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PRESENTATION

Operator

Good day, ladies and gentlemen. And welcome to the Global Eagle Entertainment third quarter 2016 earnings conference call. At this time all participants are in a listen only mode. Later we will conduct a question and answer session and instructions will be given at that time. (Operator instructions)

I would now like to turn the call over to Mr. Kevin Trosian, SVP of Corporate Development and Investor Relations. Sir, you may begin.

Kevin Trosian - *Global Eagle Entertainment, Inc. - SVP of Corporate Development & IR*

Thank you, Chelsea. Good afternoon, and welcome to Global Eagle's third quarter 2016 earnings conference call. On our website at www.geemedia.com you will find a slide deck to accompany our earnings presentation and can also follow along with the webcast.

Before we start, I would like to remind you that the discussions during the call will include certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which are based on management's current expectations and beliefs and are subject to uncertainty and changes in circumstances. Actual results may vary materially from those expressed or implied by those statements due to various factors, which are discussed in Global Eagle's most recent annual report on form 10-K and in subsequent reports on forms 10-Q and 8-K. Global Eagle is under no obligation to and in fact expressly disclaims any such obligation to update or alter its forward-looking statements whether as a result of new information, future events or otherwise.

The discussions will also include certain financial measures that were not prepared in accordance with the US generally accepted accounting principles a reconciliation to those most directly comparable GAAP financial measures can be found in the back of this presentation and in the earnings release furnished with Global Eagle's current report on form 8-K dated today.

Now I'd like to turn the call over to Dave Davis, CEO of Global Eagle.

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

Thanks, Kevin. And good afternoon, everyone. Thanks for joining our third quarter 2016 earnings call.

In addition to Kevin, joining me to discuss the quarter is Tom Severson, our CFO. During the Q&A portion of the call we'll be joined by Abel Avellan, our President and Chief Strategy Officer, Wale Adepoju EVP of Media Content and Josh Marks our EVP of Aviation Connectivity.

As you've seen from both of the press releases today we have a number of exciting items to discuss. Over the course of the call we'll provide an overview of the pivotal Shareco transaction that we just announced, new business developments, the progress on EMC integration and our quarterly results and outlook.

First let me begin by saying that we are pleased to announce our agreement with Shareco and HNA Group in China. As you may know HNA is one of the largest conglomerates in China with extensive holdings in the aviation and travel industries worldwide. HNA controls several airlines that together compromise one of the four major airline groups in China, with a combined group today of over 300 aircraft. HNA is also the majority owner of Aircraft Lessor's Avalon and BOHI, which control hundreds of additional planes. Shareco was a Beijing based company that is effectively controlled by HNA.

Shareco has exclusive arrangements with HNA Group airlines to provide in flight entertainment, connectivity, advertising, and eCommerce services to their fleets. As you may remember, we signed a connectivity deal in December of 2015 with Shareco to provide connectivity services to certain HNA Group airlines. Over the last six months Shareco and HNA have performed extensive diligence on Global Eagle prior to entering into this agreement.

Let me describe our new agreement with Shareco and HNA more specifically. It consists of two stages. In stage one, Shareco and HNA will make an investment in newly issued primary shares of GEE equivalent to 9.9% post-money ownership in the company at a price of $11 per share. The total investment in phase one will be approximately $103 million and the proceeds will be used for general corporate purposes, including growth capital for our connectivity businesses.

In stage two Global Eagle, Shareco and HNA will finalize terms for a Chinese joint venture and then form the joint venture. This JV will be the exclusive provider of IFE&C hardware and services to HNA aircraft. Shareco will contribute all of its assets and liabilities to the JV including the exclusive right to provide connectivity, content, advertising and (inaudible) services to HNA Group air lines.

With the formation of the JV at the end of stage two, three concurrent events will occur. First Shareco will invest up to $150 million in newly issued shares of Global Eagle also at $11 per share. GEE will contribute this capital to the JV for up to 49% ownership in the JV.

Second Shareco will purchase secondary shares through a tender offer to Global Eagle stakeholders to increase its total stake in Global Eagle to approximately 34.9%. Third Shareco will receive board seats in GEE proportionate with its ownership. We expect that total Shareco investment in GEE stock will be up to $416 million.

Phase two will require GEE shareholder approval and the entire transaction, both stages one and two, will require regulatory approval. This includes approval from the committee on foreign investment in the United States, known as CIFIUS. We expect to close phase one during the second half of 2017 and phase two later in 2017.

Our JV will be the exclusive provide of in-flight connectivity hardware and entertainment services for HNA airlines, which compromise over 320 aircraft today with a potential to grow to more than 500 planes as new aircraft are delivered. GEE will sell its equipment, including its air connect antennas, network services, and engineering and product support directly to JV. We expect to generate meaningful revenue both from the with JV and through the services we provide to the JV.

Needless to say we're very excited by this transaction and what it brings to both Global Eagle and Shareco. Developing our Chinese infrastructure has been a long-term focus for our company.

We've invested in the Chinese markets since 2013 and created a dedicated network, engineering and support platform to manage Chinese airlines. We're also major suppliers of content including games and apps to airlines in the region. In addition to Shareco, we continue to work with Air China where we recently announced the formal commencement of a commercial trial.

Global Eagle will independently continue to grow our relationships with certain other carriers in the Chinese aviation market. [IOTTA] forecasts that China will overtake the US to become the largest aviation market by passenger volume by 2024 with almost a billion annual passengers.

Boeing forecasts Chinese airlines will require more than 4600 new single isle airplanes and 1500 new wide body airplanes by 2034. With the deal we announced today, once the new JV is in place, we expect to gain access to a significant share of today's Chinese aviation market and well positioned for future growth. Let me move on now to our integration with EMC.

As you know we closed the EMC transaction during the third quarter, and we are moving forward with the integration of our companies. So far the integration is going well and it's provided GEE with a number of significant strategic and financial benefits. Through EMC proprietary technologies coupled with our combined scale, network coverage, and network operations we've been able do strengthen our offerings to our customers.

Our recent activation with Avianca Brazil and multiple maritime content and digital media wins are related to our acquisition of EMC. While we now believe our original synergy estimates may prove to be conservative we are slightly behind in terms of timing and recognizing the benefits in 2016. Our new synergy estimates are forecast above plan to better network efficiencies and increased labor and non-labor savings.

We've already consolidated network ops, network products, finance and HR functions under one organization. We've also already signed an agreement with Intelsat to receive C and Ku band services on eight satellites resulting in significant cost savings on a per megahertz basis. In addition we have contracts on three of Intelsat's HTS satellites.

We expect to see run rate synergies by early 2018 of over $40 million and are pleased with how the integration is shaping up and we'll keep you apprised of our progress. Moving on now, specifically, to our third quarter, operationally we had a number of important accomplishments. For Q3 consolidated revenue was $146.9 million while adjusted EBITDA was $16.7 million.

This included two months of EMC financials. Tom will provide more detail on our financials a little later in the call. Let me walk you through the highlights of our media and content aviation connectivity and maritime and land connectivity service lines now.

Beginning with media and content, which represents approximately 50% of the combined company's revenue, we posted $79 million of revenue representing a year over year decline of 3%. This reflects the loss of one of our agreements with American Airlines, which will impact the second half of 2016. We're disappointed with the loss, which was directly related to the music litigation issues we had previously settled.

In the past two weeks, we've now settled the prior lawsuit with AA for less than we had reserved. Moving on to more news, we signed a five year renewal agreement with Qatar Airways, one of our largest customers, highlighting our strengthened relationship with one of the world's leading airlines. In addition we renewed three additional contracts in the quarter, leaving American as our only significant loss in 2016.

As expected our content distribution business grew year over year by 14% due to better performance of our titles and like last quarter the business continued to add new products. In the quarter we signed a distribution agreement with Lagardere Sports for in-flight and maritime programming, Lagardere has a broad and comprehensive platform of global sports programming including FIFA and 70 European soccer clubs, tennis, swimming, golf, rugby and basketball.

Let me move now to aviation connectivity. Where we posted another strong quarter with revenue of $36 million. Representing year over year growth of 26%. While the market remains very competitive we're continuing to win new airlines including the planned edition of new aircraft with the Shareco transaction.

Importantly, we not only began installs on Avianca Brazil but we also began service listed two months after signing them as a new customer, enabling them to become the first carrier to provide IFC services in South America. This highlights the benefits of the EMC transaction from a coverage and technology standpoint and how quickly we can begin service with a new customer. This installation includes the first introduction of our SpeedNet technology to an airline.

SpeedNet is EMC's patented technology that accelerates the quality of on board browsing, similar to what passengers experience at home. And our ops solution team had another strong quarter winning a number of new customers, this included four well known airlines in North America including our announcement with Alaska. Moving on now to maritime and land.

We've had a number of positive accomplishments this quarter. In the maritime market the team renewed our contract and upgraded the system on TUI, one of the largest cruise operators in Europe. In addition we won the contract for the largest yacht in the world by volume, add ten new vessels with Nakilat, a liquefied natural gas and petroleum gas carrier and renewed the entire fleet with SeaBird, including the installation of our SpeedNet system.

In addition, installations are underway at Schlumberger and the shipping arm of a fortune 100 company. These are two very big name customers for us. The installs have been a little slower than planned partially leading to the lower than forecast revenue for the quarter.

However, these wins highlight our numerous opportunities to continue growth in the space and installs will continue into the first quarter of 2017. In the land market we continue to add services to the government, UN and NGO markets. Based on our reputation and reliable service offerings we were able to replace a competitor and provide satellite connectivity to assist humanitarian aide efforts in certain areas in Africa, as well as add a Fortune 500 government supplier.

From product performance perspective our technology and services continue to win accolades. We're deploying SpeedNet to a number of customers including Avianca Brazil and Norwegian Cruise Lines among many others. In fact Norwegian was recently recognized by CNN as having the best Wi-Fi among all cruise lines.

As you can see we've had a number of significant accomplishments recently and we're poised for a very solid 2017.

Now I'd like to turn the call over to Tom to provide more color on our financial results.

Tom Severson - *Global Eagle Entertainment, Inc. - CFO*

Thank you, Dave.

Before getting into the details for the quarter I wanted to mention that the third quarter was game changing for the company. With the closing of EMC in July, we now have a number one position in connectivity for cruise lines, mega yachts, our UN/NGO business, and we also have a strong position in the commercial maritime business, which is positioned for tremendous growth.

Before discussing our third quarter results it's important to note that our third quarter only includes two months of operating results for EMC. The acquired EMC business now constitutes our maritime and land service line within our connectivity segment. During the third quarter we resolved all of the company's outstanding litigation matters with various music labels and in October we also resolved a litigation matter with American Airlines.

While we were pleased to have removed this overhang another unfortunate byproduct of the litigation was the third quarter loss of a content contract with American Airlines. Our 2016 revenue guidance is being lowered due to this issue and other items which I will be discussing in more detail. Now to get onto the details for the quarter.

Total revenues for the third quarter grew from $110.1 million in the third quarter of 2015 to $146.9 million in the third quarter of 2016. An increase of 36.8 million or 33%. This increase primarily resulted from two months of revenue relating to EMC and organic growth in our aviation connectivity service line.

Total consolidated gross profit for the third quarter grew from $38.7 million in the third quarter of 2015 to $43.6 million in the third quarter of 2016. Gross profit margin for the third quarter of 2016 was 30% compared to 35% for the third quarter of 2015. This decrease in margin was primarily related to EMC purchase accounting, which required that approximately $4 million of satellite capacity pricing discounts be reported in the opening balance sheet accounting.

Net income for the third quarter was $19.4 million compared to a net loss of $6.9 million in the third quarter of 2015. Net income for the quarter primarily was the result of a significant tax benefit in the quarter, offset by transaction related costs and integration related expenses. Total adjusted EBIDTA for the third quarter grew from $14.1 million for the third quarter of 2015 to $16.7 million for the third quarter of 2016.

An increase of $2.6 million or 18%. On a pro forma basis third quarter 2016 revenue for the combined GEE and EMC businesses was $161.2 million. Pro forma adjusted EBIDTA for the third quarter 2016 was $22.4 million. This includes the full third quarter performance for each company including one month period for EMC prior to GEE's ownership.

Now to discuss our connectivity segment. Connectivity service revenue for the quarter was $59.2 million compared to $24.8 million during the prior year third quarter, an increase of 138%.

This increase was due to the acquisition of EMC and growth in our aviation connectivity revenue. Two months of EMC revenues during the quarter total $30.7 million. Our aviation connectivity service revenue grew from $24.8 million in Q3 of 2015 to $28.5 million in Q3 of 2016 an increase of 15%.

This growth resulted from an increase of take rates and the addition of 93 aircraft since the prior year third quarter end. Connectivity from a revenue growth grew from $3.7 million during Q3 of 2015 to $8.7 million in Q3 of 2016. This increase result from an increase in equipment sales to Jet Airways and two months of EMC related equipment sale totaling $1.2 million.

Connectivity service gross margin was 28% during the third quarter of 2016, a 41% during the same period of 2015. This decrease in margin was primarily due to -- was related to the EMC purchase accounting, which required that approximately $4 million of satellite capacity pricing discounts be recorded in the EMC opening balance sheet.

On a pro forma basis the third quarter of 2016 gross margin was 32%. The change in pro forma margin when compared to the prior year margin was due to the additional fixed connectivity bandwidth cost coupled with the addition of our EMC business.

Now turning to our content segment. Content revenue for the third quarter was $79 million compared to $81.6 million during the prior year third quarter a decrease of $2.6 million or 3%.

This decrease was primarily due to the loss of the content contract with American Airlines during the third quarter and to a lesser extent a slight decline in digital games and lab services revenue. These decreases were partially offset by new customer wins and an increased services to existing customers during 2016. As Dave mentioned, post-EMC transaction, we are now also focusing efforts across our maritime customers and we expect to soon see the benefits coming from our current pipeline of opportunities.

Content gross margin was 33% for the third quarter of 2016. This is in line with the prior year third quarter and the first half of 2016. Now to discuss the trends in our operating expenses.

Our third quarter operating expenses were $71.7 million versus $42 million for the third quarter of 2015. The third quarter of 2016 period included a $38.4 million non-cash nonrecurring operating expenses as well $6.4 million of operating expenses relating to EMC. The third quarter of 2015 period includes non-cash and nonrecurring operating expenses of $16.8 million and excluding these items the third quarter operating expenses were up period over period by $1.7 million or 7%.

This increase was primarily due to the incremental legal and professional fees incurred during the third quarter of 2016. Non-recurring operating expenses of $22.4 million during the third quarter of 2016 were comprised of $15.3 million of transaction related expenses, $5.6 million of integration related expenses and $1.5 million related to legal settlements. I also want to make mention of a significant tax event that occurred during the quarter.

During the quarter we recognized a tax benefit of $50.1 million. This benefit is largely attributable to the partial release of tax valuation allowance of $49.1 million related to the acquisition of EMC. Post-EMC transaction we expect that a portion of our deferred tax assets are now realizable.

I'd now like to move on to our liquidity and a few other items. At the end of the third quarter 2016 the company had liquidity of $102.3 million, which included $56.2 million of cash on hand and $46.1 million of availability under the revolving credit facility. Total senior secured debt was $386 million and after including our $82.5 million of controversial notes total debt was $468.5 million.

During the quarter -- we end the quarter well within our covenants and with plenty of cushion. Our weighted average interest cost of debt at the end of the quarter was 6.8%. And we continue to opportunistically explore financing alternatives to reduce our cost of capital.

Now moving on to guidance. We are revising our file year guidance. Full year 2016 revenues are expected to be in the range of $530 million to $538 million. Full year 2016 adjusted EBIDTA is expected to be in the range of $61 million to $65 million.

Fourth quarter 2016 adjusted EBIDTA is expected to be between $23 million and $27 million. Finally, our CapEx forecast for 2016 is projected to be between $45 million and $50 million. This full year guidance includes five months of the acquired EMC business.

Now I'd like to bridge the revised revenue and elaborate guidance for 2016 to what previously was provided. The downward revision in 2016 revenues versus our prior guidance relates to a few items. First, our content contract loss with American Airlines during the third quarter of 2016.

Second, a reprising and related three-year renewal for an EMC land based carrier customer located in Africa and, third, slower than anticipated installations for certain maritime customers. Specifically, Norwegian, our largest cruise customer, was recently renewed for an additional four years. However, the renewal required a few months longer than we originally expected.

Schlumberger and one other large customer, our 2016 commercial maritime wins with a total of 88 vessels to be installed of which 80 were installed through the end of the third quarter. All the remaining vessels are expected to be installed by the end of the first quarter of 2017. Our downward revision of 2016 adjusted EBIDTA guidance versus our prior guidance relates to a few items as well.

First, the items the impacting 2015 revenue, just described, resulted in approximately $10 million of 2016 adjusted EBIDTA difference. Secondly, 2016 EMC transaction synergies are not going to be executed as quickly as originally expected during the second half of 2016. This said, the management team with the assistance our consulting firm have identified at least $40 million of annual run rate synergies which we expect to be fully implemented by early 2018.

Finally, EBITDA guidance is also being negatively impacted by approximately $4 million in EMC related satellite capacity discounts, which were initially expected to be realized post-closing but were instead required to be recorded as an element of purchase accounting and are included in the EMC opening balance sheet.

So in summary, the third quarter was challenging as we began the integration of a very significant acquisition for Global Eagle. With the management teams working together for a few months now, we feel well positioned to realize health revenue and EBIDTA growth in 2017 and we now have a clear path to thoughtfully execute transaction synergies as we recognize the many other benefits from this combination.

With that, moderator, we'd like to open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). And our first question comes from the line of Andrew DeGasperi with Macquarie. Your line is now open.

Andrew DeGasperi - *Macquarie Research - Analyst*

Thanks. So congrats on the good news. I guess first, can you maybe lay out to us how -- what led to the strategic deal with HNA Group and then, secondly, how does this position you with regards to the Air China trial?

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

Yes. So like I said before, we're really excited by this and we've been working on it for some time.

I mean, I think the initial contact that we made with Shareco was really late in 2015. When we were working to become a customer of theirs. And if you remember, we signed up a small number of aircraft on a couple of HNA Group airlines late last year.

That sort of led to us getting closer to them understanding our technology, we're understanding what they were trying to do and it ultimately led over the course of really the last, let's say, six to nine months in some intensive discussion whereby we thought the pooling of their exclusive rights, their in-flight entertainment games, eCommerce products and platform formed a great combination with our in-flight connectivity and content.

So we started to work together to form the JV and the end result has been, you know, what you see before you, which is a significant investment at a significant premium in our company, and most, importantly, the formation of a JV in China that's going to have exclusive rights on Hainan Group airlines we expect to be able to use the JV as a vehicle to capture business in other parts of China and greater China as well. You know, we just commenced our commercial trial on Air China, and we expect to continue the Air China relationship and to grow the Air China relationship outside of the JV with HNA.

Andrew DeGasperi - *Macquarie Research - Analyst*

Got it. And secondly, you've had a lot of wins in maritime. I'm just trying to understand how do you view this segment versus just a few months ago?

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

I think we are as bullish on the maritime segment as we were before. What we're particularly bullish on is the network synergies we're gonna be able to realize as we move into 2017. You know, I think we talked through a number of wins here.

There's a couple more that have been very recent. We haven't seen the results of those yet flow through because we haven't installed the equipment yet. They're relatively new wins but I think we remain and are very bullish on the segment.

What we're particularly bullish on is the combination of the multiple verticals and the utilization of one network across those verticals. I mentioned in my remarks, and we mentioned in the press release, that Intelsat deal we did, we signed that very soon after closing the transaction. And that reflects significant savings for us in 2017 and beyond.

We intend and expect to sign similar agreements to that going forward. So the benefits on the cost side are very real. We also have recently agreed to terms with a major cruise line to begin offering a significant content package to them. We'll have more detail on that in sort of the weeks and months ahead.

Andrew DeGasperi - *Macquarie Research - Analyst*

Got it. And then -- sorry. Go ahead.

Tom Severson - *Global Eagle Entertainment, Inc. - CFO*

I was just gonna say another thing to note there is all of our large cruise customers that have been renewed until 2018, 2019, so really we have no issues going into 2017 with any churn in that business. They're all long-term contracts.

Andrew DeGasperi - *Macquarie Research - Analyst*

Got it. And very helpful. And then last one for me is, what do you think of the -- is there any potential regulatory push back either here or in China with this deal?

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

Yes, so that's a good question. So this is what -- this is how we intend to do this. Now that we've signed the agreement we're gonna apply for DSS and CIFIUS approval, which are the government approvals that are required.

We don't expect there to be significant issues, and the reason is the amount of classified business that we do is very, very small, well under $500,000 a year in revenue. So to the extent that we would need to mitigate any issues from a confidentiality or clarified information standpoint it's relatively straightforward to mitigate.

That's particularly true with stage one. But we had extensive consultations with attorneys on our side, Shareco had extensive consultations with attorneys on their side. And I think we're all fairly confident, very confident, actually, that there's not going to be any significant regulatory hurdles in front of us.

Andrew DeGasperi - *Macquarie Research - Analyst*

Great. Thank you.

Operator

Thank you. And our next comes from the line of Dick Ryan with Dougherty and Company. Your line is now open.

Dick Ryan - *Dougherty & Company - Analyst*

Thank you. Dave, just a couple questions on the airline connectivity side. What was the -- I don't know if I caught it or not, but what was the installation in Q3 and what are you expecting in Q4?

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

The number of installs in the third quarter was 26, and for the full year we're still expecting over 100 total installs. So I don't have the math right in front of me on exactly what that means for the fourth quarter but you can do the math.

Dick Ryan - *Dougherty & Company - Analyst*

Sure, sure. Can you -- you mentioned Air China but can you talk about Air France, where that sits, and also Norwegian, you know, there's been discussion that you may have lost the wide body side of their fleet. Can you talk to that at all?

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

First of all, on Air France, you know, we had the Air France folks at our facility very recently, as well as [Orange]. Discussions continue. They continue to be very favorable with the narrow body fleet.

We would hope to achieve something with them by the end of the year. And that's our expectation at this point. But it is moving, you know, a bit mover slowly than we had hoped it would move but we continue to sigh all signs being very favorable there.

From a Norwegian standpoint, you know, Norwegian wide bodies, the issue there is they have 787s and if you want connectivity on board a 787 you kind of have one choice.

Dick Ryan - *Dougherty & Company - Analyst*

Yes.

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

So I don't know if it's so much that we lost the Norwegian wide bodies it's just that we really don't have a product at this point to compete on the 787. We expect that to change but we don't have one right now.

Dick Ryan - *Dougherty & Company - Analyst*

Okay. And in -- back on the Shareco agreement, so that's exclusive -- it would keep other IFEC players out of any kind of relationship with Shareco/Hainan Group?

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

Yes this is how we have it structured at this point. So the -- the HNA Group airlines are very eager to get connectivity installed. You know, it's privately held.

They're very, very interested in the passenger experience and in-flight connectivity. So the JV has exclusive rights to the Hainan Group airlines. Now, we will be able to sell our equipment to the JV and we will be the exclusive provider for all aircraft types that we have certifications for.

And we intend to continue to go and gain certifications as we move forward. But for certain things like the 787, as I just mentioned, where we don't currently have certification, the JV will be free to purchase from potentially other suppliers. But everything where we have certification and where we can install is ours.

Dick Ryan - *Dougherty & Company - Analyst*

Okay. And the timing you mentioned phase one, phase two. Is that all dependent on regulatory issue? Is there any timing from your next generation antenna or doesn't that technology enter this relationship?

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

The technology piece is not a big part of the relationship. I mean, our next generation antenna will be available early next year. It's really all regulatory driven at this point.

We have to finalize the JV terms but that's not the long pole, the long pole on the tent is the regulatory approval.

Dick Ryan - *Dougherty & Company - Analyst*

So the JV collects the money from the Hainan group of airlines then.

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

That's correct.

Dick Ryan - *Dougherty & Company - Analyst*

Okay. Just one last, the $11, can you discuss the metrics used to come to that $11 figure?

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

You know, it's obviously the result of some negotiation. But Shareco and Hainan did fairly expensive diligence on us, and I think we're very comfortable with that price. Ultimately it was a result of negotiation.

Dick Ryan - *Dougherty & Company - Analyst*

Sure. Thank you. Congratulations.

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

Thanks, Dick.

Operator

Thank you. And our next question comes from the line of Stan Meyers with Piper Jaffray. Your line is now open.

Stan Meyers - *Piper Jaffray & Co. - Analyst*

Thank you, guys, and, Dave, congratulations on the deal. I just wanted to go back to the deal and try to understand how it differs from the Go-go deal with Shareco earlier in the year. And maybe talk about the exclusivity of the deal and where the $150 million of investments will go towards, and then I have a follow-up for Tom.

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

Sure. So, I mean, it's a dramatically different deal than the other one you're talking about. This is them making a large equity investment in our company and ultimately owning 35%, 34.9% of the business, so that's a major difference.

Then we will be business partners essentially. We will be appointing certain key members of the management team of the JV. Shareco will be taking their assets contributing to the JV and together we will have exclusivity on the Hainan Group airlines.

You know, I think in terms of the Go-go transaction, the aircraft that they had placed there before, I'm not sure how binding that agreement actually was.

Stan Meyers - *Piper Jaffray & Co. - Analyst*

Okay. And then the $150 million investment.

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

Oh, Yes. So in stage two, remember there's two stages. In phase two they'll make an investment in us up to $150 million. We'll use that capital to finance our portion of the JV. What the JV will do with that as well as potential other outside capital that's raised is purchase equipment essentially from us as well purchase bandwidth and basically develop products and run the JV.

Stan Meyers - *Piper Jaffray & Co. - Analyst*

Okay. And then, Tom, just wanted to revisit the $20 million to $25 million EBIDTA guidance reduction and try to understand sort of the size of timing issues. I know we have pricing pressures at EMC, delayed installs, slower execution of synergies and such.

Maybe you can kind of help us understand how many of those items are the size of the timing that would be I guess positively impacting 2017.

Tom Severson - *Global Eagle Entertainment, Inc. - CFO*

Sure. The total EBIDTA difference is, you know, as you mentioned $20 million, $6 million of that is related to synergy execution. $4 million of that is related to timing. And then the other $10 million is related to the other revenue short falls that we mentioned.

Stan Meyers - *Piper Jaffray & Co. - Analyst*

Okay. So half, half is more or less timing.

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

That's about right, Yes.

Stan Meyers - *Piper Jaffray & Co. - Analyst*

Okay. All right. Thank you, guys.

Operator

Thank you. And our next question comes from the line of Jason Bazinet with Citigroup. Your line is now open.

Jason Bazinet - *Citigroup - Analyst*

Thanks. I just had a question on this transaction. Maybe you could help clarify something.

You know, your market cap is about $700 million. So it seems that, you know, if this party wanted to just buy the company, they could have probably done it for, you know, mid-eight hundreds and owned all of the equity and it seems like the maximum investment is $416 million and the senior partner would own 35% of the equity. So I just don't understand, you know, maybe this is an unfair question, but I don't understand how this math works and why they wouldn't just buy the whole company as opposed to the JV.

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

Well, I mean, I think what you're looking at is you're looking at -- first of all, you're looking at the market cap of the business at the current equity value. So whether or not they would be able to buy the company at that market cap I think is very unlikely. So there would be a significant premium to that if they were to get control of the company. You know, and exactly what that number would be, you know, I don't think it would be -- it certainly wouldn't be the market price. So I think it's false to say that they'd be able to buy the company at the current market cap of the business.

Jason Bazinet - *Citigroup - Analyst*

I'm saying the 20% premium so your $700 market cap, they buy it for customary 20% premium puts new the $850 million zip code. (Inaudible).

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

Well, again, I don't know where the 20% premium comes from, but we think that substantially undervalues the business if we were to enter into some sort of of a controlled transaction.

Jason Bazinet - *Citigroup - Analyst*

Okay, okay. And so what's the minimum amount? In other words, you know, if something goes awry or something, like you said, they could invest a maximum of $416 million.

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

Well, so, I mean, first we need regulatory approval, right? We're very confident that we're gonna get regulatory approval, particularly for stage one. So if there was a regular tire issue then the transaction wouldn't happen but we don't see that. The phase one investment really isn't contingent on anything except regulatory approval and that's about a $100 million investment in the business.

Jason Bazinet - *Citigroup - Analyst*

Okay. So really it's sort of hard wired except for the regulatory approval.

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

Yes. That's essentially right. And I think we have a document posted, a PowerPoint that you can see, which has a little diagram in it that shows how the transaction works between phase one and phase two.

Jason Bazinet - *Citigroup - Analyst*

Awesome. Okay. Thank you very much.

Operator

Thank you. And our next question comes from the line of Matt Blazei with Lake Street Capital Markets. Your line is now open.

Matt Blazei - *Lake Street Capital - Analyst*

Thank you, gentlemen. A question on the new JV as well. I'm curious as to what the time line won given what you've laid out of when actual installations may begin on the HNA fleet.

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

Yes. So the answer to that is this, we had a preexisting agreement with them which we've actually expanded since we first announced it in the end of 2015. So installations are actually already underway.

So as we move forward with this, we would expect the pace of those installations to accelerate, you know, pretty dramatically once phase two was completed. But the technical work, the engineering work is underway now. And installations are beginning.

Matt Blazei - *Lake Street Capital - Analyst*

But the 325 aircraft that you referenced, those will be part of the JV, I would imagine. Do those start being installed at the end of 2017 or are we looking more to 2018 and sort of --

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Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

No. See, what I'm saying those 325 aircraft are basically the HNA Group of airlines and we have already started installing on some of those 325. Now, that will --

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Matt Blazei - *Lake Street Capital - Analyst*

I see.

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

That will accelerate when the final phase two documents, when the phase two is completed, but the installations on that group of airlines -- on that group of airplanes has already started.

Matt Blazei - *Lake Street Capital - Analyst*

I see, okay. What is your current backlog of airlines before this JV?

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

What was our backlog before? Approximately 200.

Matt Blazei - *Lake Street Capital - Analyst*

200? And you've installed about 850 so far?

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

No. Our fleet count is around 750.

Matt Blazei - *Lake Street Capital - Analyst*

750 installed. One other question I had for you. I was just curious if you were surprised by the loss of the American Airlines contract given the litigation situation. It sounded like that sort of was a surprise to you.

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

Yes, so here's the deal. I mean, we have a number of contracts with American. I would say we were surprised by it.

Partially because the litigation was with UMG, which we've now settled. Then we had some litigation going with American as well, but it had been ongoing for a long period of time. So we were somewhat surprised by the loss of that contract, particularly given what we believe, and I think American would say as well, was very, very good relationship from a product quality and delivery standpoint. So to --

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Matt Blazei - *Lake Street Capital - Analyst*

Does it have any -- I'm sorry. Does it have any repercussions on the remaining contracts with American?

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

No. No, no. I mean, we have several different contracts, games and apps, content service providing and other things which are just separate agreements.

Matt Blazei - *Lake Street Capital - Analyst*

I see. Okay. I appreciate that. Thank you very much.

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

Yes.

Operator

Thank you. (Operator Instructions). And our next question comes from the line of Louis DiPalma with William Blair. Your line is open.

Louis DiPalma - *WIlliam Blair & Company - Analyst*

Great. Thanks for taking the question. I was wondering is there an update with the Southwest Airline ROC?

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

Yes. I guess I don't have a formal update for you other than to say that discussions that we have been having with Southwest have been going well. We are looking forward to an extended relationship with Southwest Airlines going forward.

I think we'll have more to say on this in the weeks ahead. Josh, you want to add anything on that?

Josh Marks - *Global Eagle Entertainment, Inc. - EVP Aviation Connectivity*

No. I think we expect to continue to enhance the products and services that we provide to Southwest. Our expectation is that they will remain a major customer of our connectivity business well beyond the current commitments.

As you said, Dave, we don't have anything specific to say or announce today, but stay tuned.

Louis DiPalma - *WIlliam Blair & Company - Analyst*

Okay. Regarding the joint venture in China, you may have already answered this, but for future airlines prospective wins, would they automatically go to the joint venture or is it possible for, like, GEE to be awarded Air China?

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

Yes, so let me tell you how -- let me tell you technically how it works but also how we look at it. We're excited by the JV. We're excited to be working with HNA. We want to drive a lot of our business in China through the JV.

Louis DiPalma - *WIlliam Blair & Company - Analyst*

Right.

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

No question about that. We think our products and services and the management teams work very well together. We have a couple airlines that are purposely kept out of the JV that we will --

Louis DiPalma - *WIlliam Blair & Company - Analyst*

Okay.

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

-- either work with individually, Air China being one of those airlines.

Louis DiPalma - *WIlliam Blair & Company - Analyst*

Okay. And my last question, regarding the maritime business, I'm sure you noticed SpeedCast made a big acquisition of Harris CapRock and I just wanted to know how you feel that might change the competitive dynamics of the maritime space and I was wondering if you could maybe contrast how emerging market communications differs from the business models of SpeedCast and Harris CapRock. Thanks.

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

Yes. I mean, when we did the transaction a few months ago now, I mean, the point we made was that we think consolidation and the satellite based communication space is inevitable. There's a number of properties for sale out there.

CapRock was one of the largest ones so we weren't particularly surprised by the consolidation of two other players being SpeedCast and CapRock into one and I think this consolidation is going to continue going forward because it makes sense when you're operating a global satellite network to be able to provide services to multiple customers across verticals. So we weren't surprised by that. You know, I think if you compare and contrast a bit, the big differences are we are trying -- we want to be focused on the mobility space.

So if you look at the product mix -- sorry, the customer mix at EMC, it's much more heavily skewed towards commercial shipping, cruise, yacht, true mobility customers, and that's what we were most interested in and that's what the vast majority of the view. The CapRock business is more oil and gas focused, with some element of cruise, but it's largely an oil and gas business, which we -- was less consistent with sort of our mobility thesis.

Louis DiPalma - *WIlliam Blair & Company - Analyst*

Great, thanks, guys.

Operator

Thank you. I'm not showing any further questions at this time. I would now like to turn the call back to Mr. Dave Davis, Chief Executive Officer for closing remarks.

Dave Davis - *Global Eagle Entertainment, Inc. - CEO*

Thanks everyone for joining the call. We had what we consider to be a great quarter where we had a lot of accomplishments, some challenges on the integration front that we're working through. But we're really looking forward to 2017 and a lot of great things in front of us. So thanks again for your participation in the call.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does include the program and you may all disconnect. Everyone have a great day.