Global Eagle Entertainment Inc.
Form 10-Q
August 09, 2013

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 JUNE 30, 2013

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)
4353 Park Terrace Drive	
Westlake Village, California	91361
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (818) 706-3111

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 August 9, 2013)	
COMMON STOCK, $0.0001 PAR VALUE	36,061,336	SHARES*
NON-VOTING COMMON STOCK, $0.0001 PAR VALUE	19,118,233	SHARES

* Excludes 3,053,634 shares held by Advanced Inflight Alliance AG, a majority-owned subsidiary of the registrant.

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

	June 30, 2013	December 31, 2012
ASSETS	(unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	$110,140	$2,088
Accounts receivable, net	47,046	8,292
Content library, current	10,560	—
Inventories	9,225	7,386
Prepaid and other current assets	11,024	3,344
TOTAL CURRENT ASSETS:	187,995	21,110
Property, plant & equipment, net	14,099	4,639
Goodwill	39,928	—
Intangible assets	97,970	—
Other non-current assets	12,936	3,688
TOTAL ASSETS	$352,928	$29,437
LIABILITIES, REDEEMABLE PREFERRED STOCK AND EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$54,410	$8,178
Deferred revenue	4,506	8,539
Warrant liabilities	30,220	8,178
Notes payable and accrued interest	7,944	14
Other current liabilities	12,325	—
TOTAL CURRENT LIABILITIES:	109,405	24,909
Deferred tax liabilities	22,903	—
Deferred revenue, non-current	6,944	3,075
Other non-current liabilities	6,788	38
TOTAL LIABILITIES	146,040	28,022
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE PREFERRED STOCK:		
Series A-1, $0.0001 par value; 0 and 9,794,142 shares authorized, issued and outstanding, at June 30, 2013 and December 31, 2012, respectively	—	9,245
Series A-2, $0.0001 par value; 0 and 19,887,000 shares authorized, issued and outstanding, at June 30, 2013 and December 31, 2012, respectively	—	21,454
Series B-1, $0.0001 par value; 0 and 73,783,872 shares authorized, issued and outstanding, at June 30, 2013 and December 31, 2012, respectively	—	27,488
Series B-2, $0.0001 par value; 0 and 62,326,439 shares authorized, issued and outstanding, at June 30, 2013 and December 31, 2012, respectively	—	19,981
Series C-1, $0.0001 par value; 0 and 105,868,792 shares authorized, 0 and 84,695,034 shares issued and outstanding, at June 30, 2013 and December 31, 2012, respectively	—	24,535
Series C-2, $0.0001 par value; 0 and 107,187,927 shares authorized, 0 and 85,750,341 shares issued and outstanding, at June 30, 2013 and December 31,	—	19,837

2012, respectively				
TOTAL REDEEMABLE PREFERRED STOCK	—		122,540	
EQUITY (DEFICIT):				
Preferred stock, $0.0001 par value; 1,000,000 shares authorized, 0 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	—		—	
Common stock, $0.0001 par value; 375,000,000 shares authorized, 38,778,289 and 23,405,785 shares issued, 35,724,655 and 20,352,151 shares outstanding, at June 30, 2013 and December 31, 2012, respectively	4		2	
Non-voting common stock, $0.0001 par value; 25,000,000 shares authorized, 19,118,233 and 0 shares issued and outstanding, at June 30, 2013 and December 31, 2012, respectively	2		—	
Treasury stock, 3,053,634 and 0 shares at June 30, 2013 and December 31, 2012, respectively	—		—	
Additional paid-in capital	366,669		8,238	
Subscriptions receivable	(466	)	(453	)
Accumulated deficit	(168,962	)	(128,912	)
Accumulated other comprehensive loss	(512	)	—	
Total Stockholders' Equity (Deficit)	196,735		(121,125	)
Non-controlling interest	10,153		—	
TOTAL EQUITY (DEFICIT)	206,888		(121,125	)
TOTAL LIABILITIES, REDEEMABLE PREFERRED STOCK AND EQUITY (DEFICIT)	$352,928		$29,437	

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenue	$62,831	$16,836	$105,344	$35,343
Operating expenses:				
Cost of sales	49,820	18,722	85,569	36,604
Sales and marketing expenses	2,399	777	4,686	1,992
Product development	2,327	850	3,664	1,499
General and administrative	12,745	3,030	36,804	5,927
Amortization of intangible assets	3,016	6	4,249	12
Total operating expenses	70,307	23,385	134,972	46,034
Loss from operations	(7,476)	(6,549)	(29,628)	(10,691)
Other income (expense):				
Interest expense, net	(282)	(7,132)	(459)	(10,399)
Change in fair value of derivatives	(4,725)	—	(9,340)	—
Other income (expense), net	13	(92)	(30)	(119)
Loss before income taxes	(12,470)	(13,773)	(39,457)	(21,209)
Income tax provision	(559)	—	(593)	—
Net loss	(13,029)	(13,773)	(40,050)	(21,209)
Net income attributable to non-controlling interests	(108)	—	(69)	—
Cumulative preferred stock dividends and accretion	—	(1,772)	(942)	(3,148)
Net loss attributable to Global Eagle Entertainment common stockholders	$(13,137)	$(15,545)	$(41,061)	$(24,357)
Basic and diluted	$(0.24)	$(0.76)	$(0.84)	$(1.20)
Weighted average common shares basic and diluted	54,843	20,352	49,094	20,352

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net loss	$(13,029)	$(13,773)	$(40,050)	$(21,209)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(390)	—	(613)	—
Unrealized (loss) gain on available for sale securities	(1,250)	—	101	—
Total other comprehensive loss	(1,640)	—	(512)	—
Comprehensive loss	(14,669)	(13,773)	(40,562)	(21,209)
Comprehensive loss attributable to non-controlling interests	95	—	11	—
Comprehensive loss attributable to Global Eagle Entertainment common stockholders	$(14,574)	$(13,773)	$(40,551)	$(21,209)

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

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

	Common Stock		Common Stock Non-Voting		Treasury Stock		Additional Paid-in Capital	Subscriptions Receivable	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Global Eagle Entertainment Inc. Stockholders' Equity	Non-Controlling Interest	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount							
Balance, December 31, 2012	20,352	$ 2	—	$ —	—	$ —	$ 8,238	$ (453)	$ (128,912)	$ —	$ (121,125)	$ —	$ (121,125)
Reclassification of MLBAM warrants	—	—	—	—	—	—	2,696	—	—	—	2,696	—	2,696
Reclassification of Series C warrants	—	—	—	—	—	—	2,879				2,879		2,879
Change in fair value of common stock warrants	—	—	—	—	—	—	93	—	—	—	93	—	93
Warrants for common stock issued for services and equipment	—	—	—	—	—	—	359	—	—	—	359	—	359
Exercise of warrants and common stock options	—	—	—	—	—	—	28	—	—	—	28	—	28
Preferred stock dividends	—	—	—	—	—	—	(818)	—	—	—	(818)	—	(818)
Accretion of redeemable preferred stock	—	—	—	—	—	—	(124)	—	—	—	(124)	—	(124)
Recapitalization as a result of Row 44 Merger	15,373	2	4,750	1	—	—	229,025	—	—	—	229,028	—	229,028
Stock purchase of AIA	—	—	14,368	1	—	—	144,256	—	—	—	144,257	25,287	169,544
Shares of the Company acquired in stock purchase of AIA	—	—	—	—	3,054	—	(30,659)	—	—	—	(30,659)		(30,659)
Conversion of Sponsor	—	—	—	—	—	—	(393)	—	—	—	(393)	—	(393)

promissory note
to warrants

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GLOBAL EAGLE ENTERTAINMENT INC.
CONDENSED CONSOLIDATED STATEMENT OF EQUITY (DEFICIT) (UNAUDITED) (continued)
(In thousands)

	Common Stock Shares	Common Stock Amount	Common Stock Non-Voting Shares	Common Stock Non-Voting Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-in Capital	Subscriptions Receivable	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Global Eagle Entertainment Inc. Stockholders' Equity	Non-Controlling Interest	Total Stockholders' Equity (Deficit)
Waiver modification of sponsor warrants	—	—	—	—	—	—	9,900	—	—	—	9,900	—	9,900
Stock-based compensation	—	—	—	—	—	—	1,376	—	—	—	1,376	—	1,376
Interest income on subscription receivable	—	—	—	—	—	—	—	(13)	—	—	(13)	—	(13)
Purchase of subsidiary share from non-controlling interest shareholders	—	—	—	—	—	—	(187)	—	—	—	(187)	(15,192)	(15,379)
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	(613)	(613)		(613)
Change in unrealized gain on available for sale securities, net of tax	—	—	—	—	—	—	—	—	—	101	101	—	101
Comprehensive income (loss) attributable to non-controlling interest	—	—	—	—	—	—	—	—	—	—	—	(11)	(11)
Net loss	—	—	—	—	—	—	—	—	(40,050)	—	(40,050)	69	(39,981)
Balance, June 30, 2013	35,725	$4	19,118	$2	3,054	$—	$366,669	$(466)	$(168,962)	$(512)	$196,735	$10,153	$206,888

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

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

	Six Months Ended June 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(40,050)	$(21,209)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	11,678	492
Non-cash interest on convertible promissory notes	16	9,629
FX effect on intercompany borrowings	845	—
Change in fair value of derivative financial instruments	9,340	—
Stock-based compensation	1,376	675
Warrants for common stock issued for services	359	280
Common stock issued for services	—	550
Deferred income taxes	(1,532)	—
Other	(46)	(27)
Changes in operating assets and liabilities:		
Accounts receivable	(2,493)	(2,356)
Inventory	(5,795)	(792)
Prepaid expenses and other current assets	(345)	(1,126)
Deposits and other assets	(3,320)	(604)
Accounts payable and accrued expenses	(21,765)	(2,987)
Accrued interest	—	799
Deferred revenue	(163)	(2,496)
Other long-term liabilities	2,142	—
NET CASH USED IN OPERATING ACTIVITIES	(49,753)	(19,172)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(7,247)	(1,746)
Proceeds from sale of available for sale investments	5,937	—
Cash received from Row 44 Merger	159,227	—
Cash received from AIA Stock Purchase	22,136	—
Purchases of investments and other, net	(1,500)	—
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	178,553	(1,746)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Acquisition of non-controlling interest	(15,378)	—
Proceeds from issuance of notes payable	—	10,000
Long-term borrowings, net of costs	(80)	—
Payments on notes payable	(3,600)	(7)
Purchase of common stock warrants	(795)	—
Proceeds from the exercise of common stock options	291	5
Proceeds from the issuance of preferred stock and warrants	—	24,981
Repayment of short-term borrowings	(327)	—
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(19,889)	34,979
Effects of exchange rate movements on cash and cash equivalents	(859)	—
Net increase in cash and cash equivalents	108,052	14,061

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,088	8,810
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$110,140	$22,871

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

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

Note 1. Business

Global Eagle Entertainment Inc., together with its consolidated subsidiaries (the “Company”) is a Delaware corporation headquartered in Westlake Village, California. The Company's business is focused on providing Wi-Fi Internet Connectivity and Content to the airline industry.

Connectivity

The Company's Connectivity service offering provides airline partners and their passengers Wi-Fi connectivity over Ku-band satellite transmissions. The Company's Connectivity services are delivered through its wholly owned subsidiary, Row 44 ("Row 44"), which combines specialized network equipment, media applications and premium content services that allow airline passengers to access in-flight Internet, live television, on-demand content, shopping and travel-related information.

Content

The Company's Content services offering selects, manages, and distributes wholly-owned and licensed media content, video and music programming, applications, and video games to the airline industry through its majority-owned subsidiary, Advanced Inflight Alliance AG ("AIA").

Prior to January 31, 2013, the Company was known as Global Eagle Acquisition Corp. (“GEAC”), which was formed in February 2011 to effect a merger, capital stock exchange, asset acquisition or similar business combination with one or more businesses. Effective in the first quarter of 2013, and in conjunction with the business combination transaction (the "Business Combination") in which GEAC acquired Row 44 and 86% of the issued and outstanding shares of AIA, GEAC changed the Company's name from Global Eagle Acquisition Corp. to Global Eagle Entertainment Inc. (the “Company”, “Global Eagle”, “GEE” “we”, “us”, or “our”). Refer to Note 3. "Business Combination" of this Form 10-Q fo additional information.

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

A summary of the significant accounting policies consistently applied in the preparation of the accompanying condensed consolidated financial statements follows.

Basis of Presentation

The accompanying interim condensed consolidated balance sheet as of June 30, 2013, the condensed consolidated statements of operations and condensed consolidated statements of comprehensive income (loss) for the three and six month periods ended June 30, 2013 and 2012, condensed consolidated statements of cash flows for the six month periods ended June 30, 2013 and 2012 and the condensed consolidated statement of stockholders' equity (deficit) for the six month period ended June 30, 2013 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 June 30, 2013 and its results of operations for the three and six month periods ended June 30, 2013 and 2012 and its cash flows for the six month periods ended June 30, 2013 and 2012. The results for the three and six month period ended June 30, 2013 are not necessarily indicative of the results expected for the full year. The consolidated balance sheet as of December 31, 2012 has been derived from the Company's audited financial statements included in the Company's Current Report on Form 8-K/A filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1974, as amended, on August 9, 2013.

The interim unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”), for interim financial information and with the instructions to Securities and Exchange Commission (“SEC”) Form 10-Q and Article 10 of SEC Regulation S-X. They do not include all of the information and footnotes required by GAAP for complete financial statements. Therefore, these financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto, included in the Company's Current Report on Form 8-K/A filed with the Securities and Exchange Commission on August 9, 2013.

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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 Business Combination purchase accounting resulted in all assets and liabilities of acquired businesses being recorded at their estimated fair values on the acquisition dates. All intercompany balances and transactions have been eliminated in consolidation, including AIA's historical investment in Row 44.

Investments that the Company has the ability to control, and where it is the primary beneficiary of, are consolidated. Any non-controlling interests in a Company's subsidiary earnings or losses, such as AIA, are included in other income (expense) in the Company's condensed consolidated statements of operations. Any investments in affiliates over which the Company has the ability to exert significant influence, but does not control and where it is not the primary beneficiary of, are accounted for using the equity method of accounting. Investments in affiliates for which the Company has no ability to exert significant influence are accounted for using the cost method of accounting.

Use of Estimates

The preparation of the Company's unaudited condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue (relative selling price of deliverables) and expenses during the reporting period. Significant items subject to such estimates and assumptions include revenue, allowance for doubtful accounts, fair value of issued common stock warrants, the assigned value of acquired assets and assumed liabilities in business combinations, valuation of media content inventory, useful lives and impairment of property and equipment, intangible assets, goodwill and other assets, the fair value of the Company's equity-based compensation awards, and deferred income tax assets and liabilities. Actual results could differ materially from those estimates. On an ongoing basis, the Company evaluates its estimates compared to historical experience and trends, which form the basis for making judgments about the carrying value of assets and liabilities.

Segments of the Company

Prior to January 1, 2013, the Company reported its operations under one segment, its Connectivity business through its wholly owned subsidiary, Row 44. Beginning with the acquisition of AIA in January 2013, and due to the preliminary nature of the Company's reporting structure in the first quarter of 2013, the Company elected to report its operations in three segments: Row 44's Connectivity business and AIA's Content and Content Service Providing businesses. The Content and Content Service Providing activities were legacy segments reported by AIA prior to the January 2013 Business Combination. Beginning in the second quarter of 2013, management began initiatives to refine its reporting structure of the consolidated Company and reevaluate the metrics used in its key decision making activities. As a result of these activities, the Company now combines AIA's Content and Content Service Providing into a single segment, Content. Prior segment disclosures have been amended to reflect the revised segment definitions and a reconciliation is provided below.

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

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

Segmental revenue, expenses and contribution profit for the three and six month periods ended June 30, 2013 and 2012 derived from the Company's Connectivity and Content segments were as follows (in thousands):

	Three Months Ended June 30, 2013			Six Months Ended June 30, 2013		
	Connectivity	Content	Consolidated	Connectivity	Content	Consolidated
Revenue:						
Licensing	$—	$38,405	$38,405	$—	$61,709	$61,709
Service	12,379	5,678	18,057	18,673	9,550	28,223
Equipment	6,369	—	6,369	15,412	—	15,412
Total Revenue	18,748	44,083	62,831	34,085	71,259	105,344
Operating Expenses:						
Cost of Sales	16,975	32,845	49,820	32,221	53,348	85,569
Contribution Profit	1,773	11,238	13,011	1,864	17,911	19,775
Other Operating Expenses			20,487			49,403
Loss from Operations			$(7,476)			$(29,628)

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
	Connectivity	Connectivity
Revenue:		
Licensing	$—	$—
Service	2,604	4,683
Equipment	14,232	30,660
Total Revenue	16,836	35,343
Operating Expenses:		
Cost of Sales	18,722	36,604
Contribution Loss	(1,886)	(1,261)
Other Operating Expenses	4,663	9,430
Loss from Operations	$(6,549)	$(10,691)

Revenue Recognition

The Company recognizes revenue when four basic criteria are met: persuasive evidence of a sales arrangement exists; performance of services has occurred; the sales price is fixed or determinable; and collectability is reasonably assured. The Company considers persuasive evidence of a sales arrangement to be the receipt of a signed contract. Collectability is assessed based on a number of factors, including transaction history and the credit worthiness of a customer. If it is determined that the collection is not reasonably assured, revenue is not recognized until collection becomes reasonably assured, which is generally upon receipt of cash. The Company records cash received in advance of revenue recognition as deferred revenue.

The Company extends credit to its customers. An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of the Company's customers to make required payments. Management specifically analyzes the age of customer balances, historical bad debt experience, customer credit-worthiness, and changes in customer payment terms when making estimates of the collectability of the Company's trade accounts receivable balances. If the Company determines that the financial condition of any of its customers has deteriorated, whether due to customer specific or general economic issues, an increase in the allowance may be made. After all attempts to collect a receivable have failed, the receivable is written off.

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.

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 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.

Included in equipment revenue are certain deferred obligations that exist pursuant to the Company's contractual arrangements and typically include, but are not limited to, technical support, regulatory support, network support and installation support. These support-based arrangements are customarily bundled with the Company's contracts and are accounted for as a single unit of account. To the extent that these support services have value on a standalone basis, the Company allocates revenue to each element in the arrangement based upon their relative fair values. Fair value is determined based upon the best estimate of the selling price, and the fair value of undelivered elements is deferred and recognized over the performance or contractual period. The most significant of the deferred obligations are typically network support, which includes 24/7 operational support for the airlines, which the Company incurs significant and periodic external and internal costs to deliver on a daily basis.

Service Revenue. Service revenue includes in-flight Wi-Fi Internet services, live television, on-demand content, shopping and 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 (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.

When the Company enters into revenue sharing arrangements where it acts as the primary obligor, the Company recognizes the underlying revenue on a gross basis. In determining whether to report revenue gross for the amount of fees received from its customers, the Company assesses whether it maintains the principal relationship, whether it bears credit risk and whether it has latitude in establishing prices with the airlines.

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 owing that generally occurs typically within thirty days of the period end. For the three and six months ended June 30, 2012 and 2013, 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, and to a lessor 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 certain arrangements, revenue is not recognized until the license period commences even if delivery and performance obligations have already occurred.

Services Revenue. Content services revenue, such as technical services, the encoding of video products, development of graphical interfaces or the provision of materials, are billed and recognized as services are performed.

Costs of Sales

Connectivity

Connectivity costs of sales consist primarily of equipment fees paid to third party manufacturers, certain revenue recognized by the Company and shared with its customers or partners as a result of its revenue-sharing arrangements, Internet connection and satellite charges and other platform operating expenses associated with the Company's Connectivity business, including depreciation of the systems internally developed software and website development costs and hardware used to build and operate the Company's Connectivity platform, and personnel costs relating to information technology.

Content

Content costs of sales consist primarily of the costs to license or purchase media content, and direct costs to service content for the airlines.

Product Development

Product and software development costs, other than software development 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 incurred during the application and development stage, which include compensation and related expenses, costs of computer hardware and software, website development costs and costs incurred in developing additional features and functionality of the services, are capitalized. The estimated useful life of costs capitalized is evaluated for each specific project. Capitalized costs are generally amortized using the straight-line method over a three year estimated useful life, beginning in the period in which the software is ready for its intended use. Unamortized amounts are included in property and equipment, net in the accompanying consolidated balance sheets. Capitalized software development costs totaled $0.4 million and $0.7 million for the three and six months ended June 30, 2013. There were no software development costs capitalized in the same periods in 2012.

The Company's product development expenditures are focused on developing new products and services, and obtaining Supplemental Type Certificates (“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 these costs are reimbursed by customers, 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 that do not include market conditions. The Company estimates fair value of share-based awards using the Black-Scholes model. This model requires the Company to estimate the expected volatility and the expected term of the stock options which are highly complex and subjective variables. The variables take into consideration, among other things, actual and projected employee stock option exercise behavior. The Company uses a predicted volatility of its stock price during the expected life of the options that is based on the historical performance of the Company's stock price as well as including an estimate using similar companies. Expected term is computed using the simplified method as the Company's best estimate given its lack of actual exercise history. The Company has selected a risk-free rate based on the implied yield available on U.S. Treasury securities with a maturity equivalent to the expected term of the stock. Stock-based awards are comprised principally of stock options.

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

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.

Derivative Financial Instruments and Hedges

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

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

Long-Lived Assets

The Company evaluates the recoverability of its long-lived assets with finite useful lives for impairment when events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Such trigger events or changes in circumstances may include: a significant decrease in the market price of a long-lived asset, a significant adverse change in the extent or manner in which a long-lived asset is being used, significant adverse change in legal factors or in the business climate, including those resulting from technology advancements in the industry, the impact of competition or other factors that could affect the value of a long-lived asset, a significant adverse deterioration in the amount of revenue or cash flows we expect to generate from an asset group, an accumulation of costs significantly in excess of the amount originally expected for the acquisition or development of a long-lived asset, current or future operating or cash flow losses that demonstrate continuing losses associated with the use of a long-lived asset, or a current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The Company performs impairment testing at the asset group level that represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable and the expected undiscounted future cash flows attributable to the asset group are less than the carrying amount of the asset group, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. Fair value is determined based upon estimated discounted future cash flows. Through June 30, 2013, the Company has identified no such impairment loss. Assets to be disposed of would be separately presented on the balance sheets and reported at the lower of their carrying amount or fair value less costs to sell, and would no longer be depreciated or amortized.

Inventory, net

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

At June 30, 2013 and December 31, 2012, there was approximately $6.1 million and $5.4 million, respectively, of deferred equipment costs included in inventory and other long term assets. The deferred equipment costs pertain to certain costs expended in advance of services for one airline, and are being amortized ratably over the underlying term of the agreement through 2020.

Content Library

The content library was acquired in the AIA stock purchase and was recorded at fair value. The useful life of licensed film rights within the content library corresponds to the respective period over which the film rights will be licensed and generate revenues, generally a period of one year or less. Licensed film rights are amortized ratably over their expected revenue streams. Certain film rights in the Company's portfolio may be used in perpetuity under certain conditions. The content library is tested for impairment periodically, but no less than annually. Considering the marketability of the given film right, an impairment loss is recognized as necessary. If the cash flows from the future revenue forecast of a given film right are lower than its carrying amount as of the reporting date, an impairment loss is recognized.

Subsequent to the AIA stock purchase, additions to the content library represent minimum guaranteed amounts or flat fees to acquire 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.

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 3 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 the event that property and equipment is no longer in use, the Company will record a loss on disposal of the property and equipment, which is computed as the net remaining value (gross amount of property and equipment less accumulated depreciation expense) of the related equipment at the date of disposal.

During the first half of 2013, the Company purchased and capitalized $2.1 million of Connectivity equipment, which is installed on aircrafts of a single customer to facilitate expanded services over a five-year period. The Company capitalized the costs of this equipment on its balance sheet as it retained legal title to the equipment over the five-year use period, and will amortize 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 library content. 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 economic benefits are consumed.

Amortization of intangible assets with finite useful lives is recognized in the 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 on October 1st 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. As of June 30, 2013, 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 June 30, 2013, the entire balance of goodwill of $39.9 million is attributed to the Company's Content unit.

Business acquisitions and supplemental pro forma information

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. Business acquisitions are included in the Company's 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.

Supplemental information on an unaudited pro forma basis, as if these acquisitions had been completed as of January 1, 2012, is as follows (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues	$62,831	$58,989	$118,670	$118,894
Net loss	(13,638)	(19,036)	(40,682)	(31,733)
Basic and diluted net loss per share	(0.25)	(0.94)	(0.83)	(1.56)

The unaudited pro forma supplemental information is based on estimates and assumptions which the Company believes are reasonable and reflect amortization of intangible assets as a result of the acquisition. The pro forma results are not necessarily indicative of the results that have been realized had the acquisitions been consolidated as of the beginning of the periods presented. The pro forma amounts include the historical operating results of the Company, with adjustments directly attributable to the acquisition. Included in the supplemental information for the six months ended June 30, 2013 were certain one-time non-recurring fees associated with the Business Combination of approximately $34.0 million.

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 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 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 warrants issued to third parties have been excluded from the diluted loss per share calculation because their effect is anti-dilutive.

Foreign Currency

The financial position and results of operations of the Company's foreign subsidiaries are generally determined using local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the exchange rate in effect at each period end. Income statement accounts are translated at the average rate of exchange prevailing during the period. Adjustments arising from the use of differing exchange rates from period to period are included in the statements of comprehensive loss.

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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 $45.9 million and $0.6 million against its domestic and foreign deferred tax assets as of June 30, 2013, respectively.
The Company recognizes interest and penalties related to unrecognized tax benefits in interest expense. No interest expense or penalties have been recognized as of and for the three and six months ended June 30, 2013 and 2012. The Company is subject to income taxes in the U.S. and numerous state and foreign jurisdictions in which it operates.
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 nonrecurring 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 June 30, 2013, and December 31, 2012, respectively (in thousands):

	June 30, 2013	Quotes Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Earn-out liability	$1,365	$—	$—	$1,365
Global Eagle warrants (1)	30,220	30,220	—	—

Total financial liabilities	$31,585	$30,220	$—	$1,365

(1) Includes 18,492,500 public warrants and 333,333 sponsor warrants.

	December 31, 2012	Quotes Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Series C warrants	$5,482	$—	$—	$5,482
Common stock warrants	2,696	—	—	2,696
Total financial liabilities	$8,178	$—	$—	$8,178

During the six months ended June 30, 2013, the Series C warrants and common stock warrants were reclassified into equity and transferred out of level 3 during the period.

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

Earn-Out Liabilities. The fair value of the earn-out liabilities were estimated by using the income approach. Based on the respective purchase agreements, management estimated best case, base case, and worst case scenarios and discounted them 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 Global Eagle's warrants, recorded as derivative warrant liabilities, is determined by the Company using the quoted market prices for the Company's over the counter publicly traded warrants. During the three months ended June 30, 2013, the Company repurchased and retired 500,000 of the public warrants. On reporting dates where there are no active trades, the Company uses the last reported closing trade price of the warrants to determine the fair value. Income (expense) from these warrants for the three and six months ended June 30, 2013 was $(4.8) million and $(9.3) million, respectively. There was no income (expense) from these warrants in the three and six months ended June 30, 2012.

The fair values of warrants for Row 44's Series C Preferred Stock that were assumed by the Company upon the acquisition of Row 44 are determined using the Black-Scholes model, which utilizes level 3 unobservable inputs. Significant inputs used in valuing the derivatives included (i) the Company's current stock price, (ii) the Company's expected stock-price volatility, and (iii) the contractual term of the instrument. Significant increases (decreases) in any of these inputs could result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the contracted term is accompanied by a change in the assumption used for the risk-free rate and the expected stock volatility. During the three months ended June 30, 2013, the Series C warrants were reclassified from derivative liabilities to stockholders' equity (deficit) due to certain exercise price adjustments expiring on June 7, 2013.

Prior to June 7, 2013, the change in the value of the Series C warrants derivative liabilities was presented as a part of other income (expenses) in the accompanying statements of operations. Income (expense) from the series C warrants for the three and six months ended June 30, 2013 was $0.2 million and $(0.1) million, respectively, and $0.0 million for the three and six months ended June 30, 2012. Refer to Note 11. "Convertible, Redeemable Preferred Stock, Stock Options, Common Stock, and Warrants" section of these footnotes found in this Form 10-Q for the level 3 assumptions used in the level 3 Black-Scholes model calculations on the warrants.

The following table shows both the carrying amounts and the fair values of financial assets and liabilities not carried at fair value in the consolidated financial statements at June 30, 2013 and December 31, 2012, respectively (in thousands):

	June 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities:				
Notes Payable	$8,026	$8,026	$—	$—

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 principle and interest cash flows given the short term nature of its maturity.

The following tables present the fair value roll-forward reconciliation of level 3 assets and liabilities measured at fair value on a recurring and non-recurring basis for the six months ended June 30, 2013, and 2012, respectively (in thousands):

	Series C Warrants	Common Stock Warrants	Earn-Out Liability	Total
Balance, January 1, 2013	$5,482	$2,696	$—	$8,178
Reclassification to equity	(2,879)	(2,696)	—	(5,575)
Change in value	132	—	—	132
Elimination of Row 44 Series C-1 Preferred Warrants held by AIA	(2,735)	—	—	(2,735)
Level III Liability acquired in AIA Stock Purchase	—	—	1,365	1,365
Balance, June 30, 2013	$—	$—	$1,365	$1,365

	Series C Warrants	Common Stock Warrants	Earn-Out Liability	Total
Balance, January 1, 2012	$—	$—	$—	$—
Issuance of warrants	4,323	279	—	4,602
Change in value	—	—	—	—
Balance, June 30, 2012	$4,323	$279	$—	$4,602

Corrections to Previously Issued Financial Statements for Immaterial Errors

In connection with the Company's June 2013 quarterly-end financial close process, errors were identified related to the accounting for certain revenues, cost of sales, cost reimbursements and internally developed software for the years ended December 31, 2012, 2011, 2010, and the three months ended March 31, 2013, as well as the cumulative impact of these errors as of March 31, 2013. These errors consisted of corrections of revenue recognition pertaining to certain agreements containing multiple elements during the years ended December 31, 2012, 2011, 2010, and the three months ended March 31 2013, certain revenue and cost reimbursements pertaining to fiscal 2012 but recorded in the three months ended March 31, 2013, certain reclassifications to conform to the condensed financial statement presentation during the three months ended March 31, 2013, and certain internal use software and website development costs that were corrected for during the three months ended March 31, 2013. The Company assessed the materiality of these errors on the financial statements of prior periods in accordance with the SEC's Staff Accounting Bulletin No. 99 and Staff Accounting Bulletin No. 108, concluding that the adjustments were not material to any prior annual or interim periods, but the cumulative impact is quantitatively material to the results of operations for the three and six months ended June 30, 2013, if the entire correction was recorded in that period. Accordingly, the Company has revised the statements of operations for the years ended December 31, 2012, 2011, 2010, and the three-month period ended March 31, 2013, as well as the balance sheets at December 31, 2012, 2011, and March 31, 2013, to correct for these errors in accordance with the SEC's Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statement." The impact on the Company's statements of operations for the years ended December 31, 2012, 2011 and 2010, as well as the balance sheets at December 31, 2012, and 2011 is summarized on form 8-K/A filed with SEC on August 9, 2013.

The impact of these corrections on the Company's statements of operations for the three and six months ended June 30, 2012, and the three-month period ended March 31, 2013, as well as the balance sheet at March 31, 2013 is summarized below. These adjustments had no impact on the reported results from operations for the any periods prior to the year ended December 31, 2010 or on the net cash flows of the Company for any of the periods presented.

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Balance sheet as of March 31, 2013 (in thousands):

	March 31, 2013 (unaudited) As Previously Reported