Global Eagle Entertainment Inc.
Form 10-Q
November 09, 2015

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED September 30, 2015

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 November 5, 2015)
COMMON STOCK, $0.0001 PAR VALUE	78,520,543 SHARES*

* Excludes 3,053,634 shares held by Global Entertainment AG, 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.	Condensed Consolidated Financial Statements:	
	Condensed Consolidated Balance Sheets as of September 30, 2015 (Unaudited) and December 31, 2014	1
	Condensed Consolidated Statements of Operations (Unaudited) for the three and nine months ended September 30, 2015 and 2014	2
	Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited) for the three and nine months ended September 30, 2015 and 2014	3
	Condensed Consolidated Statement of Stockholders' Equity (Unaudited) for the nine months ended September 30, 2015	4
	Condensed Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2015 and 2014	5
	Notes to Condensed Consolidated Financial Statements (Unaudited)	6
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	33
Item 3.	Quantitative and Qualitative Disclosure About Market Risk	54
Item 4.	Controls and Procedures	55
	PART II — Other Information	
Item 1.	Legal Proceedings	55
Item 1A.	Risk Factors	55
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	56
Item 3.	Defaults Upon Senior Securities	56
Item 4.	Mine Safety Disclosures	56
Item 5.	Other Information	56
Item 6.	Exhibits	56
	Signature	57

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, 2015 (Unaudited)	December 31, 2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$218,054	$197,648
Accounts receivable, net	97,583	85,517
Content library, current	11,527	9,570
Inventories	18,263	13,626
Prepaid and other current assets	26,966	23,549
TOTAL CURRENT ASSETS:	372,393	329,910
Property, plant & equipment, net	35,197	23,651
Goodwill	91,605	53,014
Intangible assets, net	134,336	112,904
Other non-current assets	15,095	14,116
TOTAL ASSETS	$648,626	$533,595
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$114,356	$99,328
Deferred revenue	14,403	13,401
Warrant liabilities	26,140	52,671
Notes payable	750	752
Deferred tax liabilities	378	80
Other current liabilities	11,473	8,080
TOTAL CURRENT LIABILITIES:	167,500	174,312
Deferred tax liabilities, non-current	26,779	23,330
Deferred revenue, non-current	6,633	6,748
Notes payable, non-current	71,518	2,263
Other non-current liabilities	24,035	14,313
TOTAL LIABILITIES	296,465	220,966
COMMITMENTS AND CONTINGENCIES		
EQUITY:		
Preferred stock, $0.0001 par value; 1,000,000 shares authorized, 0 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	—	—
Common stock, $0.0001 par value; 375,000,000 shares authorized, 81,248,274 and 79,626,261 shares issued, 78,194,640 and 76,572,627 shares outstanding at September 30, 2015 and December 31, 2014, respectively	8	8
Non-voting common stock, $0.0001 par value; 25,000,000 shares authorized, 0 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	—	—
Treasury stock, 3,053,634 shares at September 30, 2015 and December 31, 2014	(30,659)	(30,659)
Additional paid-in capital	682,244	645,110
Subscriptions receivable	(522)	(503)

Accumulated deficit	(298,647)	(301,331)
Accumulated other comprehensive (loss) income	(263)	4
TOTAL GLOBAL EAGLE ENTERTAINMENT INC. EQUITY	352,161	312,629
TOTAL LIABILITIES AND EQUITY	$648,626	$533,595

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 OPERATIONS (UNAUDITED)
(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue	$110,114	$102,623	$312,795	$286,736
Operating expenses:				
Cost of sales	71,456	73,618	206,965	213,341
Sales and marketing expenses	4,819	3,980	13,058	10,119
Product development	7,766	7,212	21,447	15,561
General and administrative	22,102	17,172	58,547	51,440
Amortization of intangible assets	7,286	6,049	19,274	18,613
Restructuring charges	66	2,606	368	2,606
Total operating expenses	113,495	110,637	319,659	311,680
Loss from operations	(3,381)	(8,014)	(6,864)	(24,944)
Other income (expense):				
Interest (expense) income, net	(803)	175	(1,631)	44
Change in fair value of derivatives	(1,877)	(5,253)	13,866	555
Other expense, net	(576)	(984)	(1,815)	(1,786)
(Loss) income before income taxes	(6,637)	(14,076)	3,556	(26,131)
Income tax expense	235	1,454	872	3,552
Net (loss) income	(6,872)	(15,530)	2,684	(29,683)
Net income attributable to non-controlling interests	—	—	—	194
Net (loss) income attributable to Global Eagle Entertainment Inc. common stockholders	$(6,872)	$(15,530)	$2,684	$(29,877)
Net (loss) income per common share – basic	$(0.09)	$(0.21)	$0.03	$(0.41)
Net loss per common share – diluted	$(0.09)	$(0.21)	$(0.14)	$(0.41)
Weighted average common shares – basic	77,753	72,877	77,249	72,284
Weighted average common shares – diluted	77,753	72,877	78,449	72,284

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,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net (loss) income	$(6,872)	$(15,530)	$2,684	$(29,683)
Other comprehensive income (loss):				
Unrealized foreign currency translation (losses) gains	(78)	(9)	(267)	(104)
Unrealized gain on available for sale securities				
Unrealized gain on available for sale securities	—	—	—	112
Less: reclassification adjustments for recognized gains included in net income	—	—	—	(112)
Unrealized gain on available for sale securities, net	—	—	—	—
Other comprehensive (loss) income	(78)	(9)	(267)	(104)
Comprehensive (loss) income	(6,950)	(15,539)	2,417	(29,787)
Comprehensive income attributable to non-controlling interests	—	—	—	194
Comprehensive (loss) income attributable to Global Eagle Entertainment Inc. common stockholders	$(6,950)	$(15,539)	$2,417	$(29,981)

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	Subscriptions	Accumulated	Accumulated Other	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Receivable	Deficit	Comprehensive Income (Loss)	Stockholders' Equity
Balance at December 31, 2014	79,626	$8	(3,054)	$(30,659)	$645,110	$ (503)	$ (301,331)	$ 4	$ 312,629
Exercise of stock options and warrants	607	—	—	—	5,529	—	—	—	5,529
Equity component of convertible senior notes	—	—	—	—	12,674	—	—	—	12,674
Issuance of common stock in exchange for warrants	1,015	—	—	—	12,608	—	—	—	12,608
Stock-based compensation		—	—	—	6,248	—	—	—	6,248
Interest income on subscription receivable	—	—	—	—	—	(19)	—	—	(19)
Excess tax benefit related to the exercise of stock option	—	—	—	—	75	—	—	—	75
Other comprehensive loss	—	—	—	—	—	—	—	(267)	(267)
Net income	—	—	—	—	—	—	2,684	—	2,684
Balance at September 30, 2015	81,248	$8	(3,054)	$(30,659)	$682,244	$ (522)	$ (298,647)	$ (263)	$ 352,161

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,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$2,684	$(29,683)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	25,857	26,023
Non-cash interest expense (income), net	440	(19)
Change in fair value of derivative financial instrument	(13,866)	(555)
Stock-based compensation	6,248	6,485
Issuance of shares for working capital settlement	—	345
Gain on sale of available for sale securities	—	(112)
Loss on equity method investments	—	1,300
Deferred income taxes	(4,921)	(8,124)
Other	555	—
Changes in operating assets and liabilities:		
Accounts receivable	(6,077)	(18,704)
Inventory and content library	(4,671)	(6,264)
Prepaid expenses and other assets	(335)	(3,356)
Deposits and other assets	1,820	(2,446)
Accounts payable and accrued expenses	671	20,327
Deferred revenue	212	1,784
Other liabilities	3,393	945
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	12,010	(12,054)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(2,324)	—
Net proceeds from sale of available for sale securities	580	583
Purchases of property and equipment	(14,710)	(6,231)
Acquisitions of companies, net of cash acquired	(55,242)	(500)
Payment of deferred acquisition contingency	(5,000)	—
NET CASH USED IN INVESTING ACTIVITIES	(76,696)	(6,148)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Acquisition of non-controlling interest	—	(21,740)
Proceeds from issuance of convertible senior notes	81,250	16
Repayments of notes payable	(636)	(7,360)
Purchase of common stock warrants	—	(1,406)
Proceeds from the exercise of common stock options and warrants	5,472	—
Convertible senior note issuance fees	(831)	—
Other financing activities, net	(476)	(363)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	84,779	(30,853)
Effects of exchange rate movements on cash and cash equivalents	313	(104)
Net increase (decrease) in cash and cash equivalents	20,406	(49,159)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	197,648	258,796
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$218,054	$209,637

Significant non-cash items:		
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 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 travel 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 segment offers 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, provides lab services, and distributes wholly owned and licensed media content, video and music programming, applications, and video games to airlines, as well as to the maritime and other away from home non-theatrical markets.

The Company's Content operations commenced on January 31, 2013, when the Company acquired 86% of the issued and outstanding shares of Advanced Inflight Alliance AG ("AIA"). In 2013, the Company acquired additional outstanding shares of AIA to increase its ownership of AIA's shares to 94%, 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, 2015, the condensed consolidated statements of operations and the condensed consolidated statements of comprehensive income (loss) for the three and nine month periods ended September 30, 2015 and 2014, the condensed consolidated statements of cash flows for the nine month periods ended September 30, 2015 and 2014, and the condensed consolidated statement of stockholders' equity for the nine month period ended September 30, 2015 are unaudited.

In the opinion of the Company's management, the unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of the Company's statement of financial position as of September 30, 2015, and its results of operations and cash flows for the nine month period ended September 30, 2015 and 2014. The results for the nine month period ended September 30, 2015 are not necessarily indicative of the results expected for the full year. The consolidated balance sheet as of December 31, 2014 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, 2015 (the "2014 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 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 2014 Form 10-K.

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

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.

Investments that the Company has the ability to control, and where it is the primary beneficiary, are consolidated. Any non-controlling interests in the earnings or losses of a subsidiary of the Company, such as in AIA before April 23, 2014, are included in net income attributable to non-controlling interests 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 historical investment in Allegiant Systems, Inc., were 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 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

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 and to a lesser extent operations data solutions. The Company's Content segment selects, manages, and distributes owned and licensed media content, certain digital media offerings, video and music programming, applications, and video games to the airline, maritime and non-theatrical markets.

The decision to report two segments is principally based upon how the Company's chief operating decision maker (“CODM”) manages the Company's operations as two 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 Company's Connectivity and Content businesses. Total segment contribution profit 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.

7

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

Segment revenue, expenses and contribution profit for the three and nine month periods ended September 30, 2015 and 2014 derived from the Company's Content and Connectivity segments were as follows (in thousands):

	Three Months Ended September 30,					
	2015			2014		
	Content	Connectivity	Consolidated	Content	Connectivity	Consolidated
Revenue:						
Licensing and services	$81,574	$24,838	$106,412	$71,510	$19,933	$91,443
Equipment	—	3,702	3,702	—	11,180	11,180
Total revenue	81,574	28,540	110,114	71,510	31,113	102,623
Operating expenses:						
Cost of sales						
Licensing and services	53,995	14,654	68,649	50,596	13,428	64,024
Equipment	—	2,807	2,807	—	9,594	9,594
Total cost of sales	53,995	17,461	71,456	50,596	23,022	73,618
Contribution profit	27,579	11,079	38,658	20,914	8,091	29,005
Other operating expenses			42,039			37,019
Loss from operations			$(3,381)			$(8,014)

	Nine Months Ended September 30,					
	2015			2014		
	Content	Connectivity	Consolidated	Content	Connectivity	Consolidated
Revenue:						
Licensing and services	$227,037	$71,602	$298,639	$206,641	$53,735	$260,376
Equipment	—	14,156	14,156	—	26,360	26,360
Total revenue	227,037	85,758	312,795	206,641	80,095	286,736
Operating expenses:						
Cost of sales						
Licensing and services	152,044	42,730	194,774	149,475	40,933	190,408
Equipment	—	12,191	12,191	—	22,933	22,933
Total cost of sales	152,044	54,921	206,965	149,475	63,866	213,341
Contribution profit	74,993	30,837	105,830	57,166	16,229	73,395
Other operating expenses			112,694			98,339
Loss from operations			$(6,864)			$(24,944)

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 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 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 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 (“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. No STC fee revenue was recognized during the three and nine months ended September 30, 2015. Total STC fees recognized as revenue for the three and nine months ended September 30, 2014 were $0.3 million and $0.8 million.

Included in equipment revenue are certain deferred obligations that exist pursuant to the Company's contractual arrangements, 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 is 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. Connectivity service revenue includes in-flight 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 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 and 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 the airlines, 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. 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

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

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, delivery of digital media advertising, the encoding of video products, development of graphical interfaces or the provision of materials, are billed and recognized as services are performed and or when the committed advertisement impressions have been delivered.

Costs of Sales

Connectivity

Connectivity cost 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 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 and in the ordinary course of business of $0.0 million and $0.1 million for the three and nine months ended September 30, 2015, respectively, and $0.4 million and $2.2 million for the three and nine months ended September 30, 2014, respectively.

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 $0.9 million and $2.6 million for the three and nine months ended September 30, 2015, respectively, and $0.9 million and $2.4 million for the three and nine months ended September 30, 2014, 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. 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 and restricted stock units ("RSUs").

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

Stock options 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 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.

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 September 30, 2015 and December 31, 2014, the Company had restricted cash of $9.1 million and $3.7 million, respectively. As of September 30, 2015, there were $6.3 million and $2.8 million of restricted cash included in other current and other non-current assets, respectively, in the condensed consolidated balance sheets, of which $5.0 million represented funds held in escrow pursuant to future contingencies associated with the Marks Systems, Inc. doing business as masFlight acquisition in August 2105. As of December 31, 2014, there were $1.5 million and $2.2 million of restricted cash included in other current and other non-current assets, respectively, in the condensed consolidated balance sheets.

Investment securities

Marketable investment securities, all of which are considered available-for-sale and, accordingly, 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 the Company expects 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 September 30, 2015, 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.

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

Inventory

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 September 30, 2015 and December 31, 2014, there was approximately $8.2 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 airlines, 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 warranties directly to the customer.

Content Library

The content library acquired in the AIA stock purchase is 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.

Subsequent to the AIA stock purchase, additions to the content library represent minimum guaranteed amounts or flat fees to acquire the distribution film rights from film studios. 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 tested for impairment periodically, but no less than annually. Considering the marketability of the given film right, an impairment loss is recognized as 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 1 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 is 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, which is installed on aircraft of a single customer to facilitate expanded services, on its balance sheet as the Company retains legal title to the equipment over a five-year use period, and is amortizing these costs over their five-year useful life period.

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 include customer relationships, technology, and content library. The Company determines the appropriate useful life by performing an analysis of expected cash flows based on historical experience of the acquired 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 are expected to be consumed. Amortization of film rights intangible assets with finite useful lives is recognized in the condensed consolidated statements of operations under cost of sales.

Goodwill represents the excess of the cost of an acquired entity over the fair value of the acquired net assets. Goodwill is not amortized, instead it is tested for impairment annually or 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 two reporting units, Content and 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. Should this be 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.

As of September 30, 2015, of the $91.6 million total goodwill, $72.1 million and $19.5 million was attributable to the Company's Content and Connectivity segments, respectively. As of December 31, 2014, $53.0 million of goodwill was attributed to the Company's Content reporting unit. The Company's most recent annual impairment analysis was performed in the fourth quarter of the year ended December 31, 2014 and indicated that there was no impairment of goodwill at that time. Through September 30, 2015, the Company has identified no impairment loss associated with its goodwill.

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.

On January 31, 2013, the Company completed the acquisition of 86% of the issued and outstanding shares of AIA, a media content distributor to the airline industry with corporate headquarters based in Munich, Germany as part of a business combination transaction between Global Eagle Acquisition Corp, AIA and Row 44, Inc. (the "Business Combination"). In 2013, the Company acquired additional outstanding shares of AIA to increase its ownership of AIA's shares to 94%, and in April 2014, the Company acquired the remaining outstanding shares in AIA.

On July 9, 2013, the Company acquired substantially all of the assets of Post Modern Edit, LLC and related entities ("PMG"). On October 18, 2013, the Company completed the acquisition of 100% of the issued and outstanding shares of Travel Entertainment Group Equity Limited and subsidiaries ("IFES"). On August 2, 2014, the Company acquired substantially all of the assets of Purple Inflight Entertainment Private, Ltd ("Purple"). On July 1, 2015, the Company completed the acquisition of 100% of the issued and outstanding shares of Western Outdoor Interactive Pvt. Ltd. ("WOI") and acquired certain assets and liabilities of RMG Networks Holding Corporation. On August 4, 2015, the Company completed the acquisition of 100% of the issued and outstanding shares of Marks Systems, Inc., doing business as masFlight, and completed the acquisition of 100% of the issued and outstanding shares of navAero AB. All of these acquisitions were accounted for as business combinations.

The Company completed four acquisitions in the quarter ended September 30, 2015 for an aggregate purchase price of approximately $55.2 million in net cash, and an additional $5.0 million of cash funded in escrow for contingent consideration, the aggregate of which may total up to $29.0 million based upon the performance of the acquired companies through the end of 2019, see Note 3, Business Combinations.

Deferred Revenue and Costs

Deferred revenue consists substantially of amounts received from customers in advance of the Company's performance service period and 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.

Net Income (Loss) Per Share

Basic earnings (loss) per share (EPS) is computed using the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share are 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 primarily consist of stock options issued to employees and consultants, restricted stock units, warrants issued to third parties and accounted for as equity instruments and convertible senior notes have been excluded from the diluted income (loss) per share calculation because their effect is anti-dilutive. As illustrated in the table below, the change in the fair value of the Company’s warrants, which are assumed to be converted into the Company’s common stock upon exercise, are adjusted to net income for purposes of computing dilutive earnings (loss) per share for the three and 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 income (loss) per share when dilutive.

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

Table of Content

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income (loss) (numerator):				
Net income (loss)	$(6,872)	$(15,530)	$2,684	$(29,683)
Income allocable to non-controlling interests	—	—	—	194
Net (loss) income for basic EPS	(6,872)	(15,530)	2,684	(29,877)
Less: adjustment for change in fair value on warrants liability for diluted EPS after assumed exercise of warrants liability	—	—	13,866	—
Net loss for dilutive EPS	$(6,872)	$(15,530)	$(11,182)	$(29,877)
Shares (denominator):				
Weighted-average shares for basic EPS	77,753	72,877	77,249	72,284
Effect of assumed exercise of warrants liability	—	—	1,200	—
Adjusted weighted-average shares for diluted EPS	77,753	72,877	78,449	72,284
Basic (loss) earnings per share	$(0.09)	$(0.21)	$0.03	$(0.41)
Diluted loss per share	$(0.09)	$(0.21)	$(0.14)	$(0.41)

Weighted average securities not included in the calculation of diluted loss per share were as follow (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Stock options	3,545	4,434	3,004	1,816
Restricted stock units	190	13	44	—
Non-employees stock options	—	5	2	6
Equity warrants	392	445	475	1,378
Liability warrants	411	154	—	1,958
Convertible notes	4,447	—	3,663	—

Foreign Currency

The vast majority of the Company's foreign subsidiaries' customers are airlines and major U.S.-based studios. As the standard currency of transacting for service revenue and related costs of the worldwide airline industry is the U.S. Dollar, 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 currency 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.

15

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

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. Due to the uncertainty over its ability to realize future taxable income in certain jurisdictions, the Company has recorded a valuation allowance of $47.5 million and $70.9 million against its domestic deferred tax assets as of September 30, 2015 and December 31, 2014, respectively, and $13.3 million and $2.8 million against its foreign deferred tax assets as of September 30, 2015 and December 31, 2014, respectively.

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.

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.

•Level 2: Observable quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

•Level 3: Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models, and similar techniques.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The assets and liabilities which are fair valued on a recurring basis are described below and contained in the following tables. In addition, the Company may be required to record other assets and liabilities at fair value on a nonrecurring basis. These non-recurring fair value adjustments involve the lower of carrying value or fair value accounting and write downs resulting from impairment of assets.

The following tables summarize the Company's financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2015, and December 31, 2014, respectively (in thousands):

September 30, 2015	Quotes Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)

Earn-out liability (1)	$14,132	$—	$—	$14,132
Global Eagle warrants (2)	26,140	26,140	—	—
Total financial liabilities	$40,272	$26,140	$—	$14,132

(1) Includes $14.1 million earn-out liability for WOI, assets of RMG, NavAero and masFlight assumed in business combinations.
(2) Includes 7,083,978 public warrants at September 30, 2015.

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

	December 31, 2014	Quotes Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Earn-out liability (1)	$1,710	$—	$—	$1,710
Global Eagle warrants (2)	52,671	52,671	—	—
Total financial liabilities	$54,381	$52,671	$—	$1,710

(1) Includes $1.7 million earn-out liability for EIM, a subsidiary of AIA, assumed in the Business Combination.
(2) Includes 10,148,508 public warrants as of December 31, 2014.

The valuation methodology used to estimate the fair value of the financial instruments in the table above is summarized as follows:

Earn-Out Liability. The September 30, 2015 fair value of the earn-out liability was comprised of earn-out liabilities associated with the WOI, assets of RMG, navAero and masFlight business combinations. The December 31, 2014 fair value of the earn-out liability was largely comprised of an assumed obligation in the AIA stock purchase. The earn-out liabilities are estimated by using the income approach. Based on the respective purchase agreements, management estimated best case, base case, and worst case scenarios and discounted it to a present value. The sum of the discounted weighted average probabilities was used to arrive at the fair value of the earn-out liability.

Derivative Warrants. The fair value of the outstanding warrants issued in our initial public offering ("public warrants"), recorded as derivative warrant liabilities, is determined by the Company using the quoted market prices for the public warrants, which are traded over the counter. On reporting dates where there are no active trades, the Company uses the last reported closing trade price of the public warrants to determine the fair value. The Company recorded income from the change in the fair value of these warrants during the three and nine months periods ended September 30, 2015 of $(1.9) million and $13.9 million, respectively. The Company also recorded income (loss) for the change in fair value of these warrants during the three and nine month periods ended September 30, 2014 of $(5.3) million and $0.6 million, respectively.

The following table presents the fair value roll-forward reconciliation of level 3 assets and liabilities measured at fair value basis for the period ended September 30, 2015 (in thousands):

	Earn-Out Liability
Balance, December 31, 2014	$1,710
Fair value of earn-out liability assumed in 2015 acquisitions	14,132
Payment of 2014 EIM earn-out liability	(1,519)
Non-cash adjustment to 2014 EIM earn-out liability	(191)
Balance, September 30, 2015	$14,132

Financial Liabilities. The following table shows the carrying amounts, which approximate the fair values, of the Company's financial liabilities in the condensed consolidated financial statements at September 30, 2015 and December 31, 2014, respectively (in thousands):

	September 30, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value

Convertible senior notes [1]	$69,836	$74,267	$—	$—
Notes payable	$2,433	$2,433	$3,015	$3,015

(1) The fair value of the convertible senior notes is inclusive of the conversion feature, which was originally allocated for reporting purposes at $13.0 million, and is included in the condensed consolidated balance sheets within "Additional paid-in capital" (see Note 12).

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

Convertible Senior Notes

The estimated fair value of the convertible senior notes, which are classified as level 2 financial instruments, was determined based on the quoted bid price of the convertible senior notes in an over-the-counter secondary market on September 30, 2015.

Notes Payable

The Company classifies the notes payable within the level 2 of the fair value hierarchy because it uses discount rates for similar credit-rated companies that are publicly available and widely observable as an input to estimate fair value. The fair value presented above is calculated based on the present value of expected principal and interest cash flows given the short term nature of its maturity.

Recent Accounting Pronouncements

In May 2014, the FASB issued updated guidance that affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB deferred the effective date for this standard to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is not permitted. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

In September 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments (“ASU 2015-16”). ASU 2015-16 eliminates the requirement to retrospectively account for adjustments to provisional amounts within the measurement period recognized at the acquisition date in a business combination. ASU 2015-16 requires that these adjustments be recognized in the reporting period in which the adjustment amounts are determined and be calculated as if the accounting had been completed as of the acquisition date. ASU 2015-16 is effective prospectively for fiscal years, and for interim periods within those years, beginning after December 15, 2015. Early application is permitted. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory (“ASU 2015-11”). ASU 2015-11 requires that inventory measured using any method other than last-in, first out (“LIFO”) or the retail inventory method to be subsequently measured at the lower of cost or net realizable value, rather than at the lower of cost or market value. Under this ASU, subsequent measurement of inventory using the LIFO and retail inventory method is unchanged. ASU 2015-11 is effective prospectively for fiscal years, and for interim periods within those years, beginning after December 15, 2016. Early application is permitted. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

Note 3. Business Combinations

During the three months ended September 30, 2015, the Company completed four acquisitions. The fair values of these acquisitions, as set forth below, are considered preliminary and subject to adjustment as additional information is obtained through the purchase price measurement period (a period of up to one year from the closing date). Any prospective adjustments would change the fair value allocation as of the acquisition date.

18

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

The following table summarizes the preliminary fair value of the assets and liabilities assumed in the acquisitions (in thousands):

	Weighted Average Useful Life (Years)	Amount
Goodwill		$38,832
Customer relationship	8.0	19,200
Developed technology	7.2	21,800
Trade name	5.0	200
Accounts receivable		6,814
Property and equipment		1,783
Deferred tax liability		(12,952)
Accrued expenses		(4,045)
Other liabilities assumed, net of assets acquired		(2,033)
Total consideration transferred		$69,599

WOI Stock Purchase

On July 1, 2015, the Company acquired Western Outdoor Interactive Private Limited (“WOI”) for approximately $38.3 million in cash and $4.3 million of contingent consideration. WOI produces and licenses games and applications for global in-flight entertainment, provides technical services to third parties for global in-flight entertainment user interfaces. The acquisition is intended to augment and diversify the Company’s Content operating segment. The goodwill recorded for the WOI acquisition was $17.3 million. Key factors that contributed to the recognition of WOI goodwill were trained workforce, expansion of international operations, the opportunity to consolidate and complement existing content operations, and the opportunity to generate future synergies within the existing Content business. As a result of the stock purchase of WOI, the goodwill is not deductible for tax purposes.

Significant other assets and net liabilities assumed and included in the table above were approximately $4.7 million in accounts receivable, $11.0 million of deferred tax liabilities and $1.8 million of fixed assets that included two long-term office buildings lease arrangements. The net tax liability is made up of short-term deferred tax assets of $0.2 million and long-term deferred tax liabilities of $11.2 million, largely driven by the tax impact of the fair value of the intangible assets. The Company incurred approximately $0.5 million in transaction costs associated with the WOI purchase. The sellers of WOI have the opportunity to receive an additional $5.0 million in cash if, among other things, WOI achieves certain revenue and earnings targets within the first and second yearly anniversaries of the closing date (the “WOI earn-out”). The WOI earn-out fair valued as of the acquisition date was approximately $4.3 million and presented as other long-term liabilities.

RMG Asset Acquisition

On July 1, 2015, the Company acquired certain assets and assumed certain liabilities of RMG Networks Holding Corporation ("RMG") for approximately $2.2 million in cash. These assets were integrated into the Company's advertising and sponsorship team, which provides digital media advertising and related services through executive clubs, in-flight entertainment systems, in-flight Wi-Fi portals and in private terminals. The acquisition is intended to enhance the Company’s digital media offerings within its Content operating segment. The goodwill recorded for the acquisition of assets from RMG was $2.1 million. Key factors that contributed to the recognition of goodwill were the opportunity to expand the Company's digital media offerings to the travel industry, the opportunity to consolidate and

complement existing Content operations, and the opportunity to generate future synergies with our existing business. As a result of the asset purchase, the goodwill is deductible for tax purposes.

Significant other assets and net liabilities assumed and included in the table above were approximately $2.2 million in accounts receivable, $3.1 million of revenue share liabilities and a $1.0 million provision for estimated losses on a specific loss contract expiring in December 2015. The Company incurred approximately $0.2 million in transaction costs associated with the acquisition of assets from RMG. RMG has the opportunity to receive an additional $3.0 million in cash if, among other things, certain revenue and earnings targets are achieved with respect to the acquired assets within the first anniversary of the closing date.

NavAero, Inc. Stock Purchase

On August 4, 2015, the Company acquired NavAero Holding AB ("NavAero") for approximately $4.8 million in cash and $0.3 million contingent consideration. NavAero is engaged in developing and commercializing technologies to enable and deploy electronic flight bag solutions for the commercial aviation market, which allows airlines to improve their in-flight operations. The acquisition is intended to enhance the Company's Connectivity operating segment. The goodwill recorded for the NavAero acquisition was $3.3 million. Key factors that contributed to the recognition of NavAero goodwill were trained workforce, expansion of international operations, the opportunity to expand into new product and technology offerings within the airline industry, and to a lesser extent the opportunity to generate future synergies with our existing business. As a result of the stock purchase of navAero, the goodwill is not deductible for tax purposes.

Significant other assets and net liabilities assumed included a net tax liability of $0.6 million, which is made up of short-term deferred tax assets of $0.1 million and long-term deferred tax liabilities of $0.6 million. The Company incurred approximately $0.3 million in transaction costs associated with the NavAero purchase. The sellers of NavAero have the opportunity to receive an additional $1.0 million in cash if NavAero achieves certain revenue targets through December 31, 2016 (the "NavAero earn-out").

masFlight, Inc. Stock Purchase

On August 4, 2015, the Company acquired Marks Systems, Inc. doing business as masFlight for approximately $10.3 million in cash and $9.4 million contingent consideration. The acquisition was completed as a merger resulting in the acquisition subsidiary, masFlight Inc. ("masFlight") as the surviving corporation. masFlight pioneered the adoption of cloud-based technologies to collect, compile, link, validate and host a variety of information and offer a single solution enabling airlines to analyze predictive data to run their operations more effectively and efficiently. The acquisition is intended to enhance the Company's Connectivity operating segment. The goodwill recorded for the masFlight acquisition was $16.2 million. Key factors that contributed to the recognition of masFlight goodwill were trained workforce, expansion into new operations data solutions offerings, the opportunity to consolidate and complement current Connectivity operations within the airline industry as well as expand into new industries, and the opportunity to generate future savings through synergies with our existing business. As a result of the acquisition, the goodwill is not deductible for tax purposes.

Significant other assets and net liabilities assumed included a net tax liability of $1.4 million, which is made up of net short-term deferred tax asset of $0.3 million and long-term deferred tax liabilities of $1.7 million. The Company incurred approximately $0.3 million in transaction costs associated with the masFlight purchase. The sellers of masFlight have the opportunity to receive up to an additional $20.0 million in cash if, among other things, masFlight achieves certain operational, revenue and earnings targets at various dates through December 31, 2019. As a portion of the contingent consideration is subject to future employment of certain key employee of masFlight, certain contingent consideration will be recorded as compensation expenses prospective to the acquisition date. The fair value of

masFlight contingent consideration as of the acquisition date was $9.4 million.

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

Note 4. Goodwill

The following table presents the changes in the Company's goodwill balance for the periods presented (in thousands).

Balance at December 31, 2014	$53,014
Goodwill arising from 2015 acquisitions	38,832
Currency translation adjustment	(241)
Balance at September 30, 2015	$91,605

Goodwill arose from the acquisitions of AIA, PMG, IFES and Purple in 2013 and 2014 and WOI, assets from RMG, NavAero and masFlight in 2015. No goodwill existed prior to 2013.

Note 5. Property, Plant, and Equipment, net

At September 30, 2015 and December 31, 2014, property, plant, and equipment, net consisted of the following (in thousands):

	September 30, 2015	December 31, 2014
Leasehold improvements	$3,787	$1,592
Furniture and fixtures	2,080	2,293
Equipment	21,142	17,593
Computer equipment	6,134	4,115
Computer software	8,476	5,950
Automobiles	256	307
Building	2,649	2,649
Albatross (aircraft)	425	425
Satellite transponder	6,000	—
Other	1,489	1,501
Total property, plant, and equipment	52,438	36,425
Accumulated depreciation	(17,241)	(12,774)
Property, plant, and equipment, net	$35,197	$23,651

Depreciation expense for property, plant, and equipment amounted to $2.2 million and $1.8 million for the three months ended September 30, 2015 and 2014, respectively, and $6.4 million and $5.2 million for the nine months ended September 30, 2015 and 2014, respectively.

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

Depreciation expense, including software amortization expense, by classification for the three and nine months ended September 30, 2015 and 2014 is shown below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Cost of sales	$648	$567	$1,985	$2,197
Sales and marketing	219	163	622	377
Product development	353	295	1,021	580
General and administrative	1,007	809	2,805	2,016
Total depreciation expense	$2,227	$1,834	$6,433	$5,170

Note 6. Intangible Assets, net

As a result of various business combinations, the Company acquired definite-lived intangible assets that are primarily amortized on a straight-line basis. The Company's definite-lived intangible assets have assigned useful lives ranging from 1.5 to 8 years (weighted average of 5.7 years).

Intangible assets, net at September 30, 2015, consisted of the following (in thousands, except for useful lives):

		September 30, 2015		
	Weighted Average Useful Lives	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Intangible assets:				
Definite life:				
Existing technology - software	7 years	$24,375	$(1,721)	$22,654
Existing technology - games	5 years	12,331	(6,576)	5,755
Developed technology	8 years	7,317	(1,829)	5,488
Customer relationships	7.2 years	138,800	(44,923)	93,877
Other	2.5 years	7,437	(4,628)	2,809
Content library (acquired in the Business Combination)	1.5 years	14,298	(14,298)	—
Content library (acquired post Business Combination)	1.5 years	(1) 40,254	(24,974)	15,280
		$244,812	$(98,949)	$145,863
Currency translation adjustment				—
Total intangible assets				$145,863

Intangible assets, net at December 31, 2014, consisted of the following (in thousands, except for useful lives):

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

		December 31, 2014		
	Weighted Average Useful Lives	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Intangible assets:				
Definite life:				
Existing technology - software	7 years	$2,575	$(705)	$1,870
Existing technology - games	5 years	12,331	(4,727)	7,604
Developed technology	8 years	7,317	(1,143)	6,174
Customer relationships	7.2 years	119,879	(30,437)	89,442
Other	2.5 years	7,319	(3,448)	3,871
Content library (acquired in Business Combination)	1.5 years	14,298	(14,148)	150
Content library (acquired post Business Combination)	1.5 years	(1) 31,949	(18,586)	13,363
Total intangible assets		$195,668	$(73,194)	$122,474

(1) Useful life estimate based upon the content library acquired in the Business Combination, which approximates historical experience.

The content library that is expected to be licensed and to generate revenues within the next twelve months is classified as Content library, current, on the Company's condensed consolidated balance sheets as of September 30, 2015 and December 31, 2014. The remainder of content library is classified and included within the intangible asset amount. The Company expects to record amortization of the intangible assets as follows (in thousands):

Year ending December 31,	Amount
2015 (remaining three months)	$10,055
2016	37,629
2017	27,680
2018	21,531
2019	16,557
Thereafter	32,411
Total	$145,863

The Company recorded amortization expense, excluding amortization of content library (acquired post business combination) of $7.3 million and $19.4 million for the three and nine months ended September 30, 2015, respectively, and $6.5 million and $20.9 million during the three and nine months ended September 30, 2014, respectively. Amortization expense excludes the amortization of the content library, which is included in cost of sales.

Note 7. Available For Sale (“AFS”) Securities

At September 30, 2015, the Company held $1.7 million of Available for Sale equity securities at fair value, which approximates cost.

Note 8. Commitments and Contingencies

Movie License and Internet Protocol Television (IPTV) Commitments

In the ordinary course of business and as a result of the Business Combination, the Company has certain long-term commitments including movie license fees and guaranteed minimum payments owed to movie content providers. In addition, the Company has certain long-term arrangements with service and television providers to license and provide content and IPTV services that are subject to future guaranteed minimum payments.

23

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

Operating Lease Commitments

The Company leases its operating facilities under noncancelable operating leases that expire through 2025. The Company also leases certain facilities and vehicles under month-to-month arrangements. Total rent expense for the three months ended September 30, 2015 and 2014 was $1.7 million and $1.1 million, respectively. Rent expense for the nine months ended September 30, 2015 and 2014 was $3.8 million and $3.0 million, respectively. The Company is responsible for certain operating and property tax expenses in connection with these leases.

Satellite Cost Commitments

During the nine months ended September 30, 2015 the Company had in place a Master Services Agreement ("MSA") with its satellite service provider to provide for satellite capacity over Russia, the North Atlantic and for expansion of its existing capacity in the U.S. and Europe. As of December 31, 2014, the remaining MSA satellite cost commitments totaled up to $289.8 million through December 31, 2027. The Company expenses these satellite fees in the month the service is provided as a charge to cost of services.

During the year ended December 31, 2014, the Company entered into a satellite service agreement with New Skies Satellites B.V. (“SES”) that will provide global, Ku-band satellite bandwidth to GEE for use in GEE’s in-flight connectivity system. The SES agreement required the Company to make an up-front prepayment of $4.0 million. During the three months ended March 31, 2015, the Company entered into an agreement with Hughes Network Systems, LLC (“HNS”) to administer and assume the underlying obligations under the SES agreement, and transferred its $4.0 million SES prepayment to HNS. These prepayments are being applied to certain service fees as they become due. In the event that the HNS agreement is terminated, HNS will refund the prepayments, less any amounts applied to services rendered or scheduled to be rendered. In July 2015, the Company entered into a separate agreement with SES that extended additional prepayments each upon the achievement of certain milestones relating to the development by SES of future Capacity Services, with such additional prepayments being due no earlier than January 2016.

Legal Matters

On May 6, 2014, UMG Recordings, Inc., Capitol Records, Universal Music Corp and entities affiliated with the foregoing (collectively, “UMG”) filed suit in the United States District Court for the Central District of California against the Company and Inflight Productions Ltd. (“IFP”) for copyright infringement and related claims and unspecified money damages. IFP is a direct subsidiary of Global Entertainment AG (formally AIA) and an indirect subsidiary of the Company. On July 1, 2014, American Airlines, Inc. (“American”) filed suit in Texas State Court, Tarrant County, against IFP, and filed an amended complaint on October 29, 2014, seeking a declaration that IFP is obligated to defend and indemnify American against claims that UMG may assert against American for copyright infringement insofar as such claims arise out of American’s use of content provided by IFP during a limited period of time, and for breach of contract. The American lawsuit seeks unspecified money damages and liquidated damages, as well as attorney’s fees. On February 24, 2015, American was added as a defendant in UMG’s case against the Company and IFP, but American has now settled with UMG. We participated in a non-binding mediation of the case with UMG on April 1, 2015, and September 2, 2015, which did not result in a settlement. In addition, we have been engaged in settlement discussions with American. Based on currently available information, the Company believes that IFP has strong defenses and intends to defend vigorously against the UMG and American lawsuits, but the outcome of these matters is inherently uncertain and could have a material adverse effect on the Company’s business, financial condition and results of operations. As of September 30, 2015, the potential range of loss related to these matters cannot be determined.

On August 14, 2014, SwiftAir, LLC filed suit against our wholly owned subsidiary Row 44, Inc. and one of its customers for breach of contract, quantum meruit, unjust enrichment and similar claims and unspecified money damages in the Superior Court of California for the Country of Los Angeles. SwiftAir and Row 44 had a contractual relationship, which Row 44 terminated in 2013, with respect to the provision of destination deal content to one of Row 44's connectivity customers. Based on currently available information, the Company believes that Row 44 has strong defenses and intends to defend vigorously against this lawsuit, but the outcome of this matter is inherently uncertain and could have a material adverse effect on the Company's business, financial condition and results of operations. As of September 30, 2015, the potential range of loss related to this matter cannot be determined.

In addition, from time to time we are party to various legal matters incidental to the conduct of our business. Certain of our outstanding legal matters include speculative claims for indeterminate amounts of damages. We record a liability when we believe that it is probable that a loss has been incurred and the amount can be reasonably estimated. While the resolution of the above matters cannot be predicted with certainty, the Company does not believe, based on current knowledge, that the

outcome of the currently pending claims or legal proceedings in which the Company is currently involved will have a material adverse effect on the Company's financial statements.

Other

The movie license agreements are contracted for periods up to 3 years. Minimum payments required under executed agreements are mainly to be paid within 12 months. Earn-out obligations associated with prior business combinations. AIA and PMG earn-out obligations, were accrued for as of December 31, 2014 and were fully paid in 2015.

Note 9. Related Party Transactions

Administrative Services

One of the Company's subsidiaries rents office space belonging to a company in which a former member of such subsidiary's management had an ownership interest. The former management sold his interest in the office during the third quarter of 2015. There were no unpaid lease liabilities as of September 30, 2015 and December 31, 2014. The Company recognized rent expense of $60,000 and $180,000 for the three and nine month periods ended September 30, 2015 and 2014, respectively. The Company no longer has a related party relationship with this former employee and former building owner.

Office Lease Agreement with Employee

In connection with the acquisition of PMG, the Company acquired an office lease that is currently being occupied and used as part of operations in Irvine, California. This building is majority owned by one of the founding members of PMG, who was an employee of the Company at September 30, 2015. The lease terminates on March 31, 2024. The total rental expense incurred during the three and nine months periods ended September 30, 2015 and 2014 was approximately $0.1 million.

PMG Post-Closing Payment

In connection with the Company's purchase of substantially all of the assets of PMG in June 2013, the Company agreed to a post-closing payment based on the fulfillment of certain post-closing employment obligations by certain PMG executives (the "PMG Earn Out"), which the Company is required to account for as compensation to the sellers and is recognized as an expense, over the requisite service period. In June 2014, the Company modified the PMG Earn Out to waive the PMG Earn Out and certain other purchase obligations and PMG seller rights in exchange for cash consideration of $2.5 million (the “Additional PMG Consideration”). Fifty percent of the additional PMG Consideration was payable after 10 days from closing, and the remaining $1.25 million was payable in four quarterly installments through the first half of 2015. At December 31, 2014, the remaining outstanding balance was approximately $0.9 million. During the nine months ended September 30, 2015, the Company further modified the PMG Earn Out to accelerate the payment of the remaining payment. As the PMG Earn Out was settled during the nine months ended September 30, 2015, there was no outstanding balance on the PMG Earn Out as of September 30, 2015.

AIA Noncontrolling Interests Acquisition

In April 2014, the Company acquired the remaining outstanding shares in AIA for a total cash consideration of approximately $21.7 million (the "AIA Consideration"). Included in the AIA Consideration was approximately $2.5 million owed to BF Ventures, an entity in which one of our directors owns an indirect stake of approximately 25%, which was paid in full during the year ended December 31, 2014.

AIA Earn-Out

The Company recognized an expense of $1.4 million during the year ended December 31, 2014 as a result of the remeasurement of the fair value of the earn-out liability acquired in the AIA stock acquisition. The earn-out was payable to certain employees of EIM, a wholly owned subsidiary. At December 31, 2014, the outstanding balance relating to the earn-out liability was $1.7 million. The earn-out liability was paid and fully settled during the nine months ended September 30, 2015. As of September 30, 2015, there was no outstanding balance.

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

Note 10. Stock Options and Warrants

Stock Options

In conjunction with the Business Combination, the Company adopted its 2013 Equity Incentive Plan, which was subsequently amended and restated (as so amended and restated, the "Plan"). Under the Plan, the Administrator of the Plan, which is the compensation committee of the Company's board of directors, may grant up to 9,000,000 stock options, restricted stock, restricted stock units and other incentive awards to employees, officers, non-employee directors, and consultants, and such options or awards may be designated as incentive or non-qualified stock options at the discretion of the Administrator. Employee stock option grants made prior to 2015 have 5-year terms and vest 1/4th on the anniversary of the vesting commencement date and 1/36th monthly thereafter, over a 3-year period. During the nine months ended September 30, 2015, employee stock options were granted to the Company’s named executive officers that have 5-year terms and vest 1/4th on each anniversary date over a 4-year period. Stock options granted to the Board of Directors prior to 2015 have 5-year terms and vest monthly over two years from the vesting commencement date. During the nine months ended September 30, 2015, stock options with 5-year terms were granted to the Board of Directors for services performed in 2014 and to be performed in 2015. The grants made for 2014 services vested immediately and the grants made for 2015 services vest 1/4th quarterly through December 31, 2015. Certain stock option awards have accelerated vesting provisions in the event of a change in control and/or termination without cause.

Fair values of the stock options at September 30, 2015 and 2014 were determined using the Black-Scholes model and the following weighted average assumptions:

	Nine Months Ended September 30,			
	2015		2014	
Common stock price on grant date	$12.90		$11.42	
Expected life (in years)	3.8		4.0	
Risk-free interest rate	1.30	%	1.54	%
Expected stock volatility	43	%	59	%
Expected dividend yield	—	%	—	%
Fair value of stock options granted	$4.41		$5.15	

Stock option activity for the nine months ended September 30, 2015 is as follows:

	Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2015	5,771	$10.64		
Granted	1,443	12.94		
Exercised	(557)	9.82		
Forfeited	(867)	11.13		
Outstanding at September 30, 2015	5,790	$11.22	4.01	$4,998
Vested and expected to vest at September 30, 2015	5,126	$11.13	3.87	$4,685
Exercisable at September 30, 2015	2,259	$10.60	3.08	$2,740

Restricted stock units

During the three months ended September 30, 2014, the Company granted certain employees performance units in the form of RSUs. A performance unit gives the recipient the right to receive common stock that is contingent upon achievement of a specified predetermined performance target for fiscal 2014 and the continuation of employment for a period of one year from the grant date. The grant date fair value of an RSU equals the closing price of the Company's common stock on the grant date. The number of shares issued totaled 77,687 shares of the Company’s common stock. During the nine months ended September 30, 2015, the Company granted 29,000 RSUs to the Board of Directors that fully vest on the 13-month anniversary of the grant date. The Company also granted 379,000 RSUs to certain employees that vest 1/4th on the grant anniversary date over a 4-year term.

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

The following summarizes select information regarding our RSUs during the nine months ended September 30, 2015:

	Units (in thousands)	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2015	59	$12.90	
Granted	408	12.88	
Vested	(48)	12.90	
Forfeited	(13)	12.98	
Balance nonvested at September 30, 2015	406	12.88	$4,658
Vested and expected to vest at September 30, 2015	295	$12.89	$3,391

Stock-Based Compensation Expense

Stock-based compensation expense related to all employee and non-employee stock-based awards for the three and nine months ended September 30, 2015 and 2014 was as follow, (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Cost of services	$81	$6	$246	$6
Sales and marketing expenses	177	14	540	14
Product development	262	53	771	53
General and administrative	1,627	1,823	4,691	6,412
Total stock-based compensation expense	$2,147	$1,896	$6,248	$6,485

Warrants

The following is a summary of non-public warrants outstanding as of September 30, 2015 that the Company assumed in the Business Combination:

	Weighted Average Exercise Price per Warrant	Number of Warrants (as converted) (in thousands)	Weighted Average Remaining Life (in years)
Common stock warrants	$8.79	690	1.47
Series C Preferred stock warrants	8.74	734	1.68

Public warrants activity for the nine months ended September 30, 2015 is as follows:

Global Eagle Warrants	Number of Warrants (in thousands)	Weighted Average Exercise price	Weighted Average Remaining Contractual Term (in years)
Outstanding at January 1, 2015	10,149	$11.50	

Exercises and exchanges	(3,065)	11.50	
Outstanding and exercisable at September 30, 2015	7,084	$11.50	2.34

The Company accounts for 7,083,978 of Global Eagle's warrants as derivative liabilities at September 30, 2015. During the three and nine months ended September 30, 2015, the Company recorded approximately $1.9 million of expense and $13.9 million of income, respectively, in the condensed consolidated statements of operations as a result of the remeasurement of these warrants at balance sheet date until exercised. During the three and nine months ended September 30, 2014, the Company recorded approximately $5.3 million of expenses and $0.6 million of income, respectively, of income in the consolidated statements of operations as a result of the remeasurement of these warrants at balance sheet date until exercised. The fair value of warrants

issued by the Company has been estimated using the warrants' quoted public market price. In the event the Company's closing stock price is at or above $17.50 for twenty of thirty consecutive trading days, the Company can call the 7,083,978 public warrants and force the holders to exercise their warrants at $11.50 per share, with estimated proceeds of approximately $81.5 million.

During the year ended December 31, 2014, the Company's Board of Directors (the "Board") authorized the Company to repurchase GEE's public warrants for an aggregate purchase price, payable in cash and/or shares of common stock, of up to $25.0 million (inclusive of certain prior warrant purchases). In August 2015, the Board increased this amount by an additional $20.0 million. As of September 30, 2015, $20.5 million was available for warrants repurchases under this authorization. The amount the Company spends and the number of warrants repurchased varies based on a variety of factors including the warrant price. On July 31, 2015, the Company issued 1,015,176 shares of common stock in exchange for the surrender of public warrants exercisable for 3,045,530 shares of the Company's common stock.

Note 11. Income Taxes

The Company is subject to income taxes in the U.S. and numerous state and foreign jurisdictions in which it operates. The Company computes its annual tax rate based on the statutory tax rates and tax planning opportunities available to it in the various jurisdictions in which it earns income. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining the Company's tax expense and in evaluating its tax positions including evaluating uncertainties.

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.

Income tax expense for the three months ended September 30, 2015 and 2014 was $0.2 million and $1.5 million respectively. The tax expense for the three months ended September 30, 2015 was driven primarily by income in foreign jurisdictions and tax benefit from deferred tax liabilities resulted from acquired assets.

As of September 30, 2015 and December 31, 2014 the Company has recorded a valuation allowance of $60.8 million and $73.7 million against its domestic and foreign deferred tax assets, respectively, due to the uncertainties over its ability to realize future taxable income in those jurisdictions. As of September 30, 2015, the valuation allowance on domestic and foreign deferred tax assets were $47.5 million and $13.3 million, respectively.

As of September 30, 2015 and December 31, 2014, the Company had federal net operating loss carry-forwards ("NOLs") of $83.9 million and $128.4 million, respectively, and state net operating loss carry-forwards of $54.2 million and $64.8 million, respectively, which losses will begin to expire during the fiscal years ending in December 31, 2028 and 2018, respectively. These NOLs may be used to offset future taxable income, to the extent the Company generates any taxable income, and thereby reduce or eliminate future federal income taxes otherwise payable. Section 382 of the Internal Revenue Code imposes limitations on a corporation's ability to utilize NOLs if it experiences an ownership change as defined in Section 382. In general terms, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50% over a three year period. In the event that an ownership change has occurred, or were to occur, utilization of the Company's NOLs would be subject to an annual limitation under Section 382 as determined by multiplying the value of the Company's stock at the time of the ownership change by the applicable long-term tax-exempt rate as defined in the Internal Revenue Code. Any unused annual limitation may be carried over to later years. The Company could experience an ownership change under Section 382 as a result of events in the past in combination with events in the future. If so, the use of the Company's NOLs, or a portion thereof, against future taxable income may be subject to an annual limitation under Section 382, which may result in expiration of a portion of the NOLs before utilization.

Therefore, the Company could be liable for income taxes sooner than otherwise would be true if the Company were not subject to Section 382 limitations. The Company plans to perform a study to determine the extent of the limitation. Any carry-forwards that expire prior to utilization as a result of such limitations will be removed, if applicable, from deferred tax assets with a corresponding reduction of the valuation allowance. Currently, the Company expects the utilization of our net operating loss and tax credit carry-forwards in the near term to be affected by certain limitations placed on these carry-forwards as a result of our previous ownership changes.

As of September 30, 2015, the Company intends to reinvest the foreign earnings of its subsidiaries on an indefinite basis. As a result, deferred taxes have not been established for unremitted earnings of foreign subsidiaries.

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

The Company does not expect its uncertain tax position to materially change during the next twelve months. As of September 30, 2015, the Company has recorded a $5.7 million cumulative liability for uncertain income tax positions largely pertaining to historical tax positions associated with one of its Canadian subsidiaries acquired as part of the AIA acquisition in January 2013, which includes accumulated interest and penalties of approximately $0.8 million.

Note 12. Notes Payable and Bank Debts

Convertible Senior Notes

In February 2015, the Company issued $82.5 million principal amount of convertible senior notes due in 2035 (the "Convertible Notes") in a private placement. The Convertible Notes were issued at par, pay interest semi-annually in arrears at an annual rate of 2.75% and mature on February 15, 2035, unless earlier repurchased, redeemed or converted. The Convertible Notes are convertible in certain circumstances and subject to certain conditions, based on an initial conversion rate of 53.9084 shares of common stock per $1,000 principal amount of notes (which represents an initial conversion price of approximately $18.55 per share), subject to adjustment. Holders of the Convertible Notes may convert their Convertible Notes at their option at any time prior to the close of business on the business day immediately preceding November 15, 2034, only if one or more of the following conditions has been satisfied: 1) during any calendar quarter beginning after March 31, 2015 if the closing price of the Company's common stock equals or exceeds 130% of the respective conversion price per share during a defined period at the end of the previous quarter, 2) during the five consecutive business day period immediately following any five consecutive trading day period in which the trading price per $1,000 principal amount of Convertible Notes for each trading day was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; 3) if specified corporate transactions occur, or 4) if the Company calls any or all of the Convertible Notes for redemption, at any time prior to the close of business on the second business day immediately preceding the redemption date. On or after November 15, 2034, until the close of business on the second scheduled trading day immediately preceding the maturity date, a holder may convert all or a portion of its Convertible Notes at any time, regardless of the foregoing circumstances.

On February 20, 2022, February 20, 2025 and February 20, 2030 and if the Company undergoes a "fundamental change" (as defined in the indenture governing the Convertible Notes (the "Indenture")), subject to certain conditions, a holder will have the option to require the Company to repurchase all or a portion of its Convertible Notes for cash at a repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus any accrued and unpaid interest, if any, to, but excluding, the relevant repurchase date. In addition, upon the occurrence of a "make-whole fundamental change" (as defined in the Indenture) or if the Company delivers a redemption notice prior to February 20, 2022, the Company will, in certain circumstances, increase the conversion rate for a holder that converts its Convertible Notes in connection with such make-whole fundamental change or redemption notice, as the case may be.

The Company may not redeem the Convertible Notes prior to February 20, 2019. The Company may, at its option, redeem all or part of the Convertible Notes at any time (i) on or after February 20, 2019 if the last reported sale price per share of the Company's common stock has been at least 130% of the conversion price then in effect for at least 20 trading days during any thirty consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides written notice of redemption and (ii) on or after February 20, 2022 regardless of the sale price condition described in clause (i), in each case, at a redemption price equal to 100% of the principal amount of the Convertible Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. Upon conversion of any Convertible Note, the Company shall pay or deliver to the converting Holder, cash, shares of Common Stock or a combination of cash and shares of the Company's common stock, at the Company's election.

In accounting for the issuance of the Convertible Notes, the Company separated the notes into liability and equity components. The carrying amount of the liability component of $69.5 million was calculated by measuring the fair value of similar liabilities that do not have an associated convertible feature. The carrying amount of the equity component was calculated to be $13.0 million, and represents the conversion option which was determined by deducting the fair value of the liability component from the principal amount of the notes. This difference represents a debt discount that is amortized to interest expense over the term of the Convertible Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

In accounting for the direct transaction costs (the "issuance costs") related to the Convertible Notes, the Company allocated the total amount of issuance costs incurred to the liability and equity components based on their relative values. The Company recorded issuance costs of $1.8 million and $0.3 million to the liability and equity components, respectively. Issuance costs, including fees paid to the initial purchasers who acted as intermediaries in the placement of the Convertible

Notes, attributable to the liability component are included within "Other current assets" and "Other non-current assets" in the condensed consolidated balance sheets and are being amortized to interest expense over the term of the Convertible Notes, and the issuance costs attributable to the equity component were netted with the equity component and included within "Additional paid-in capital" in the condensed consolidated balance sheets. Interest cost related to the amortization expense of the issuance costs associated with the liability component was not material during the nine months ended September 30, 2015.

As of September 30, 2015, the outstanding Convertible Notes balance, net of the discount associated with the equity component, was $69.8 million.

Bank Debt

With the acquisition of PMG in July 2013, the Company assumed approximately $3.3 million of debt in the form a $1.5 million term loan (the “Term Loan”) and a $1.8 million line of credit (the “LOC”) with a bank. The Term Loan and the LOC matured in October 2017, and bear interest at a rate equal to the bank’s reference rate, which was approximately 3.25% during the year ended December 31, 2014, or the bank’s current prime rate. During the year ended December 31, 2014, the Company repaid the outstanding balance of the Term Loan and the LOC in full using a portion of the Citibank Term Loan proceeds described below.

With the acquisition of IFES on October 18, 2013, the Company assumed approximately $1.3 million of debt in the form of two facility letters for a commercial mortgage loan with a bank for $0.2 million and $1.1 million. The mortgage letters mature in October 2014 and 2032, respectively, and bear interest at a rate equal to 1.75% during the three months ended September 30, 2015. Interest is paid on a monthly basis. There was no accrued interest on the credit facilities as of September 30, 2015 or December 31, 2014. As of September 30, 2015, there was $0.9 million in borrowings outstanding under the remaining facility letter.

Bank Loan

On December 22, 2014, the Company entered into a Loan and Security Agreement with Citibank, N.A. (the "Credit Agreement") providing for $2.4 million of term loans (the "Citibank Term Loans"), which the Company used to repay in full the Term Loan and LOC, and a revolving line of credit (the "Citibank Revolving Loans") in an amount not to exceed $20.0 million. The Citibank Term Loans bear interest at a floating rate based on LIBOR plus an applicable interest margin per annum and mature on December 22, 2017. A total of $0.2 million of the principal amount of the Citibank Term Loans plus any accrued and unpaid interest is to be repaid at the end of each quarter. The outstanding balance of the Citibank Term Loans may be prepaid in whole or in part at any time without penalty.

Debt issuance costs incurred in connection with the Citibank Term Loans totaled $0.3 million and are being amortized over the respective term of the loans. At September 30, 2015, there was $1.5 million outstanding under the Citibank Term Loans and $20.0 million available for future borrowings under the Citibank Revolving Loans.

The following is a schedule, by year, of future minimum principal payments required under notes payable and bank debt as of September 30, 2015 (in thousands):

Years Ending December 31,	Amount
2015 (remaining three months)	$259
2016	869
2017	831

2018	68
2019	69
Thereafter	83,116
Total	$85,212

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

Note 13. Concentrations

Concentrations of Credit and Business Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents and accounts receivable.

At September 30, 2015 and December 31, 2014, the Company's cash and cash equivalents were maintained primarily with major U.S. financial institutions and foreign banks. Deposits with these institutions at times exceed the federally insured limits, which potentially subjects the Company to concentration of credit risk. The Company has not experienced any losses related to these balances and believes that there is minimal risk.

A substantial portion of the Company's revenue is generated through agreements with one airline customer. The Company may not be successful in renewing these agreements, or if they are renewed, they may not be on terms as favorable as current agreements. The percentage of revenue generated through the customer representing more than 10% of consolidated revenue is as follows:

	Nine Months Ended September 30,			
	2015		2014	
Southwest Airlines	24	%	22	%

No other customer accounted for revenues greater than 10% for the two periods presented.

Accounts receivable balances from Southwest Airlines represented approximately 4% and 13% of total accounts receivable at September 30, 2015 and December 31, 2014, respectively.

Note 14. Restructuring

The Company records the cost reduction plan activities in accordance with the Accounting Standards Codification (ASC), including ASC 420 Exit or Disposal Cost Obligations, ASC 712 Compensation-Nonretirement Postemployment Benefits and ASC 360 Property, Plant, and Equipment (Impairment or Disposal of Long-Lived Assets).

During the third quarter ended September 30, 2014, the Company implemented a plan to improve operational efficiencies, which included the closure of its German-based operations and facilities, centralization of its international financial operations, and realignment of its international and U.S. tax structure (the “Plan”). During 2014, in conjunction with the Plan, the Company committed to a reduction in force. As of September 23, 2014, the Company communicated the reduction to affected employees. The Company substantially completed the implementation of its Plan by the end of the third quarter of 2015.

The Company estimated that $4.7 million to $5.2 million of restructuring charges would be incurred in connection with the Plan, including:

(1) The Company estimated that it would incur total expenses relating to employee termination benefits, which primarily include severance and transitional-related expenses, of approximately $2.7 million, all of which represents cash expenditures which were incurred and expensed through September 30, 2015.

(2) In connection with the closure of its German operations pursuant to the Plan, the Company disposed of approximately 11,000 square feet of leased facilities in Duisburg and Munich, Germany, representing approximately 6% of its global facilities square footage. The Company incurred an aggregate of approximately $0.4 million of facilities disposal charges pursuant to the Plan through September 30, 2015.

(3) From the third quarter of 2014 through the third quarter of 2015, the Company anticipated incurring periodic restructuring expenditures in an aggregate amount of $1.5 to $2.0 million, comprised of legal and professional fees associated with the execution of the Plan. Through September 30, 2015, the Company incurred and expensed approximately $1.5 million in professional fees in connection with the Plan.

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

The following table summarizes the charges recorded during the nine months ended September 30, 2015 related to the Plan by type of activity (in thousands):

	Termination benefits	Leases and other contractual obligations	Other	Total
Restructuring charges	$238	$64	$66	$368
Total Restructuring charges	$238	$64	$66	$368

The following table summarizes the charges and spending relating to the Plan since inception (in thousands):

	Termination benefits	Leases and other contractual obligations	Other	Total
Expense	$2,727	$386	$1,478	$4,591
Payments	(2,727)	(386)	(1,478)	(4,591)
Restructuring reserves as of September 30,2015	$—	$—	$—	$—

Note 15. Subsequent Events

In October 2015, masFlight met certain milestones, which resulted in a $5.0 million earn-out contingent consideration payment of funds previously held in escrow at September 30, 2015.

On October 26, 2015, the Company entered into warrant exchange agreements with holders of warrants to purchase shares of the Company's common stock, par value $0.0001 per share (“Common Stock”), at an exercise price of $11.50 per share, that were originally issued in the Company's initial public offering (“Public Warrants”), pursuant to which the Company issued an aggregate of 303,580 shares of Common Stock in exchange for the surrender of Public Warrants to purchase an aggregate of 910,750 shares of Common Stock. In addition, on November 5, 2015, the Company issued 93,161 shares of Common Stock upon the cashless exercise of 257,058 warrants that the Company assumed in connection with its acquisition of Row 44, Inc. which had an exercise price of $8.62 per share.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As used herein, "Global Eagle Entertainment," "GEE," the "Company," "our," "we," or "us" and similar terms include Global Eagle Entertainment Inc. and it subsidiaries, unless the context indicates otherwise.

Cautionary Note Regarding Forward-Looking Statements

We make forward-looking statements in this Quarterly Report on Form 10-Q and the documents incorporated by reference herein within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to expectations or forecasts for future events, including without limitation our earnings, revenues, expenses or other future financial or business performance or strategies, or the impact of legal or regulatory matters on our business, results of operations or financial condition. These statements may be preceded by, followed by or include the words “may,” “might,” “will,” “will likely result,” “should,” “estimate,” “plan,” “project,” “forecast,” “intend,” “ex
“anticipate,” “believe,” “seek,” “continue,” “target” or similar expressions.

These forward-looking statements are based on information available to us as of the date of this Quarterly Report on Form 10-Q and on our current expectations, forecasts and assumptions, and involve substantial risks and uncertainties. Actual results may vary materially from those expressed or implied by the forward looking statements herein due to a variety of factors, including: our ability to expand our domestic and international business, including our ability to grow our business with current and potential future airline partners and successfully partner with satellite service providers, including Hughes Network Systems and SES S.A.; our ability to grow through acquisitions, and the ability of our management to integrate acquisitions and manage growth profitably; our obligations under the convertible senior notes that we issued in February 2015, and our ability to successfully use the proceeds therefrom; our management’s ability to recognize changing trends in the systems, services and business model requirements of our current and potential future customers; our ability to sustain historic levels of revenue from our “TV Flies Free” offering on Southwest Airlines and our ability to replicate this model with other airlines; the ability of our content segment to provide unique content curation and delivery services attractive to non-theatrical customers, including the airlines and studios; the outcome of any legal proceedings pending or that may be instituted against us; changes in laws or regulations that apply to us or our industry; our ability to recognize and timely implement future technologies in the content delivery space, including wireless content delivery, and the satellite connectivity space, including Ku-HTS and other competing satellite technologies, system developments and deployments; our ability to deliver end-to-end connectivity network performance sufficient to meet the increasing demands of our airline customers and their passengers; our ability to generate sufficient service revenues to recover costs associated with equipment subsidies and other start-up expenses that we may incur in connection with sales of our connectivity solution; our ability to obtain and maintain regulatory and international authorizations to operate our connectivity service over the airspace of foreign jurisdictions our customers utilize; our ability to timely and cost-effectively identify and license television, audio and media content that airlines and/or passengers demand and will purchase; general economic and technological circumstances in the satellite transponder market, including access to transponder capacity in limited regions and successful launch of replacement transponder capacity where and when applicable; our ability to obtain and maintain licenses for content used on legacy installed in-flight entertainment systems and next generation in-flight entertainment systems; the loss of, or failure to realize benefits from, agreements with our airline partners; the loss of relationships with original equipment manufacturers or dealers; unfavorable economic conditions in the airline industry and economy as a whole, and in particular arising from sanctions against Russia and the instability in the Middle East; the reliance on third-party satellite service providers and equipment and other suppliers, including single source providers and suppliers; the effects of service interruptions or delays, technology failures, material defects or errors in our software or hardware, damage to our network resources, disruption of our content delivery systems or geopolitical restrictions; the limited operating history of our connectivity and in-flight television and media products; costs associated with defending pending or future intellectual property infringement actions and other litigation or

claims and costs associated with other legal matters; increases in our projected capital expenditures due to, among other things, unexpected costs incurred in connection with the roll out of our technology roadmap or our international expansion plans, including managing rapid changes in available competitive technologies and product development of such technologies; fluctuation in our operating results; the demand for in-flight broadband Internet access services and market acceptance for our products and services; and other risks and uncertainties set forth in this report, our 2014 Form 10-K, and our subsequent Form 10-Q and Form 8-K reports and other filings with the SEC. We do not undertake any obligation to update forward-looking statements as a result of new information, future events or developments or otherwise, except as required by law or by the rules and regulations of the SEC.

The following discussion and analysis of our business and results of operations for the three and nine months ended September 30, 2015, and our financial condition at that date, should be read in conjunction with the financial statements and the notes thereto included in Item 1 of this Quarterly Report on Form 10-Q and our 2014 Form 10-K.

Table of Contents

Overview of the Company

We are a leading full service provider of connectivity and content to the worldwide travel industry, as well as the non-theatrical markets in Canada and in the U.S. Our principal operations and decision-making functions are located in North America and Europe. We manage and report our businesses in two operating segments: Connectivity and Content. Our chief operating decision maker regularly reviews our operating results by our Connectivity and Content operating segments, principally to make decisions about how we allocate our resources and to measure our segment and consolidated operating performance. We currently generate a majority of our revenue through the licensing of content and providing our Wi-Fi and Content services to the airline industry, and to a lesser extent through the sale of network equipment to airlines. Our chief operating decision maker regularly reviews revenue and contribution profit on a segment basis, and our results of operations and pre-tax income or loss on a consolidated basis in order to gain more depth and understanding of the key business metrics driving our business. Accordingly, we report revenue and contribution profit for these segments separately.

For the nine months ended September 30, 2015 and 2014, we reported revenue of $312.8 million and $286.7 million, respectively. For the nine months ended September 30, 2015 and 2014, our Content operating segment accounted for 73% and 72% of our total revenue, respectively, and our Connectivity operating segment accounted for 27% and 28%, respectively. For the nine months ended September 30, 2015 and 2014, one airline customer, Southwest Airlines, accounted for 24% and 22% of our consolidated revenues, respectively.

Basis of Presentation

This analysis is presented on a consolidated basis. In addition, a brief description is provided of significant transactions and events that have an impact on the comparability of the results being analyzed.

Opportunities, Challenges and Risks

For the nine months ended September 30, 2015 and 2014, we derived the majority of our revenue through the licensing and related services from our Content operating segment, and secondarily from Wi-Fi Internet service and the sale of equipment to airlines from our Connectivity operating segment. For the nine months periods ended September 30, 2015 and 2014, the vast majority of our equipment and Wi-Fi Internet service revenue were generated by two airlines, Southwest Airlines and Norwegian Air Shuttle.

We believe our operating results and performance are driven by various factors that affect the commercial airline industry, including general macroeconomic trends affecting the travel industry, trends affecting our target user base, regulatory changes, competition and the rate of passenger adoption of our services, as well as factors that affect Wi-Fi Internet service providers in general. Growth in our Content and Connectivity operating segments is principally dependent upon the number of airlines that implement our services, our ability to negotiate favorable economic terms with our customers and partners, and the number of passengers who use our services. Growth in our margins is dependent on our ability to manage the costs associated with implementing and operating our services, including the costs of licensing and distributing content, equipment and satellite service. Our ability to attract and retain new and existing customers will be highly dependent on our abilities to implement our services on a timely basis and continually improve our network and operations as technology changes and as we experience increased network capacity constraints as we continue to grow.

As technology continues to evolve, we believe that there are opportunities to expand our services by adding more content in a greater variety of formats. Currently, our Content and Connectivity operating segments are separate platforms; however, we believe there is an opportunity to diversify our revenue long term by cross leveraging these

services, including offering a greater variety of premium paid content across our Connectivity platform. For example, we acquired AIA, PMG and IFES in 2013 to accelerate our paid premium content opportunity. During 2014, we developed a system, WISE™ that enables airlines to provide in-cabin Wi-Fi delivery of content to airline passengers' hand-held personal devices. Our first implementation of WISE™ launched on a commercial airline during the second quarter of 2014. Conversely, the evolution of technology presents an inherent risk to our Content and Connectivity operating segments. Today, we see large opportunities to expand our connectivity services in parts of the world where we will need to make substantial investments to improve our current service offerings. As a result, during the first quarter of 2015, we entered into a long-term development project with QEST to develop new global antenna technologies, and we expect to make significant product development investments to our existing connectivity technology solutions over the next twelve to eighteen months to address these opportunities. Our Connectivity

Table of Contents

platform also utilizes leading satellite Ku-band systems and equipment today; however, with the introduction and evolution of more competitive technologies such as GSM and Ka-band satellite solutions, our current technology may become obsolete, too expensive and/or outdated. On October 24, 2014, we entered into an agreement with SES for satellite capacity for the period that began in the first half of 2015 and continuing for ten years after the launch of a Ku-HTS satellite. The agreement with SES will provide us with global satellite coverage and the ability to participate in future technology improvements in Ku-band satellite solutions. In February 2015, we modified the terms of our current agreements with SES and Hughes to formalize a satellite capacity ordering structure whereby the Company will order SES-sourced satellite capacity through Hughes and Hughes will provide satellite performance and satellite coverage evaluation services to the Company. However, there is no guarantee that our existing or future satellite providers or solutions will be adequate to enable us to compete effectively with our competitors, and as a result we may lose customers to our competitors who offer more technologically evolved and/or less costly connectivity systems in the future. Lastly, the future growth in our Content operating segment relies heavily on our airline customers continuing to utilize onboard in-flight entertainment ("IFE") systems for their passengers to watch media content. With the emergence and increased use of hand-held personal devices by airline passengers, our airline customers may decide to decrease the media content onboard IFE systems, and/or discontinue the use of IFE systems indefinitely. This would adversely impact the future growth of our Content operating segment.

The use of our connectivity equipment on our customer’s planes is subject to regulatory approvals, such as a Supplemental Type Certificate, or “STC” that are imposed by agencies such as the Federal Aviation Agency (“FAA”) and the European Aviation Safety Agency (“EASA”). The costs to obtain an STC can be significant and vary by plane type and customer location. As of December 31, 2014, we have STCs to operate our equipment on several plane types, including Boeing’s 737 next generation family and the Boeing 757 family. In 2014, we began work on obtaining an STC for Air China’s Boeing 777, and an STC for Air France’s Airbus ("A320"), both of which we recently obtained, the costs of which were in excess of $3.0 million as of September 30, 2015. While we believe we will be successful in obtaining STC approvals in the future as needed, there is a risk that neither the FAA nor EASA will approve an STC on a timely basis, if at all, and as a result, it could negatively impact our growth, relationships, and ability to deploy our future connectivity services with our customers. To partially address the risk and costs of obtaining STCs in the future, we recently signed an agreement with Boeing to commence the process for offering our connectivity equipment on a line-fit basis for Boeing’s 737 MAX and 787 models, and our Connectivity equipment became available as an option on new Boeing 737 airplanes. We also expect to undertake similar line-fit initiatives with other plane manufacturers such as Airbus in the near term. As a result, we expect to continue incurring significant product development expenses in the foreseeable future as we invest in these long-term line-fit opportunities, which we believe will improve our long-term ability to onboard our connectivity equipment on new plane types in a more scalable and cost-effective manner.

We are significantly dependent on certain key suppliers. Through September 30, 2015, our Connectivity operating segment purchased its satellite bandwidth from a single supplier, Hughes, which also provides us with certain equipment and servers required to deliver the satellite stream, rack space at the supplier's data centers to house the equipment and servers and network operations service support. We also purchase radomes, satellite antenna systems and rings from single suppliers. Any interruption in supply from these significant vendors could have a material impact on our ability to provide connectivity services to airline customers.

The growth of our Content segment is based upon a number of factors, including the growth of IFE systems, our customers' demand for content and games, the general availability of content to license from our studio partners, pricing from our competitors and our ability to manage the underlying economics of content licensing by studio. Due to the acquisitions of AIA, PMG and IFES throughout 2013, our Content segment revenue growth in 2014 as compared to 2013 was significant and not necessarily comparable between the two periods. As a result, we do not expect our Content segment to grow at the same historical levels in 2015 as compared to 2014. While we do believe that the amount of IFE systems and customer demand for content and games will continue to grow in the foreseeable future, we do expect the overall growth in our Content segment to be more consistent with the overall IFE market growth in the near term.

The growth of our Connectivity segment is based upon a number of factors, including the rates at which we grow the number of installed base of connectivity systems from new and existing customers, customer demand for connectivity services, government regulations and approvals, passenger adoption, growth, take rates, and overall usage of our connectivity services, the general availability and pricing of satellite bandwidth globally, pricing pressures from our competitors, general travel industry trends, new and competing connectivity technologies, and our ability to manage the underlying economics of connectivity services on a global basis. In February 2015, we raised capital through a private placement of convertible senior notes, a portion of which proceeds we plan to use in the near term for equipment financing arrangements. The long-term economics of any future agreement involving equipment financing could positively or negatively impact our liquidity, growth, Connectivity margins, relationships, and ability to deploy our future connectivity services with current or future customers.

Table of Contents

Our consolidated cost of sales, the largest component of our operating expenses, can vary from period to period, particularly as a percentage of revenue, based upon the mix of the underlying equipment and service revenues we generate. In addition, our consolidated cost of sales will vary period to period as we acquire new customers and to accommodate the growth of our connectivity segment. Over the past twelve months, the growth from our Connectivity segment improved our overall operating margins. As a result, our cost of sales as a percentage of our revenue improved throughout the trailing twelve months ended September 30, 2015 as compared to the same comparable period ended September 30, 2014. In the second half of 2015, we increased our investment in satellite capacity over North America and the Middle East to facilitate the growth of our existing and new connectivity customer base, which included a $6.0 million capital purchase of satellite transponders. Depending on the timing of our satellite expenditures, our consolidated cost of sales as a percentage of our revenue may fluctuate from period to period.

In July 2013, our customer Southwest Airlines announced “TV Flies Free” under which Southwest Airlines passengers using Internet-ready personal devices have free access to live television and up to 75 on-demand shows on the airline's more than 400 Wi-Fi-enabled aircraft powered by us. TV Flies Free initially was exclusively sponsored by DISH Network Corporation through December 31, 2014. In 2015, new sponsors including JPMorgan Chase & Co. were obtained for TV Flies Free. A significant amount of the revenue we generate from the TV Flies Free program is indirectly provided by the program’s sponsors. Should sponsorship revenue not be available to Southwest Airlines from third parties, Southwest Airlines is under no contractual obligation to offer free access to live television and on-demand shows to its passengers. As a result, there can be no assurance that we will continue to receive the same level of revenues from Southwest Airlines and Connectivity service revenue in future periods may fluctuate accordingly.

During the third quarter of 2015, we completed acquisitions of Western Outdoor Interactive ("WOI"), certain assets from RMG Networks Holding Corporation (NASDAQ:RMGN) ("RMG"), masFlight, Inc. and navAero, Inc. for an aggregate cash purchase price of $55.2 million, excluding $5.0 million of cash held in escrow as contingent consideration. WOI and assets from RMG were acquired to strengthen and increase the scope of our service offerings, including expanding our digital media and content services, and providing us with increased integrated solutions to meet the digital media and content service demands of the airline and maritime markets. masFlight, the industry's leading operational data analytics platform, and navAero, the industry's leading developer of cutting-edge EFB (Electronic Flight Bag) and cockpit data solutions together form the foundation of our new Operations Solutions business line, leveraging next-generation aircraft connectivity to create a revolutionary new platform that helps airlines improve operations, realize cost efficiencies, and enhance the overall passenger experience. During the last half of 2015, we do not expect that the aggregate financial results from these acquisitions will be significant in comparison to our existing operations.

In 2014, we commenced integration and formal restructuring activities of our 2013 acquisitions of AIA, PMG and IFES to support future growth. In September 2014, we announced and commenced our formal restructuring plan (the “Plan”), and we began realizing significant cost savings from the Plan throughout 2015. In addition, in the first half of 2015, we initiated further integration activities that we believe will help us to further accelerate our operating margin in 2015 and beyond.

For the years ended December 31, 2014 and 2013, a substantial amount of our Connectivity revenue was derived from airlines located in the United States. While our Connectivity revenue is primarily generated through airlines based in the United States today, we believe that there is an opportunity in the longer term for us to significantly expand our Connectivity operating segment's service offerings to airlines based in countries outside of the United States. In 2014, we announced partnerships in Europe with Orange and with China Telecom Communications Co., LTD and IP Star International PTE Limited, an affiliate of Thaicom, to jointly work to expand our Connectivity services within the broader Asia and European markets. In June 2015, we announced a new Connectivity agreement with Dubai Aviation Corporation ("flydubai"), an airline located in the Middle East. We plan to further expand our Connectivity operations internationally to address these opportunities. As we expand our business further internationally in places such as the Middle East, Asia Pacific and Latin America, we may incur significant incremental upfront expenses associated with these growth opportunities.

Key Components of Consolidated Statements of Operations

The following briefly describes certain key components of revenue and expenses as presented in our consolidated statements of operations.

Revenue

Our revenue is derived from our Connectivity and Content operating segments.

Connectivity Segment

Table of Contents

We currently generate our Connectivity revenue through the sale of equipment and through our Wi-Fi Internet and related service offerings. Our equipment revenue is based on the sale and corresponding support of our connectivity equipment to our commercial airline customers. Our service revenue is based on the fees paid by airlines and/or airline passengers for the delivery of in-flight services, such as Internet access and live television, and to a lesser extent from revenue sharing arrangements with commercial airlines for Internet based services used by their passengers, such as shopping.

Where we enter into revenue sharing arrangements with our customers, and we act as the primary obligor, we report the underlying revenue on a gross basis and record the revenue-sharing payments to our customers in cost of sales in our consolidated statements of operations. In determining whether to report revenue gross for the amount of fees received from our customers, we assess whether we maintain the principal relationship, bear credit risk and have latitude in establishing prices with the airlines.

Included in our Connectivity service revenue are periodic service level credits, which vary from airline to airline and are based on the contracted service levels we provide over any given period.

Content Segment

A significant amount of our Content revenue is generated from licensing of acquired and third-party media content, video and music programming, applications, and video games to the airline industry, and secondarily from services ranging from selection, purchase, production, customer support and technical adjustment of content in connection with the integration and servicing of in-flight entertainment programs. Our Content licensing revenue is based upon individual licensing agreements with the airlines to deliver and air content over specified terms. Content services revenue, such as technical services, the encoding of video products, development of graphical interfaces or the provision of materials, is priced on specific services contracted for and recognized as services are performed.

Operating Expenses

Operating expenses consist of cost of sales, sales and marketing, product development, general and administrative, amortization of intangible assets and restructuring charges. Included in our operating expenses are stock-based compensation and depreciation expenses associated with our capital expenditures.

Cost of Sales

Connectivity Segment

Connectivity segment cost of sales consists of the costs of our equipment and services.

Equipment. Equipment cost of sales are substantially comprised of the costs paid to procure our equipment for services. Equipment costs are principally comprised of the costs we pay to third parties to facilitate our equipment orders, and are originally classified as inventory on our balance sheet upon receipt of goods. Upon sale, equipment cost of sales are recorded when title and risk of loss pass to the customer, which is aligned with our equipment revenue recognition. Beginning in Q3 2015, we began financing portions of our equipment sales to certain customers. To the extent that we bundle discounted equipment with future connectivity services, and the aggregate economics are forecasted to be positive, we defer and recognize the corresponding equipment discount over the lesser of the estimated useful life of the equipment or the term of the customer agreement.

Depending on the mix of discounted equipment sales and as we near the completion of equipping the Southwest Airlines fleet for our services throughout 2015 and 2016, equipment sales and the corresponding equipment cost of sales could continue to decline or increase in the near term.

Services. Service cost of sales principally consists of the costs of satellite service and support, revenue recognized by us and shared with others as a result of our revenue-sharing arrangements, Internet connection and co-location charges and other platform operating expenses including depreciation of the systems and hardware used to build and operate our platform; and personnel costs related to our network operations, customer service and information technology. As we continue to build out our Connectivity services platform and expand our satellite coverage globally pursuant to our agreements with SES, we anticipate that our service costs will increase in absolute dollars when compared to historical periods; however, and depending on the timing and deployment of connectivity services to new customers, our future service costs may fluctuate as a percentage of applicable Connectivity service revenue when compared to historical periods. Our services cost of sales are dependent on a number of factors, including the amount of satellite coverage and bandwidth required to operate our services and the number of partners we share our corresponding

revenue with.

Table of Contents

Content Segment

Content segment cost of sales principally consists of licensing fees paid to acquire content rights for the airline industry, and to a lesser extent service and personnel costs to support our Content business.

Sales and Marketing

Sales and marketing expenses consist primarily of sales and marketing personnel costs, sales support, public relations, advertising, marketing and general promotional expenditures. Fluctuations in our sales and marketing expenses are generally the result of our efforts to support the growth in our businesses, including expenses required to support the expansion of our direct sales force. We currently anticipate that our sales and marketing expenses will continue to increase in the near term when compared to 2014 as we continue to grow our sales and marketing organizations and invest in marketing activities to support the growth of our businesses.

Product Development

Product development expenses consist primarily of expenses incurred in our software engineering, product development and web portal design activities and related personnel costs. Fluctuations in our product development expenses are generally the result of hiring personnel to support and develop our platform, including the costs to further develop our Connectivity segment platform, timing and scope of our STC efforts, new connectivity product offerings, expenses associated with line-fit offerability and network operations. Our product development expenses have increased significantly in 2015, as we continued to hire more product development personnel and further develop our products and offerings to support the growth of our business. However, in 2015, our product development expense as a percentage of revenue remained comparable to 2014.

General and Administrative

General and administrative expenses consist primarily of personnel costs from our executive, legal, finance, human resources and information technology organizations and facilities related expenditures, as well as third-party professional fees, insurance and bad debt expenses. Professional fees are largely comprised of outside legal, accounting, audit and information technology consulting. In addition, general and administrative costs include certain non-recurring costs such as legal settlements and professional fees associated with integration and acquisition-related activities., Excluding these non-recurring expenses, we anticipate general and administrative expenses will decrease in the near and long term when compared to historical periods as we continue to optimize our cost structure.

Restructuring

During the third quarter ended September 30, 2014, we implemented a plan to improve operational efficiencies, which included the closure of our German-based operations and facilities, centralization of our international financial operations, and realignment of our international and U.S. tax structure (the “Plan”). During 2014, in conjunction with the Plan, we committed to a reduction in force. As of September 23, 2014, we communicated the reduction to affected employees. We substantially completed the Plan at the end of the third quarter of 2015.

We incurred $4.6 million in connection with the Plan, including:

(1) We incurred total expenses relating to employee termination benefits, which primarily include severance and transitional-related expenses, of approximately $2.7 million, all of which represents cash expenditures which were incurred and expensed through September 30, 2015.

(2) In connection with the closure of our German operations pursuant to the Plan, we disposed of approximately 11,000 square feet of leased facilities in Duisburg and Munich, Germany, representing approximately 6% of our global facilities square footage. We incurred an aggregate of approximately $0.4 million of facilities disposal charges pursuant to the Plan through September 30, 2015.

(3) Beginning in the third quarter of 2014 through the third quarter of 2015, we incurred periodic restructuring expenditures in an aggregate amount of $1.5 million comprised of legal and professional fees associated with the execution of the Plan.

During the three and nine months ended September 30, 2015, we incurred approximately $0.1 million and $0.4 million, respectively, of restructuring costs.

Table of Contents

Amortization of Intangibles

The Company determines the appropriate useful life of intangible assets by performing an analysis of expected cash flows based on its historical experience of intangible assets of similar quality and value. We expect amortization expense to increase in the near term upon a variety of factors, such as the amounts and mix of our identifiable intangible assets acquired in business combinations.

Stock-Based Compensation

Included in our operating expenses are expenses associated with stock-based compensation, which are allocated and included in cost of sales, sales and marketing, product development and general and administrative expenses as necessary. Stock-based compensation expense is largely comprised of costs associated with stock options and restricted stock units granted to employees and certain non-employees. We record the fair value of these equity-based awards and expense at their cost ratably over related vesting periods. In addition, stock-based compensation expense includes the cost of options to purchase common stock issued to certain non-employees.

Other Income (Expense)

Other income (expense) principally consists of changes in the fair value of our derivative financial instruments, interest on outstanding debt associated with our convertible senior notes issued in February 2015 and our notes payable, interest earned on cash balances and short-term investments, income or loss from our equity-method investments, and certain unrealized transaction gains and losses on foreign currency denominated assets and liabilities. We typically invest our available cash balances in money market funds and short-term United States Treasury obligations. We expect our transaction gains and losses will vary depending upon movements in underlying currency exchange rates.

Provision for Income Taxes

Since our inception, we have been subject to income taxes principally in the United States, and more recently with the 2013 acquisitions, in other countries where we have a legal presence, including Germany, the United Kingdom, the Netherlands, Canada, China, India, Hong Kong and the United Arab Emirates. We anticipate that as we continue to expand our operations outside the United States, we will become subject to taxation based on foreign statutory rates and our effective tax rate could fluctuate accordingly.

Income taxes are computed using the asset and liability method, under which deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

We currently believe that based on the available information, it is more likely than not that some of our deferred tax assets will not be realized, and accordingly we have recorded a valuation allowance against certain of our federal, state and foreign deferred tax assets. As of September 30, 2015 and December 31, 2014, we had approximately $83.9 million and $128.4 million of federal and $54.2 million and $64.8 million, respectively, of state operating loss carry-forwards available to offset future taxable income which expire in varying amounts beginning in 2028 for federal and 2018 for state purposes if unused. Federal and state laws impose substantial restrictions on the utilization of net operating loss and tax credit carry-forwards in the event of an “ownership change,” as defined in Section 382 of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code. Currently, we expect the utilization of our net operating loss and tax credit carry-forwards in the near term to be affected by certain limitations placed on these carry-forwards as a result of our previous ownership changes.

Critical Accounting Policies and Estimates

The preparation of our condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the notes to the financial statements. Some of those judgments can be subjective and complex, and therefore, actual results could differ materially from those estimates under different assumptions or conditions. A summary of our critical accounting policies is presented in Part II, Item 7, of our 2014 Form 10-K. There have been no material changes to our critical accounting policies during the nine months ended September 30, 2015.

39

Table of Contents

Results of Operations

The following tables set forth our results of operations for the periods presented. The period-to-period comparison of financial results is not necessarily indicative of future results (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue	$110,114	$102,623	$312,795	$286,736
Operating expenses:				
Cost of sales	71,456	73,618	206,965	213,341
Sales and marketing expenses	4,819	3,980	13,058	10,119
Product development	7,766	7,212	21,447	15,561
General and administrative	22,102	17,172	58,547	51,440
Amortization of intangible assets	7,286	6,049	19,274	18,613
Restructuring charges	66	2,606	368	2,606
Total operating expenses	113,495	110,637	319,659	311,680
Loss from operations	(3,381)	(8,014)	(6,864)	(24,944)
Other income (expense):				
Interest (expense) income, net	(803)	175	(1,631)	44
Change in fair value of derivatives	(1,877)	(5,253)	13,866	555
Other expense, net	(576)	(984)	(1,815)	(1,786)
(Loss) income before income taxes	(6,637)	(14,076)	3,556	(26,131)
Income tax expense	235	1,454	872	3,552
Net (loss) income	(6,872)	(15,530)	2,684	(29,683)
Net income attributable to non-controlling interests	—	—	—	194
Net (loss) income attributable to Global Eagle Entertainment Inc. common stockholders	(6,872)	(15,530)	2,684	(29,877)
Net (loss) income per common share – basic	$(0.09)	$(0.21)	$0.03	$(0.41)
Net loss per common share – diluted	$(0.09)	$(0.21)	$(0.14)	$(0.41)
Weighted average common shares – basic	77,753	72,877	77,249	72,284
Weighted average common shares – diluted	77,753	72,877	78,449	72,284

The following table provides the depreciation expense included in the above line items (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Cost of sales	$648	$567	$1,985	$2,197
Sales and marketing	219	163	622	377
Product development	353	295	1,021	580
General and administrative	1,007	809	2,805	2,016
Total depreciation expense	$2,227	$1,834	$6,433	$5,170

Table of Contents

The following table provides the stock-based compensation expense included in the above line items (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Cost of sales	$81	$6	$246	$6
Sales and marketing expenses	177	14	540	14
Product development	262	53	771	53
General and administrative	1,627	1,823	4,691	6,412
Total stock-based compensation expense	$2,147	$1,896	$6,248	$6,485

The following table provides our results of operations, as a percentage of revenue, for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue	100 %	100 %	100 %	100 %
Operating expenses:				
Cost of sales	65 %	72 %	66 %	74 %
Sales and marketing expenses	4 %	4 %	4 %	4 %
Product development	7 %	7 %	7 %	5 %
General and administrative	20 %	17 %	19 %	18 %
Amortization of intangible assets	7 %	6 %	6 %	6 %
Restructuring charges	— %	3 %	— %	1 %
Total operating expenses	103 %	108 %	102 %	109 %
Loss from operations	(3)%	(8)%	(2)%	(9)%
Other (expense) income, net	(3)%	(6)%	3 %	— %
(Loss) income before income taxes	(6)%	(14)%	1 %	(9)%
Income tax expense	— %	1 %	— %	1 %
Net (loss) income	(6)%	(15)%	1 %	(10)%
Net income attributable to non-controlling interests	— %	— %	— %	— %
Net (loss) income attributable to common stockholders	(6)%	(15)%	1 %	(10)%

Table of Contents

Three Months Ended September 30, 2015 Compared To Three Months Ended September 30, 2014

Operating Segments

Segment revenue, expenses and contribution profit for the three months ended September 30, 2015 and 2014 derived from the Company's Content and Connectivity segments were as follows (in thousands):

	Three Months Ended September 30,					
	2015			2014		
	Content	Connectivity	Consolidated	Content	Connectivity	Consolidated
Revenue:						
Licensing and services	$81,574	$24,838	$106,412	$71,510	$19,933	$91,443
Equipment	—	3,702	3,702	—	11,180	11,180
Total revenue	81,574	28,540	110,114	71,510	31,113	102,623
Operating expenses:						
Cost of sales						
Licensing and services	53,995	14,654	68,649	50,596	13,428	64,024
Equipment	—	2,807	2,807	—	9,594	9,594
Total cost of sales	53,995	17,461	71,456	50,596	23,022	73,618
Contribution profit	27,579	11,079	38,658	20,914	8,091	29,005
Other operating expenses			42,039			37,019
Loss from operations			$(3,381)			$(8,014)

Revenue

Connectivity operating segment revenue was as follows (in thousands):

	Three Months Ended September 30,		% Change
	2015	2014	2015 to 2014
Services	$24,838	$19,933	25%
Equipment	3,702	11,180	(67)%
Total revenue Connectivity segment	$28,540	$31,113	(8)%

Connectivity Service Revenue
Connectivity service revenue increased $4.9 million, or 25%, to $24.8 million for the three months ended September 30, 2015, as compared to $19.9 million for the three months ended September 30, 2014. The increase was principally due to higher take rates and the growth in users of our Wi-Fi Internet services on Southwest Airlines, which was driven by a higher number of Southwest Airlines planes offering our Connectivity services in the three months ended September 30, 2015 as compared to three months ended September 30, 2014.

Connectivity Equipment Revenue
Connectivity equipment revenue decreased by $7.5 million, or 67%, to $3.7 million for the three months ended September 30, 2015, as compared to $11.2 million for the three months ended September 30, 2014. The decrease was primarily due to the timing of equipment installations on newly commissioned planes.

Table of Contents

Content operating segment revenue was as follows (in thousands):

	Three Months Ended September 30,		% Change	
	2015	2014	2015 to 2014	
Licensing and services	$81,574	$71,510	14	%

Content Licensing Revenue
Content licensing revenue increased $10.1 million, or 14%, to $81.6 million for the three months ended September 30, 2015 as compared to $71.5 million for the three months ended September 30, 2014, principally due to period-over-period revenue growth from new and existing Content customers, and revenue from WOI and the assets acquired from RMG, which were acquired in July 2015 and not comparable to the three months ended September 30, 2014. Offsetting these were declines in our content distribution business largely due to a stronger slate of titles in the three months ended September 30, 2014 as compared to the three months ended September 30, 2015.

Cost of Sales

Connectivity operating segment cost of sales was as follows (in thousands):

	Three Months Ended September 30,		% Change	
	2015	2014	2015 to 2014	
Services	$14,654	$13,428	9	%
Equipment	2,807	9,594	(71	)%
Total Connectivity cost of sales	$17,461	$23,022	(24	)%

Connectivity cost of sales decreased $5.6 million, or 24%, to $17.5 million for the three months ended September 30, 2015 compared to $23.0 million for the three months ended September 30, 2014 due to a $6.8 million decrease in Connectivity equipment cost of sales, offset by a $1.0 million increase in Connectivity service cost of sales. The decrease in equipment cost of sales was principally due to a decrease in equipment revenue over the same period as a result of the timing of equipment shipments on newly commissioned planes on Southwest Airlines. The increase in Connectivity service cost of sales was largely due to increased costs, such as licensing fees and bandwidth to support the corresponding revenue growth in the same period.

As a percentage of Connectivity equipment revenue, Connectivity equipment cost of sales improved to 76% during the three months ended September 30, 2015 as compared to 86% during the three months ended September 30, 2014 largely due to lower mix of equipment sales to Southwest Airlines, which have been historically lower in margin, during the three months ended September 30, 2014 as opposed to the three months ended September 30, 2015.

As a percentage of Connectivity service revenue, Connectivity service cost of sales was 59% during the three months ended September 30, 2015, compared to 67% for the three months ended September 30, 2014, an improvement of 800 basis points. The period-to-period improvement in Connectivity service margin was largely due to improved optimization of our satellite bandwidth costs during the three months ended September 30, 2015 coupled with higher service revenue from increased take rates and passenger usage on Southwest Airlines during the three months ended September 30, 2015 versus the three months ended September 30, 2014.

Content operating segment cost of sales was as follows (in thousands):

	Three Months Ended September 30,		% Change
	2015	2014	2015 to 2014
Licensing and services	$53,995	$50,596	7 %

43

Table of Contents

Content cost of sales increased $3.4 million, or 7%, to $54.0 million for the three months ended September 30, 2015, as compared to $50.6 million for the three months ended September 30, 2014 principally due $2.8 million from recent acquisitions, coupled with higher licensing costs to support the corresponding growth in licensing and services revenue during the three months ended September 30, 2015 versus the three months ended September 30, 2014.

As a percentage of Content revenue, Content licensing cost of sales was 66% during the three months ended September 30, 2015 as compared to 71% in the three months ended September 30, 2014. The improvement of 500 basis points during the three months ended September 30, 2015 is principally due to a higher mix of content licensed under fixed studio cost arrangements, and improved content margins as a result of recent integration efforts, lower amortization expense from acquired content rights from the AIA acquisition, and content performance across our distribution and maritime services.

Other Operating Expenses

Other operating expenses were as follows (in thousands):

	Three Months Ended September 30,		% Change	
	2015	2014	2015 to 2014	
Sales and marketing expenses	$4,819	$3,980	21	%
Product development	7,766	7,212	8	%
General and administrative	22,102	17,172	29	%
Amortization of intangible assets	7,286	6,049	20	%
Restructuring charges	66	2,606	(97	)%

Sales and Marketing Expenses

Sales and marketing expenses increased $0.8 million, or 21%, to $4.8 million for the three months ended September 30, 2015 as compared to $4.0 million for the three months ended September 30, 2014. The increase was largely due to increases of $0.8 million in personnel costs largely as a result of the third quarter 2015 acquisitions and to support various sales and marketing initiatives, and $0.2 million in stock-based compensation. Offsetting these increases was a decrease of $0.2 million relating to travel cost.

Product Development

Product development expenses increased $0.6 million, or 8%, to $7.8 million for the three months ended September 30, 2015 compared to $7.2 million for the three months ended September 30, 2014 due to a $1.2 million increase in personnel costs and professional fees largely related to new development initiatives such as Boeing line-fit, global antenna development and ongoing trial expenses for Air China and Orange/Air France, coupled with a $0.2 million increase in stock-based compensation. Offsetting these were decreases of $0.9 million of travel and other expenditures largely associated with the timing of our Air China trial.

General and Administrative

General and administrative costs increased $4.9 million, or 29%, to $22.1 million during the three months ended September 30, 2015 compared to $17.2 million for the three months ended September 30, 2014 due to a $2.9 million increase in legal and professional fees largely related to legal defense matters from legacy acquisitions and new acquisition-related activities; a $2.1 million increase in personnel expenses, and $0.7 million net increase in facility,

depreciation, and insurance expenses to facilitate our growth over the period. Offsetting these increases were decreases of $0.8 million in professional fees and $0.2 million in stock-based compensation.

Amortization of Intangible Assets

Amortization expense increased to $7.3 million during the three months ended September 30, 2015 as compared to $6.0 million for the three months ended September 30, 2014. The increase is due to higher amortization expense associated with the acquisitions of WOI, assets from RMG, masFlight and navAero during the three months ended September 30, 2015.

Table of Contents

Restructuring Charge

Restructuring charge was $0.1 million for the three months ended September 30, 2015 compared to $2.6 million for the three months ended September 30, 2014. The decrease is due to the timing of our restructuring plan, which was announced during the three months ended September 30, 2014 and completed during the three months ended September 30, 2015.

Other Income (Expense), net

Other income (expense), net was $(3.3) million during the three months ended September 30, 2015 compared to $(6.1) million for the three months ended September 30, 2014. The decrease is principally due to the change in the fair value of the Company's public warrants of $3.4 million, offset by an increase of $1.0 million of interest expense associated with our convertible senior notes and the amortization of the related discount and issuance cost and an increase of $0.4 million of foreign currency transaction loss on the remeasurement of assets and liabilities denominated in foreign currencies.

Income Tax Expense

Income tax expense was $0.2 million for the three months ended September 30, 2015 as compared to $1.5 million for the three months ended September 30, 2014. The improvement in income tax provision was largely due to tax planning initiatives associated with recent restructuring efforts by the Company in 2015 and a decrease in valuation allowance due to acquired assets and deferred tax liabilities.

Nine Months Ended September 30, 2015 Compared To Nine Months Ended September 30, 2014

Operating Segments

Segment revenue, expenses and contribution profit for the nine months ended September 30, 2015 and 2014 derived from the Company's Content and Connectivity segments were as follows (in thousands):

	Nine Months Ended September 30,					
	2015			2014		
	Content	Connectivity	Consolidated	Content	Connectivity	Consolidated
Revenue:						
Licensing and services	$227,037	$71,602	$298,639	$206,641	$53,735	$260,376
Equipment	—	14,156	14,156	—	26,360	26,360
Total revenue	227,037	85,758	312,795	206,641	80,095	286,736
Operating expenses:						
Cost of sales						
Licensing and services	152,044	42,730	194,774	149,475	40,933	190,408
Equipment	—	12,191	12,191	—	22,933	22,933
Total cost of sales	152,044	54,921	206,965	149,475	63,866	213,341
Contribution profit	74,993	30,837	105,830	57,166	16,229	73,395
Other operating expenses			112,694			98,339
Loss from operations			$(6,864)			$(24,944)

Table of Contents

Revenue

Connectivity operating segment revenue was as follows (in thousands):

	Nine Months Ended September 30, 2015		% Change	
	2015	2014	2015 to 2014	
Services	$71,602	$53,735	33	%
Equipment	14,156	26,360	(46	)%
Total revenue Connectivity segment	$85,758	$80,095	7	%

Connectivity Service Revenue
Connectivity service revenue increased $17.9 million, or 33%, to $71.6 million for the nine months ended September 30, 2015 as compared to $53.7 million for the nine months ended September 30, 2014. The increase was principally due to higher take rates and the growth in users of our Wi-Fi Internet services on Southwest Airlines, which was driven by a higher number of Southwest Airlines planes offering our Connectivity services in the nine months ended September 30, 2015 as compared to the nine months ended September 30, 2014.

Connectivity Equipment Revenue
Connectivity equipment revenue decreased by $12.2 million, or 46%, to $14.2 million for the nine months ended September 30, 2015 as compared to $26.4 million for the nine months ended September 30, 2014. The decrease was primarily due to the timing of equipment installations on newly commissioned planes.

Content operating segment revenue was as follows (in thousands):

	Nine Months Ended September 30, 2015		% Change	
	2015	2014	2015 to 2014	
Licensing and services	$227,037	$206,641	10	%

Content Licensing Revenue
Content licensing revenue increased $20.4 million, or 10%, to $227.0 million for the nine months ended September 30, 2015 as compared to $206.6 million for the nine months ended September 30, 2014 principally due to the timing of the on-boarding of certain significant Content customers, and period-over-period revenue growth from existing Content customers, and revenue from new acquisitions, which were acquired in July 2015 and not comparable to the nine months ended September 30, 2014.
Cost of Sales

Connectivity operating segment cost of sales was as follows (in thousands):

	Nine Months Ended September 30, 2015		% Change	
	2015	2014	2015 to 2014	
Service	$42,730	$40,933	4	%
Equipment	12,191	22,933	(47	)%
Total Connectivity cost of sales	$54,921	$63,866	(14	)%

Connectivity cost of sales decreased $8.9 million, or 14%, to $54.9 million for the nine months ended September 30, 2015 compared to $63.9 million for the nine months ended September 30, 2014 principally due to a $10.7 million decrease in

Table of Contents

Connectivity equipment cost of sales. The decrease in equipment cost of sales was principally due to a decrease in equipment revenue over the same period as a result of the timing of equipment shipments on newly commissioned planes. The decrease was offset by a $1.8 million increase in Connectivity service cost of sales largely due to higher licensing fees to support the growth in Connectivity service revenue over the same period.

As a percentage of Connectivity equipment revenue, Connectivity equipment cost of sales was flat at 86% during the nine months ended September 30, 2015 as compared to 87% for the nine months ended September 30, 2014.

As a percentage of Connectivity service revenue, Connectivity service cost of sales was 60% during the nine months ended September 30, 2015, as compared to 76% for the nine months ended September 30, 2014, an improvement of 1,600 basis points. The period-to-period improvement in Connectivity service margin was largely due to improved optimization of our satellite bandwidth costs during the nine months ended September 30, 2015, coupled with higher service revenue from increased take rates and passenger usage on Southwest Airlines during the nine months ended September 30, 2015 versus the nine months ended September 30, 2014.

Content operating segment cost of sales was as follows (in thousands):

	Nine Months Ended September 30,		% Change	
	2015	2014	2015 to 2014	
Licensing and services	$152,044	$149,475	2	%

Content licensing and services cost of sales increased $2.6 million, or 2%, to $152.0 million for the nine months ended September 30, 2015, as compared to $149.5 million for the nine months ended September 30, 2014, principally due to $2.8 million from recent acquisitions, which did not exist during the nine months ending September 30, 2014.

As a percentage of Content revenue, Content licensing and service cost of sales was 66% during the nine months ended September 30, 2015 as compared to 72% in the nine months ended September 30, 2014, an improvement of 600 basis points. The improvement was largely due to improved utilization of content under fixed and variable cost arrangements, improved content margins as a result of recent integration efforts, and lower amortization expense from acquired content rights from the AIA acquisition.

Other Operating Expenses

Other operating expenses were as follows (in thousands):

	Nine Months Ended September 30, 2015		% Change	
	2015	2014	2015 to 2014	
Sales and marketing expenses	$13,058	$10,119	29	%
Product development	21,447	15,561	38	%
General and administrative	58,547	51,440	14	%
Amortization of intangible assets	19,274	18,613	4	%
Restructuring charges	368	2,606	—	%

Sales and Marketing Expenses

Sales and marketing expenses increased $2.9 million, or 29%, to $13.1 million for the nine months ended September 30, 2015 as compared to $10.1 million for the nine months ended September 30, 2014. The increase was largely due

to increases of $2.6 million in personnel costs to support various marketing initiatives and as a result of the third quarter 2015 acquisitions, $0.3 million related to marketing and trade shows, $0.4 million related to professional fees, and $0.8 million in stock-based compensation and depreciation expenses. Offsetting these increases was a decrease of $1.3 million relating to travel cost.

Table of Contents

Product Development

Product development expenses increased $5.9 million, or 38%, to $21.4 million for the nine months ended September 30, 2015 as compared to $15.6 million for the nine months ended September 30, 2014 due to an increase of $2.2 million in personnel costs and $2.5 million in professional fees largely related to new development initiatives such as Boeing line-fit, global antenna development and ongoing trial expenses for Air China and Orange/Air France, coupled with a $1.2 million increase in stock-based compensation and depreciation expenses.

General and Administrative

General and administrative costs increased $7.1 million, or 14%, to $58.5 million during the nine months ended September 30, 2015 compared to $51.4 million for the nine months ended September 30, 2014 due to a $6.8 million increase in legal and professional fees largely related to legal defense matters from legacy acquisitions, our February 2015 offering, and integration and new acquisition-related activities, a $2.7 million increase in facility, depreciation, and insurance expenses to facilitate our growth over the period, and $0.4 million increase in personnel-related expenses. Offsetting these increases were decreases of $0.7 million in travel and trade show related costs and $1.7 million in stock-based compensation.

Amortization of Intangible Assets
Amortization expense increased to $19.3 million during the nine months ended September 30, 2015 as compared to $18.6 million for the nine months ended September 30, 2014. The increase is due to higher amortization expense associated with the acquisitions of WOI, assets from RMG, masFlight and navAero during the three months ended September 30, 2015.

Restructuring Charges
Restructuring charge was $0.4 million for the nine months ended September 30, 2015 compared to $2.6 million for the nine months ended September 30, 2014. The decrease is due to the timing of our restructuring plan, which was first announced in September 2014, and finalized during the nine months ended September 30, 2015.

Other Income (Expense), net

Other income (expense), net was $10.4 million during the nine months ended September 30, 2015 compared to $1.2 million for the nine months ended September 30, 2014 principally due to the change in the fair value of the Company's public warrants of $13.3 million, offset by a decrease of $1.7 million of interest expense associated with the convertible senior notes.

Income Tax Expense
Income tax expense was $0.9 million for the nine months ended September 30, 2015 compared to $3.6 million for the nine months ended September 30, 2014. The improvement in income tax provision was due to tax planning initiatives associated with recent restructuring efforts by the Company in 2015 and decrease in valuation allowance due to acquired assets and deferred tax liabilities.

Table of Contents

Liquidity and Capital Resources

Current Financial Condition

As of September 30, 2015, our principal sources of liquidity were our cash and cash equivalents in the amount of $218.1 million, which primarily are invested in cash and money market funds in banking institutions in the U.S. and in Europe. Excluded from our cash balance at September 30, 2015 is $1.7 million of available for sale marketable security investments held in mutual funds and approximately $9.1 million of restricted cash. At September 30, 2015, our restricted cash balance was comprised of $5.0 million in funds held in escrow relating to contingent consideration for a recent acquisition and $4.1 million to secure letters of credit between our subsidiaries and certain airlines customers. The vast majority of our cash was from the Business Combination in January 2013, our follow-on offering in December 2013 and our convertible senior note offering in February 2015. As of September 30, 2015, we had notes payable balance of $2.4 million and convertible senior note balance of $69.8 million, net of the discount associated with the equity component.

Our cash flows from operating activities are significantly affected by our cash-based investments in operations, including working capital, and corporate infrastructure to support our ability to generate revenue and conduct operations through cost of services, product development, sales and marketing and general and administrative activities. Cash used in investing activities has historically been, and is expected to be, impacted significantly by our investments in business combinations, our platform, Company infrastructure and equipment for our business offerings, the net sales and purchases of our marketable securities and changes in our derivative financial instruments. In the quarter ended September 30, 2015, we invested significant cash to make additional strategic acquisitions across our content and connectivity platforms to further grow our business, as further described below. We expect to make additional strategic acquisitions to further grow our business, which may require significant investments in the near and long term. Over the next twelve months, our net use of our working capital could be substantially higher or lower depending on the number and timing of new customers that we add to our Connectivity and Content businesses.

Subsequent to the Business Combination in January 2013 through April 2014, total cash used to acquire the remaining non-controlling interests in AIA was approximately $37.1 million, inclusive of $0.6 million of transaction fees.

On August 2, 2014, the Company purchased substantially all the assets of Purple Inflight Entertainment Private Ltd. (“Purple”) in exchange for approximately $0.5 million in cash. The Company acquired the assets of Purple to further expand its leadership in delivering Indian-based content. While we believe that a part of the future revenue growth in our content business will come from increased licensing of foreign-based content, there is no guarantee that our customers will purchase more foreign-based content in the future.

During the year ended December 31, 2014, the Company's Board of Directors (the “Board”) authorized the Company to repurchase GEE's public warrants for an aggregate purchase price, payable in cash and/or shares of common stock, of up to $25.0 million (inclusive of certain prior warrant purchases). In August 2015, the Board increased this amount by an additional $20.0 million. As of September 30, 2015, $20.5 million was available for warrants repurchases under this authorization. The amount the Company spends and the number of warrants repurchased varies based on a variety of factors including the warrant price. On July 31, 2015, the Company issued 1,015,176 shares of common stock in exchange for the surrender of public warrants exercisable for 3,045,530 shares of the Company's common stock.

On August 13, 2014, the Company completed a tender offer to all holders of the Company’s outstanding warrants exercisable for shares of the Company’s common stock, that we issued in connection with our initial public offering and which have an exercise price of $11.50 per share (the “Warrants”), to receive 0.3333 shares of common stock in exchange for every Warrant tendered by the holders thereof (approximately one Share for every three Warrants tendered), up to a maximum of 15,000,000 Warrants. On September 11, 2014, the Company issued 4,227,187 shares of common stock in exchange for 12,682,755 Warrants and recognized a gain on the exchange of approximately $0.8 million included in change in fair value of financial instruction instruments in the condensed consolidated statements

of operations for the year ended December 31, 2014.

On December 22, 2014, we entered into a Loan and Security Agreement with Citibank, N.A. (the "Credit Agreement"), providing for $2.4 million ($2.0 million, net of direct fees) of term loans (the "Citibank Term Loans") and a revolving line of credit (the "Citibank Revolving Loans") discussed more fully below in an amount not to exceed $20.0 million. We used the proceeds of the Citibank Term Loans to repay in full the Term Loan and LOC. The Citibank Term Loans bear interest at a floating rate based on LIBOR plus an applicable interest margin per annum and mature on December 22, 2017. A total of $0.2 million of the principal amount of the Citibank Term Loans plus any accrued and unpaid interest is to be repaid at

Table of Contents

the end of each quarter. The outstanding balance of the Citibank Term Loans may be prepaid in whole or in part at any time without penalty.

In February 2015, we issued $82.5 million principal amount of convertible senior notes due in 2035 (the “Convertible Notes”) in a private placement. The Convertible Notes were issued at par and pay interest semi-annually in arrears at an annual rate of 2.75%.The Convertible Notes will mature on February 15, 2035, unless earlier repurchased, redeemed or converted. The Convertible Notes are convertible in certain circumstances and subject to certain conditions, based on an initial conversion rate of 53.9084 shares of common stock per $1,000 principal amount of notes (which represents an initial conversion price of approximately $18.55 per share), subject to adjustment. Holders of the Convertible Notes may convert their Convertible Notes at their option at any time prior to the close of business on the business day immediately preceding November 15, 2034, only if one or more of the following conditions has been satisfied: 1) during any calendar quarter beginning after March 31, 2015 if the closing price of the Company's common stock equals or exceeds 130% of the respective conversion price per share during a defined period at the end of the previous quarter, 2) during the five consecutive business day period immediately following any five consecutive trading day period in which the trading price per $1,000 principal amount of Convertible Notes for each trading day was less than 98% of the product of the last reported sale price of the Company’s common stock and the conversion rate on each such trading day; 3) if specified corporate transactions occur, or 4) if the Company calls any or all of the Convertible Notes for redemption, at any time prior to the close of business on the second business day immediately preceding the redemption date. On or after November 15, 2034, until the close of business on the second scheduled trading day immediately preceding the maturity date, a holder may convert all or a portion of its Convertible Notes at any time, regardless of the foregoing circumstances.

On February 20, 2022, February 20, 2025 and February 20, 2030 and if the Company undergoes a “fundamental change” (as defined in the indenture governing the Convertible Notes (the “Indenture”)), subject to certain conditions, a holder will have the option to require the Company to repurchase all or a portion of its Convertible Notes for cash at a repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus any accrued and unpaid interest, if any, to, but excluding, the relevant repurchase date. In addition, upon the occurrence of a “make-whole fundamental change” (as defined in the Indenture) or if the Company delivers a redemption notice prior to February 20, 2022, the Company will, in certain circumstances, increase the conversion rate for a holder that converts its Convertible Notes in connection with such make-whole fundamental change or redemption notice, as the case may be.

The Company may not redeem the Convertible Notes prior to February 20, 2019. The Company may, at its option, redeem all or part of the Convertible Notes at any time (i) on or after February 20, 2019 if the last reported sale price per share of the Company’s common stock has been at least 130% of the conversion price then in effect for at least 20 trading days during any thirty consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides written notice of redemption and (ii) on or after February 20, 2022 regardless of the sale price condition described in clause (i), in each case, at a redemption price equal to 100% of the principal amount of the Convertible Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. Upon conversion of any Convertible Note, the Company shall pay or deliver to the converting Holder, cash, shares of Common Stock or a combination of cash and shares of the Company's common stock, at the Company's election.

We intend to use the net proceeds from the Convertible Notes offering for working capital and general corporate purposes, including possible acquisitions, ongoing and future capital investments in new product development and technologies, and costs associated with expanding our customer base in new and emerging markets.

Subject to applicable limitations in the instruments governing our outstanding indebtedness, we may from time to time repurchase our debt, including the Convertible Notes, in the open market, through tender offers, through exchanges

for debt or equity securities, in privately negotiated transactions or otherwise.

In July 2015, the Company entered into an agreement with SES to purchase satellite transponders and certain equipment in exchange for $6.7 million in cash. In addition, the Company deferred approximately $2.2 million in prepaid payment obligations to SES from June 2015 to January 2016. The satellite transponders operate over certain parts of the U.S., and have an estimated useful life of 42 months beginning in July 2015.

In July and August 2015, the Company completed four acquisitions: Western Outdoor Interactive Pvt. Ltd., certain assets of RMG Networks Holding Corporation, Marks Systems, Inc. (doing business as “masFlight”) and navAero AB for an aggregate purchase price of approximately $55.2 million in cash, net of cash acquired, $5.0 million in additional contingent

Table of Contents

consideration held in escrow and additional contingent consideration which may total up to $24.0 million based upon the performance of the acquired companies through the end of 2019.

In the future, we may utilize commercial financings, bonds, debentures, lines of credit and term loans with a syndicate of commercial banks or other bank syndicates and/or issue equity securities (publicly or privately) for general corporate purposes, including acquisitions and investing in our intangible assets, platform and technologies. We may also use our existing cash and cash equivalents to repurchase some or all of our outstanding public company warrants. We expect that our existing cash and cash equivalents and our cash flows from operating activities will be sufficient to fund our operations for at least the next 24 months. However, we may need to raise additional funds through the issuance of equity, equity-related or debt securities or through additional credit facilities to fund our growing operations, invest in new business opportunities and make potential acquisitions.

Sources and Uses of Cash - Nine Months Ended September 30, 2015 vs. Nine Months Ended September 30, 2014

The following table presents a summary of our cash flow activity for the periods set forth below (in thousands):

	Nine months ended September 30,	
	2015	2014
Net cash provided by (used in) operating activities	$12,010	$(12,054)
Net cash used in investing activities	$(76,696)	$(6,148)
Net cash provided by (used in) financing activities	$84,779	$(30,853)

Cash Flows Provided by (Used in) Operating Activities

Nine months ended September 30, 2015

Net cash provided by operating activities of $12.0 million primarily resulted from our net income during the period of $2.7 million, which included non-cash charges of $14.3 million largely comprised of changes in the fair value of our derivative financial instruments, depreciation and amortization, changes in our deferred income taxes, and stock-based compensation. The remainder of our sources of cash provided by operating activities of $6.1 million was from changes in our working capital, including increases in accounts payable and accrued expenses, deferred revenue and other liabilities and decreases in deposits and other assets. Offsetting these cash inflows in operating activities was a cash outflow of $11.1 million from increases in accounts receivable, prepaid expenses, inventory and content library.

Nine months ended September 30, 2014

Net cash used in our operating activities of $12.1 million primarily resulted from our net loss during the period of $29.7 million, which included non-cash charges of $25.3 million largely comprised of changes in the fair value of our derivative financial instruments, depreciation and amortization, changes in our deferred income taxes, and stock-based compensation. The remainder of our uses of cash flow in operating activities of $7.7 million was from changes in our working capital, including accounts receivable, prepaid expenses, and content and inventory investments. Offsetting these uses of cash in operating activities was a net cash inflow of $23.1 million from increases in accounts payable and accrued expenses reflective of timing of cash receipts from customers and payments to vendors. The increase in accounts receivable was reflective of the growth in our corresponding revenue in the period. Moreover, accounts payable increased mainly due to timing of payments to key customers in the period. The increases in prepaid expenses and inventory and content purchases were from continued investments to support the growth in our Connectivity equipment installations and Content licensing acquisitions.

Cash Flows Used in Investing Activities

Nine months ended September 30, 2015

Net cash used in investing activities of $76.7 million was largely due to cash out flows of $55.2 million relating to recent acquisitions, $5.0 million funding of contingent consideration held in escrow, $1.7 million of net investments in marketable securities and $14.7 million in investments in property and equipment to build out our internal infrastructure during the nine months ended September 30, 2015.

Table of Contents

Nine months ended September 30, 2014

Net cash used in investing activities of $6.1 million was due to $6.2 million investments in property and equipment to build out our internal infrastructure and $(0.5) million cash paid to acquire assets of Purple during the nine months ended September 30, 2014, offset by proceeds of approximately $0.6 million received from the sale of certain marketable securities during the nine months ended September 30, 2014.

Cash Flows Provided by (Used in) Financing Activities

Nine months ended September 30, 2015

Net cash provided by financing activities of $84.8 million was primarily due to cash received from the issuance of the convertible senior notes of $81.3 million and net proceeds from the exercise of stock options and warrants of $5.5 million, offset by debt issuance costs of $0.8 million, other financing activities of $0.5 million, and repayments on notes payable of $0.6 million.

Nine months ended September 30, 2014

Net cash used in financing activities of $30.9 million was primarily due to cash consideration of $21.7 million to acquire the remaining 6% interest in AIA, $7.4 million in payments of certain debt obligations and $1.4 million in payments to purchase outstanding GEE public warrants during the nine months ended September 30, 2014.

Debt Instruments

Long-term debt consists of the following at September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	December 31, 2014
Bank Loans	$1,516	$2,071
Bank Debt	$917	$943
Convertible Senior Notes, net of discount associated with equity component	$69,836	$—

The following is a schedule, by year, of future minimum principal payments required under notes payable and bank debt as of September 30, 2015 (in thousands):

Years Ending December 31,	Amount
2015 (remaining three months)	$259
2016	869
2017	831
2018	68
2019	69
Thereafter	83,116
Total	$85,212

Convertible Senior Notes

In February 2015, we issued $82.5 million principal amount of convertible senior notes due in 2035 (the “Convertible Notes”) in a private placement. The Convertible Notes were issued at par and pay interest semi-annually in arrears at an

annual rate of 2.75%.The Convertible Notes will mature on February 15, 2035, unless earlier repurchased, redeemed or converted. The Convertible Notes are convertible in certain circumstances and subject to certain conditions, based on an initial conversion rate of 53.9084 shares of common stock per $1,000 principal amount of notes (which represents an initial conversion price of approximately $18.55 per share), subject to adjustment. Holders of the Convertible Notes may convert their Convertible Notes

Table of Contents

at their option at any time prior to the close of business on the business day immediately preceding November 15, 2034, only if one or more of the following conditions has been satisfied: 1) during any calendar quarter beginning after March 31, 2015 if the closing price of the Company's common stock equals or exceeds 130% of the respective conversion price per share during a defined period at the end of the previous quarter, 2) during the five consecutive business day period immediately following any five consecutive trading day period in which the trading price per $1,000 principal amount of Convertible Notes for each trading day was less than 98% of the product of the last reported sale price of the Company’s common stock and the conversion rate on each such trading day; 3) if specified corporate transactions occur, or 4) if the Company calls any or all of the Convertible Notes for redemption, at any time prior to the close of business on the second business day immediately preceding the redemption date. On or after November 15, 2034, until the close of business on the second scheduled trading day immediately preceding the maturity date, a holder may convert all or a portion of its Convertible Notes at any time, regardless of the foregoing circumstances.

In accounting for the issuance of the Convertible Notes, the Company separated the Convertible Notes into liability and equity components. The carrying amount of the liability component of $69.5 million was calculated by measuring the fair value of similar liabilities that do not have an associated convertible feature. The carrying amount of the equity component of $13.0 million, representing the conversion option, was determined by deducting the fair value of the liability component from the principal amount of the Notes. This difference represents a debt discount that is amortized to interest expense over the term of the Convertible Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

In accounting for the direct transaction costs (the "issuance costs") related to the Convertible Notes, the Company allocated the total amount of issuance costs incurred to the liability and equity components based on their relative values. Issuance costs, including fees paid to the initial purchasers who acted as intermediaries in the placement of the Convertible Notes, attributable to the liability component are included within "Other current assets" and "Other non-current assets" in our consolidated balance sheets and are being amortized to interest expense over the term of the Convertible Notes, and the issuance costs attributable to the equity component were netted with the equity component and included within "Additional paid-in capital" in our consolidated balance sheets. The Company recorded issuance costs of $1.8 million and $0.3 million to the liability and equity components, respectively. Interest cost related to the amortization expense of the issuance costs associated with the liability component was not material during the nine months ended September 30, 2015.

In August 2015, we paid approximately $1.1 million of interest expense associated with our Convertible Senior Notes. As of September 30, 2015, the outstanding Convertible Notes balance, net of the discount associated with the equity component, was $69.8 million.

Bank Debt

With the acquisition of IFES on October 18, 2013, we assumed approximately $1.3 million of debt in the form of two facility letters for a commercial mortgage loan with a bank for $0.2 million and $1.1 million. The mortgage letters mature in October 2014 and 2032, respectively. The first mortgage commercial letter was repaid in full during the year ended December 31, 2014. The second mortgage commercial letter is secured by the Company's real property in the United Kingdom and bears interest at a rate equal to the bank’s base rate plus 1.25%, which was approximately 1.75% during the three months ended September 30, 2015. The outstanding balance under the remaining mortgage commercial letter was $0.9 million as of September 30, 2015.

Bank Loan

On December 22, 2014, we entered into the Citibank Term Loans, which we used to repay in full the Term Loan and LOC, and the Citibank Revolving Loans in an amount not to exceed $20.0 million. The Citibank Term Loans bear interest at a floating rate based on LIBOR plus an applicable interest margin per annum and mature on December 22, 2017. A total of $0.2 million of the principal amount of the Citibank Term Loans plus any accrued and unpaid interest is to be repaid at the end of each quarter. The outstanding balance of the Citibank Term Loans may be prepaid in whole or in part at any time without penalty.

Under the Credit Agreement, our business is subject to certain limitations, including limitations on our ability to incur additional debt, make certain investments, enter into certain merger and consolidation transactions, and sell our assets other than in certain limited circumstances. We are also required to maintain compliance with certain non-financial and financial covenants. As of September 30, 2015, we were in compliance with all financial covenants in the Credit Agreement. If we fail to

Table of Contents

comply with any of the covenants or if any other event of default, as defined in the Credit Agreement, should occur, our lender could elect to prevent us from borrowing additional amounts and declare any outstanding indebtedness to be immediately due and payable.

Debt issuance costs incurred in connection with the Citibank Term Loans totaled $0.3 million and are being amortized over the respective term of the Loans.

At September 30, 2015, there was $1.5 million outstanding under the Citibank Term Loans and $20.0 million available for future borrowings under the Citibank Revolving Loans.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS

Market risk is the sensitivity of income to changes in interest rates, foreign exchange rates, commodity prices, equity prices and other market driven rates or prices.

Market Risk

Connectivity Segment

Our Connectivity segment is generally not exposed to any material risk associated with exchange rates or equity prices. It does not hold or issue financial instruments for trading purposes. The Connectivity segment has indirect exposure to changes in commodity prices (i.e., the price of jet fuel) because a key aspect of the decision by its potential customers to purchase the connectivity products is the effect such products may have on an aircraft’s fuel burn.

Content Segment

Our Content segment has exposure primarily to two types of market risk: changes in foreign currency exchange rates and interest rates. We do not hold or issue financial instruments for trading purposes.

The following sections provide information on exposure to foreign currency exchange rate risk and interest rate risks. Parts of our Content segment make use of sensitivity analysis that are inherently limited in estimating actual losses in fair value that can occur from changes in market conditions.

Foreign Currency Exchange Rates

Our foreign operations are exposed to fluctuations in foreign currency exchange rates. Currency risks arise from the fact that both sales to customers and most of our Content segment's license costs or film rights purchases are largely effected in U.S. dollars while a significant portion of our Content operation's fixed and overhead costs are incurred in Euros, British pounds and Canadian dollars. We may engage in hedging transactions to counteract direct currency risks. However, there can be no assurance that all or any currency risks have been or will be hedged in full. Severe currency fluctuations could also cause the hedging transactions to fail if agreed thresholds are not met or exceeded. Therefore, substantial negative foreign currency effects may occur due to unforeseen exchange rate fluctuations and/or inaccurate assessments of market developments. Historically, we have not engaged in hedging transactions.

There are also intercompany receivables and liabilities such as loans that can generate significant foreign currency effects. Changes in the exchange rates of a number of foreign currencies against the Euro, especially the U.S. dollar

and the Canadian dollar, could lead to the recognition of unrealized foreign exchange gains and losses in some cases, particularly as a result of intercompany transactions, including short-term borrowings. We have sought to minimize the impact of intercompany borrowings by reducing the magnitude and quantity of intercompany borrowings.

Concentrations of Credit Risk

Our cash and cash equivalents are maintained at several financial institutions. Deposits held may exceed the amount of insurance provided on such deposits. Generally, our deposits may be redeemed upon demand and are maintained with a financial institution of reputable credit and, therefore, bear minimal credit risk. We monitor our positions with, and the credit quality of, the financial institutions that are counterparties to our financial instruments. We are exposed to credit loss in the event of

Table of Contents

nonperformance by the counterparties to the agreements. At September 30, 2015, we did not anticipate nonperformance by any of our counterparties. Historically, we have not experienced any losses related to these balances and believe that there is minimal risk of expected future losses. However, there can be no assurance that there will not be losses on these deposits.

A substantial portion of the Company's revenue is generated through agreements with one airline customer. The Company may not be successful in renewing these agreements, or if they are renewed, they may not be on terms as favorable as current agreements. As of September 30, 2015 and 2014, the following customer accounted for more than 10% of our consolidated revenue balance:

	Nine Months Ended September 30,			
	2015		2014	
Southwest Airlines	24	%	22	%

Accounts receivable balances from Southwest Airlines represented approximately 4% and 13% of total accounts receivable at September 30, 2015 and December 31, 2014, respectively.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures
We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

As of the end of the period covered by this report on Form 10-Q, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) pursuant to Rule 13a-15 of the Exchange Act. Based upon that evaluation, as a result of the material weakness identified in our 2014 Form 10-K, the Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report on Form 10-Q, the Company’s disclosure controls and procedures were not effective.

Changes in Internal Control over Financial Reporting

We are in the process of implementing changes, as more fully described in our 2014 Form 10-K, to the Company’s internal control over financial reporting to remediate the material weakness as described in our 2014 Form 10-K. Other than such changes, there have been no changes in our internal control over financial reporting, during the three months ended September 30, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Certain legal proceedings in which we are involved are discussed in Note 7. Commitments and Contingencies, to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for the three

months ended September 30, 2015.

ITEM 1A. RISK FACTORS

Table of Contents

There have been no material changes to the risk factors previously disclosed in response to Part I, Item 1A, of our 2014 Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On October 26, 2015, the Company entered into warrant exchange agreements with holders of warrants to purchase shares of the Company's common stock, par value $0.0001 per share ("Common Stock"), at an exercise price of $11.50 per share, that were originally issued in the Company's initial public offering ("Public Warrants"), pursuant to which the Company issued an aggregate of 303,580 shares of Common Stock in exchange for the surrender of Public Warrants to purchase an aggregate of 910,750 shares of Common Stock (the "Warrant Exchanges"). In addition, on November 5, 2015, the Company issued 93,161 shares of Common Stock upon the cashless exercise of 257,058 warrants that the Company assumed in connection with its acquisition of Row 44, Inc. which had an exercise price of $8.62 per share (the "Cashless Warrant Exercises"). The Warrant Exchanges and Cashless Warrant Exercises were exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 3(a)(9) thereunder based on the fact that the shares of Common Stock were exchanged by the Company with the Company's existing security holders exclusively and no commission or other remuneration was paid or given directly or indirectly for soliciting the Warrant Exchanges or Cashless Warrant Exercises.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable

ITEM 6. EXHIBITS

See Exhibit Index attached hereto.

Table of Contents

SIGNATURES

Pursuant to the requirements of Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 9th day of November 2015.

GLOBAL EAGLE ENTERTAINMENT INC.
By: /s/ Michael Zemetra
Michael Zemetra
Chief Financial Officer and Treasurer
(Principal Financial Officer, Principal Accounting Officer and Duly Authorized Officer)

Table of Contents

EXHIBIT INDEX

Exhibit	Description
10.1*	Amendment No. 2 to Framework Agreement, dated July 24, 2015, between the Company and New Skies B.V.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer
101.1	The following financial information from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets as of September 30, 2015 (Unaudited) and December 31, 2014 (ii) Unaudited Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2015 and 2014 (iii) Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2015 and 2014 (iv) Unaudited Condensed Consolidated Statement of Stockholders' Equity for the nine months ended September 30, 2015 (v) Unaudited Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014 and (vi) Notes to Unaudited Condensed Consolidated Financial Statements.

* Confidential treatment has been requested or granted for certain portions omitted from this Exhibit pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.