs are expensed as incurred.

In 2013, the Company capitalized the costs of certain Connectivity equipment installed on aircraft of a single customer to facilitate expanded services over a five-year use period, as the Company retains legal title to the equipment. The Company is amortizing this equipment over its five-year useful life period.

In 2016, the Company began installing connectivity equipment under an agreement entered into with a customer in 2015. Under this agreement, legal title of the equipment is transferred upon delivery but sales are not recognized for accounting purposes because the risks and rewards of ownership are not fully transferred due to our continuing involvement with the equipment, the term of our agreement with the airline and restrictions in the agreement regarding the airline's use of the equipment. The Company will take possession of the equipment upon the end of the

term. The Company accounts for these equipment transactions as operating leases. The assets are recorded as property, plant and equipment, net on our condensed consolidated balance sheets. The Company will begin depreciating the assets when they are ready for their intended use and depreciate them over the 10-year term of the agreement which approximates the expected useful lives of the equipment.

Intangible Assets and Goodwill

The Company performs valuations of assets acquired and liabilities assumed on each acquisition accounted for as a business combination, and allocates the purchase price of each acquired business to its respective net tangible and intangible assets. Acquired intangible assets principally comprise of customer relationships and technology. The Company determines the appropriate useful life by performing an analysis of expected cash flows based on historical experience of the acquired

Table of Contents

Global Eagle Entertainment Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

businesses. Intangible assets are amortized over their estimated useful lives using the straight-line method, which approximates the pattern in which the majority of the economic benefits is expected to be consumed.

Goodwill represents the excess of the cost of an acquired entity over the fair value of the acquired net assets. Goodwill is not amortized, and is instead tested for impairment when events or circumstances change that would indicate that goodwill might be impaired. Events or circumstances that could trigger an impairment review include, but are not limited to, a significant adverse change in legal factors or in the business climate, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, significant changes in the manner of the Company's use of the acquired assets or the strategy for the Company's overall business, significant negative industry or economic trends or significant under-performance relative to expected historical or projected future results of operations.

Goodwill is tested for impairment at the reporting unit level, which is one level below or the same as an operating segment. The Company determined that it has three reporting units, Content, Aviation Connectivity and Maritime and Land Connectivity. When testing goodwill for impairment, the Company first performs a qualitative assessment to determine whether it is necessary to perform step one of a two-step annual goodwill impairment test for each reporting unit. The Company is required to perform step one only if it concludes that it is more likely than not that a reporting unit's fair value is less than its carrying value. If this is the case, the first step of the two-step process is to identify whether a potential impairment exists by comparing the estimated fair values of the Company's reporting units with their respective book values, including goodwill. If the estimated fair value of the reporting unit exceeds book value, goodwill is considered not to be impaired, and no additional steps are necessary. If, however, the fair value of the reporting unit is less than book value, then the second step is performed to determine if goodwill is impaired and to measure the amount of impairment loss, if any. The amount of the impairment loss is the excess of the carrying amount of the goodwill over its implied fair value. The estimate of implied fair value of goodwill is primarily based on an estimate of the discounted cash flows expected to result from that reporting unit, but may require valuations of certain internally generated and unrecognized intangible assets such as the Company's software, technology, patents and trademarks. If the carrying amount of goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess.

The Company's most recent annual impairment analysis was performed in the fourth quarter of the year ended December 31, 2015 and indicated that there was no impairment of goodwill at that time. The Company did not recognize any impairment losses associated with its goodwill during the nine months ended September 30, 2016.

Business Acquisitions

The Company accounts for acquisitions of businesses using the purchase method of accounting where the cost is allocated to the underlying net tangible and intangible assets acquired, based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Determining the fair value of certain acquired assets and liabilities is subjective in nature and often involves the use of significant estimates and assumptions, including, but not limited to, the selection of appropriate valuation methodology, projected revenue, expenses and cash flows, weighted average cost of capital, discount rates, estimates of advertiser and publisher turnover rates and estimates of terminal values. Additionally, any non-controlling interests in an acquired business are recorded at their acquisition date fair values. Business acquisitions are included in the Company's condensed consolidated financial statements as of the date of the acquisition.

Deferred Revenue and Costs

Deferred revenue consists substantially of amounts received from customers in advance of the Company's performance service period and of fees deferred for future support services. Deferred revenue is recognized as revenue on a systematic basis that is proportionate to the period that the underlying services are rendered, which in certain arrangements is straight line over the remaining contractual term or estimated customer life of an agreement.

In the event the Company sells its equipment at or below its cost, and a portion of the related equipment revenue was allocated to other elements in the arrangement, the Company will defer an equal amount of such equipment costs on its balance sheets. Deferred costs are amortized to expense concurrent with the recognition of the related revenue and the expense is included in cost of sales.

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

Net Income (Loss) Per Share

Basic income (loss) per share (EPS) is computed using the weighted-average number of common shares outstanding during the period. Diluted income (loss) per share is computed using the weighted-average number of common shares and the dilutive effect of contingent shares outstanding during the period. Potentially dilutive contingent shares, which consist of stock options, restricted stock units, liability warrants, warrants issued to third parties and accounted for as equity instruments convertible senior notes and contingently issuable shares, have been excluded from the diluted income (loss) per share calculation when the effect of including such shares is anti-dilutive. As illustrated in the table below, the change in the fair value of the Company's warrants and contingently issuable shares, which are assumed to be converted into the Company's common stock upon exercise, are adjusted to net income for purposes of computing dilutive loss per share for the nine months ended September 30, 2015. Common shares to be issued upon the exercise of warrant instruments classified as liabilities are included in the calculation of diluted loss per share when dilutive.

The computation for basic and diluted EPS was as follows (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss) (numerator):				
Net income (loss) for basic EPS	\$19,354	\$(6,872)	\$(21,218)	\$2,684
Less: adjustment for change in fair value on warrants liability for diluted EPS after assumed exercise of warrants liability	—	—	—	13,866
Net income (loss) for dilutive EPS	\$19,354	\$(6,872)	\$(21,218)	\$(11,182)
Shares (denominator):				
Weighted-average shares for basic EPS	82,874	77,753	79,892	77,249
Effect of dilutive securities	88	—	—	—
Effect of assumed exercise of liability contracts settleable in stock	2,119	—	—	1,200
Adjusted weighted-average share for diluted EPS	85,081	77,753	79,892	78,449
Basic income (loss) income per share	\$0.23	\$(0.09)	\$(0.27)	\$0.03
Diluted income (loss) per share	\$0.23	\$(0.09)	\$(0.27)	\$(0.14)

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

Securities not included in the calculation of diluted (loss) income per share were as follows (in thousands, except as stated in footnotes to the table):

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Employee stock options	6,600	3,545	6,076	3,004
Restricted stock units	147	190	253	44
Non-employee stock options	—	—	—	2
Equity warrants ⁽¹⁾	1,163	392	1,163	475
Liability warrants ⁽²⁾	6,173	411	6,173	—
Convertible notes	4,447	4,447	4,447	3,663
EMC deferred consideration ⁽³⁾	—	—	503	—
Contingently issuable shares ⁽⁴⁾	509	—	171	—

(1) Legacy Row 44 warrants originally issuable for Row 44 common stock and Row 44 Series C preferred stock, and now issuable for our Common Stock.

(2) Warrants issued in our initial public offering to non-sponsor shareholders ("Public SPAC Warrants").

(3) In connection with the EMC Acquisition, the Company is obligated to pay \$25.0 million in cash or stock, at the Company's option, on July 27, 2017.

(4) In connection with the settlement of the sound recording litigation, the Company is obligated to issue up to an aggregate of 900,000 shares of its common stock at such time the share price exceeds designated thresholds.

Foreign Currency

As of September 30, 2016, the vast majority of the Company's foreign subsidiaries' customers transact underlying services and related costs in the U.S. dollar. As a result, the Company concluded that the financial position and results of operations of the majority of its foreign subsidiaries are determined using the U.S. Dollar as the functional currency.

Current or liquid assets and liabilities of these subsidiaries are remeasured at the exchange rate in effect at each period end. Long term assets such as goodwill, purchased intangibles and property and equipment are remeasured at historical exchange rates. The vast majority of the income statement accounts are remeasured at the spot rate, with the exception of amortization and depreciation expense, which are remeasured using historical exchange rates.

Adjustments arising from the fluctuations in exchange rates for the remeasurement of financial statements from period to period are included in the condensed consolidated statements of operations.

Income Taxes

Deferred income tax assets and liabilities are recognized for temporary differences between the financial statement carrying amounts of assets and liabilities and the amounts that are reported in the income tax returns. Deferred taxes are evaluated for realization on a jurisdictional basis. The Company records valuation allowances to reduce deferred tax assets to the amount that is more likely than not to be realized. In making this assessment, management analyzes

future taxable income, reversing temporary differences and ongoing tax planning strategies. Should a change in circumstances lead to a change in judgment about the realizability of deferred tax assets in future years, the Company will adjust related valuation allowances in the period that the change in circumstances occurs, along with a corresponding increase or charge to income.

The Company is subject to the accounting guidance for uncertain income tax positions. The Company's policy for recording interest and penalties associated with uncertain tax positions is to record such items as a component of income tax expense.

Table of Contents

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

Fair Value Measurements

The accounting guidance for fair value establishes a framework for measuring fair value and establishes a three-level valuation hierarchy for disclosure of fair value measurement. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1: Observable quoted prices in active markets for identical assets and liabilities.