

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

Global Eagle Entertainment Inc.
Form 10-Q
January 31, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2017

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 001-35176

GLOBAL EAGLE ENTERTAINMENT INC.

(Exact name of registrant as specified in its charter)

Delaware 27-4757800

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

6100 Center Drive, Suite 1020

Los Angeles, California 90045

(Address of principal executive offices) (Zip Code)

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

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

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

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

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

(Class)

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

(Outstanding as of
1/22/2018)

COMMON STOCK, \$0.0001 PAR VALUE 90,782,791 SHARES*

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

Table of Contents

GLOBAL EAGLE ENTERTAINMENT INC.
FORM 10-Q
FOR THE FISCAL QUARTER ENDED MARCH 31, 2017

TABLE OF CONTENTS

Introductory Note	Page <u>3</u>
 <u>PART I — FINANCIAL INFORMATION</u>	
ITEM 1. <u>Financial Statements (Unaudited)</u>	<u>5</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>5</u>
<u>Condensed Consolidated Statements of Operations</u>	<u>5</u>
<u>Condensed Consolidated Statements of Comprehensive Loss</u>	<u>6</u>
<u>Condensed Consolidated Statements of Stockholders' Equity</u>	<u>7</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>8</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>9</u>
ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>46</u>
ITEM 3. <u>Quantitative and Qualitative Disclosure About Market Risk</u>	<u>63</u>
ITEM 4. <u>Controls and Procedures</u>	<u>63</u>
 <u>PART II — OTHER INFORMATION</u>	
ITEM 1. <u>Legal Proceedings</u>	<u>66</u>
ITEM 1A. <u>Risk Factors</u>	<u>66</u>
ITEM 6. <u>Exhibits</u>	<u>66</u>
<u>Signature</u>	<u>67</u>

Table of Contents

INTRODUCTORY NOTE

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

As previously reported, we were unable to timely file our Annual Report on Form 10-K for our fiscal year ended December 31, 2016 (the “2016 Form 10-K”) and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2017 (this “Form 10-Q”), June 30, 2017 (the “Q2 Form 10-Q”) and September 30, 2017 (the “Q3 Form 10-Q”). We filed the 2016 Form 10-K with the SEC on November 17, 2017 and the Q2 Form 10-Q and Q3 Form 10-Q with the SEC concurrently with the filing of this Form 10-Q.

We required additional time to file the 2016 Form 10-K, this Form 10-Q, the Q2 Form 10-Q and the Q3 Form 10-Q due to our increased size and complexity following our acquisition of Emerging Markets Communications (“EMC”) in July 2016 (the “EMC Acquisition”) and the effect of that increased size and complexity on our financial reporting processes; our need to transition our finance function after the departures of our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer; and our need to complete additional financial-closing procedures associated with our material weaknesses in internal control over financial reporting, as are described in Part II, Item 9A. Controls and Procedures of the 2016 Form 10-K. We were unable to timely file this Form 10-Q and the Q2 Form 10-Q and Q3 Form 10-Q because they needed to include balance-sheet information derived from the audited financial statements included in the 2016 Form 10-K, and also needed to include unaudited financial statements that we were unable to finalize until we finalized our audited financial statements for the year ended December 31, 2016.

Except for the discussion of our operating segments and as otherwise specifically set forth herein, the information contained in this Form 10-Q is presented as of March 31, 2017 and the three months then ended and does not reflect events or results of operations that have occurred subsequent to March 31, 2017.

Our Operating Segments (and Changes Thereto in the Second Quarter of 2017)

We discuss our business and operations in this Form 10-Q as comprising three operating segments, which are also our reportable segments: Media & Content, Aviation Connectivity and Maritime & Land Connectivity. For fiscal year 2015 and for 2016 until our EMC Acquisition, our business consisted of two operating segments, which were also our reportable segments: Media & Content and Connectivity. Following the EMC Acquisition, the acquired EMC business became our third operating and reportable segment, which we called Maritime & Land Connectivity, and we renamed our other two segments as Media & Content and Aviation Connectivity.

In the second quarter of 2017 however, following changes in our senior management (including our chief operating decision maker) and organizational changes across our business, we reorganized our business from three operating segments back into two operating segments, which are also our reportable segments; Media & Content and Connectivity, primarily through integrating the business and operations of our former Aviation Connectivity segment with that of our former Maritime & Land Connectivity segment. Our chief operating decision maker determined this was appropriate based on the similarities and synergies between these two segments relating to satellite bandwidth and equipment used in those businesses as well as on our restructured reporting lines across all of our business departments. However, we will continue to have three separate reporting units for purposes of our goodwill impairment testing. Notwithstanding the transition in the second quarter 2017 to two operating/ reportable segments, this Form 10-Q, which speaks as of March 31, 2017 unless otherwise indicated, presents our business as three reportable segments (i.e., our operating segments as they existed at the end of the first quarter of 2017), and the financial results reported herein do not reflect the subsequent changes to our operating segments.

See also Note 13. Segment Information for a further discussion of our operating segments.

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

3

Table of Contents

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

	March 31, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$105,372	\$50,686
Restricted cash	17,952	17,992
Accounts receivable, net	126,478	120,492
Inventories	30,383	25,986
Prepaid expenses	15,998	17,658
Other current assets	16,781	20,786
TOTAL CURRENT ASSETS:	312,964	253,600
Content library	10,792	21,470
Property, plant and equipment, net	192,897	166,049
Goodwill	249,863	327,836
Intangible assets, net	155,615	166,720
Equity method investments	155,623	156,527
Other non-current assets	12,540	7,233
TOTAL ASSETS	\$1,090,294	\$1,099,435
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$236,266	\$240,777
Deferred revenue	7,293	6,970
Current portion of long-term debt	6,256	2,069
Other current liabilities	10,850	11,321
TOTAL CURRENT LIABILITIES:	260,665	261,137
Deferred revenue, non-current	1,594	1,536
Long-term debt	590,946	468,231
Deferred tax liabilities	32,907	33,205
Other non-current liabilities	29,020	36,329
TOTAL LIABILITIES	915,132	800,438
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.0001 par value; 1,000,000 shares authorized, 0 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively	—	—
Common stock, \$0.0001 par value; 375,000,000 shares authorized, 88,529,023 and 88,482,745 shares issued, 85,475,389 and 85,429,111 shares outstanding, at March 31, 2017 and December 31, 2016, respectively	9	9
Treasury stock, 3,053,634 shares at March 31, 2017 and December 31, 2016	(30,659)	(30,659)
Additional paid-in capital	749,019	747,005
Subscriptions receivable	(559)	(553)
Accumulated deficit	(542,288)	(416,389)
Accumulated other comprehensive loss	(360)	(416)

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

TOTAL STOCKHOLDERS' EQUITY	175,162	298,997
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,090,294	\$ 1,099,435

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 March 31,	
	2017	2016
Revenue	\$152,592	\$113,817
Operating expenses:		
Cost of sales	110,540	76,768
Sales and marketing	11,012	4,672
Product development	7,649	8,746
General and administrative	35,321	19,220
Provision for legal settlements	475	2,001
Amortization of intangible assets	11,008	7,403
Goodwill impairment	78,000	—
Total operating expenses	254,005	118,810
Loss from operations	(101,413)	(4,993)
Other (expense) income:		
Interest expense, net	(10,964)	(804)
Loss on extinguishment of debt	(14,389)	—
Income from equity method investments	1,539	—
Change in fair value of derivatives	2,920	5,865
Other (expense) income, net	(488)	680
(Loss) income before income taxes	(122,795)	748
Income tax expense	2,816	3,160
Net loss	\$(125,611)	\$(2,412)
Net loss per share – basic and diluted	\$(1.47)	\$(0.03)
Weighted average shares outstanding – basic and diluted	85,440	78,643

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 March 31,	
	2017	2016
Net loss	\$(125,611)	\$(2,412)
Other comprehensive income (loss):		
Unrealized foreign currency translation adjustments	56	(84)
Other comprehensive income (loss)	56	(84)
Comprehensive loss	\$(125,555)	\$(2,496)

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

Table of Contents

GLOBAL EAGLE ENTERTAINMENT INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

(In thousands)

	Common Stock		Treasury Stock		Additional	Subscription	Accumulated	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Receivable	Deficit	Other Comprehensive Loss	Stockholders' Equity
Balance at December 31, 2016	88,483	\$ 9	(3,054)	\$(30,659)	\$747,005	\$ (553)	\$(416,389)	\$ (416)	\$ 298,997
Change in accounting principle ⁽¹⁾	—	—	—	—	288	—	(288)	—	—
Restricted stock units vested and distributed, net of tax	47	—	—	—	(126)	—	—	—	(126)
Stock-based compensation	—	—	—	—	1,852	—	—	—	1,852
Interest income on subscription receivable	—	—	—	—	—	(6)	—	—	(6)
Other comprehensive income	—	—	—	—	—	—	—	56	56
Net loss	—	—	—	—	—	—	(125,611)	—	(125,611)
Balance at March 31, 2017	88,530	\$ 9	(3,054)	\$(30,659)	\$749,019	\$ (559)	\$(542,288)	\$ (360)	\$ 175,162

⁽¹⁾ Cumulative-effect adjustment related to the adoption of ASU 2016-09, as defined in Note 2. Basis of Presentation and Summary of Significant Accounting Policies.

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)

	Three Months Ended March 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(125,611)	\$(2,412)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization of property, plant, equipment and intangibles	20,720	10,549
Amortization of content library	4,622	1,395
Non-cash interest expense, net	1,212	256
Change in fair value of derivatives	(2,920)	(5,865)
Stock-based compensation	1,852	2,069
Impairment of goodwill	78,000	—
Gain on sale of investments	—	(40)
Loss (gain) on disposal of fixed assets	452	(1)
Loss on extinguishment of debt	14,389	—
Earnings from equity method investments	(1,539)	—
Distributions from equity method investments	2,445	—
Provision for bad debts	595	363
Deferred income taxes	(351)	(1,317)
Other	(734)	—
Changes in operating assets and liabilities:		
Restricted cash	(124)	1,438
Accounts receivable	(6,581)	4,490
Inventories	(6,099)	(3,900)
Prepaid expenses and other current assets	5,668	