Global Eagle Entertainment Inc.
Form 10-Q/A
May 28, 2014

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

FORM 10-Q/A
Amendment No. 1

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED March 31, 2014
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)
4553 Glencoe Avenue	
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 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 May 12, 2014)	
COMMON STOCK, $0.0001 PAR VALUE	52,866,867	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 wholly-owned subsidiary of the registrant.

EXPLANATORY NOTE

Global Eagle Entertainment Inc. (the “Company”) is filing this Amendment No. 1 on Form 10-Q/A (the “Form 10-Q/A”) to the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 filed with the U.S. Securities and Exchange Commission on May 12, 2014 (the “Original Form 10-Q”) to correct (i) an error on the cover page of the Original Form 10-Q with respect to the number of shares of the Company’s common stock, par value $0.0001 per share (“Common Stock”), outstanding as of May 12, 2014 and (ii) a computational error in the accounting for non-voting common stock and treasury stock shares in the calculation of weighted average shares outstanding for purposes of computing basic and diluted net loss per share for the quarter ended March 31, 2014. Specifically:

1. This Form 10-Q/A amends and restates the cover page of the Original Form 10-Q to correctly state that there were 52,866,867 shares of Common Stock outstanding as of May 12, 2014. The cover page of the Original Form 10-Q incorrectly stated that there were 33,748,644 shares of Common Stock outstanding as of May 12, 2014 because of the inadvertent deduction of the number of outstanding shares of the Company’s non-voting common stock from the number of outstanding shares of Common Stock.

2. This Form 10-Q/A amends and restates Items 1 and 2 of Part I of the Original Form 10-Q so that (i) the Condensed Consolidated Statements of Operations (Unaudited) for the three months ended March 31, 2014 and 2013 and (ii) the “Results of Operations” table under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” correctly state that (a) “weighted average common shares basic and diluted” for the quarter ended March 31, 2014 was 71,978,000 and (b) “basic and diluted net loss per common share” for the quarter ended March 31, 2014 was $(0.37). In addition, this Form 10-Q/A amends and restates (i) Item 4 of Part of I of the Original Form 10-Q in connection with the restatement and (ii) Item 6 of Part II of the Original Form 10-Q to indicate that we are filing the financial statements included in this Form 10-Q/A, formatted in eXtensible Business Reporting Language (XBRL).

The correction to basic and diluted net loss per share has no impact on the Company's unaudited condensed consolidated balance sheets, net loss reported on its condensed consolidated statements of operations and comprehensive loss and the condensed consolidated statements of cash flows and equity for the quarter ended March 31, 2014.

This Form 10-Q/A also corrects a computational error in the number of shares set forth in the first column opposite “Outstanding at March 31, 2014” in the table immediately below “Stock option activity for three months ended March 31, 2014 is as follows:” in Note 10 to the Notes to the Condensed Consolidated Financial Statements (Unaudited) in Item 1 of Part I of the Original Form 10-Q.

Except as specifically noted above, the remainder of the Original Form 10-Q is unchanged and is not reproduced in this Form 10-Q/A. In addition, as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, new certifications by our principal executive officer and principal financial officer are filed as exhibits hereto.

This Form 10-Q/A should be read in conjunction with the Original Form 10-Q, which continues to speak as of the date of the Original Form 10-Q. Except as specifically noted above, this Form 10-Q/A does not modify or update disclosures in the Original Form 10-Q. Accordingly, this Form 10-Q/A does not reflect events occurring after the filing of the Original Form 10-Q or modify or update any related or other disclosures.

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

	March 31, 2014 (Unaudited)	December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$250,553	$258,796
Accounts receivable, net	62,683	64,216
Content library, current	7,669	6,563
Inventories	12,934	15,481
Prepaid and other current assets	20,554	14,187
TOTAL CURRENT ASSETS:	354,393	359,243
Property, plant & equipment, net	21,192	20,797
Goodwill	52,345	52,345
Intangible assets	129,742	136,414
Other non-current assets	13,470	10,084
TOTAL ASSETS	$571,142	$578,883
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$85,418	$81,961
Deferred revenue	11,102	11,190
Warrant liabilities, current	86,960	71,570
Notes payable and accrued interest, current	7,652	9,648
Deferred tax liabilities, current	394	1,192
Other current liabilities	8,576	7,561
TOTAL CURRENT LIABILITIES:	200,102	183,122
Deferred tax liabilities, non-current	24,178	25,186
Deferred revenue, non-current	6,144	5,808
Notes payable and accrued interest, non-current	50	1,153
Other non-current liabilities	8,017	7,430
TOTAL LIABILITIES	238,491	222,699
COMMITMENTS AND CONTINGENCIES		
EQUITY:		
Preferred stock, $0.0001 par value; 1,000,000 shares authorized, 0 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	—	—
Common stock, $0.0001 par value; 375,000,000 shares authorized, 55,920,501and 55,902,114 shares issued, 52,866,867 and 52,848,480 shares outstanding, at March 31, 2014 and December 31, 2013, respectively	5	5
Non-voting common stock, $0.0001 par value; 25,000,000 shares authorized, 19,118,233 shares issued and outstanding at March 31, 2014 and December 31, 2013	2	2
Treasury stock, 3,053,634 shares at March 31, 2014 and December 31, 2013	(30,659)	(30,659)
Additional paid-in capital	623,393	620,862
Subscriptions receivable	(484)	(478)
Accumulated deficit	(270,286)	(243,943)

Accumulated other comprehensive loss	85	—
TOTAL GLOBAL EAGLE ENTERTAINMENT INC. STOCKHOLDERS' EQUITY	322,056	345,789
Non-controlling interest	10,595	10,395
TOTAL EQUITY	332,651	356,184
TOTAL LIABILITIES AND EQUITY	$571,142	$578,883

The accompanying notes are an integral part of these unaudited 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 March 31,	
	2014	2013
Revenue	$85,968	$42,513
Operating expenses:		
Cost of sales	65,117	35,749
Sales and marketing expenses	2,835	2,287
Product development	3,922	1,337
General and administrative	17,067	24,059
Amortization of intangible assets	6,419	1,233
Total operating expenses	95,360	64,665
Loss from operations	(9,392)	(22,152)
Other income (expense):		
Interest income (expense), net	(161)	(176)
Change in fair value of derivatives	(15,538)	(4,615)
Other income (expense), net	199	(44)
Loss before income taxes	(24,892)	(26,987)
Income tax provision (benefit)	1,257	34
Net loss	(26,149)	(27,021)
Net income (loss) attributable to non-controlling interests	194	(39)
Net loss attributable to Global Eagle Entertainment, Inc. common stockholders	$(26,343)	$(26,982)
Basic and diluted net loss per common share (as restated*)	$(0.37)	$(0.61)
Weighted average common shares basic and diluted (as restated*)	71,978	44,014

* As restated for the three months ended March 31, 2014 (refer to Note 2)

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

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

	Three Months Ended March 31,	
	2014	2013
Net loss	$(26,149)	$(27,021)
Other comprehensive income (loss):		
Unrealized foreign currency translation adjustments	—	(223)
Unrealized gain on available for sale securities	91	1,353
Total unrealized gain on available for sale securities	91	1,130
Comprehensive loss	(26,058)	(25,891)
Comprehensive income (loss) attributable to non-controlling interests	200	(106)
Comprehensive loss attributable to Global Eagle Entertainment Inc. common stockholders	$(26,258)	$(25,785)

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

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GLOBAL EAGLE ENTERTAINMENT INC.
CONDENSED CONSOLIDATED STATEMENT OF EQUITY (UNAUDITED)
(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	Stockholders' Equity	Interest	Equity
Balance, December 31, 2013	55,902	$5	19,118	$2	(3,054)	$(30,659)	$620,862	$(478)	$(243,943)	$—	$345,789	$10,395	$356,184
Exercise of stock options and warrants	18	—	—	—	—	—	(85)	—	—	—	(85)	—	(85)
Stock-based compensation	—	—	—	—	—	—	2,616	—	—	—	2,616	—	2,616
Interest income on subscription receivable	—	—	—	—	—	—	—	(6)	—	—	(6)	—	(6)
Comprehensive income	—	—	—	—	—	—	—	—	—	85	85	6	91
Net loss	—	—	—	—	—	—	—	—	(26,343)	—	(26,343)	194	(26,149)
Balance, March 31, 2014	55,920	$5	19,118	$2	(3,054)	$(30,659)	$623,393	$(484)	$(270,286)	$85	$322,056	$10,595	$332,651

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

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

	Three Months Ended March 31, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(26,149)	$(27,021)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	9,395	4,702
Change in fair value of derivative financial instruments	15,538	4,456
Stock-based compensation	2,616	496
Warrants for common stock issued for services	—	402
Deferred income taxes	(1,563)	(1,201)
Accrued interest and other	81	9
Changes in operating assets and liabilities:		
Accounts receivable	1,533	(2,827)
Inventory	(4,645)	(1,105)
Prepaid expenses and other current assets	(4,986)	(2,357)
Accounts payable and accrued expenses	4,472	(13,526)
Deferred revenue	248	(147)
Other long-term liabilities	587	(202)
NET CASH USED IN OPERATING ACTIVITIES	(2,873)	(38,321)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,032)	(256)
Cash received from Row 44 Merger	—	159,227
Cash received from AIA Stock Purchase	—	22,136
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(2,032)	181,107
CASH FLOWS FROM FINANCING ACTIVITIES:		
Acquisition of non-controlling interest	—	(9,512)
Long-term borrowings, net of costs	—	(80)
Repayments of notes payable	(3,099)	—
Proceeds from the exercise of common stock options	—	296
Other financing activities, net	(239)	(327)
NET CASH USED IN FINANCING ACTIVITIES	(3,338)	(9,623)
Net (decrease) increase in cash and cash equivalents	(8,243)	133,163
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	258,796	2,088
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$250,553	$135,251

The accompanying notes are an integral part of these unaudited 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. ("GEE") is a Delaware corporation headquartered in Marina Del Rey, California. GEE together with its consolidated subsidiaries is referred to as the “Company”. 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 its 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, Inc. ("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 subsidiary, Advanced Inflight Alliance AG ("AIA"), the business it acquired from Post Modern Edit, LLC and related entities (such business, which the Company operates through wholly-owned subsidiaries, is referred to herein as "PMG"), and Travel Entertainment Group Equity Limited and subsidiaries ("IFES").

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. In addition, on July 10, 2013, the Company purchased substantially all the assets of Post Modern Edit, LLC and related entities. Further, on October 18, 2013, the Company completed the stock acquisition of IFES. Refer to Note 3. Business Combinations for additional information. Following the Business Combination, the Company acquired additional outstanding shares of AIA to increase its ownership of AIA's shares to 94% as of March 31, 2014. In April 2014, the Company completed the purchase of the remaining outstanding shares in AIA.

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 March 31, 2014, the condensed consolidated statements of operations, the condensed consolidated statements of comprehensive loss and the condensed consolidated statements of cash flows for the three month periods ended March 31, 2014 and 2013, and the condensed consolidated statement of stockholders' equity for the three month period ended March 31, 2014 are unaudited.

Since Row 44 was deemed the accounting acquirer in the Business Combination consummated on January 31, 2013, the presented financial information for the three months ended March 31, 2014 is only partially comparable to the financial information for the three months ended March 31, 2013. The presented financial information for the three months ended March 31, 2013 includes the financial information and activities of Row 44 for the period January 1, 2013 to March 31, 2013 (90 days) as well as the financial information and activities of GEE and AIA for the period January 31, 2013 to March 31, 2013 (59 days). PMG and IFES were acquired subsequent to March 31, 2013, and are therefore not included in the March 31, 2013 numbers presented herein. This lack of comparability needs to be taken into account when reading the condensed consolidated statements of operations, comprehensive income (loss) and cash flows.

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 March 31, 2014 and its results of operations and its cash flows for the three month periods ended March 31, 2014 and 2013. The results for the three month period ended March 31, 2014 are not necessarily indicative of the results expected for the full year. The consolidated balance sheet as of December 31, 2013 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 on March 25, 2014, as amended on March 26, 2014 (the "2013 Form 10-K").

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 2013 Form 10-K.

Restatement of Previously Reported Net Loss Per Common Share, Basic and Diluted

The Company identified a computational error related to the calculation of weighted average common shares outstanding reported for the three months ended March 31, 2014, which impacted net loss per share reported for the three months ended March 31, 2014. Specifically, approximately 19 million shares of non-voting common stock were excluded, and 3 million shares of treasury stock were included, in the calculation of weighted average shares outstanding for purposes of computing basic and diluted net loss per share for the three months ended March 31, 2014. Due to the quantified impact of this error on net loss per share previously reported for the three months ended March 31, 2014, the Company is correcting and restating its net loss per share for the three months ended March 31, 2014.

A summary of the impact of the correction of this error on the net loss per common share, basic and diluted, is as follows:

	Three months ended March 31, 2014	
Net loss per common share, basic and diluted—as previously reported	$(0.47	)
Difference in net loss per common share, basic and diluted	0.10	
Net loss per common share, basic and diluted—as restated	$(0.37	)
Weighted average common shares, basic and diluted (in thousands)		
Weighted-average shares, basic and diluted—as previously reported	55,914	
Add: Net weighted average shares incorrectly excluded from the original calculation	16,064	
Weighted average shares, basic and diluted—as restated	71,978	

The correction to basic and diluted net loss per share has no impact on the Company's condensed consolidated balance sheets, net loss reported on its condensed consolidated statements of operations and comprehensive loss and the condensed consolidated statements of cash flows and equity for any of the periods presented.

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 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, are consolidated. Any non-controlling interests in a Company's subsidiary earnings or losses, such as in 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 it is not the primary beneficiary, such as its investment in Allegiant Systems, Inc., 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, the assigned value of acquired assets and assumed and contingent liabilities associated with 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

The Company reports its operations under two segments, Connectivity and Content. The Company's Connectivity segment provides airline customers and their passengers Wi-Fi connectivity over Ku-band satellite transmissions through Row 44. The Company's Content segment selects, manages, and distributes owned and licensed media content, video and music programming, applications, and video games to the airline industry through AIA, PMG and IFES.

The decision to report two segments is principally based upon the Company's chief operating decision makers (“CODM”), and how they manage the Company's operations as two segments from a consolidated basis for purposes of evaluating financial performance and allocating resources. The CODM review revenue, expense, and contribution profit income (loss) information separately for its Connectivity and Content businesses. Total segment contribution profit income (loss) provides the CODM, 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 CODM on a consolidated basis.

Segment revenue, expenses and contribution profit for the three month periods ended March 31, 2014 and 2013 derived from the Company's Connectivity and Content segments were as follows (in thousands):

	Three Months Ended March 31,					
	2014			2013		
	Content	Connectivity	Consolidated	Content	Connectivity	Consolidated
Revenue:						
Licensing	$52,331	—	$52,331	$23,304	$—	$23,304
Service	11,061	16,494	27,555	3,872	6,294	10,166
Equipment	198	5,884	6,082	—	9,043	9,043
Total Revenue	63,590	22,378	85,968	27,176	15,337	42,513

Operating Expenses:						
Cost of Sales	46,144	18,973	65,117	20,503	15,246	35,749
Contribution Profit	17,446	3,405	20,851	6,673	91	6,764
Other Operating Expenses			30,243			28,916
Loss from Operations			$(9,392)			$(22,152)

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.

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 the airlines, 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 necessary, based upon historical experience.

In certain cases where the Company sells its equipment on a stand-alone basis, it may charge a fee for obtaining Supplemental Type Certificates (“STCs”) 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. Total STC fees recognized as revenue for the three months ended March 31, 2014 was $0.2 million. No STC fee revenue was recognized during the quarter ended March 31, 2013.

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 and is included in equipment revenue. The most significant of the deferred obligations are typically network support, which includes 24/7 operational support for the airlines for 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 click-through advertising revenue from 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/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 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.

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 owed that generally occurs typically within thirty days of the period end. For all years presented, the difference between the amounts recognized based on preliminary information and cash collected was not material.

Content

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

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 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. For arrangements in which the license period commences after the delivery of content, revenue is not recognized until the license period commences even if delivery and performance obligations have already occurred. In certain cases, the Company estimates licensing revenues from airline customers. The Company believes it has the ability to reasonably estimate the amounts that will ultimately be collected such that it recognizes these amounts when earned.

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.

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 internally developed software, website development costs, and hardware used to build and operate the Company's Connectivity platform, and personnel costs relating to information technology.

Content

Content costs 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 and in the ordinary course of business.

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 consolidated balance sheets. Capitalized software development costs totaled $0.6 million and $0.4 million for the three months ended March 31, 2014 and 2013, 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 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, none of which include market conditions. The Company estimates fair value of share-based awards using the Black-Scholes model. 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 a predicted 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 term of the stock. Stock-based awards are comprised principally of stock options.

Stock-based 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 complete, which is generally the vesting date.

Stock and Warrant Repurchases

Shares 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.

Warrants repurchased are accounted for at their fair value on the date the transaction is settled. Any excess of cash paid, or the value of common stock exchanged, over the fair value of warrant repurchases on the settlement date is recorded as an expense in the Company's consolidated statement of operations.

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 airlines partners, which are secured by the Company's cash for periods of less than one year and up to three years. As of March 31, 2014 and December 31, 2013, the Company had restricted cash of $3.1 million and $3.3 million, respectively. As of March 31, 2014, $2.1 million and $1.0 million of restricted cash is included in other current and other non-current assets, respectively, in the consolidated balance sheets. As of December 31, 2013, $2.4 million and $0.9 million of restricted cash is included in other current and other non-current assets, respectively, in the consolidated balance sheets.

Derivative Financial Instruments and Hedges

All derivatives are accounted for on a fair value basis. Embedded derivative instruments subject to bifurcation are also accounted for on a fair value basis. The change in fair value of derivatives is recorded through earnings. Cash flows from embedded derivatives subject to bifurcation are reported consistently with the host contracts within the statements of cash flows.

The Company sometimes uses derivative financial instruments such as interest rate swaps to hedge interest rate risks. These derivatives are recognized at fair value on the transaction date and subsequently remeasured at fair value. Derivatives are measured as financial assets when their fair value is positive and as financial liabilities when their fair value is negative. Gains or losses on changes in the fair value of derivatives are recognized immediately in its consolidated statement of operations as a component of other income (expense) as they do not qualify for hedge accounting.

Long-Lived Assets

The Company evaluates the recoverability of its long-lived assets with finite useful lives, including its infinite 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. Through March 31, 2014, the Company has identified no such impairment loss. 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, net

Equipment inventory. Equipment inventory, which is classified as finished goods, is comprised of individual equipment parts and assemblies and are 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 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.

At March 31, 2014 and December 31, 2013, there was approximately $6.3 million and $6.2 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 one airline, and are being amortized ratably over the underlying term of the agreement through 2020.

The Company 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 equipment warranty directly to the customer.

Content Library

The content library was acquired in the AIA stock purchase and was recorded at fair value. 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, generally a period of one year or less. Licensed film rights are amortized ratably over their expected revenue streams and included in cost of sales. Certain film rights in the Company's portfolio may be used in perpetuity under certain conditions. The content library is tested for impairment periodically, but no less than annually. Considering the marketability of the given film right, an impai