

Global Eagle Entertainment Inc.  
Form 10-Q  
November 07, 2014

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, 2014

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

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)

COMMON STOCK, \$0.0001 PAR VALUE

(Outstanding as of November 7, 2014)

76,260,293 SHARES\*

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

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## PART I — FINANCIAL INFORMATION

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

	September 30, 2014 (Unaudited)	December 31, 2013
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$209,637	\$258,796
Accounts receivable, net	83,040	64,216
Content library, current	7,859	6,563
Inventories	11,820	15,481
Prepaid and other current assets	22,232	14,187
<b>TOTAL CURRENT ASSETS:</b>	<b>334,588</b>	<b>359,243</b>
Property, plant & equipment, net	22,544	20,797
Goodwill	53,032	52,345
Intangible assets	118,978	136,414
Other non-current assets	14,935	10,084
<b>TOTAL ASSETS</b>	<b>\$544,077</b>	<b>\$578,883</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued liabilities	\$98,054	\$81,961
Deferred revenue	11,831	11,190
Warrant liabilities	45,161	71,570
Notes payable and accrued interest	2,472	9,648
Deferred tax liabilities	410	1,192
Other current liabilities	12,191	7,561
<b>TOTAL CURRENT LIABILITIES:</b>	<b>170,119</b>	<b>183,122</b>
Deferred tax liabilities, non-current	24,086	25,186
Deferred revenue, non-current	6,951	5,808
Notes payable and accrued interest, non-current	985	1,153
Other non-current liabilities	6,580	7,430
<b>TOTAL LIABILITIES</b>	<b>208,721</b>	<b>222,699</b>

## COMMITMENTS AND CONTINGENCIES

## EQUITY:

Preferred stock, \$0.0001 par value; 1,000,000 shares authorized, 0 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	—	—
Common stock, \$0.0001 par value; 375,000,000 shares authorized, 79,301,427 and 55,902,114 shares issued, 76,247,793 and 52,848,480 shares outstanding, at September 30, 2014 and December 31, 2013, respectively	8	5
Non-voting common stock, \$0.0001 par value; 25,000,000 shares authorized, 0 and 19,118,233 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	—	2
Treasury stock, 3,053,634 shares at September 30, 2014 and December 31, 2013	(30,659)	(30,659)
Additional paid-in capital	640,428	620,862
Subscriptions receivable	(497)	(478)

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Accumulated deficit	(273,820	) (243,943	)
Accumulated other comprehensive loss	(104	) —	
TOTAL GLOBAL EAGLE ENTERTAINMENT INC. STOCKHOLDERS' EQUITY	335,356	345,789	
Non-controlling interest	—	10,395	
TOTAL EQUITY	335,356	356,184	
TOTAL LIABILITIES AND EQUITY	\$544,077	\$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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue	\$102,623	\$74,518	\$286,736	\$179,862
Operating expenses:				
Cost of sales	73,618	54,002	213,341	139,571
Sales and marketing expenses	3,980	3,758	10,119	8,444
Product development	7,212	2,282	15,561	5,946
General and administrative	17,172	17,056	51,440	53,860
Amortization of intangible assets	6,049	4,221	18,613	8,470
Restructuring charges	2,606	—	2,606	—
Total operating expenses	110,637	81,319	311,680	216,291
Loss from operations	(8,014	) (6,801	) (24,944	) (36,429
Other income (expense):				
Interest income (expense), net	175	(267	) 44	(726
Change in fair value of derivatives	(5,253	) 2,233	555	(7,107
Other income (expense), net	(984	) 601	(1,786	) 571
Income (loss) before income taxes	(14,076	) (4,234	) (26,131	) (43,691
Income tax provision	1,454	1,161	3,552	1,754
Net income (loss)	(15,530	) (5,395	) (29,683	) (45,445
Net income (loss) attributable to non-controlling interests	—	158	194	89
Net income (loss) attributable to Global Eagle Entertainment Inc. common stockholders	\$(15,530	) \$(5,553	) \$(29,877	) \$(45,534
Net income (loss) per common share - basic	\$(0.21	) \$(0.10	) \$(0.41	) \$(0.89
Net income (loss) per common share - diluted	\$(0.21	) \$(0.10	) \$(0.41	) \$(0.89
Weighted average common shares - basic	72,877	55,166	72,284	51,106
Weighted average common shares - diluted	72,877	55,166	72,284	51,106

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 INCOME (LOSS) (UNAUDITED)

(In thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net income (loss)	\$(15,530	) \$(5,395	) \$(29,683	) \$(45,445
Other comprehensive income (loss):				
Unrealized foreign currency translation losses	(9	) (134	) (104	) —
Unrealized gains (losses) on available for sale securities				
Unrealized gain (loss) on available for sale securities	—	—	112	101
Less: reclassification adjustments for recognized gains included in net income	—	—	(112	) (101
Unrealized gain (loss) on available for sale securities, net	—	—	—	—
Other comprehensive income (loss)	(9	) (134	) (104	) —
Comprehensive income (loss)	(15,539	) (5,529	) (29,787	) (45,445
Comprehensive income (loss) attributable to non-controlling interests	—	161	194	11
Comprehensive income (loss) attributable to Global Eagle Entertainment Inc. common stockholders	\$(15,539	) \$(5,690	) \$(29,981	) \$(45,456

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 Paid-in Capital	Subscriptions Receivable	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Global Eagle Entertainment Inc. Stockholders' Equity	Non-Controlling Interest	Total Equity	
Balance at December 31, 2013	55,902	\$5 19,118	\$ 2 (3,054)	\$(30,659)	\$620,862	\$(478)	\$(243,943)	\$—	\$345,789	\$10,395	\$356,184
Conversion of non-voting common stock to voting common stock	19,118	(19,118)	(2 )	—	—	—	—	—	—	—	—
Exercise of stock options and warrants	26	—	—	(159 )	—	—	—	(159 )	—	(159 )	
Issuance of common stock to former Row 44 stockholders	28	—	—	345	—	—	—	345	—	345	
Issuance of common stock in exchange for warrants, net of transaction fees of \$362	4,227	1	—	24,046	—	—	—	24,047	—	24,047	
Stock-based compensation	—	—	—	6,485	—	—	—	6,485	—	6,485	
Interest income on subscription receivable	—	—	—	—	(19 )	—	—	(19 )	—	(19 )	
Purchase of subsidiary share from non- controlling interest shareholders	—	—	—	(11,151 )	—	—	—	(11,151 )	(10,589 )	(21,740 )	
Other comprehensive income	—	—	—	—	—	—	(104 )	(104 )	—	(104 )	
Net loss	—	—	—	—	—	(29,877 )	—	(29,877 )	194	(29,683 )	
Balance at September 30, 2014	79,301	\$8—	\$—(3,054)	\$(30,659)	\$640,428	\$(497)	\$(273,820)	\$(104)	\$335,356	\$—	\$335,356



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)

	Nine Months Ended September 30,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(29,683	) \$(45,445
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	26,023	20,375
Non-cash interest (income) expense, net	(19	) —
Change in fair value of derivative financial instrument	(555	) 7,107
Stock-based compensation	6,485	1,902
Issuance of shares for working capital settlement	345	—
Gain on sale of available for sale securities	(112	) —
Loss on equity method investments	1,300	—
Warrants for common stock issued for services	—	359
Deferred income taxes	(8,124	) 1,576
Others	—	(19
Changes in operating assets and liabilities:		
Accounts receivable	(18,704	) (1,477
Inventory and content library	(6,264	) (9,260
Prepaid expenses and other current assets	(3,356	) (2,442
Deposits and other assets	(2,446	) (1,344
Accounts payable and accrued expenses	20,327	(20,728
Deferred revenue	1,784	839
Other long-term liabilities	945	—
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(12,054</b>	<b>) (48,557</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(6,231	) (10,025
PMG asset purchase, net of cash acquired	—	(10,563
Cash received from Row 44 Merger	—	159,227
Cash received from AIA Stock Purchase	—	22,136
Cash paid to acquire assets of Purple	(500	) —
Purchase of investments	—	(1,500
Net proceeds from sale of available for sale securities	583	6,312
<b>NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES</b>	<b>(6,148</b>	<b>) 165,587</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Acquisition of non-controlling interest	(21,740	) (15,379
Long-term borrowings, net of costs	16	—
Repayments of notes payable	(7,360	) (3,613
Purchase of common stock warrants	(1,406	) (795
Purchase of common stock	—	(1,069
Other financing activities, net	(363	) (345
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(30,853</b>	<b>) (21,201</b>
Effects of exchange rate movements on cash and cash equivalents	(104	) —
Net (decrease) increase in cash and cash equivalents	(49,159	) 95,829
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>258,796</b>	<b>2,088</b>

CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$209,637	\$97,917
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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 (i) its wholly-owned subsidiary, Global Entertainment AG, formerly known as Advanced Inflight Alliance AG ("AIA"), (ii) 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 (iii) its wholly-owned subsidiary, Travel Entertainment Group Equity Limited ("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, and in April 2014, the Company acquired 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 September 30, 2014, the condensed consolidated statements of operations and the condensed consolidated statements of comprehensive loss for the three and nine month periods ended September 30, 2014 and 2013, the condensed consolidated statements of cash flows for the nine month periods ended September 30, 2014 and 2013, and the condensed consolidated statement of

stockholders' equity for the nine month period ended September 30, 2014