UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A
(Amendment No. 3)

CURRENT REPORT

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

Date of Report (Date of earliest event reported): January 31, 2013

GLOBAL EAGLE ENTERTAINMENT INC.

(Exact name of registrant as specified in its charter)

Delaware	001-35176	27-4757800
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

4353 Park Terrace Drive. Westlake Village, California 91361
(Address of principal executive offices, including zip code)

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

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

£ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

£ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

£ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

£ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Explanatory Note

On January 31, 2013, Global Eagle Entertainment Inc. (f/k/a Global Eagle Acquisition Corp.) (the "Company") completed the acquisition of Row 44, Inc. ("Row 44") and 86% of the shares of Advanced Inflight Alliance AG ("AIA" and the transaction, the "Business Combination"). In connection with the Business Combination, the Company filed with the United States Securities and Exchange Commission ("SEC") a Current Report on Form 8-K on February 6, 2013 (the "Original 8-K"), as amended by Amendment No. 1 on Form 8-K/A filed with the SEC on March 18, 2013 (the "Amended 8-K") and Amendment No. 2 on Form 8-K/A filed with the SEC on May 16, 2013. The Company is filing this Amendment No. 3 (this "Amendment") to the Original 8-K, as previously amended, to include (i) revised audited financial statements as of December 31, 2012 and 2011 and for each of the years in the three-year period ended December 31, 2012 for Row 44 and (ii) restated audited financial statements as of December 31, 2012 and 2011 and for each of the years in the three-year period ended December 31, 2012 for AIA.

In connection with the Company's quarter-end financial close process for the second quarter ended June 30, 2013, it identified immaterial adjustments related to the accounting for certain revenue and cost reimbursements of Row 44 for the years ended December 31, 2012, 2011 and 2010, as well as the cumulative impact of these immaterial adjustments as of December 31, 2012. The immaterial adjustments resulted from revenue recognition pertaining to certain agreements containing multiple elements during the years ended December 31, 2012, 2011 and 2010, and certain cost reimbursements pertaining to the year ended December 31, 2012. The Company assessed the materiality of these adjustments on the financial statements of prior periods in accordance with the SEC's Staff Accounting Bulletin No. 99 "Materiality" and Staff Accounting Bulletin No. 108 "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statement" ("SAB 108") and concluded that the adjustments were not material to any prior annual periods, but the cumulative adjustment would likely be quantitatively material to the Company's expected results of operations for the quarter ended June 30, 2013 if the entire adjustment was recorded in that period. Accordingly, the Company has revised Row 44's statements of operations for the years ended December 31, 2012, 2011 and 2010, and the balance sheets for the years ended December 31, 2012 and 2011 to correct for these immaterial adjustments in accordance with SAB 108. These adjustments had no impact on the reported results from operations for any periods prior to the year ended December 31, 2010 or on the net cash flows from operating, investing or financing activities for any of the periods presented. The net effect on stockholders' deficit is also immaterial for all periods presented.

In addition, AIA management identified an error with respect to the financial statements of AIA related to improper accounting for certain warrants acquired by AIA in fiscal year 2012 which impacted AIA's financial statements for the year ended December 31, 2012. AIA's financial statements are prepared in accordance with International Financial Reporting Standards, as adopted by the European Union. The warrants qualify as derivatives under IAS 39 "Financial Instruments: Recognition and Measurement" and should have been separately recorded at fair value upon acquisition with any changes in fair value subsequently reported in earnings for the year ended December 31, 2012. As such, AIA determined that, under International Auditing Standards, it was required to restate its stand-alone financial statements for the year ended December 31, 2012 to properly account for such warrants. The restatement of AIA's stand-alone financial statements did not impact the Company's financial results for the year ended December 31, 2012, as the Company did not acquire any interest in AIA until January 31, 2013.

Except as described above, this Amendment does not modify or update disclosures in the Amended 8-K and does not reflect subsequent events occurring after the filing date of the Amended 8-K. Accordingly, this Amendment should be read in conjunction with the Amended 8-K, which continues to speak as of its filing date.

Item 9.01 Financial Statements And Exhibits.

(a) Financial statements of businesses acquired

The financial statements of Row 44 as of December 31, 2012 and 2011 and for each of the years in the three-year period ended December 31, 2012 are attached to this Current Report on Form 8-K/A (Amendment No. 3) as Exhibit 99.1 and are incorporated herein by reference.

The financial statements of AIA as of December 31, 2012 and 2011 and for each of the years in the three-year period ended December 31, 2012 are attached to this Current Report on Form 8-K/A (Amendment No. 3) as Exhibit 99.1 and are incorporated herein by reference.

(d) Exhibits

Exhibit No.	Document
2.1*	Agreement and Plan of Merger and Reorganization, dated as of November 8, 2012, by and among Global Eagle Acquisition Corp., EAGL Merger Sub Corp., Row 44, Inc. and PAR Investment Partners, L.P. (incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q (File No. 001-35176) filed with the SEC on November 14, 2012).
2.2*	Stock Purchase Agreement, dated as of November 8, 2012, by and between Global Eagle Acquisition Corp. and PAR Investment Partners, L.P. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-35176) filed with the SEC on November 14, 2012).
3.1	Second Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-35176) filed with the SEC on February 6, 2013).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K (File No. 001-35176) filed with the SEC on February 6, 2013).
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.2 to Amendment No. 4 to the Company's Registration Statement on Form S-1 (File No. 333-172267), filed with the SEC on May 11, 2011).
4.2	Form of Warrant Agreement by and between the Company and American Stock Transfer & Trust Company, LLC

	(incorporated by reference to Exhibit 4.4 to Amendment No. 2 to the Company’s Registration Statement on Form S-1 (File No. 333-172267), filed with the SEC on April 6, 2011).
4.3	Specimen Warrant Certificate (incorporated by reference to Exhibit 4.3 to Amendment No. 1 to the Company’s Registration Statement on Form S-1 (File No. 333-172267) and included as an exhibit in the Warrant Agreement, filed with the SEC on March 21, 2011).
10.1	Amended and Restated Registration Rights Agreement, dated as of January 31, 2013, by and among the Company and the parties named on the signature pages thereto (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K (File No. 001-35176) filed with the SEC on February 6, 2013).
10.2	Amended and Restated Common Stock Purchase Agreement, dated as of November 8, 2012, by and between Global Eagle Acquisition Corp. and PAR Investment Partners, L.P. (incorporated by reference to Exhibit 10.3 to the Company’s Current Report on Form 8-K (File No. 001-35176) filed with the SEC on November 14, 2012).
10.3	Common Stock Purchase Agreement, dated as of November 8, 2012, by and among Global Eagle Acquisition Corp., Putnam Capital Spectrum Fund and Putnam Spectrum Equity Fund. (incorporated by reference to Exhibit 10.4 to the Company’s Current Report on Form 8-K (File No. 001-35176) filed with the SEC on November 14, 2012).

10.4	Executive Employment Agreement, dated January 31, 2013, between the Company and John LaValle (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K (File No. 001-35176) filed with the SEC on February 6, 2013).
10.5	Executive Employment Agreement, dated January 31, 2013, between the Company and David M. Davis (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K (File No. 001-35176) filed with the SEC on February 6, 2013)
10.6	Global Eagle Entertainment Inc. 2013 Equity Incentive Plan (incorporated by reference to Annex D of the Company's Definitive Proxy Statement on Schedule 14A (File No. 001-35176) filed with the SEC on January 17, 2013).
10.7†	System and Services Agreement dated January 2011 by and between Norwegian Air Shuttle and Row 44, Inc. (incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K/A (File No. 001-35176) filed with the SEC on May 16, 2013).
10.8†	OEM Purchase and Development Agreement, dated October 12, 2009, by and between TECOM Industries, Inc. and Row 44, Inc., as amended on December 19, 2011, December 23, 2011, January 6, 2012 and January 18, 2012 (incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K/A (File No. 001-35176) filed with the SEC on May 16, 2013).
10.9†	Master Equipment Purchase Agreement, dated December 21, 2007, by and between Hughes Network Systems, LLC and Row 44, Inc. (incorporated by reference to Exhibit 10.9 to the Company's Current Report on Form 8-K/A (File No. 001-35176) filed with the SEC on May 16, 2013).
10.10†	Master Services Agreement, dated December 21, 2007, by and between Hughes Network Systems, LLC and Row 44, Inc., as amended on June 6, 2008, June 30, 2009, November 15, 2010, November 18, 2010, January 15, 2011, March 30, 2011, July 29, 2011, August 3, 2011, September 7, 2011, December 19, 2011, January 23, 2012, September 11, 2012 and January 18, 2013. (incorporated by reference to Exhibit 10.10 to the Company's Current Report on Form 8-K/A (File No. 001-35176) filed with the SEC on May 16, 2013).
10.12†	Amended and Restated Supply and Services Agreement dated February 1, 2013 by and between Row 44, Inc. and Southwest Airlines Co. (incorporated by reference to Exhibit 10.12 to the Company's Current Report on Form 8-K/A (File No. 001-35176) filed with the SEC on May 16, 2013).
10.13	Letter Agreement, dated January 31, 2013, between the Company and Wellington Management Company, LLP (incorporated by reference to Exhibit 10.13 to the Company's Current Report on Form 8-K (File No. 001-35176) filed with the SEC on February 6, 2013).
10.14	Escrow Agreement, dated January 31, 2013, by and among the Company, Wellington Management Company, LLP ("Wellington") and certain affiliates of Wellington (incorporated by reference to Exhibit 10.14 to the Company's Current Report on Form 8-K (File No. 001-35176) filed with the SEC on February 6, 2013).
10.15	Form of Indemnity Agreement for the Company's directors and executive officers (incorporated by reference to Exhibit 10.8 to Amendment No. 1 of the Company's Registration Statement on Form S-1 (File No. 333-172267) filed with the SEC on March 21, 2011).
10.16	Amendment to Securities Escrow Agreement, dated May 8, 2012 by and among the Company, American Stock Transfer & Trust Company, LLC, Cole A. Sirucek and the other persons party thereto (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 001-35176) filed with the SEC on May 9, 2012).
10.17	Amended and Restated Letter Agreement, dated as of May 10, 2011, among the Company, Global Eagle Acquisition LLC and each of the members of Global Eagle Acquisition LLC (incorporated by reference to Exhibit 10.2(a) to Amendment No. 4 to the Company's Registration Statement on Form S-1 (File No. 333-172267), filed with the SEC on May 11, 2011).
10.18	Amended and Restated Letter Agreement, dated as of May 10, 2011, between the Company and James M. McNamara (incorporated by reference to Exhibit 10.2(b) to Amendment No. 4 to the Company's Registration Statement on Form S-1 (File No. 333-172267), filed with the SEC on May 11, 2011).
10.19	Amended and Restated Letter Agreement, dated as of May 10, 2011, between the Company and Dennis A. Miller (incorporated by reference to Exhibit 10.2(c) to Amendment No. 4 to the Company's Registration Statement on Form S-1 (File No. 333-172267), filed with the SEC on May 11, 2011).
10.20	Letter Agreement, dated May 8, 2012, by and between the Company and Cole A. Sirucek (incorporated by reference to Exhibit 10.3 to the Company's Form 8-K (File No. 001-35176) filed with the SEC on May 9, 2012).

14.1	Form of Code of Ethics (incorporated by reference to Exhibit 14 to Amendment No. 1 to the Registration Statement on Form S-1 (File No. 333-172267), filed with the SEC on March 21, 2011).
21.1	List of Subsidiaries (incorporated by reference to Exhibit 21.1 to the Company's Current Report on Form 8-K filed with the SEC on February 6, 2013).
99.1	Audited Financial Statements of Row 44 as of December 31, 2012 and 2011 and for the three years ended December 31, 2012.
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99.3	Pro Forma Financial Information of Global Eagle Entertainment Inc. as of and for the year ended December 31, 2012 (incorporated by reference to Exhibit 99.3 to the Company's Current Report on Form 8-K/A (File No. 001-35176) filed with the SEC on March 18, 2013).

* The exhibits and schedules to this Exhibit have been omitted in accordance with Regulation S-K Item 601(b)(2). The Registrant agrees to furnish a copy of all omitted exhibits and schedules to the Securities and Exchange Commission upon its request.
† Confidential treatment has been granted for certain portions omitted from this Exhibit pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: August 9, 2013	GLOBAL EAGLE ENTERTAINMENT INC.
	By: /s/ Michael Pigott
	Michael Pigott
	VP Legal

EXHIBIT INDEX

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99.3	Pro Forma Financial Information of Global Eagle Entertainment Inc. as of and for the year ended December 31, 2012 (incorporated by reference to Exhibit 99.3 to the Company's Current Report on Form 8-K/A (File No. 001-35176) filed with the SEC on March 18, 2013).

* The exhibits and schedules to this Exhibit have been omitted in accordance with Regulation S-K Item 601(b)(2). The Registrant agrees to furnish a copy of all omitted exhibits and schedules to the Securities and Exchange Commission upon its request.

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

ROW 44, INC.

CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Row 44, Inc.

We have audited the accompanying balance sheets of Row 44, Inc. as of December 31, 2012 and 2011, and the related statements of operations, stockholders' deficit, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards established by the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Row 44, Inc. at December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 1 to the financial statements, the Company has incurred recurring operating losses and has not generated cash flows from operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters also are described in note 1. The accompanying financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

/s/ Rose, Snyder & Jacobs LLP

Encino, California

March 15, 2013
(except for Note 13, as to which the date is August 8, 2013)

ROW 44, INC.
BALANCE SHEETS
DECEMBER 31, 2012 AND 2011

ASSETS

	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	$ 2,087,958	$ 8,809,679
Accounts receivable, net of allowance for doubtful accounts of $7,293 and $7,293, respectively	8,292,265	4,415,989
Deferred costs, current	3,075,000	987,000
Inventories	4,310,569	3,047,287
Prepaid expenses	3,106,842	1,339,257
Other current assets	237,308	211,742
TOTAL CURRENT ASSETS	21,109,942	18,810,954
PROPERTY AND EQUIPMENT, net	4,639,127	2,813,544
OTHER ASSETS		
Notes receivable, related parties	-	70,095
Deferred costs, non-current	3,074,000	1,974,000
Deposits and other assets	614,177	262,197
TOTAL OTHER ASSETS	3,688,177	2,306,292
TOTAL ASSETS	$ 29,437,246	$ 23,930,790
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 7,789,267	$ 12,799,156
Accrued employee paid-time-off	389,016	322,313
Deferred revenue	8,537,602	9,846,996
Derivative liabilities	8,178,099	-
Notes payable and accrued interest, current portion	14,343	7,353,183
TOTAL CURRENT LIABILITIES	24,908,327	30,321,648
LONG-TERM LIABILITIES		
Deferred revenue	3,075,000	2,652,923
Other non-current liabilities	-	50,000
Notes payable and accrued interest, non-current portion	38,269	52,612
TOTAL LIABILITIES	28,021,596	33,077,183
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE PREFERRED STOCK		
Series A-1, $0.0001 par value; 9,794,142 shares authorized, issued and outstanding	9,245,284	8,558,796
Series A-2, $0.0001 par value; 19,887,000 shares authorized, issued and outstanding	21,453,604	19,860,613
Series B-1, $0.0001 par value; 73,783,872 shares authorized, issued and outstanding	27,488,252	25,447,132
Series B-2, $0.0001 par value; 62,326,439 shares authorized, issued and outstanding	19,981,213	18,497,358
Series C-1, $0.0001 par value; 105,868,792 shares authorized, 84,695,034 and 0 issued and outstanding, respectively	24,535,475	-
Series C-2, $0.0001 par value; 107,187,927 shares authorized, 85,750,341 and 0 issued and outstanding, respectively	19,836,490	-
TOTAL REDEEMABLE PREFERRED STOCK	122,540,318	72,363,899
STOCKHOLDERS' DEFICIT		
Common stock, $0.0001 par value; 900,000,000 and 500,000,000 shares authorized, 156,716,342 and 86,084,342 shares issued and outstanding at December 31, 2012 and 2011, respectively	15,672	8,608
Treasury stock, 4,241,493 and 2,501,263 shares in treasury at December 31, 2012 and 2011, respectively	(789,598)	(250,126)
Additional paid-in capital	9,014,707	5,708,964
Subscriptions receivable	(453,205)	(868,714)

Accumulated deficit	(128,912,244)	(86,109,024)
TOTAL STOCKHOLDERS' DEFICIT	(121,124,668)	(81,510,292)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 29,437,246	$ 23,930,790

See report of independent registered public accounting firm and notes to financial statements.

ROW 44, INC.
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

	2012	2011	2010
REVENUES			
Equipment revenue	$ 57,845,035	$ 30,454,829	$ 14,304,619
Services revenue	11,364,727	3,182,188	283,707
TOTAL REVENUES	69,209,762	33,637,017	14,588,326
OPERATING EXPENSES			
Equipment cost of sales	54,569,594	27,857,601	15,459,723
Cost of services	22,326,596	8,089,437	2,353,595
Personnel	8,113,373	5,725,083	3,688,450
Research and development	2,645,884	3,392,101	4,241,704
Selling, general and administrative	10,389,280	6,980,663	4,234,172
TOTAL OPERATING EXPENSES	98,044,727	52,044,885	29,977,644
OPERATING LOSS	(28,834,965)	(18,407,868)	(15,389,318)
OTHER INCOME (EXPENSE)			
Miscellaneous income	-	92	(58,054)
Interest income	64,685	53,442	82,169
Change in value of derivative instruments	(3,575,830)	-	-
Loss on disposal of assets	(23,909)	(60,491)	(26,098)
Interest expense	(10,433,201)	(286,261)	(3,664,829)
TOTAL OTHER INCOME (EXPENSE)	(13,968,255)	(293,218)	(3,666,812)
NET LOSS	(42,803,220)	(18,701,086)	(19,056,130)
Less: Preferred stock dividends	(7,893,743)	(5,360,496)	(3,811,340)
Less: Accretion of preferred stock	(833,955)	-	-
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	$ (51,530,918)	$ (24,061,582)	$ (22,867,470)
Net loss attributable to common stock per share - basic and diluted	$ (0.46)	$ (0.60)	$ (0.93)
Weighted average number of common shares outstanding - basic and diluted	112,252,509	40,313,201	24,663,510

See report of independent registered public accounting firm and notes to financial statements.

ROW 44, INC.
STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

	Common Stock		Treasury Stock		Additional Paid-in	Subscriptions	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Receivable	Deficit	Total
Balance, January 1, 2010	24,663,510	$ 2,466	-	$ -	$ 3,793,390	(794,387)	$ (48,351,808)	$ (45,350,339)
Warrants for common stock issued for services			-	-	10,256	-	-	10,256
Discount on convertible promissory notes	-	-	-	-	2,182,500	-	-	2,182,500
Reclassification of derivative liabilities	-	-	-	-	5,717,533	-	-	5,717,533
Stock-based compensation	-	-	-	-	143,641	-	-	143,641
Preferred stock dividends	-	-	-	-	(3,811,340)	-	-	(3,811,340)
Interest income on subscriptions receivable	-	-	-	-	-	(40,949)	-	(40,949)
Net loss	-	-	-	-	-	-	(19,056,130)	(19,056,130)
Balance, December 31, 2010	24,663,510	2,466	-	-	8,035,980	(835,336)	(67,407,938)	(60,204,828)
Repurchase of common stock from officers	-	-	(900,000)	(90,000)	-	-	-	(90,000)
Receipt of common stock from officers as payment on advances and subscription receivable	-	-	(1,601,263)	(160,126)	-	12,750	-	(147,376)
Exercise of warrants for common stock	61,420,832	6,142	-	-	-	-	-	6,142
Discount on convertible promissory notes	-	-	-	-	2,939,440	-	-	2,939,440
Stock-based compensation	-	-	-	-	94,040	-	-	94,040
Preferred stock dividends	-	-	-	-	(5,360,496)	-	-	(5,360,496)
Interest income on subscriptions receivable	-	-	-	-	-	(46,128)	-	(46,128)
Net loss	-	-	-	-	-	-	(18,701,086)	(18,701,086)
Balance, December 31, 2011	86,084,342	8,608	(2,501,263)	(250,126)	5,708,964	(868,714)	(86,109,024)	(81,510,292)
Discount on convertible promissory notes	-	-	-	-	6,939,440	-	-	6,939,440
Warrants for common stock issued for services and equipment	-	-	-	-	3,168,245	-	-	3,168,245
Common stock issued for services	5,500,000	550	-	-	549,450	-	-	550,000
Exercise of warrants for common stock	65,000,000	6,500	-	-	-	-	-	6,500
Exercise of common stock options	132,000	14	-	-	14,786	-	-	14,800
Stock-based compensation	-	-	-	-	1,641,025	-	-	1,641,025
Receipt of common stock from officer as payment on advances and subscription receivable	-	-	(1,740,230)	(539,472)	-	465,164	-	(74,308)
Preferred stock dividends	-	-	-	-	(7,893,743)	-	-	(7,893,743)
Accretion of redeemable preferred stock	-	-	-	-	(833,955)	-	-	(833,955)
Reclassification of common stock warrant derivative	-	-	-	-	(279,505)	-	-	(279,505)
Interest income on subscription receivable	-	-	-	-	-	(49,655)	-	(49,655)
Net loss	-	-	-	-	-	-	(42,803,220)	(42,803,220)
Balance, December 31, 2012	156,716,342	$ 15,672	(4,241,493)	$ (789,598)	$ 9,014,707	$ (453,205)	$ (128,912,244)	$ (121,124,668)

See report of independent registered public accounting firm and notes to financial statements.

ROW 44, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (42,803,220)	$ (18,701,086)	$ (19,056,130)
Adjustments to reconcile net loss to net cash used in operating activities:			
Non-cash interest on convertible promissory notes	9,629,089	249,791	2,860,212
Depreciation and amortization	1,229,303	928,184	837,156
Reserve for excess and obsolete inventory	(77,890)	131,236	649,736
Interest income on subscriptions receivable	(49,655)	(46,128)	(40,949)
Interest income on stock settlement of notes receivable, related parties	(3,914)	-	-
Stock-based compensation	1,641,025	94,040	143,641
Loss on disposal of property and equipment	23,909	60,491	26,098
Warrants for common stock issued for services	2,554,545	-	10,256
Common stock issued for services	550,000	-	-
Change in value of derivative instruments	3,575,830	-	-
Changes in operating assets and liabilities:			
Accounts receivable	(3,876,276)	840,779	(4,933,122)
Inventories	(1,214,724)	792,568	(3,008,122)
Deferred costs	(3,189,000)	(1,486,000)	(1,474,000)
Prepaid expenses and other current assets	(1,793,151)	(953,767)	(510,440)
Deposits and other assets	(355,595)	-	-
Accounts payable and accrued expenses	(5,098,652)	6,284,167	5,480,848
Accrued interest	799,170	-	-
Accrued employee paid-time-off	66,703	116,688	42,560
Deferred revenue	(886,317)	7,694,018	2,900,375
NET CASH USED IN OPERATING ACTIVITIES	(39,278,820)	(3,995,019)	(16,071,881)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from the sale of property and equipment	-	6,592	-
Purchases of property and equipment	(2,432,148)	(593,831)	(915,339)
NET CASH USED IN INVESTING ACTIVITIES	(2,432,148)	(587,239)	(915,339)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of notes payable	10,000,000	10,000,000	525,000
Payments on notes payable	(13,243)	(13,205)	(2,753,695)
Repurchase of common stock from officers	-	(90,000)	-
Proceeds from the exercise of common stock warrants	6,500	6,142	-
Proceeds from the exercise of common stock options	14,800	-	-
Proceeds from the issuance of preferred stock	24,981,190	-	22,600,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	34,989,247	9,902,937	20,371,305
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,721,721)	5,320,679	3,384,085
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,809,679	3,489,000	104,915
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 2,087,958	$ 8,809,679	$ 3,489,000
Supplemental disclosures:			
Interest paid in cash	$ 4,743	$ 6,881	$ 281,312
Income taxes paid in cash	$ 6,233	$ 3,420	$ 3,350
Supplemental disclosure of non-cash financing and investing activities:			
Notes payable and accrued interest converted into preferred stock and warrants	$ 20,790,295	$ -	$ 16,227,000
Inventory converted to property and equipment	$ 29,332	$ 56,031	$ 400,769
Satisfaction of advances and subscriptions receivable via surrender of commons stock	$ 539,472	$ 160,126	$ -
Property and equipment purchased with a note payable	$ -	$ -	$ 79,060
Property and equipment purchased with warrants for common stock	$ 613,700	$ -	$ -

See report of independent registered public accounting firm and notes to financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Row 44, Inc. (the “Company”, “Row 44”, “we”, “us”, “our”) was founded in 2004 and provides satellite based in-flight broadband connectivity for commercial air passengers, as well as commercial airline operations services for cockpit and crew. In addition to its in-flight broadband system, the Company offers its customers a private labeled portal that is free to access for passengers. This portal currently comprises a custom menu of entertainment services, which includes online shopping, games, a moving map, streaming live TV, video on demand television shows and movies and advertising inserts. Row 44 currently offers services in the United States and Western Europe and plans to extend satellite coverage to other regions, including certain regions within Asia and the northern trans-Atlantic route. The Company has several wholly owned, dormant subsidiaries that were created for regulatory purposes in current and anticipated operating regions.

In August 2012, the Company signed a term sheet with Global Eagle Acquisition Corp. (GEAC) whereby GEAC would acquire 100% of the equity interests of the Company in exchange for shares of GEAC common stock. On November 8, 2012, the Company entered into an Agreement and Plan of Merger (“Merger Agreement”) with GEAC and closed the transaction effective January 31, 2013, at which time the Company became a wholly owned subsidiary of GEAC.

Going Concern

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“US GAAP”), which contemplates the continuation of the Company as a going concern. The Company has reported recurring losses and has not generated cash flows from operations. These conditions raise substantial doubt about the Company’s ability to continue as a going concern.

The Company has historically raised capital through the issuance of convertible promissory notes (“bridge loans”) sufficient to continue operations until such time that additional equity funding (in the form of Preferred Stock rounds) is obtained. During the year ended December 31, 2012, the Company received approximately $35 million through debt and equity financing, which was comprised of $25 million of new cash investment from an existing preferred shareholder in June 2012 for Series C-1 Preferred units and the issuance of a $10 million bridge loan in March 2012. This $10 million bridge loan and its accrued interest and a previously issued December 2011 $10 million bridge loan and its accrued interest were converted into Series C-2 Preferred Stock in June 2012 in conjunction with the Series C-1 financing.

Management intends to become profitable by continuing to seek out additional airline companies in various global markets that are interested in offering connectivity to their customers and to expand its product offering with emphasis on bringing to market additional video content and destination content. If the Company is not successful in becoming profitable, it may have to further delay or reduce expenses, or curtail operations. The accompanying financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that could result should the Company not continue as a going concern.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures. Management uses its historical records and knowledge of its business in making these estimates. Accordingly, actual results may differ from these estimates.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Company considers cash equivalents to include short-term, highly liquid investments with an original maturity of three months or less.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Revenues consist primarily of sales of equipment to airlines, which are hardware equipment sets that Row 44 purchases from third party vendors and then sells to the commercial airlines. Revenues also consist of service revenue, which is received for Row 44 providing in-flight connectivity and entertainment content. Fees for services can be based on (i) the number of boarded passengers (RPB), regardless of the number of actual users of the service or (ii) a fee per user.

The Company recognizes revenue when all of the following have occurred: persuasive evidence of an agreement with the customer exists, products are shipped and the customer takes delivery, the selling price is fixed or determinable, and collectability of the selling price is reasonably assured. For equipment sales, revenue recognition generally occurs at the time of shipment or delivery, depending on shipping terms. Service revenue is recognized in either the period of (i) enplanement for boarded passengers or (ii) usage by passengers, dependent on the specific contract.

Debt and Equity Instruments

The Company accounts for convertible instruments issued with freestanding warrants in accordance with ASC 470, *"Debt"* and ASC 480, *"Distinguishing Liabilities from Equity"*. In addition, the Company considers the provisions of ASC 815, *"Derivatives and Hedging",* when evaluating freestanding and embedded instruments. These instruments include the bridge loans, preferred stock, and associated warrants.

Derivative Financial Instruments

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. Cash flows from other derivatives are reported in cash flows from investing activities within the Statements of Cash Flows.

During 2012, the Company granted warrants to purchase common stock and Series C preferred stock, these warrants were considered derivative financial instruments. During 2011, the Company had no instruments that were considered to be material derivatives. Derivative financial instruments during the year ended December 31, 2010 included warrants to purchase common stock.

Warranties

The Company is not directly responsible for warranty costs related to equipment sales. The vendors that supplied the individual parts, which comprise the assemblies sold by the Company to customers, provide the warranty.

Deferred Revenue

Deferred revenue primarily consists of prepayments received from customers for which the Company's revenue recognition criteria have not been met. The deferred revenue will be recognized as revenue once the criteria for revenue recognition have been met.

Inventories

Inventories, which are classified as finished goods, are comprised of individual parts and assemblies and are stated at the lower of cost or market. Cost of inventories is determined using actual cost on a first-in, first-out basis. 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 sales. 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.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following table reconciles changes in the Company's allowance for inventory reserves for the years ended December 31, 2012, 2011 and 2010:

	2012	2011	2010
Beginning allowance for inventory reserves	$ 780,972	$ 649,736	$ -
Accruals for obsolete inventory	-	94,269	274,524
Inventory write-downs	-	100,352	375,212
Disposal of previously reserved inventory	(77,890)	(63,385)	-
Ending allowance for inventory reserves	$ 703,082	$ 780,972	$ 649,736

Long-Lived Assets

The Company accounts for the impairment and disposition of long-lived assets in accordance with ASC 350, *"Intangibles – Goodwill and Other*" and ASC 360, *"Property and Equipment"*. Long-lived assets to be held and used are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable. No impairment losses were recorded during the years ended December 31, 2012, 2011 and 2010.

Software Development Costs

The Company accounts for the development of software to be used for internal purposes in accordance with ASC 350-40, *"Goodwill and Other – Internal-Use Software"*. These costs are expensed as incurred due to the frequency with which software is updated.

Shipping and Handling

Shipping and handling costs are recorded as part of selling, general and administrative expenses and amounted to $330,457, $173,174 and $71,617 for the years ended December 31, 2012, 2011 and 2010, respectively.

Research and Development

Costs relating to designing and developing new products are expensed in the period incurred.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are being provided using the straight-line method over the estimated useful lives of the assets. The estimated useful lives used are as follows:

Classification	Life
Albatross (aircraft)	5 Years
Furniture and fixtures	7 Years
Equipment	5-7 Years
Computer equipment	3 Years
Computer software	3 Years
Automobiles	5 Years

Leasehold improvements are amortized using the straight-line method over the shorter of the lease terms or the useful lives of the improvements. Expenses for repairs and maintenance are charged to expense as incurred, while renewals and betterments are capitalized.

See report of independent registered public accounting firm.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

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. Based on the information available, management believes the Company’s accounts receivable, net of the allowance for doubtful accounts, are collectable.

The following table reconciles changes in the Company’s allowance for doubtful accounts for the years ended December 31, 2012, 2011 and 2010:

	2012	2011	2010
Beginning allowance for doubtful accounts	$ 7,293	$ 48,293	$ 48,293
Doubtful account accruals	-	-	-
Receivables written off	-	(41,000)	-
Ending allowance for doubtful accounts	$ 7,293	$ 7,293	$ 48,293

Marketing and Advertising

Marketing and advertising costs are expensed as incurred. Marketing and advertising amounted to $564,845, $387,306 and $347,618 for the years ended December 31, 2012, 2011 and 2010, respectively, and are included in selling, general and administrative expenses.

Preferred Stock

The Company elects to accrete the difference between the redemption value and carrying value of outstanding preferred stock over the period from the date of issuance to the earliest redemption date using the effective interest method. During the year ended December 31, 2012, the Company recorded accretion of preferred stock of $833,955. No accretion of preferred stock was applicable for the years ended December 31, 2011 and 2010.

Currency

All of the Company’s contracts, agreements, and transactions are denominated in U.S. dollars.

Income Taxes

The Company accounts for income taxes using the liability method in accordance with ASC 740, *“Income Taxes”*. To date, no current income tax liability has been recorded due to the Company’s accumulated net losses. 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 income tax assets and liabilities are recorded on a net basis; however, the net deferred income tax assets have been fully reserved by a valuation allowance due to the uncertainty of the Company’s ability to realize future taxable income and to recover its net deferred income tax assets.

See report of independent registered public accounting firm.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation

The Company accounts for stock-based employee compensation arrangements in accordance with ASC 718, *"Compensation – Stock Compensation"*, which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on the estimated grant date fair value of the award. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's statement of operations.

The Company has issued stock options and warrants to certain non-employees for services rendered. These various instruments are expensed as services are rendered.

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 value of its common stock and the expected term of the stock options; all of 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 an average of similar companies' historical volatility as a basis for its expected volatility. Expected term is computed using the simplified method provided within Securities and Exchange Commission Staff Accounting Bulletin No. 110. 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 option or warrant.

Earnings (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 dilutive potential common shares outstanding during the period. Dilutive potential common shares, which primarily consist of stock options issued to employees, warrants issued to third parties, convertible promissory notes, and convertible preferred stock, have been excluded from the diluted loss per share calculation because their effect is anti-dilutive.

The Company includes participating securities, which consists of Preferred Stock outstanding, in the computation of earnings per share pursuant to the two-class method. The participating securities have contractual participation rights to distributed earnings equivalent to those of stockholders of unrestricted common stock. The two-class method of computing earnings per share is an allocation method that calculates earnings per share for common stock and participating securities. During periods when the Company generates a net loss, no portion of the loss is allocated to the preferred stock as the preferred shareholders are not contractually obligated to participate in losses.

	For the Years Ended December 31,		
	2012	**2011**	**2010**
Net loss	$ (42,803,220)	$ (18,701,086)	$ (19,056,130)
Less:			
Preferred stock divedends	(7,893,743)	(5,360,496)	(3,811,340)
Accretion on preferred stock	(833,955)	-	-
Undistributed losses	$ (51,530,918)	$ (24,061,582)	$ (22,867,470)
Allocation of undistributed losses to participating securities:			
Common stock	$ (51,530,918)	$ (24,061,582)	$ (22,867,470)
Preferred stock	-	-	-
Undistributed losses	$ (51,530,918)	$ (24,061,582)	$ (22,867,470)

See report of independent registered public accounting firm.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

The Company groups financial assets and financial liabilities measured at fair value into three levels of hierarchy in accordance with ASC 820-10, *"Fair Value Measurements and Disclosure"*. Assets and liabilities recorded at fair value in the accompanying balance sheet are categorized based upon the level of judgment associated with the inputs used to measure their fair value. The categories are as follows:

Level Input:	Input Definition:
Level I	Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
Level II	Inputs, other than quoted prices included in Level I, that are observable for the asset or liability through corroboration with market data at the measurement date.
Level III	Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

Effect of Recently Issued Accounting Standards

In May 2011, the FASB issued FASB ASU No. 2011-04, *"Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs,"* which is now codified under FASB ASC Topic 820, *"Fair Value Measurements and Disclosures."* This new guidance provides common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. generally accepted accounting principles ("GAAP") and International Financial Reporting Standards ("IFRSs"). Certain fair value measurement principles were clarified or amended in this ASU, such as the application of the highest and best use and valuation premise concepts. New and revised disclosure requirements include: quantitative information about significant unobservable inputs used for all Level 3 fair value measurements and a description of the valuation processes in place, as well as a qualitative discussion about the sensitivity of recurring Level 3 fair value measurements; public companies will need to disclose any transfers between Level 1 and Level 2 fair value measurements on a gross basis, including the reason(s) for those transfers; a requirement regarding disclosure on the highest and best use of a nonfinancial asset; and a requirement that all fair value measurements be categorized in the fair value hierarchy with disclosure of that categorization. FASB ASU No. 2011-04 was effective on a prospective basis for public companies during interim and annual periods beginning after December 15, 2011. The adoption of this ASU did not have a material impact on the Company's financial position, results of operations or cash flows.

In June 2011, the FASB issued FASB ASU No. 2011-05, *"Presentation of Comprehensive Income,"* which is now codified under FASB ASC Topic 220, *"Comprehensive Income."* This ASU gives entities two options for presenting the total of comprehensive income, the components of net income and the components of other comprehensive income. The first option is a single, continuous statement of comprehensive income. The second option is two separate, but consecutive statements. In either option, the following must be presented: each component of and a total of net income; each component of and a total of other comprehensive income; and a total of comprehensive income. The new guidance eliminates the option to present the components of other comprehensive income as a part of the statement of changes in stockholders' equity. This ASU does not change the items which must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. FASB ASU No. 2011-05 should be applied retrospectively, and for public companies is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. The adoption of this ASU in 2012 did not have a material impact on the Company's financial position, results of operations or cash flows.

See report of independent registered public accounting firm.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In September 2011, the FASB issued FASB ASU No. 2011-08, *"Testing Goodwill for Impairment,"* which is now codified under FASB ASC Topic 350, *"Intangibles — Goodwill and Other."* This new guidance allows an entity to first assess qualitative factors to evaluate if the existence of events or circumstances leads to a determination it is necessary to perform the current two-step test. After assessing the totality of events or circumstances, if it is determined it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. Otherwise, the entity is required to perform Step 1 of the impairment test. An entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to Step 1 of the two-step impairment test, and then resume performing the qualitative assessment in any subsequent period. Reporting units with zero or negative carrying amounts continue to be required to perform a qualitative assessment in place of Step 1 of the impairment test. The new guidance includes examples of events and circumstances an entity should consider in its evaluation of whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, such as macroeconomic conditions; industry and market considerations; cost factors; overall financial performance; and other relevant entity-specific events. The examples of events and circumstances included in this ASU supersede the previous examples entities should have considered. FASB ASU No. 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, even if an entity's annual test date is before the issuance date of September 15, 2011, provided the entity has not yet performed its 2011 annual impairment test or issued its financial statements. The adoption of this ASU did not have a material impact on the Company's financial position, results of operations or cash flows.

In December 2011, the FASB issued FASB ASU No. 2011-12, *"Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05,"* which is now codified under FASB ASC Topic 220, *"Comprehensive Income."* The amendments in this ASU will allow the FASB time to reconsider the presentation of reclassification adjustments contained in FASB ASU No. 2011-05, *"Presentation of Comprehensive Income,"* issued in June 2011. While the FASB is reconsidering the requirement to measure and present reclassification adjustments from accumulated other comprehensive income to net income by income statement line item in net income and also in other comprehensive income, the new guidance will supersede and defer only those related paragraphs in FASB ASU No. 2011-05. Entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements which were in effect before FASB ASU No. 2011-05. All other requirements of FASB ASU No. 2011-05 are not affected by this ASU, including the requirement to report comprehensive income either in a single, continuous statement of comprehensive income or two separate, but consecutive statements. This guidance is effective at the same time as the amendments contained in FASB ASU No. 2011-05, so entities will not be required to comply with the requirements it is deferring. For public companies, this is for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this ASU did not have a material impact on the Company's financial position, results of operations or cash flows.

In July 2012, the FASB issued ASU 2012-02, *"Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment,"* which is now codified under FASB ASC Topic 350, *"Intangibles-Goodwill and Other."* The amendments in this ASU allows entities to first perform a qualitative assessment to determine the likelihood of an impairment for an indefinite-lived intangible asset and whether it is necessary to perform the quantitative impairment assessment currently required. This guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on the Company's financial position, results of operations or cash flows.

2. PROPERTY AND EQUIPMENT

Depreciation and amortization of property and equipment amounted to $1,225,688, $924,838 and $833,555 during the years ended December 31, 2012, 2011 and 2010, respectively, and are included in the accompanying statements of operations in selling, general and administrative expenses.

2. PROPERTY AND EQUIPMENT (Continued)

At December 31, 2012 and 2011, property and equipment consists of the following:

	2012	2011
Albatross (aircraft)	$ 384,798	$ 384,798
Furniture and fixtures	525,811	500,868
Equipment	5,942,236	3,221,605
Computer Equipment	980,725	768,738
Computer software	154,620	109,315
Automobiles	37,423	37,423
Leasehold improvements	370,580	340,551
	8,396,193	5,363,298
Less accumulated depreciation and amortization	3,757,066	2,549,754
Total	$ 4,639,127	$ 2,813,544

3. CONVERTIBLE, REDEEMABLE PREFERRED STOCK

In June 2012, the Company amended its articles of incorporation to increase the authorized number of common and preferred shares to 900,000,000 and 378,848,172, respectively. The increase in the preferred shares authorized of 213,056,719 relates to (i) 105,868,792 shares, which have been designated as Series C-1, and (ii) 107,187,927 shares, which have been designated as Series C-2.

As of December 31, 2012, the Company's authorization to issue 378,848,172 shares of Convertible Redeemable Preferred Stock ("Preferred Stock") was allocated to various Series as follows:

Series A-1:	9,794,142 shares
Series A-2:	19,887,000 shares
Series B-1:	73,783,872 shares
Series B-2:	62,326,439 shares
Series C-1:	105,868,792 shares
Series C-2:	107,187,927 shares

Preferred Stock and Warrant Purchase Agreement

In June 2012, the Company entered into a Preferred Stock and Warrant Purchase Agreement ("Preferred Stock Agreement"). Pursuant to the Preferred Stock Agreement, the Company issued 84,695,034 units of Series C-1 Preferred Stock for cash and 85,750,341 units of Series C-2 Preferred Stock for conversion of convertible bridge loans and related accrued interest. Each unit is comprised of one share of Preferred Stock and a warrant to purchase 0.25 shares of preferred stock.
Following is a summary of the activity under the Preferred Stock Agreement:

	Shares	Warrants	Form of Consideration	
			Cash Proceeds	Debt/Interest Conversion
Series C-1	84,695,034	21,173,758	$ 24,981,190	$ —
Series C-2	85,750,341	21,437,586	$ —	$ 20,790,295

The Series C-1 and C-2 Preferred Stock share similar rights and privileges as the Company's other classes of preferred stock, including, but not limited to, conversion rights, voting rights, cumulative dividends, liquidation preferences, and redemption rights.

See report of independent registered public accounting firm.

3. CONVERTIBLE, REDEEMABLE PREFERRED STOCK (Continued)

The Series C-1 Warrants have an exercise price equal to the lower of (i) $0.369 per share of Series C-1 Preferred Stock and (ii) 125% of the purchase price per share paid in connection with the issuance by the Company on or before June 7, 2013 of a new series of convertible preferred stock that is initially convertible into shares of the Company's common stock at a ratio of one-to-one. The Series C-2 Warrants have an exercise price equal to the lower of (i) $0.2952 per share of Series C-2 Preferred Stock and (ii) 125% of the purchase price per share paid in connection with the issuance by the Company on or before June 7, 2013 of a new series of convertible preferred stock that is initially convertible into shares of the Company's common stock at a ratio of one-to-one. All of the Series C warrants expire on June 7, 2017.

The Series C-1 and C-2 warrants ("Series C Warrants") were determined to be derivatives as a result of the provisions that provide the holder with (i) downward adjustments to the exercise price based upon future equity issuances and (ii) the ability to net-settle the instrument via a cashless exercise option. The Series C Warrants were recorded at their fair market value on the grant date and were recorded as a reduction of the carrying amount of the Series C-1 and Series C-2 Preferred Stock. See note 6 for further discussion regarding the fair value of the Series C Warrants.

8% Cumulative Dividends

The Preferred Stock accrues cumulative dividends at the rate of 8% per annum on the base amount, which is defined as the sum of (i) such Preferred Stock's Original Issue Price plus (ii) any Accruing Dividends accrued and unpaid thereon, whether or not declared, together with any other dividends declared but unpaid, subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization, and are payable only if and when declared by the Company's Board of Directors. The Company may not declare, pay, or set aside any dividends on shares of any other class or series unless the holders of the Preferred Stock then outstanding receive a dividend equal to the sum of i) any unpaid cumulative dividends and ii) the dividend per share that would be received had the Preferred Stock been converted into shares of common stock at the applicable conversion price in effect at that time. No dividends on the Preferred Stock shall be paid in cash without the consent of the holders of at least a majority of the outstanding shares of Preferred Stock. Cumulative but unpaid dividends as of December 31, 2012, 2011 and 2010 amounted to $19,966,538, $12,072,796 and $6,712,300, respectively.

Liquidation

At December 31, 2012, the Preferred Stock has an aggregate liquidation preference of $126,029,127, which includes cumulative but unpaid dividends. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, the holders of the Company's Preferred Stock then outstanding shall be entitled to be paid out of the assets of the Company available for distribution to its stockholders, before any payments shall be made to the holders of the Company's Common Stock, the greater of (i) the applicable Original Issue Price plus any Accruing Dividends accrued but unpaid, whether or not declared, together with any other dividends declared but unpaid thereon and (ii) such amount per share as would have been payable had all shares of Preferred Stock been converted into Common Stock immediately prior to such liquidation, dissolution or winding up. If, upon any such liquidation, dissolution or winding up of the Company, the assets of the Company available for distribution to its stockholders shall be insufficient to pay the holders of Preferred Stock the full liquidation amount, then the holders of Preferred Stock shall share ratably in any distribution of the assets available for distribution in proportion to the respective amounts which would otherwise be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.

3. CONVERTIBLE, REDEEMABLE PREFERRED STOCK (Continued)

Voting Rights

Holders of Preferred Stock are entitled to cast the number of votes equal to the number of common shares into which the shares of Preferred Stock held by such holders are convertible as of the record date. The holders of Preferred Stock vote together with the holders of common stock as a single class. Certain activities of the Company require the written consent or affirmative vote of the holders of at least a majority of the then outstanding shares of Preferred Stock including, but not limited to: (i) liquidate, dissolve or wind-up the business and affairs of the Company, effect any Liquidation Transaction, or consent to any of the foregoing, (ii) amend, alter or repeal any provision of the Certificate of Incorporation or Bylaws of the Company in a manner that adversely affects the powers, preferences or rights of the Preferred Stock, or (iii) authorize the issuance of any debt security if the aggregate indebtedness of the Company for borrowed money following such action would exceed $1 million.

Optional Conversion Rights

Holders of the Preferred Stock, at their option, may convert their shares into shares of common stock. The number of common shares issuable upon conversion is determined by dividing i) the applicable Original Issue Price, as defined in the Company's amended articles of incorporation and ii) the following conversion prices for each respective series of preferred stock, which are subject to certain adjustments for future issuances at a lower price and customary adjustments for stock splits, combinations, etc. In addition, accrued but unpaid cumulative dividends on Preferred Stock are convertible into common stock using the following respective conversion rates:

Series A-1 $0.5064
Series A-2 $0.5577
Series B-1 $0.3063
Series B-2 $0.2604
Series C-1 $0.2952
Series C-2 $0.2429

The Company evaluated the embedded conversion rights under the guidance of ASC 815, *"Derivatives and Hedging"*. The Company determined that for purposes of evaluating embedded features that may require bifurcation, the preferred stock primarily had characteristics of equity. Therefore, the conversion feature permitting conversion to common stock would be clearly and closely related to the host instrument, and as a result was not bifurcated.

In the event of a notice of redemption of any shares of Preferred Stock, the Conversion Rights of the shares designated for redemption shall terminate unless the redemption is not fully paid on such redemption date, in which case the Conversion Rights for such shares shall continue until such price is paid in full, provided that the Conversion Rights shall be appropriately modified to take into account that portion of redemption proceeds actually received by the holders of Preferred Stock.

At December 31, 2012, there were approximately 401 million shares of common stock issuable upon conversion of the outstanding Preferred Stock.

Mandatory Conversion

All outstanding shares of Preferred Stock shall automatically be converted into shares of Common Stock, at the then effective conversion rate, upon either (a) the closing of the sale of shares of Common Stock to the public at a price of at least $2.50 per share resulting in at least $50,000,000 of gross proceeds resulting in the shares of Common Stock being listed for trading on either the New York Stock Exchange or the NASDAQ Global Market or (b) the date and time, or the occurrence of an event, specified by vote or written consent of the owners of at least a majority of the then outstanding shares of Preferred Stock.

On January 31, 2013, in conjunction with the consummation of the Merger Agreement, all shares of Preferred Stock and accrued but unpaid cumulative dividends on Preferred Stock were mandatorily converted into common stock on a 1-to-1 basis. Please refer to Note 12 for further discussion.

3. CONVERTIBLE, REDEEMABLE PREFERRED STOCK (Continued)

Redemption Rights

The Preferred Stock shall be redeemed by the Company, at any time on or after March 31, 2015, at a price equal to the greater of i) the Original Issue Price per share, plus any accumulated but unpaid dividends, or ii) the fair market value of the common stock, if a majority of the then outstanding holders of Preferred Stock, as determined on an as converted into Common Stock basis, provide written notice to the Company requesting redemption of the Preferred Stock. The Preferred Stock was recorded outside of permanent equity due to the fact that its redemption is outside the control of the Company. The Preferred Stock is presented on the accompanying balance sheet at its redemption amount. Changes to the redemption amount related to cumulative but unpaid dividends. As a result of the Company's accumulated deficit, cumulative dividends are charged against additional paid-in capital.

During the year ended December 31, 2012, the Company issued Series C Units, which comprised an aggregate of 170,445,375 shares of Series C convertible, redeemable preferred stock, with a par value of $0.0001 per share, and warrants to purchase an additional 42,611,344 shares of Series C convertible redeemable preferred stock, with exercise prices ranging between $0.2952 and $0.369 per share. The consideration received for the issuance of the Series C Units was $24,981,190 of cash and $20,790,295 for the conversion of convertible bridge loans and accrued interest. During the year ended December 31, 2010, the Company issued 136,110,311 shares of Series B convertible redeemable preferred stock, with a par value of $0.0001 per share, for consideration of $22,600,000 of cash and $16,227,000 for the conversion of convertible bridge loans and accrued interest.

The following is a reconciliation of the preferred stock activity for the years ended December 31, 2012, 2011 and 2010:

	Preferred Stock					
	Series A-1	Series A-2	Series B-1	Series B-2	Series C-1	Series C-2
Balance, January 1, 2010	$7,337,788	$17,027,275	$ -	$ -	$ -	$ -
Issuance of Series B	-	-	22,600,000	16,227,000	-	-
Cumulative dividends	587,023	1,362,182	962,159	899,976	-	-
Balance, December 31, 2010	7,924,811	18,389,457	23,562,159	17,126,976	-	-
Cumulative dividends	633,985	1,471,156	1,884,973	1,370,382	-	-
Balance, December 31, 2011	8,558,796	19,860,613	25,447,132	18,497,358	-	-
Issuance of Series C	-	-	-	-	24,981,190	20,790,295
Reclassification of derivatives	-	-	-	-	(1,967,938)	(2,354,826)
Cumulative dividends	686,488	1,592,991	2,041,120	1,483,855	1,139,726	949,563
Accretion of preferred stock	-	-	-	-	382,497	451,458
Balance, December 31, 2012	$9,245,284	$21,453,604	$27,488,252	$19,981,213	$24,535,475	$19,836,490

4. STOCK OPTIONS, COMMON STOCK AND WARRANTS, AND TREASURY STOCK

Stock Options

During 2007, the Company adopted a stock option/stock purchase plan to attract and retain the best available personnel to promote the success of the Company's business. Pursuant to the plan, the Company may grant employees, consultants, and directors of the Company incentive stock options or nonqualified stock options or allow such parties to purchase restricted stock of the Company. An original total of 13,237,940 shares were available for issuance pursuant to the plan.

4. STOCK OPTIONS, COMMON STOCK AND WARRANTS, AND TREASURY STOCK

In 2007, two of the Company's officers purchased a total of 2,987,940 shares of restricted stock under the plan subject to certain restrictions for a period of three years. During 2010, those shares of restricted stock became fully vested and all restrictions were removed. Prior to 2010, the Company granted options representing a total of 8,978,825 shares. During 2010, the Company granted an additional 372,000 stock options, which had a weighted-average grant fair date value of $0.04 per stock option. There were no option awards granted during 2011; however, in 2011, the Company increased the number of shares under the plan to a total of 65,000,000 in order to grant additional options to employees, consultants, and directors of the Company. During 2012, the Company granted an additional 40,725,667 stock options to purchase common stock, which had a weighted-average grant date fair value of $0.04 per stock option. Fair values were determined on the grant date using the Black-Scholes model and the following level 3 assumptions for the years ended December 31, 2012, 2011 and 2010, respectively:

	2012	2011	2010
Stock value (per share)	$ 0.10	N/A	$ 0.08
Weighted-average expected term	5.58 years	-	5.91 years
Risk-free rate	1.00%	-	2.44%
Expected stock volatility	48%	-	50%
Dividend yield	0%	-	0%

During the year ended December 31, 2012, 132,000 stock options were exercised for total proceeds of $14,800. As of December 31, 2012, there were 18,193,568 shares available for issuance pursuant to the plan. Options granted pursuant to the plan must be granted at not less than the fair value of the Company's common stock on the date of the grant, and are subject to vesting and other limitations as determined by the plan and the Board of Directors of the Company.

In connection with the signing of the Merger Agreement, Row 44's Board of Directors elected to accelerate the vesting of all outstanding stock options. Accordingly, the Company recorded all remaining unamortized grant date fair value as compensation expense in 2012. This acceleration resulted in additional compensation expense of $821,926 that was recorded in 2012. Additionally, in connection with the acceleration (considered to be a modification event), the Company reviewed the fair value of the stock options immediately pre and post modification and assessed whether any incremental cost was incurred, noting none.

Stock option activity for the years ended December 31, 2012, 2011 and 2010 is as follows:

4. STOCK OPTIONS, COMMON STOCK AND WARRANTS, AND TREASURY STOCK (Continued)

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding - January 1, 2010	8,978,825	$ 0.15		$ -
Granted	372,000	0.08		
Exercised	-	-		
Expired or Canceled	-	-		
Forfeited	-	-		
Outstanding - December 31, 2010	9,350,825	$ 0.15	7.91 years	$ -
Granted	-	-		
Exercised	-	-		
Expired or Canceled	-	-		
Forfeited	(408,000)	0.14		
Outstanding - December 31, 2011	8,942,825	$ 0.15	6.91 years	$ -
Granted	40,725,667	0.08		$ 7,737,877
Exercised	(132,000)	0.08		$ 19,000
Expired or Canceled	(800,000)	0.08		$ 152,000
Forfeited	(5,050,000)	0.14		$ 959,500
Outstanding - December 31, 2012	43,686,492	$ 0.11	7.95 years	$ 9,186,767
Exercisable at December 31, 2012	43,686,492	$ 0.11	7.95 years	$ 9,186,767

Information about stock options at December 31, 2012 is summarized as follows:

Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable	Weighted Average Remaining Contractual Life
$ 0.08	304,000	7.42 years	304,000	7.42 years
$ 0.10	34,775,667	8.47 years	34,775,667	8.47 years
$ 0.15	8,606,825	5.85 years	8,606,825	5.85 years

The fair value of share options vested, and related share-based compensation recognized, during the years ended December 31, 2012, 2011 and 2010 amounted to $1,641,025, $94,040 and $143,641, respectively, and was included in personnel costs and research and development expenses as follows:

	Years Ended December 31, 2012	2011	2010
Personnel	$ 1,549,541	$ 78,503	$ 121,770
Research and development	91,484	15,537	21,871
Total	$ 1,641,025	$ 94,040	$ 143,641

As of December 31, 2012, the Company had $0 of total unrecognized compensation costs related to non-vested share-based compensation arrangements.

See report of independent registered public accounting firm.

4. STOCK OPTIONS, COMMON STOCK AND WARRANTS, AND TREASURY STOCK (Continued)

Common Stock – Shares and Warrants

In March 2012, the Company issued 5,500,000 of $0.0001 par value common shares to a supplier. In addition, the Company granted warrants to the same supplier to purchase up to 20,000,000 shares of common stock based on certain criteria at an exercise price of the greater of i) $0.30 per share or ii) the price per share of Preferred Stock with respect to any sale of Preferred Stock that occurs on or before the date that is three months following the effective date of the Technology Agreement. The warrants have a contractual term of 5 years and become exercisable as follows: a) 8,000,000 warrants on December 20, 2012 and b) 4,000,000 warrants become exercisable on each date that Row 44 completes the installation and activation of the supplier's solution on the fleet of an airline comprising at least 100 aircraft, provided that, following the installation and activation of the solution on a total 400 aircraft the entire amount of warrants becomes exercisable. At December 31, 2012, 8,000,000 warrants were not exercisable. The shares and warrants were valued at their grant-date fair value, which was estimated to be $550,000 and $279,505, respectively, which were recorded to cost of services during 2012.

The 20,000,000 warrants were determined to be a derivative liability, under the provisions of ASC 815, *"Derivatives and Hedging",* at the point that performance was completed by the supplier. See note 6 for further discussion regarding the valuation of the common stock warrant derivative liability.

In connection with each round of bridge loans issued in December 2011 and March 2012 (see note 5), the Company granted warrants to purchase 50,000,000 shares of common stock at an exercise price of $0.0001 per share, totaling 100,000,000 warrants issued. Both grants of 50,000,000 warrants to purchase common stock were valued at $4,995,818 each under the Black-Scholes valuation model using the level 3 assumptions below. This value was used in the calculation of the relative fair value of the convertible bridge loans (see note 6). In August 2012, 65,000,000 of the common stock warrants granted in conjunction with the December 2011 and March 2012 bridge loans were exercised for total proceeds of $6,500.

In 2012, the Company entered into a Common Stock Purchase Warrant agreement with a supplier that entitled the supplier to subscribe for and purchase up to 101,626,000 warrants with an exercise price of $0.2952 per share. The warrants have a contractual term of 5 years and vest immediately upon the supplier providing and the Company accepting, at the Company's sole discretion, a discount off of the list price for services and hardware. The number of warrants is computed based on the discount amount divided by the exercise price of $0.2952 per share. As of December 31, 2012, the number of warrants issued was 10,750,002. The warrants were valued at their grant-date fair value, which was estimated to be $2,888,740, and were vested immediately upon issuance.

During 2011, 61,420,832 warrants for common stock with an exercise price of $0.0001 per share were exercised for total proceeds of $6,142.

During 2010, the Company issued warrants to purchase 125,000 shares of common stock at an exercise price of $0.15 per share to a director. These warrants had an initial term of seven years, vested immediately, were valued at $10,256 using the assumptions below and are included in the accompanying statements of operations in personnel costs.

During 2009, the Company issued 30,475,000 warrants to purchase common stock in connection with convertible bridge loans ("Debt Warrants"). The Company performed an evaluation under the provisions of ASC 815 and determined that 17,837,500 of the Debt Warrants met the criteria of derivative liabilities ("Derivative Warrants") as a result of an embedded provision that required the issuance of additional warrants ("Penalty Warrants") upon failure to pay the convertible bridge loans pursuant to their contractual terms. The Penalty Warrants were issuable on a monthly basis at a rate of one warrant per $1 of outstanding principal in default and shared the same terms and conditions as the Debt Warrants (i.e. exercise price, term, etc.). During 2010 and 2009, the Company issued 20,300,000 and 27,358,332 Penalty Warrants, respectively. The Debt Warrants and Penalty Warrants have a contractual term of 7 years, an exercise price of $0.0001, and vested immediately upon issuance.

4. STOCK OPTIONS, COMMON STOCK AND WARRANTS, AND TREASURY STOCK (Continued)

The Derivative Warrants were recorded at fair value using the Black-Scholes valuation model and the assumptions below. The Derivative Warrants, upon issuance, were recorded as (i) a discount to the convertible bridge loans in 2010 and 2009, which was amortized to interest expense through the maturity date using the effective interest method and (ii) derivative liabilities. During 2010, the convertible bridge loans were converted into Series B-2 Preferred Stock. The fair market value of the derivative liabilities was reclassified to equity on the conversion date. During the year ended December 31, 2010, the Company recognized interest expense of $2,860,212 related to these warrants, $2,181,325 of which related to changes in value of the derivative liabilities.

Substantially all of the warrants that have been issued by the Company are fully vested on their grant date.

Warrants granted during 2012, 2011 and 2010 in connection with convertible bridge loans were valued at $4,995,818, $4,995,818 and $3,053,627, respectively. These values were used in the calculation of the relative fair value of the convertible bridge loans in footnote 5.

Warrants for common stock were valued under the Black-Scholes valuation model using the following Level 3 assumptions:

	2012	2011	2010
Common stock value (per share)	$ 0.10 - $ 0.32	$ 0.10	$ 0.15
Expected term	5 - 7 years	7 years	7 years
Risk-free rate	0.72% - 2.57%	2.57%	3.04% - 3.16%
Expected stock volatility	50%	50%	50%
Dividend yield	0%	0%	0%

Following is a summary of warrants for common stock activity for the years ended December 31, 2012, 2011 and 2010:

	Number of Warrants	Weighted-Average Exercise price	Weighted-Average Remaining Contractual Term
Outstanding - January 1, 2010	59,857,937	$ 0.0126	6.63 years
Granted	20,425,000	0.0010	
Exercised	-	-	
Forfeited	-	-	
Outstanding - December 31, 2010	80,282,937	$ 0.0097	5.75 years
Granted	50,000,000	0.0001	
Exercised	(61,420,832)	0.0001	
Forfeited	-	-	
Outstanding - December 31, 2011	68,862,105	$ 0.0113	6.29 years
Granted	80,750,002	0.0744	
Exercised	(65,000,000)	0.0001	
Forfeited	-	-	
Outstanding - December 31, 2012	84,612,107	$ 0.0801	4.92 years
Exercisable at December 31, 2012	76,612,107	$ 0.0571	4.99 years
Expected to vest at December 31, 2012	8,000,000	$ 0.3000	4.22 years

See report of independent registered public accounting firm.

4. STOCK OPTIONS, COMMON STOCK AND WARRANTS, AND TREASURY STOCK (Continued)

The following is a summary of the all warrants outstanding at December 31, 2012:

Exercise Price per Warrant	Number of Warrants	Class of Shares	Weighted Average Remaining Life
$ 0.00 - $0.0001	63,549,607	Common	5.19 years
$ 0.15	125,000	Common	4.19 years
$ 0.30	20,000,000	Common	4.22 years
$ 0.80	937,500	Common	1.99 years
Total outstanding	84,612,107		
$ 0.369	21,173,758	Preferred Series C-1	4.43 years
$ 0.2952	21,437,586	Preferred Series C-2	4.43 years
Total outstanding	42,611,344		

Treasury Stock

During 2011, the Company repurchased a total of 2,501,263 shares of common stock from two officers. The Company expected to reissue these shares in the future; in connection with the exercise of warrants or stock options. As described in note 10, the Company stock-settled $539,472 of a note receivable and related interest with a current officer for a total of 1,740,230 shares of common stock. None of these shares were retired by the Company's Board of Directors and therefore, at December 31, 2012 and 2011, the shares are presented on the accompanying balance sheet as treasury stock.

5. NOTES PAYABLE AND CONVERTIBLE BRIDGE LOANS

In December 2010, the Company entered into a note payable for the payment of leasehold improvements associated with its move to its new corporate facilities. The note bears interest at 8% per annum and is payable in monthly installments of principal and interest and matures in 2016. Interest expense related to this note payable amounted to $4,789, $9,783 and $0 during the years ended December 31, 2012, 2011 and 2010, respectively. The balance outstanding amounted to $52,612, and $65,856 at December 31, 2012 and 2011, respectively.

In 2009, the Company entered into convertible bridge loans amounting to $14,550,000 with various maturity dates in 2009. The Company was successful in extending these loans into 2010 and the loans were ultimately converted into shares of Series B-2 Preferred Stock. In connection with the convertible bridge loans, the Company issued Debt Warrants and Penalty Warrants. See note 4 for further discussion regarding the warrants, including valuation methodology and accounting treatment.

During 2010, the Company converted $16,227,000 of convertible bridge loans and accrued interest into shares of Series B-2 Preferred Stock. The conversion price of the bridge loans was to be determined based on the issuance price of a future round of Qualified Financing, as defined in the agreement, which was ultimately the Series B capital raise in 2010, discounted by 15% (see note 3 for further discussion regarding the Series B capital raise). The Company determined that these bridge loans constituted share-settled debt in accordance with ASC 480, *"Distinguishing Liabilities from Equity"*. As such, the convertible bridge loans were initially recorded at an amount equal to their residual allocated amount and were accreted to their redemption amount, which was approximately 15% greater than its face amount, through the maturity date using the effective interest method. During 2010, the Company incurred $678,887 of interest expense related to the accretion of the convertible bridge loans and amortization of note discount.

See report of independent registered public accounting firm.

5. NOTES PAYABLE AND CONVERTIBLE BRIDGE LOANS (Continued)

In December 2011 and March 2012, the Company entered into convertible bridge loans with existing preferred shareholders for debt raises of $10,000,000 and $10,000,000, respectively. The bridge loans bore interest at the rate of 12% per annum and matured on May 31, 2012. The bridge loans and related interest were convertible into preferred shares at such time as the Company raised additional equity funding through the issuance of a future round of Qualified Financing, as defined in the agreement, which was ultimately the Series C Preferred Stock capital raise in June 2012 (see note 3 for further discussion regarding the Series C capital raise). The conversion price of the loans was to be determined based on a 20% discount of the issuance price of the Qualified Financing. The Company granted the note holders thereto a security interest in substantially all assets of the Company. Additionally, in connection with these two rounds of bridge loans, the Company granted warrants to purchase a total of 100,000,000 shares of common stock at $0.0001 per share (see notes 4 and 6 for additional discussion regarding the warrants). The Company determined that the bridge loans constituted share-settled debt in accordance with ASC 480, *"Distinguishing Liabilities from Equity"*. As such, the convertible bridge loans were initially recorded at an amount equal to their residual allocated amount and were accreted to their redemption amount, which is approximately 20% greater than its face amount, through the maturity date using the effective interest method. During the year ended December 31, 2011, the Company amortized $249,791 of the note discount to interest expense, resulting in a net carrying amount of the note of $7,310,351 at December 31, 2011. At December 31, 2011, the Company had accrued but unpaid interest amounting to $29,588 included in the notes payable balance. During the year ended December 31, 2012, the Company recognized interest expense of $9,629,089 relating to the accretion of the bridge loans and amortization of the related note discount. In June 2012, the Company converted $20,000,000 of principal and $790,295 of related accrued interest into units of Series C-2 Preferred Stock.

During the years ended December 31, 2012, 2011 and 2010, the Company's effective interest rate on convertible bridge loans was 421%, 126%, and 167%, respectively.

The following is a schedule, by year, of future minimum principal payments required under notes payable as of December 31, 2012:

Years Ending December 31,		
2013	$	14,343
2014		15,534
2015		16,823
2016		5,912
2017		-
	$	52,612

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Series C Warrants were determined to be derivatives as a result of the provisions that provide the holder with (i) downward adjustments to the exercise price based upon future equity issuances and (ii) the ability to net-settle the instrument via a cashless exercise option. The Series C Warrants were recorded at their fair market value on the grant date and were recorded as a reduction of the carrying amount of the Series C-1 and Series C-2 Preferred Stock.

The 20,000,000 warrants to purchase common stock granted to a supplier in 2012 were determined to be a derivative, under the provisions of ASC 815, *"Derivatives and Hedging",* at the point in time when the performance by the supplier was complete. The Company determined that these warrants are derivatives due to the adjustable exercise price provisions contained therein. As such, the fair value of the derivatives, which amounted to $279,505, was reclassified from equity to derivative liabilities on the date performance by the supplier was complete.

See report of independent registered public accounting firm.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The fair value of derivatives was determined using a Black-Scholes model, which utilized 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, (iii) the expected term of the instrument, and (iv) the probability that the Company would default on the convertible bridge loans. 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 expected term is accompanied by a change in the assumption used for the risk-free rate and the expected stock volatility. The change in value of derivative liabilities is presented as a part of other income (expenses) in the accompanying statements of operations.

The assumptions used to value the Series C warrants and the common stock warrants classified as derivatives were as follows during the year ended December 31, 2012:

	Common Stock Warrants	Series C Warrants
Stock value (per share)	$ 0.10 - $0.32	$0.2678 - $0.32
Expected term	5 years	5 years
Risk-free rate	0.72% - 2.57%	0.72% - 1%
Expected stock volatility	50%	50%
Dividend yield	0%	0%

The following table presents instruments measured at fair value on a recurring basis and their level within the fair value hierarchy as of December 31, 2012. There were no instruments subject to this classification at December 31, 2011.

	Level 1	Level 2	Level 3	Total
Series C Warrants	$ -	$ -	$ 5,482,119	$ 5,482,119
Common stock warrants	-	-	2,695,980	2,695,980
Derivative liabilities	$ -	$ -	$ 8,178,099	$ 8,178,099

During the year ended December 31, 2010, the Company had warrants to purchase common stock outstanding that met the criteria of derivative liabilities as a result of an embedded provision that required the issuance of additional warrants upon a failure to pay convertible bridge loans pursuant to their contractual terms. These warrants were reclassified to equity during 2010 upon conversion of the underlying debt to Series B-2 Preferred Stock.

The following table presents the fair value reconciliation of Level 3 derivative liabilities measured at fair value on a recurring basis for the years ended December 31, 2012, 2011 and 2010:

Balance, January 1, 2010	$ 3,536,208
Change in value	2,181,325
Reclassification to equity	(5,717,533)
Balance, December 31, 2010	-
Change in value	-
Reclassification to equity	-
Balance, December 31, 2011	-
Series C warrants	4,322,764
Common stock warrants	279,505
Change in value	3,575,830
Reclassification to equity	-
Balance, December 31, 2012	$ 8,178,099

See report of independent registered public accounting firm.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The carrying amount of certain of the Company's financial instruments, including cash, accounts receivable, and accounts payable and accrued expenses, approximates fair value due to the relatively short maturity of such instruments. The fair value of borrowings, notes receivable, and subscriptions receivable are not considered to be significantly different than their carrying amounts because the stated rates for such instruments reflect current market rates and conditions.

7. CONCENTRATIONS

Concentration of Credit Risk

The Company maintains its cash and cash equivalents at a financial institution which may, at times, exceed federally insured limits. Historically, the Company has not experienced any losses in such accounts.

Major Customers

During the years ended December 31, 2012, 2011 and 2010, one customer represented 81%, 66%, and 99% of net revenues, respectively. Total accounts receivable from this customer represented 78% and 58% of total accounts receivable at December 31, 2012 and 2011, respectively. During the years ended December 31, 2012 and 2011, another customer represented 15% and 33% of net revenues, respectively. Total accounts receivable from this customer represented 17% and 39% of total accounts receivable at December 31, 2012 and 2011, respectively.

Major Suppliers

The Company purchases its satellite bandwidth from a single supplier. This supplier also provides the Company with the equipment and servers required to terminate the satellite stream, provides space at its datacenters to house the equipment and servers, and also provides network operations service support. During the years ended December 31, 2012, 2011 and 2010, the Company paid $19,851,328, $8,161,381 and $3,472,977 to this supplier for services and purchased $2,165,369, $31,767 and $433,844 of equipment and servers, respectively.

The Company purchases equipment from third party suppliers for sale to the airlines. The supplier that provides satellite bandwidth also provides modems for use within the equipment on the aircraft. During the years ended December 31, 2012, 2011 and 2010, the Company purchased modems, which comprised 3.2%, 0.3% and 13.1% of total inventory purchases, respectively.

The Company purchases the antenna assembly and related cabling from a single supplier which, during the years ended December 31, 2012, 2011 and 2010, comprised 58.8%, 52.1% and 49.7% of total inventory purchases, respectively.

The Company also purchases radomes and rings from a single supplier which, during the years ended December 31, 2012, 2011 and 2010, comprised 14.0%, 13.7% and 16.8% of total inventory purchases, respectively.

The Company also purchases line replaceable units from a single supplier which, during the years ended December 31, 2012, 2011 and 2010, comprised 10.4%, 9.3% and 0.3% of total inventory purchases, respectively.

Any interruption in the supply from these significant vendors would have a significant impact on the Company's ability to provide equipment to the airline's for installation.

8. INCOME TAXES

The difference between income tax expense attributable to continuing operations and the amount of income tax expense that would result from applying domestic federal statutory rates to pre-tax income (loss) is mainly related to an increase in the valuation allowance, partially offset by state income taxes. Valuation allowances are established, when necessary, to reduce deferred income tax assets to the amount expected to be realized. Deferred income tax assets are mainly related to net operating loss carryforwards. Management has chosen to take a 100% valuation allowance against the deferred income tax asset until such time as management believes that its projections of future profits make the realization of the deferred income tax assets more likely than not. Significant judgment is required in the evaluation of deferred income tax benefits and differences in future results from management's estimates could result in material differences.

A reconciliation of the expected income tax (benefit) computed using the federal statutory income tax rate to the Company's effective income tax rate is as follows for the years ended December 31, 2012, 2011 and 2010:

	2012	2011	2010
Pretax Loss based on statutory rate	34.00%	34.00%	34.00%
State tax, net of federal benefit	1.97	2.94	3.72
State minimum tax	(0.02)	(0.02)	(0.02)
Permanent difference	(11.76)	(0.79)	(6.75)
Federal R&D credit	-	0.92	1.01
CA R&D Credit	0.29	0.70	0.70
State rate change	-	(4.59)	-
Change in prior year deferred taxes	-	-	0.27
Change of Valuation Allowance	(24.50)	(33.18)	(32.95)
Income Tax based on effective tax rate	(0.02)%	(0.02)%	(0.02)%

Significant components of the Company's deferred income tax assets and liabilities as of December 31, 2012 and 2011, are as follows:

Deferred tax assets:

	2012	2011
Depreciation and Amortization of Property and Equipment and Research and Development Costs	$ 5,240,522	$ 4,866,372
Accrued Expenses	338,666	264,523
Allowance, Reserves & Other	868,956	634,006
NOL, capital loss & credit carryforward	33,153,934	22,715,095
	39,602,078	28,479,996
Less: Valuation Allowance	(39,602,078)	(28,479,996)
Total Deferred Tax Assets:	$ -	$ -

See report of independent registered public accounting firm.

8. INCOME TAXES (Continued)

As of December 31, 2012, the Company has Federal and State net operating loss carry forwards of $81.0 million and $78.1 million respectively, which will begin to expire during the fiscal years ending December 31, 2028 and 2018, respectively. These NOLs may be used to offset future taxable income, to the extent the Company generates any taxable income, and thereby reduce or eliminate future federal income taxes otherwise payable. Section 382 of the Internal Revenue Code imposes limitations on a corporation's ability to utilize NOLs if it experiences an ownership change as defined in Section 382. In general terms, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percent over a three-year period. In the event that an ownership change has occurred, or were to occur, utilization of the Company's NOLs would be subject to an annual limitation under Section 382 as determined by multiplying the value of the Company's stock at the time of the ownership change by the applicable long-term tax-exempt rate as defined in the Internal Revenue Code. Any unused annual limitation may be carried over to later years. The Company could experience an ownership change under Section 382 as a result of events in the past in combination with events in the future. If so, the use of the Company's NOLs, or a portion thereof, against future taxable income may be subject to an annual limitation under Section 382, which may result in expiration of a portion of the NOLs before utilization.

Therefore, the Company could be liable for income taxes sooner than otherwise would be true if the Company were not subject to Section 382 limitations. The Company will be performing a study to determine the extent of the limitation. Due to the existence of the valuation allowance, future changes in the Company's unrecognized tax benefits will not impact its effective tax rate. Any carryforwards that expire prior to utilization as a result of such limitations will be removed, if applicable, from deferred tax assets with a corresponding reduction of the valuation allowance.

The Company has adopted guidance issued by the FASB that clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold of more likely than not and a measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In making this assessment, a company must determine whether it is more likely than not that a tax position will be sustained upon examination, based solely on the technical merits of the position and must assume that the tax position will be examined by taxing authorities. The Company's policy is to include interest and penalties related to unrecognized tax benefits in income tax expense. Interest and penalties totaled $0 for the years ended December 31, 2012, 2011 and 2010. The Company files income tax returns with the Internal Revenue Service ("IRS") and several states. All of the Company's tax filings are subject to examination at December 31, 2012. The Company's net operating loss carryforwards are subject to IRS examination until they are fully utilized and such tax years are closed.

9. EMPLOYEE BENEFIT PLAN

The Company has established a 401(k) employee retirement savings plan that is available to all of its employees. Under the provisions of the plan, employees may make pre-tax contributions not to exceed the limit set by the Internal Revenue Service. The Company elected to not make any matching contributions during 2012, 2011 and 2010.

10. RELATED PARTY TRANSACTIONS

PAR Investment Partners, L.P. ("PAR") owns more than 40% of the outstanding equity of Row 44 as of December 31, 2012. Accordingly, PAR can exercise significant influence on the Company.

As discussed in Notes 4, 5 and 12, in connection with the December 2011 and March 2012 bridge loans, PAR loaned Row 44 $13,000,000 and was granted warrants to purchase 65 million shares of Row 44's $0.0001 par value common stock. In August 2012, PAR exercised these warrants. In connection with the June 2012 financing, PAR's bridge loans were converted into 55,737,722 shares of Series C-2 Preferred Stock and warrants to purchase an additional 13,934,431 shares of Series C-2 Preferred Stock.

See report of independent registered public accounting firm.

10. RELATED PARTY TRANSACTIONS (Continued)

As discussed in Note 5, in 2009 and during January through March 2010, PAR loaned Row 44 a total of $7,275,000 and was granted warrants to purchase 61,220,832 shares of Row 44's $0.0001 par value common stock. In September 2011, PAR exercised these warrants. In connection with the April 2010 financing, PAR's various bridge loans were converted into 31,803,678 shares of Series B-2 Preferred Stock.

Subscriptions Receivable, Notes Receivable and Advances

At December 31, 2010, the Company had subscriptions receivable and advances due from two of its officers, which aggregated $1,047,260; of which, $835,336 related to subscriptions receivable. The subscriptions receivable bore interest at 6% and were due on March 31, 2011. During 2010, the Company advanced $105,000 to one of its officers, which bears interest at 3% per annum. In July 2011, the balance of the advances and subscriptions receivable, including accrued interest receivable, were converted into two new long-term receivables ("officers' receivables"), which bear interest at 6% per annum and are due in one payment of all principal and accrued interest in July 2014. These receivables are collateralized by all of the outstanding shares of common stock owned by each of the officers. At December 31, 2011, the balance of these officers' receivables amounted to $938,809, of which $70,095 is presented as notes receivable, related parties and $868,714 is presented as subscriptions receivable. Notes receivable are presented on the accompanying balance sheets at their estimated net realizable value.

In December 2012, the Company entered into an agreement with one of the officers to stock-settle his note receivable and accrued interest, which amounted to $539,472, for 1,740,230 shares of the Company's common stock held by the officer, which is presented on the accompanying balance sheet as treasury stock at December 31, 2012.

In 2012, the other officer's employment with the Company ceased. At December 31, 2012, the balance of the former officer's receivables amounted to $453,205 and is presented as subscriptions receivable. The Company recognizes interest income when earned, using the simple interest method. The Company makes ongoing assessments regarding the collectability of the notes receivable and subscriptions receivable balances.

Share Repurchase

In connection with the July 2011 restructuring of the officers' receivables mentioned above, the Company repurchased a total of 2,501,263 shares of common stock from these two officers. The purchase price paid by the Company was $0.10 per share and was paid $90,000 in cash and $160,126 via a reduction of the advances, accrued interest receivable, and subscriptions receivable.

11. COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company leases its operating facilities under non-cancelable operating leases that expire through 2016. The Company also leases certain facilities under month-to-month arrangements. Total rent expense for the years ended December 31, 2012, 2011 and 2010 was $544,899, $387,287 and $280,353, respectively. The Company is responsible for certain operating expenses in connection with these leases. The following is a schedule, by year, of future minimum rental payments required under non-cancelable operating leases as of December 31, 2012:

Years Ending December 31,	
2013	$ 501,686
2014	467,029
2015	480,472
2016	304,451
2017	93,794
Thereafter	-
	$1,847,432

See report of independent registered public accounting firm.

11. COMMITMENTS AND CONTINGENCIES (Continued)

Satellite Costs Commitments

In connection with the purchase of satellite bandwidth, the Company signed a Master Services Agreement ("MSA") with its satellite supplier to provide for satellite capacity in North America and Europe. The Company and its satellite supplier have entered into subsequent agreements to provide additional capacity as needed to support the bandwidth requirements for its airline customers and airline customers' passengers. The Company expenses these satellite fees in the month the service is provided as a charge to cost of services. Total satellite fees expense was $19,626,129, $8,027,680 and $3,392,601 for the years ended December 31, 2012, 2011 and 2010, respectively. The following is a schedule, by year, of the future minimum payments required under the MSA and subsequent agreements as of December 31, 2012:

Years Ending December 31,	
2013	$28,054,722
2014	27,588,227
2015	23,429,472
2016	-
2017	-
Thereafter	-
	$79,072,421

Video License Commitments

In connection with the distribution of entertainment services, the Company has certain contracted commitments with various video content providers that expire through 2016. The Company expenses these license fees over the applicable period the contracted commitment covers as a charge to cost of services. Total license fees expense was $1,844,136, $0, and $0 for the years ended December 31, 2012, 2011 and 2010, respectively. The following is a schedule, by year, of the future payments required under these contracted commitments as of December 31, 2012:

Years Ending December 31,	
2013	$1,170,000
2014	570,000
2015	120,000
2016	120,000
2017	-
Thereafter	-
	$1,980,000

Services Agreement

Pursuant to the terms of the services agreement entered into in March 2012 with a supplier that received 5,500,000 shares (see note 4), the Company is committed to pay the supplier $1M on the anniversary dates of the first use of the service on board a commercial aircraft, subject to a maximum of $3M over the term. The first commercial use of the service was in June 2012.

See report of independent registered public accounting firm.

11. COMMITMENTS AND CONTINGENCIES (Continued)

Vendor Payable

In December 2011, the Company amended an agreement with one of its major suppliers to pay specific invoices that amounted to $12,435,666. In connection with the bridge loan funding in December 2011 (see note 5), $3,662,000 of the open invoices were paid and the remaining balance was to be paid in nine monthly installments (four installments of $1,250,000, four installments of $754,733, and one installment of $754,734) from January 2012 - September 2012. No interest is payable on these amounts provided that the Company makes all nine installments in the agreed upon amounts and on or before the agreed upon due dates. At December 31, 2011, the amount of invoices subject to the agreement and still outstanding amounted to $8,773,666 and is presented as accounts payable and accrued expenses in the accompanying balance sheet. During 2012, pursuant to terms of the amended agreement, the Company paid this balance in full and did not incur any related interest charges.

Employment Agreements

At December 31, 2012, the Company maintained an employment agreement with one of its officers, the terms of which may require the payment of severance benefits upon termination.

Legal Matters

The Company is involved from time to time in various legal proceedings in the normal conduct of its business.

On December 28, 2012, Advanced Media Networks, L.L.C. filed suit in the United States District Court for the Central District of California against Row 44 and one of its customers, which Row 44 has agreed to indemnify, for patent infringement and seeking injunctive relief and unspecified monetary damages. Based on currently available information, Row 44 believes that it has strong defenses and intends to defend vigorously against this lawsuit. The potential range of loss related to this matter cannot be determined; however, the outcome of this matter is inherently uncertain and could have a materially adverse effect on Row 44’s business, financial condition and results of operations if decided unfavorably against the Company.

On August 2, 2011, a former Row 44 employee filed a complaint for damages in the Los Angeles Superior Court alleging a series of employment-related claims, including sex discrimination; sexual harassment; FEHA retaliation; failure to prevent discrimination; and tortious discharge in violation of public policy. The complaint seeks declaratory relief, general, and punitive damages in unspecified amounts. On February 20, 2013, our attorneys filed an answer on our behalf. Discovery is proceeding and management is vigorously defending the case. The potential range of loss related to this matter cannot be determined.

12. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through March 15, 2013, the date the financial statements were available to be issued.

In October 2012, the Company signed a binding Memorandum of Understanding (“MOU”) with a major customer regarding certain business model, economic and service provision changes to the current Services Agreement between the Company and the customer. Effective January 31, 2013, the Company and this customer signed a definitive agreement incorporating the items contemplated in the MOU. As of the date these financial statements were available to be issued, an estimate of the financial effect of this event cannot be made.

Effective January 31, 2013, the Company and GEAC consummated the Merger Agreement, GEAC changed its name to Global Eagle Entertainment Inc., and the Company became a wholly-owned subsidiary of Global Eagle Entertainment Inc. In connection with the closing of the Merger Agreement, Row 44 paid PAR $11,875,000 under a backstop fee agreement. The Company is currently assessing the impact of the merger on its future financial statements; it is anticipated that the impact will be material.

See report of independent registered public accounting firm.

12. SUBSEQUENT EVENTS (Continued)

In connection with the consummation of the merger on January 31, all shares of Preferred Stock and accrued but unpaid cumulative dividends on Preferred Stock were converted into 404,030,197 shares of common stock in line with the conversion feature requirements discussed in note 3.

In January 2013, 35,000,000 of the common stock warrants granted in conjunction with the December 2011 and March 2012 bridge loans were exercised for total proceeds of $3,500; 16,912,500 of the common stock warrants granted in conjunction with the 2009 convertible bridge loans were exercised for total proceeds of $1,691; and 14,051,631 of common stock warrants with an exercise price of $0.00 per share, held by certain warrant holders, were exercised.

In January 2013, 225,000 stock options were exercised for total proceeds of $22,500. On January 1, 2013, 2,816,667 of stock options available to a former officer expired as the officer did not elect to exercise his options. In connection with the consummation of the merger on January 31, the remaining balance of 40,644,825 of unexercised stock options were exercised into 27,394,619 shares of common stock on a cashless basis using a stock price of $0.34 per share.

In January 2013, the Company signed a subsequent agreement #13 to the MSA with its satellite supplier for services to be provided covering the north trans-Atlantic region and portions of the Caribbean in 2013; however, that particular satellite when launched in 2013 failed to retain orbit. The Company and its satellite supplier are reviewing impacts to determine what other transponder space is available to cover these regions. In February 2013, the Company signed a subsequent agreement #14 to the MSA for satellite service and equipment needed to provide coverage over the region of Russia with an expected service launch in 2013.

13. Revision to Previously Issued Financial Statements

Immaterial adjustments were identified related to the accounting for certain revenue and cost reimbursements for the years ended December 31, 2012, 2011 and 2010, as well as the cumulative impact of these immaterial adjustments as of December 31, 2012. The immaterial adjustments resulted from revenue recognition pertaining to certain agreements containing multiple elements during the years ended December 31, 2012, 2011 and 2010, and certain cost reimbursements pertaining to the year ended December 31, 2012. The Company assessed the materiality of these adjustments on the financial statements of prior periods in accordance with the SEC's Staff Accounting Bulletin No. 99 ("SAB 99") and concluded that the adjustments were not material to any prior annual periods, but the cumulative adjustment would likely be quantitatively material to the expected results of operations of the Company’s parent, Global Eagle Entertainment, Inc. for the quarter ended June 30, 2013, if the entire adjustment was recorded in that period. Accordingly, the Company has revised the statements of operations and balance sheets for the years ended December 31, 2012, 2011 and 2010 to correct for these immaterial adjustments 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 of which 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 from operating, investing or financing activities for any of the periods presented. The net effect on stockholders’ deficit is also immaterial for all periods presented.

Balance sheets as of December 31, 2012 and 2011 (in thousands):

	December 31, 2012			December 31, 2011		
	As Previously Reported	**Adjustments**	**As Adjusted**	**As Previously Reported**	**Adjustments**	**As Adjusted**
Assets:						
Cash and cash equivalents	$ 2,088		$ 2,088	$ 8,810		$ 8,810
Accounts receivable, net	7,797	495	8,292	4,416		4,416
Deferred costs, current	-	3,075	3,075	-	987	987
Inventories	4,311	-	4,311	3,047		3,047
Property and equipment, net	4,639		4,639	2,813		2,813
Deferred costs, non current	-	3,074	3,074	-	1,974	1,974
Other assets	3,958	-	3,958	1,884	-	1,884
Total assets	**$ 22,793**	**6,644**	**$ 29,437**	**$ 20,970**	**2,961**	**$ 23,931**
Liablities and Stockholders' Equity (Deficit):						
Accounts payable and accrued expenses	$ 8,178		$ 8,178	$ 13,121		$ 13,121
Deferred revenue, current	4,593	3,945	8,538	8,404	1,443	9,847
Derivative liabilities	8,178		8,178	-		-
Notes payable and accrued interest	14		14	7,406		7,406
Long term liabilities	38	3,075	3,113	273	2,430	2,703
Total liabilities	21,001	7,020	28,021	29,204	3,873	33,077
Longterm liabilities						
Redeemable preferred stock	122,540		122,540	72,364		72,364
Stockholders' Equity (Deficit);						
Common stock	16		16	9		9
Treasury stock	(790)		(790)	(250)		(250)
Additional paid-in capital	9,015		9,015	5,709		5,709
Subscription receivable	(453)		(453)	(869)		(869)
Accumulated deficit	(128,536)	(376)	(128,912)	(85,197)	(912)	(86,109)
Total stockholders' equity (deficit)	(120,748)	(376)	(121,124)	(80,598)	(912)	(81,510)
Total liabilities and stockholders' equity (deficit)	**$ 22,793**	**6,644**	**$ 29,437**	**$ 20,970**	**2,961**	**$ 23,931**

Statements of operations for the years ended December 31, 2012 , 2011, 2010:

	Year ended December 31, 2012			Year ended December 31, 2011			Year ended December 31, 2010		
	As Previously Reported	**Adjustments**	**As Adjusted**	**As Previously Reported**	**Adjustments**	**As Adjusted**	**As Previously Reported**	**Adjustments**	**As Adjusted**
Revenues	$ 72,358	(3,148)	$ 69,210	$ 36,035	(2,398)	$ 33,637	$ 16,062	(1,474)	$ 14,538
Operating Expenses:									
Equipment cost of sales	57,759	(3,189)	54,570	29,344	(1,486)	27,858	16,934	(1,474)	15,460
Cost of services	22,327	-	22,327	8,089		8,089	2,354		2,354
Personnel	8,113	-	8,113	5,725		5,725	3,688		3,688
Research and development	3,141	(495)	2,646	3,392		3,392	4,242		4,242
Selling, general and administrative	10,389		10,389	6,981		6,981	4,234		4,234
Total operating expenses	101,729	(3,684)	98,045	53,531	(1,486)	52,045	31,452	(1,474)	29,978
Loss from operations	(29,371)	536	(28,835)	(17,496)	(912)	(18,408)	(15,390)	-	(15,390)
Other expenses (income)	13,968		13,968	293		293	3,667		3,667
Loss before income taxes	(43,339)	536	(42,803)	(17,789)	(912)	(18,701)	(19,057)	-	(19,057)
Income tax (benefit) provision	-		-	-		-	-		-
Net loss	(43,339)	536	(42,803)	(17,789)	(912)	(18,701)	(19,057)	-	(19,057)
Cumulative preferred stock dividends	(8,728)		(8,728)	(5,361)		(5,361)	(3,311)		(3,811)
Net loss attributable to common stockholders	$ (52,067)	536	$ (51,531)	$ (23,150)	(912)	$ (24,062)	$ (22,868)	-	$ (22,868)
Net loss per share:									
Basic and diluted	$ (0.46)		$ (0.46)	$ (0.57)		$ (0.60)	$ (0.93)		$ (0.93)
Weighted average number of shares	112,253		112,253	40,313		40,313	24,664		24,664

See report of independent registered public accounting firm.

ADVANCED INFLIGHT ALLIANCE AG	Page

REPORT OF INDEPENDENT AUDITORS

To the Management Board
Advanced Inflight Alliance, AG

We have audited the accompanying consolidated balance sheets of Advanced Inflight Alliance AG, as of December 31, 2012 and 2011, and the related consolidated income statements and consolidated statements of comprehensive income, statement of changes in equity and consolidated cash flow statements for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with United States generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated balance sheets of Advanced Inflight Alliance AG, at December 31, 2012 and 2011, and the related consolidated income statements and consolidated statements of comprehensive income, statement of changes in equity and consolidated cash flow statements for each of the three years in the period ended December 31, 2012 in conformity with International Financial Reporting Standards as adopted by the European Union (IFRS).

IFRS varies in certain respects from those generally accepted in the United States. Information relating to such difference is presented in Note 27 to the consolidated financial statements.

As discussed in Note 1.1 to the consolidated financial statements, the 2012 consolidated financial statements have been restated.

Munich, August 8, 2013

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

/s/ Bostedt	/s/ Richter
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

ADVANCED INFLIGHT ALLIANCE AG, MUNICH

CONSOLIDATED INCOME STATEMENT January 1 to December 31, 2012 (IFRS)

	Notes	Jan 1 - Dec 31, 2012 Restated * EUR	Jan 1 - Dec 31, 2011 EUR	Jan 1 - Dec 31, 2010 EUR
Revenue	5.	130,280,774	121,579,767	111,113,924
Other operating income	6.1.	1,604,702	935,993	348,711
Changes in inventories of goods and work in progress		0	-170,190	33,895
Cost of materials	6.6.	-80,244,845	-73,405,629	-67,295,568
Employee benefits expenses	6.5.	-24,296,864	-27,448,268	-21,879,143
Depreciation, amortization and impairment losses	6.7.	-4,639,313	-3,959,243	-3,970,775
Other operating expenses	6.2.	-12,757,840	-10,989,134	-9,938,200
Operating profit		**9,946,614**	**6,543,296**	**8,412,844**
Finance income	6.4.	230,846	122,181	137,170
Finance costs	6.3.	-1,543,686	-767,927	-961,502
Profit from financing activities		**-1,312,840**	**-645,746**	**-824,332**
Profit before taxes		**8,633,774**	**5,897,550**	**7,588,512**
Income tax expense	7.	-3,543,371	-1,490,893	-2,095,900
Profit for the period		**5,090,403**	**4,406,657**	**5,492,612**
Basic EPS	9.	0.25	0.28	0.38
Diluted EPS	9.	0.25	0.28	0.38
Average number of shares (basic)	9.	20,302,356	15,705,759	14,500,000
Average number of shares (diluted)	9.	20,381,090	15,823,436	14,542,729
Number of weighted stock options	9.	78,734	117,677	42,729

*Certain amounts have been changed to reflect adjustments made as described in note 1.1.

ADVANCED INFLIGHT ALLIANCE AG, MÜNCHEN

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

January 1 to December 31, 2012 (IFRS)	Notes	Jan 1 - Dec 31, 2012 Restated * EUR	Jan 1 - Dec 31, 2011 EUR	Jan 1 - Dec 31, 2010 EUR
Profit for the period		**5,090,403**	**4,406,657**	**5,492,612**
Other comprehensive income				
Exchange differences on translation of foreign operations		-291,522	1,738,796	3,847,739
Net (loss)/gain on available-for-sale financial assets		2,451,106	0	0
Net (loss)/gain on assets classified as held for sale		1,733,203	0	0
Income tax effect		-28,581	0	0
Cash flow hedges				
Gains/(losses) from cash flow hedges for the period		-9,332	-119,070	0
Reclassification to profit or loss	13.4.	50,244	78,814	131,356
Income tax effect		-13,493	13,277	-43,363
		27,419	**-26,980**	**87,993**
Other comprehensive income for the period net of tax		**3,891,625**	**1,711,816**	**3,935,732**
Total comprehensive income for the period net of tax		**8,982,028**	**6,118,473**	**9,428,344**

*Certain amounts have been changed to reflect adjustments made as described in note 1.1.

ADVANCED INFLIGHT ALLIANCE AG, MUNICH

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS) as of December 31, 2012	Notes	Dec 31, 2012 Restated* EUR	Dec 31, 2011 EUR
ASSETS			
Non-current assets			
Intangible assets:			
- Goodwill	11.	38,090,242	37,962,663
- Film rights	11.	37,193	57,446
- Other intangible assets	11.	21,742,233	22,320,179
Property, plant and equipment			
- Land and buildings	10.	160,913	756,565
- Operating and office equipment	10.	1,458,783	1,496,562
Non-current financial assets	13.1.	4,619,724	0
Deferred tax assets	7.	77,353	1,944,573
Total non-current assets		**66,186,441**	**64,537,988**
Current assets			
Inventories	15.	11,041,697	11,701,247
Trade and other receivables	16.	22,929,716	19,843,741
Current financial assets	13.1.	17,101	17,401
Income tax assets	7.	3,781,943	2,566,180
Cash and cash equivalents	17.	16,310,491	15,959,760
Other assets	16.1.	1,926,560	2,231,011
Total current assets		**56,007,508**	**52,319,340**
Assets classified as held for sale	12.	22,059,591	0
TOTAL ASSETS		**144,253,540**	**116,857,328**
EQUITY AND LIABILITIES			
Equity			
Issued capital	19.1.	23,914,159	16,688,091
Share premium	19.2.	30,437,875	12,058,795
Retained earnings	19.2.	24,297,831	21,209,999
Other components of equity	19.2.	5,043,162	1,151,537
Total equity		**83,693,027**	**51,108,422**
Non-current liablities			
Interest bearing loans and borrowings	13.2.	4,521,464	9,615,770
Non-current financial liabilties	13.2.	3,285,048	2,655,448
Provisions	22.	231,452	178,379
Deferred tax liabilties	7.	5,227,980	6,795,212
Total non-current liabilities		**13,265,944**	**19,244,809**
Current liablities			
Interest bearing loans and borrowings	13.2.	4,069,045	3,060,621
Trade and other payables	23.	34,362,085	34,272,017
Current financial liabilities	13.2.	506,388	888,355
Income tax payable	7.	3,231,700	2,417,043
Provisions	22.	142,047	267,865
Other liabilities	23.	4,983,304	5,598,196
Total current liabilities		**47,294,569**	**46,504,097**
TOTAL EQUITY AND LIABILITIES		**144,253,540**	**116,857,328**

*Certain amounts have been changed to reflect adjustments made as described in note 1.1.

ADVANCED INFLIGHT ALLIANCE AG, MUNICH

STATEMENT OF CHANGES IN EQUITY January 1 to December 31, 2012 (IFRS)

Restated *

		Issued capital (No-par value shares)				Other components of equity				
				Share premium	Retained earnings	Foreign currency translation reserve	Cash flow hedge reserve	Available-for-sale reserve	Total	Total equity
	Notes	Number	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Balance as of January 1, 2010		14,500,000	14,500,000	8,794,290	14,500,730	-4,355,196	-140,814	0	-4,496,010	33,299,010
Issue of share capital										0
Transaction costs										0
Dividends					-1,450,000					-1,450,000
Stock options				76,735						76,735
Profit for the period					5,492,612					5,492,612
Other comprehensive income						3,847,738	87,993	0	3,935,731	3,935,731
Total comprehensive income										**9,428,343**
Balance as of December 31, 2010		**14,500,000**	**14,500,000**	**8,871,025**	**18,543,342**	**-507,458**	**-52,821**	**0**	**-560,279**	**41,354,088**
Balance as of January 1, 2011		14,500,000	14,500,000	8,871,025	18,543,342	-507,458	-52,821	0	-560,279	41,354,088
										0
Issue of share capital		2,071,428.00	2,071,428	3,107,142						5,178,570
Transaction costs				-31,702						-31,702
Dividends	20.				-1,740,000					-1,740,000
Stock options	21.	116,663.00	116,663	112,330						228,993
Profit for the period					4,406,657					4,406,657
Other comprehensive income						1,738,796	-26,980		1,711,816	1,711,816
Total comprehensive income										**6,118,473**
Balance as of December 31, 2011		**16,688,091**	**16,688,091**	**12,058,795**	**21,209,999**	**1,231,338**	**-79,801**	**0**	**1,151,537**	**51,108,422**
Balance as of January 1, 2012		16,688,091	16,688,091	12,058,795	21,209,999	1,231,338	-79,801	0	1,151,537	51,108,422
Issue of share capital	19.1.	7,109,402	7,109,402	18,305,593						25,414,995
Transaction costs				-33,572						-33,572
Dividends	20.				-2,002,571					-2,002,571
Stock options	21.	116,666	116,666	107,059						223,725
Profit for the period	9.				5,090,403					5,090,403
Other comprehensive income	19.2.					-291,522	27,419	4,155,728	3,891,625	3,891,625
Total comprehensive income										**8,982,028**
Balance as of December 31, 2012		**23,914,159**	**23,914,159**	**30,437,875**	**24,297,831**	**939,816**	**-52,382**	**4,155,728**	**5,043,162**	**83,693,027**

*Certain 2012 amounts have been changed to reflect adjustments made as described in note 1.1.

ADVANCED INFLIGHT ALLIANCE AG, MUNICH

CONSOLIDATED STATEMENT OF CASH FLOWS
January 1 to December 31, 2012 (IFRS)

		Notes	Jan 1 - Dec 31, 2012 Restated * EUR thsd.	Jan 1 - Dec 31, 2011 EUR thsd.	Jan 1 - Dec 31, 2010 EUR thsd.
	Operating activities				
	Profit before tax		8,634	5,898	7,589
+ / -	Adjustments to reconcile net income to net cash flow:				
+	Depreciation of property, plant and equipment	6.7.	831	824	1,018
+	Amortization and impairment of intangible assets	6.7.	3,808	3,135	2,954
+	Share-based payment transaction expense	21.	14	-43	77
- / +	Gain/loss on disposal of property, plant and equipment	10.	-985	10	-56
-	Finance income	6.4.	-231	-122	-137
+	Finance costs	6.3.	1,544	768	962
+ / -	Movements in provisions		-78	-44	-34
+ / -	Other non-cash adjustments		394	-625	0
	Working capital adjustments:				
- / +	Movements in trade and other receivables and prepayments	16.	-3,498	4,849	217
- / +	Movements in inventories	15.	690	-175	-330
+ / -	Movements in trade and other payables	23.	19	-3,947	-332
- / +	Gain/loss from deferred taxes	7.	-314	-1,898	-780
-	Income tax paid		-3,092	-2,291	-1,230
=	**Net cash flows from operating activities**		**7,736**	**6,339**	**9,918**
	Investing activities				
-	Purchase of property, plant and equipment		-906	-772	-600
-	Purchase of intangible assets		-1,905	-851	-3,935
+	Proceeds from sale of property, plant and equipment	10.	1,725	0	0
-	Acquisition of subsidiaries, net of cash acquired	4.	-584	-12,800	-3,710
- / +	Purchase of other financials assets including transaction costs	13.1.	-2,288	100	143
-	Cash paid for other financial liabilities	13.2.	-894	-1,875	0
=	**Net cash flows used in investing activities**		**-4,852**	**-16,198**	**-8,102**
	Financing activities				
+	Proceeds from borrowings		0	10,806	5,293
+	Proceeds from capital increase	19.1.	5,515	5,179	0
+	Proceeds from exercise of stock options	21.	233	229	0
-	Repayments of borrowings	13.2.	-4,227	-4,072	-8,417
-	Interest paid and transaction costs	6.3.	-708	-643	-876
+	Interest received	6.4.	42	41	0
-	Dividends paid to equity holders of the parent	20.	-2,003	-1,740	-1,450
=	**Net cash flows from/used in financing activities**		**-1,148**	**9,800**	**-5,450**
=	Net increase/(decrease) in cash and cash equivalents		1,736	-59	-3,634
+ / -	Net foreign exchange difference		-1,862	-62	1,124
+	Cash and cash equivalents as of January 1		15,960	13,954	16,465
+	Changes in cash due to changes in the composition of consolidated companies		476	2,126	1
=	**Cash and cash equivalents as of December 31**		**16,310**	**15,960**	**13,956**

*Certain amounts have been changed to reflect adjustments made as described in note 1.1.

ADVANCED INFLIGHT ALLIANCE AG, MÜNCHEN

Statement of Changes in Non-Current Assets for Financial Year 2012 (IFRS)

	At Cost of Acquisition or Production						Accumulated Depreciation					Net Book Values	
	Jan.1, 2012 EUR	Changes of consol. Comp. EUR	Additions EUR	Disposals EUR	Currency Differences EUR	Dec. 31, 2012 EUR	Jan. 1, 2012 EUR	Additions EUR	Disposals EUR	Currency Differences EUR	Dec. 31, 2012 EUR	Dec. 31, 2012 EUR	Dec. 31, 2011 EUR
INTANGIBLE ASSETS:													
Goodwill	37,962,663	158,642	0	0	-31,063	38,090,242	0	0	0	0	0	38,090,242	37,962,663
Film rights	3,397,500	0	0	0	0	3,397,500	3,340,054	20,253	0	0	3,360,307	37,193	57,446
Other intangible assets	34,413,048	1,035,401	1,905,486	-751,797	137,905	36,740,043	12,092,868	3,788,176	-751,797	-131,438	14,997,810	21,742,233	22,320,179
	75,773,211	1,194,043	1,905,486	-751,797	106,842	78,227,785	15,432,922	3,808,429	-751,797	-131,438	18,358,117	59,869,668	60,340,288
PROPERTY, PLANT & EQUIPMENT:													
Land, similar rights and buildings	912,260	0	25,417	-726,602	37,999	249,074	155,694	53,873	-134,488	13,082	88,161	160,913	756,565
Operating and office equipment	6,700,279	4,019	880,459	-28,800	14,600	7,570,557	5,203,717	777,011	-23,630	154,676	6,111,774	1,458,783	1,496,562
	7,612,539	4,019	905,876	-755,402	52,599	7,819,631	5,359,411	830,884	-158,118	167,758	6,199,935	1,619,696	2,253,127
	83,385,750	**1,198,062**	**2,811,362**	**-1,507,199**	**159,441**	**86,047,416**	**20,792,333**	**4,639,313**	**-909,915**	**36,321**	**24,558,052**	**61,489,364**	**62,593,415**

ADVANCED INFLIGHT ALLIANCE AG, MÜNCHEN

Statement of Changes in Non-Current Assets for Financial Year 2011 (IFRS)

	At Cost of Acquisition or Production						Accumulated Depreciation					Net Book Values	
	Jan.1, 2011 EUR	**Changes of consol. Comp. EUR**	**Additions EUR**	**Disposals EUR**	**Currency Differences EUR**	**Dec. 31, 2011 EUR**	**Jan. 1, 2011 EUR**	**Additions EUR**	**Disposals EUR**	**Currency Differences EUR**	**Dec. 31, 2011 EUR**	**Dec. 31, 2011 EUR**	**Dec. 31, 2010 EUR**
INTANGIBLE ASSETS:													
Goodwill	25,849,273	11,063,008	0	-13,502	1,063,883	37,962,663	13,502	0	-13,502	0	0	37,962,663	25,835,772
Film rights	3,397,500	0	0	0	0	3,397,500	3,280,185	59,869	0	0	3,340,054	57,446	117,315
Other intangible assets	28,165,260	5,491,223	850,794	-777,495	683,266	34,413,048	9,571,024	3,075,478	-780,049	226,416	12,092,869	22,320,179	18,594,236
	57,412,033	16,554,231	850,794	-790,997	1,747,149	75,773,210	12,864,711	3,135,347	-793,551	226,416	15,432,923	60,340,287	44,547,322
PROPERTY, PLANT & EQUIPMENT:													
Land, similar rights and buildings	788,389	0	73,437	0	50,434	912,260	79,737	53,306	0	22,651	155,694	756,566	708,651
Operating and office equipment	5,800,995	77,596	698,212	-110,199	233,675	6,700,279	4,295,530	770,590	-85,774	223,370	5,203,717	1,496,562	1,505,465
	6,589,384	77,596	771,650	-110,199	284,109	7,612,539	4,375,268	823,896	-85,774	246,021	5,359,411	2,253,127	2,214,116
	64,004,735	**16,631,826**	**1,622,444**	**-904,514**	**2,031,258**	**83,385,749**	**17,239,979**	**3,959,243**	**-879,325**	**472,438**	**20,792,334**	**62,593,415**	**46,764,757**

ADVANCED INFLIGHT ALLIANCE AG
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2012 FINANCIAL YEAR

Contents

1. General information

Advanced Inflight Alliance AG (hereinafter referred to as "AIA AG") is domiciled in Munich, Germany, and is registered in the commercial register at Munich under number HRB 122000. The Company's offices are located at Schellingstrasse 35, 80799 Munich. AIA AG is primarily involved in holding and actively managing investments in operating companies. Its shares are quoted in Deutsche Börse's General Standard trading segment. They are traded on an official stock exchange. The Management Board released the financial statements for publication on August 8, 2013.

Additionally AIA AG is a subsidiary of PAR Investment Partners L.P., Boston, USA, which is the ultimate holding company of the Group, but is not required to prepare Group financials. Therefore AIA AG is the only company in the Group to prepare Group financials.

The Advanced Inflight Alliance Group (hereinafter: "AIA Group" or "Group") operates in the Content Service Providing (CSP) segment with its subsidiaries Inflight Productions Germany GmbH (hereinafter: “IFP Germany”; formerly: Atlas Air Film + Media Service GmbH, Duisburg; IFE Alliance Licensing GmbH, Duisburg (hereinafter: “IFEL”); DTI Software Inc., Montreal, Canada (hereinafter: “DTI Software”); Inflight Productions Limited, London, UK, along with their respective subsidiaries; as well as Inflight Management Development Centre (IMDC) Limited (hereinafter: “IMDC”), Derbyshire, United Kingdom, which was newly acquired in 2012. The Group subsidiaries, Fairdeal Multimedia Pvt. Ltd., Mumbai, India; and Fairdeal Studios Pvt. Ltd., Mumbai, India; as well as the two companies acquired in the 2011 financial year, Entertainment in Motion Inc., Los Angeles, CA, USA; and Emphasis Video Entertainment Ltd., Hong Kong (hereinafter: "EVE" or "Emphasis"); constitute the Content segment. For purposes of internal reporting and analyses, Inflight Productions Limited, London, UK, and its subsidiaries are combined as the IFP Group. DTI Software Inc., Montreal, Canada, DTI Solutions Inc., Montreal, Canada, and DTI Software FZ-LLC, Dubai, United Arab Emirates, were combined in the DTI Group. The two Indian companies — Fairdeal Multimedia Pvt. Ltd., Mumbai, and Fairdeal Studios Pvt. Ltd., Mumbai, both India, constitute the Fairdeal Group. As the Group's ultimate parent company, AIA AG prepared its consolidated financial statements as of December 31, 2012, in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, and in accordance with the provisions applicable under German Commercial law as defined in Section 315a (1) German Commercial Code. The prior-year figures were determined according to the same principles.

The term IFRS also includes the applicable International Accounting Standards (IAS). The statements of the IFRS Interpretations Committee (IFRS IC) - previously the International Financial Reporting Interpretations Committee (IFRIC) - were also taken into account.

The application of the accounting, measurement and reporting methods is governed by the principle of consistency. Changes may be necessary as a result of new or revised IFRS. The Company complied with all new or revised IFRS whose first-time application was mandatory as of January 1, 2012.

The closing date of all the annual financial statements of the companies included in consolidation is the closing date of the annual financial statements of AIA AG and the Group. The income statement is structured based on the nature of expense format.

1.1 Prior period adjustments

An error was identified which impacted the year ended December 31, 2012. The impact of correcting this error in the 2012 consolidated financial statements is described below:

The Company acquired certain warrants along with the shares when it acquired Row 44 (see note 12). The warrants qualify as derivatives under IAS 39 and should have been separately recorded at fair value upon acquisition and any changes in fair value reported in earnings. Therefore, a portion of the initial value for the investment in Row 44 should have been allocated to the warrants. The restatement to Assets Classified as Held for Sale is the result of recording the fair value of warrants as of December 31, 2012. The restatement to Other Comprehensive Income is the correction of the change in fair value of the shares as a result of allocating a portion of the initial consideration to the warrants (which resulted in a lower value as of July 2, 2012 compared to the fair value as of December 31, 2012, and therefore a larger OCI gain through year end). As the valuation of those warrants was erroneously not performed and accounted for in the consolidated financial statements as of December 31, 2012 such restatement is warranted.

The effects on amounts for the year ended December 31, 2012 are as follows:

Effect on amounts as of and for the year ended December 31, 2012	**As originally reported EUR**	**Restatement EUR**	**As restated EUR**
Consolidated Income Statement			
Finance income	52,697	178,149	230,846
Profit from financing activities	-1,490,989	178,149	-1,312,840
Profit before tax	8,455,625	178,149	8,633,774
Profit for the period	4,912,254	178,149	5,090,403
Consolidated Statement of Comprehensive Income			
Profit for the period	4,912,254	178,149	5,090,403
Net (loss)/gain on assets classified as held for sale	1,052,989	680,214	1,733,203
Income tax effect	-17,364	-11,217	-28,581
Total comprehensive income for the period net of tax	8,134,882	847,146	8,982,028
Consolidated Statement of Financial Position			
Current deferred taxes	88,570	-11,217	77,353
Total non-current assets	66,197,658	-11,217	66,186,441
Assets classified as held for sale	21,201,228	858,363	22,059,591
Total assets	143,406,394	847,146	144,253,540
Retained earnings	24,119,682	178,149	24,297,831
Other components of equity	4,374,165	668,997	5,043,162
Total equity	82,845,881	847,146	83,693,027
Total equity and liabilities	143,406,394	847,146	144,253,540

2 Accounting policies

2.1 Preparation of the financial statements

The consolidated financial statements are generally prepared using the historical cost system.

This does not apply, however, to derivative financial instruments and the available-for-sale financial assets, which are measured at fair value. The carrying amounts of the assets and liabilities that are recognized in the statement of financial position and represent hedged items in fair value hedges and are otherwise recognized at amortized cost are adjusted to reflect fair value changes attributable to risks hedged in effective hedges. The consolidated financial statements are prepared in euros. Unless otherwise specified, all figures are rounded up or down to the nearest thousand (EUR thousand).

2.2 Changes in the accounting policies

In accordance with IAS 1.41 a reclassification of the comparative amounts was made for one item in the financial statements. The short term portion of the earn out liabilities will be disclosed within the separate line item current financial liabilities starting financial year 2012. The respective prior year amount of EUR 888 thousands was reclassified from current other liabilities to current financial liabilities accordingly.

Adoption of new and revised accounting Standards

Standards, Interpretations and revised Standards to be applied for the first time

With the exception of the change mentioned above and the new and revised Standards and Interpretations that took effect January 1, 2012, and are specified below, the Group's accounting policies basically conform to the policies it used the previous year:

- Amendment to IAS 12 - Deferred Tax: Recovery of Underlying Assets
- Amendment to IFRS 7 – Financial Instruments: Disclosures on enhanced derecognition requirements
- Amendment to IFRS 1 - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

The application of these Standards and Interpretations is explained in greater detail below:

Amendment to IAS 12 - Deferred Tax: Recovery of Underlying Assets

The amendment includes a clarification concerning the measurement of deferred tax on investment property measured at fair value and therefore introduces the rebuttable presumption that, for purposes of measuring deferred tax on investment property measured at fair value according to IAS 40, the carrying amount of an investment property will generally be recovered through sale. IAS 16 requires basing the measurement of deferred taxes on non-consumable assets in accordance with the revaluation model on the assumption that they will be sold. The amendment shall be applied for the first time for financial years beginning on or after January 1, 2012.

The Group does not have any investment property measured at fair value or assets measured using the revaluation model in accordance with IAS 16. Consequently, the amendment does not affect the Group's consolidated financial statements.

Amendment to IFRS 7 – Financial Instruments: Disclosures on enhanced derecognition requirements

With this amendment, the IASB introduced extensive new disclosures concerning transferred, but not derecognized, financial assets to enable users of financial statements to understand the relationship between these assets and the associated liabilities. In addition, information about an entity's continuing involvement in transferred and derecognized financial assets at the reporting date is required to provide users with an understanding of the type of continuing involvement and the associated risks. The amendment shall be applied for the first time for financial years beginning on or after July 1, 2011. The amendment solely relates to the disclosures and does not affect the Group's financial position, cash flows and financial performance.

Amendment to IFRS 1 - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

In this amendment, the IASB laid down guidelines on how an entity can resume preparation of its financial statements in compliance with IFRSs when its functional currency is no longer subject to severe hyperinflation. The amendment shall be applied for the first time for financial years beginning on or after July 1, 2011. This amendment does not have any effect on the consolidated financial statements.

Published Standards whose application is not yet mandatory

The following Standards were not applied:

a) EU endorsement completed

The IASB published the Standards and Interpretations enumerated below that have already been transposed into EU law using the comitology procedure but are not effective yet: The Group does not apply these Standards and Interpretations early.

Amendments of IAS 1 - Presentation of Items of other Comprehensive Income

The amendments to IAS 1 result in a change in the grouping of items presented in other comprehensive income. Items that could be subsequently reclassified in other comprehensive income (including gains from the hedge of a net investment, differences from foreign currency translation for foreign operations, gains and losses from cash flow hedges and from the disposal of available financial assets) must be reported separately from the items that will never be reclassified (including actuarial gains and losses from defined-benefit pension plans and effects from the remeasurement of land and buildings). The amendments solely relate to the presentation and does not affect the Group's financial position, cash flows and financial performance. The amendments shall be applied for the first time for financial years beginning on or after July 1, 2012, and will be applied by the Group in its first report following its entry into force.

IAS 19 Employee Benefits (revised)

The IASB made comprehensive amendments to IAS 19. The adjustments made range from fundamental changes such as those concerning the determination of expected income from plan assets and the elimination of the corridor method through to simple clarifications all the way to revisions of the wording. This amendment does not affect the Group's financial position, cash flows and financial performance because it does not have any pension liabilities or plan assets. The amendment shall be applied for the first time for financial years beginning on or after January 1, 2013.

IAS 28 Investments in Associates and Joint Ventures (revised 2011)

With the adoption of IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 was renamed Investments in Associates and Joint Ventures, and its scope, formerly limited to associates, was expanded to include application of the equity method to joint ventures. The revised amendment shall be applied for the first time for financial years beginning on or after January 1, 2013. Please see our disclosures on IFRS 11 in regards to the effects.

Amendment to IAS 32 – Offsetting a Financial Asset and a Financial Liability

The amendment clarifies the phrase "currently has a legally enforceable right of set-off." Furthermore, it provides clearer guidance on application of the offsetting criteria of IAS 32 to settlement systems (such as central clearing house systems) which use gross settlement for non-simultaneous individual transactions. Initial application of the revised Standard is mandatory for financial years beginning on or after January 1, 2014 and is not expected to affect the consolidated financial statements.

Amendment to IFRS 1 – Government Loans

The amendment stipulates that first-time adopters must prospectively apply the rules of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance to government loans that existed at the time they transitioned to IFRSs. However, entities have the option of applying the provisions of IFRS 9 (or IAS 39) and IAS 20 retrospectively to government loans if the necessary information for this was available at the date of initial recognition of these loans. This exception allows first-time adopters to waive retrospective measurement of government loans with a below-market rate of interest. The amendment shall be applied for the first time for financial years beginning on or after January 1, 2013, and will not affect the consolidated financial statements since no such loans exist and IFRS 1 does not apply to the Group.

Amendment to IFRS 7 – Offsetting Financial Assets and Financial Liabilities

According to this amendment, an entity must disclose information on rights of set-off and associated agreements (e.g. collateral agreements). In this way, information is provided to users of financial statements so that they can assess the effects of set-off agreements on the entity's financial position. The new disclosures are required for all recognized financial instruments set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosure requirement also applies to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreements, regardless of whether they are set-off in accordance with IAS 32. Initial application of the amendment is required in financial years beginning on or after January 1, 2013 and is not expected to affect the consolidated financial statements.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces requirements of both IAS 27 Consolidated and Separate Financial Statements and covers topics previously regulated by SIC-12 Consolidation – Special Purpose Entities. IFRS 10 establishes a uniform control concept that applies to all companies, including special purpose entities. In contrast to the previously prevailing legal situation, the changes that IFRS 10 introduces require management to exercise substantial discretion in answering the question which entities the Group controls and whether the given entities thus should be included in the consolidated financial statements by means of full consolidation. The Standard shall be applied to financial years beginning on or after January 1, 2013. Companies which prepare the financial statements in accordance with IFRS as adopted by the European Union shall apply the standard at the latest for financial years beginning on or after January 1, 2014. IFRS 10 will not affect the Group.

IFRS 11 Joint Arrangements

IFRS 11 replaces both IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities - Non-Monetary Contributions by Venturers. IFRS 11 thus eliminates the previously available option of proportionate consolidation for jointly controlled entities. In the future, such entities may only be consolidated using the equity method. The Standard shall be applied to financial years beginning on or after January 1, 2013. Companies which prepare the financial statements in accordance with IFRS as adopted by the European Union shall apply the standard at the latest for financial years beginning on or after January 1, 2014. This Standard shall be applied retrospectively to joint arrangements existing at the time of initial application. The Standard will not have any impact on the Group because it does not have any interests in joint ventures.

IFRS 12 – Disclosures of Interests in Other Entities

This Standard governs the disclosure requirements related to Group accounting principles and consolidates the disclosures required of subsidiaries (heretofore subject to IAS 27); the disclosures required of jointly controlled and associated entities (heretofore subject to IAS 31 and IAS 28, respectively); as well as those required of structured entities. The Standard also defines a number of additional disclosures that do not affect the financial statements of the Group, however. The Standard shall be applied to financial years beginning on or after January 1, 2013. Companies which prepare the financial statements in accordance with IFRS as adopted by the European Union shall apply the standard at the latest for financial years beginning on or after January 1, 2014. The notes disclosures regarding this group of entities will be more comprehensive in the future because the new Standard contains new disclosure requirements above and beyond the current ones.

IFRS 13 Fair Value Measurement

This Standard stipulates uniform guidelines for calculating fair value. It does not address the issue of when assets and liabilities must or can be measured at fair value, but instead stipulates guidelines for properly measuring fair value under IFRSs. The Standard shall be applied for the first time for financial years beginning on or after January 1, 2013. The Group is reviewing at this time whether the new Standard will affect its financial performance, cash flows and financial position. Based on a preliminary assessment, no significant effects are expected.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

IFRIC 20 discusses accounting for stripping costs incurred during the production phase of a surface mine. The Interpretation considers how to account for the benefits of the stripping activities. The Interpretation shall be applied for the first time for financial years beginning on or after January 1, 2013 and will not affect the consolidated financial statements.

b) EU endorsement pending

The IASB published the following Standards and Interpretations that were not yet effective. These Standards and Interpretations have not yet been adopted by the EU and have not yet been applied by the Group.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 represents the first phase of the IASB project to replace IAS 39 and addresses the classification and measurement of financial assets and liabilities in accordance with IAS 39. The Standard had to be applied for the first time for financial years beginning on or after January 1, 2013. Published in December 2011, the amendment to IFRS 9, Mandatory Initial Date of IFRS 9 and Transition Disclosures, shifted the date of mandatory first-time application to January 1, 2015. In later project phases, the IASB will deal with hedge accounting and impairment of financial assets. The Group will quantify the effects in connection with the other phases once they have been published in order to obtain a comprehensive picture of the potential impact.

Improvements to IFRSs (2009-2011)

The changes in this pronouncement will not affect the consolidated financial statements.

- IFRS 1 First-time Adoption of International Financial Reporting Standards

  Clarifies that an entity that has ceased accounting according to IFRSs, and elects or is obligated to continue, can opt to re-apply IFRS 1. If the entity does not re-apply IFRS 1, it must restate its financial statements retroactively as if it had not ceased applying IFRS.

- IAS 1 Presentation of Financial Statements

  Clarifies the difference between voluntary additional comparative information and required comparative information generally covering prior reporting periods.

- IAS 16 Property, Plant and Equipment

Clarifies that major spare parts and servicing equipment qualifying as property, plant and equipment do not fall under inventory.

- IAS 32 Financial Instruments: Presentation

  Clarifies that income taxes on distributions to equity holders are subject to the requirements of IAS 12 Income Taxes.

- IAS 34 Interim Financial Reporting

  Rule aligning disclosures concerning segment assets and segment liabilities in interim financial statements and aligning interim financial disclosures with annual financial disclosures.

First-time application of this project's amendments is required for financial years beginning on or after January 1, 2013.

Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities

The IASB has published Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27), which provides an exemption from consolidation of subsidiaries under IFRS 10 Consolidated Financial Statements for entities, which meet the definition of an 'investment entity', such as certain investment funds. Instead, such entities would measure their investment in particular subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments or IAS 39 Financial Instruments: Recognition and Measurement. The amendment shall be applied for the first time for financial years beginning on or after January 1, 2014. The amendment will not have an impact on AIA Group.

Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)

The amendments are intended to provide additional transition relief in IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, by "limiting the requirement to provide adjusted comparative information to only the preceding comparative period". Also, amendments were made to IFRS 11 and IFRS 12 to eliminate the requirement to provide comparative information for periods prior to the immediately preceding period. The effective date of these amendments, annual periods beginning on or after January 1, 2013, is aligned with the effective dates of IFRS 10, IFRS 11 and IFRS 12.

2.3. Principles of consolidation

Principles of consolidation

The consolidated financial statements comprise the financial statements of AIA AG and its subsidiaries as of December 31, 2012.

Subsidiaries are consolidated from the acquisition date, i.e., from the date on which the Group obtains control . Consolidation ends when the parent company relinquishes control.

The subsidiaries' financial statements are prepared as of the same reporting date as the parent company's financial statements using uniform accounting policies.

All intercompany balances, income and expenses as well as unrealized gains and losses from intercompany transactions are eliminated in full.

Basis of consolidation

At the reporting date, the AIA Group comprised the Group parent AIA AG as well as 23 subsidiaries included in the consolidated financial statements in accordance with IAS 27.12.

Fully consolidated companies

In addition to the parent company, the following subsidiaries are included as fully consolidated companies in the consolidated financial statements of AIA AG:

Company, registered office	Business activities	Percentage of capital owned
Inflight Productions Germany GmbH, Duisburg	CSP (content service providing)	100
IFE Alliance Licensing GmbH, Duisburg	CSP (content service providing)	100
Inflight Management Development Centre (IMDC) Limited, Derbyshire, United Kingdom	CSP (content service providing)	100
Advanced Film GmbH, Munich	No operating activities	100
Advanced Inflight Alliance Limited, Bristol, UK	Holding	100
DTI Software Inc., Montreal, Canada	CSP (content service providing)	100
Inflight Productions Limited, London, UK	CSP (content service providing)	100
Inflight Studios Limited, London, UK	No operating activities	100 [1)]
WMRS Studios Limited, London, UK	No operating activities	100 [1)]
28 Limited, London, UK	CSP (content service providing)	100 [1)]
Inflight Productions, Inc., Los Angeles, USA	CSP (content service providing)	100 [1)]
The Lab.Aero Inc., Los Angeles, USA	CSP (content service providing)	100 [1)]
Inflight Productions BV, Amsterdam, Netherlands	CSP (content service providing)	100 [1)]
Inflight Productions Pty Limited, Melbourne, Australia	CSP (content service providing)	100 [1)]
Inflight Productions Limited, Auckland, New Zealand	CSP (content service providing)	100 [1)]
Inflight Productions Pte Limited, Singapore	CSP (content service providing)	100 [1)]
Inflight Productions FZ-LLC, Dubai, United Arab Emirates	CSP (content service providing)	100 [1)]
DTI Software FZ-LLC, Dubai, United Arab Emirates	CSP (content service providing)	100 [2)]
DTI Solutions Inc., Montreal, Canada	CSP (content service providing)	100 [2)]
Fairdeal Multimedia Pvt. Ltd., Mumbai, India	Content	100
Fairdeal Studios Pvt. Ltd., Mumbai, India	Content	100
Entertainment in Motion Inc., Los Angeles, USA	Content	100
Emphasis Video Entertainment Ltd., Hong Kong	Content	100

[1)] indirect holding via Inflight Productions Limited, London, UK.

[2)] indirect holding via DTI Software Inc., Montreal, Canada

2.4. Summary of key accounting policies

2.4.1. Business combinations and goodwill

Business combinations from January 1, 2010

Business combinations are accounted for using the acquisition method. The cost of a business combination is the sum total of the consideration assigned, which is measured at the acquisition-date fair value, and the non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree at either fair value or the proportionate share in the recognized amounts of the acquiree's identifiable net assets. Costs incurred in connection with a business combination are recognized as an expense and reported under other operating expenses.

Whenever the Group acquires an entity, it shall assess the appropriate classification and designation of the financial assets and the liabilities assumed in accordance with the terms of the agreement, the economic environment and conditions existing at the acquisition date. This also involves separating embedded derivatives from their host contracts.

In step acquisition, the acquirer remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognizes the resulting gain or loss, if any, in profit or loss.

The contingent consideration agreed is recognized at the acquisition-date fair value. Subsequent changes to the fair value of contingent consideration classified as financial instrument are recognized either in profit or loss or in other comprehensive income in accordance with IAS 39. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

On initial recognition, goodwill is measured at cost, which is the excess of the total consideration assigned and the amount of the share in the non-controlling interest over the Group's identifiable assets acquired and liabilities assumed. If this consideration is less than the fair value of the net assets of the acquired subsidiary, the difference is recognized in profit or loss.

Following initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated, from the acquisition date, to each of the Group's cash-generating units that is expected to benefit from the business combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those cash-generating units.

If goodwill has been allocated to a cash-generating unit and an operation within that unit is sold, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal. The value of the portion of goodwill sold is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.4.2. Foreign currency translation

The consolidated financial statements are prepared in euros, the parent company's functional currency. Every company in the Group defines its own functional currency, which is used to measure the items in this entity's financial statements. The Group has decided to reclassify profit or loss resulting from the simultaneous consolidation method, which the Group uses for consolidation purposes.

Foreign currency transactions and balances

Foreign currency transactions are initially translated by the Group companies into the functional currency using the spot exchange rate at the date of the transaction. Monetary assets and liabilities in a foreign currency are translated into the functional currency using the closing rate.

All exchange differences are recognized in profit or loss. With the exception of exchange differences arising on a monetary item that forms part of an effective hedge of a net investment in a foreign operation. These are recognized in other comprehensive income up to the disposal of the net investment and only recognized in profit or loss on its disposal. Taxes resulting from the exchange differences arising on these monetary items are also reported as a component of equity.

Foreign currency non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

Translation of the financial statements of consolidated companies

The assets and liabilities of foreign operations are translated into euros at the exchange rate prevailing at the reporting date. Income and expenses are translated at the exchange rate at the date of the transaction. The resulting exchange differences are recognized in other comprehensive income. The amount reported in other comprehensive income for a foreign operation is reclassified to profit or loss on disposal of the foreign operation. Any goodwill arising on the acquisition of a foreign operation after January 1, 2005, and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.4.3. Revenue recognition

Independent of the date of payment, revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received. Trade discounts, rebates, and value-added tax or other charges are not considered. The recognition of revenue is also contingent on the criteria listed below:

Revenue in the CSP segment

In the CSP segment, revenue is recognized for service arrangements associated with licenses after the service has been rendered and the customer can actually use the service in the form of an “inflight entertainment package.” This is the case at the beginning of what is known as the “on-board cycle,” i.e., at the inception of the license or from the time when the customer can use the services provided in the aircraft.

Revenue from pure service arrangements is recognized when the significant risks and rewards of ownership of the goods and products sold have transferred to the buyer. This usually occurs on delivery of the goods and products.

Revenue in the Content segment

Revenue from the use and/or sublicensing of the film rights for inflight entertainment is realized at the time the customer’s license period begins. Any additional services rendered, such as technical services or the provision of materials, are billed as ancillary costs.

Interest income

Interest income and interest expense are recognized using the effective interest rate for all financial instruments measured at amortized cost as well as for interest-bearing financial assets and financial assets classified as held for sale. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Interest income is presented in the income statement under finance income.

Rental income

Income from letting and sub-letting is recognized in profit or loss on a pro rata basis.

2.4.4. Taxes

Income taxes

Current tax assets and liabilities for current and prior periods are measured in the amount expected to be refunded by the tax authorities or paid to the tax authorities. This amount is calculated based on the tax rates and tax laws applicable at the reporting date in the countries in which the Group is active and generates taxable profit.

Current taxes relating to items recognized outside profit or loss are recognized directly in equity rather than in profit or loss. Management regularly assesses individual tax issues to determine whether applicable tax provisions allow room for interpretation. Provisions for taxes are carried as required.

Deferred taxes

Deferred taxes are measured on the temporary differences existing at the reporting date between the carrying amount of an asset or liability in the statement of financial position and its tax base. The liability method is used for this.

A deferred tax liability is recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss),

- taxable temporary differences associated with investments in subsidiaries if the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

A deferred tax asset is recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable income will be available against which a deductible temporary difference and the unused tax losses and tax credit can be utilized, unless the deferred tax asset arises from:

- the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss),

- investments in subsidiaries to the extent that it is probable that the temporary differences will not reverse in the foreseeable future or sufficient taxable profit will not be available against which the temporary differences can be utilized.

The carrying amount of the deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted by the end of the reporting period. Future changes in tax rates are taken into account to the extent that significant effectiveness requirements within the framework of a legislative procedure have been met at the end of the reporting period.

Deferred taxes relating to items recognized outside profit or loss are recognized either in other comprehensive income or directly in equity consistent with the underlying transaction. Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxation entity.

Value-added tax

Income, expenses, and assets are recognized net of value-added tax. An exception is made in the following cases:

- If the value-added tax charged on the purchase of assets or the utilization of services cannot be reclaimed from the tax authorities, the tax is recognized as part of the cost of the asset or as a component of expense.

- Receivables and liabilities are carried together with the amounts of value-added tax included in these items.

The amount of value-added tax to be refunded by the tax authorities is presented in the statement of financial position under other assets, while the amount to be transferred to the tax authorities is reported under other liabilities.

2.4.5. Government grants

Government grants are recognized when there is reasonable assurance that the grants will be received and the entity will comply with the conditions associated with them. DTI Software and DTI Solutions Inc., Montreal, Canada, receive government grants for documented personnel costs incurred in connection with the development of software for the media industry – in our case software for games and applications for inflight entertainment systems. As the grants are awarded subsequently for a period that has ended, payment is not subject to any reservations. The grants are deducted directly from the assets recognized. In the financial year, the Companies received grants of EUR 879 thousand (previous year: EUR 640 thousand).

2.4.6. Pensions and other post-employment benefits

The Group has not extended any defined benefit pension commitments or other commitments for post-employment benefits. Pension arrangements are made for the members of the Management Board through contributions to a pension fund.

2.4.7. Share-based payment

The Group’s executives receive share-based payment in the form of equity instruments as part of their compensation package (equity-settled share-based payment transactions).

Equity-settled share-based payment transactions

Expenses from the award of the equity instruments to executives are measured by reference to the fair value of these equity instruments at grant date. The fair value is determined by an external expert by applying a suitable option pricing model. Please refer to note 21 for more information.

Expenses resulting from the award of equity instruments and the corresponding increase in equity are recognized in the period during which the service or performance conditions are required to be met (vesting period). This period ends on the day on which the equity instruments initially vest, i.e., the date on which the employee in question irrevocably becomes a beneficiary. The cumulative expense from the award of equity instruments that is presented at each reporting date up until the vesting date reflects the expired part of the vesting period as well as the number of equity instruments that, according to the Group’s best estimate, actually vest at the end of the vesting period. The income or expense reported in net profit or loss for the period corresponds to the development of the accumulated expense recognized at the beginning and end of the reporting period.

Expense is not recognized for rights to equity instruments that cannot be exercised, with the exception of rights for which certain market conditions need to be satisfied before these can be exercised. Irrespective of whether the market conditions are satisfied, these are considered exercisable providing all other performance conditions are satisfied.

If the terms and conditions of an equity-settled share-based payment arrangement are modified, expenses are recognized, at a minimum, in the amount in which they would be incurred if the terms and conditions of the arrangement had not changed. The Company also recognizes the effects of modifications that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the employee, measured at the date of the modification.

If an equity-settled payment arrangement is canceled, this is treated as if it had been exercised at the cancellation date. The unrecognized expense is recognized immediately. This applies to all payment arrangements when non-vesting conditions over which either the Company or the counterparty has influence are not satisfied. However, if the canceled payment arrangement is replaced by a new payment arrangement and the new payment arrangement is declared a replacement for the canceled payment arrangement at grant date, the canceled and the new payment arrangements are accounted for as a modification to the original payment arrangement (see the section above).

The accounting treatment for all cancellations of payment arrangements for equity-settled transactions is the same.

Please refer to note 9 for information on the dilutive effect of the outstanding stock options in the calculation of (diluted) earnings per share.

2.4.8. Financial instruments – initial recognition and subsequent measurement

2.4.8.1. Financial assets

Initial recognition and measurement

Financial assets, as defined in IAS 39, are classified as financial assets at fair value through profit or loss; as loans and receivables; as financial investments held to maturity; as financial assets available for sale; or as derivatives that are designated and effective hedging instruments. The Group establishes the classification of its financial assets on initial recognition.

They are measured at fair value on initial recognition. Transaction costs directly attributable to the acquisition of a financial asset are also accounted for in cases where financial investments are not designated as at fair value through profit or loss.

Purchases or sales of financial assets requiring delivery of the assets within the time frame established by regulation or convention in the marketplace concerned (market purchases) are measured on the trading day, i.e. the day on which the Group entered into the obligation to purchase or sell the given financial asset.

The Group's financial assets comprise cash, short-term investments and available-for-sale financial assets, as well as trade and other receivables. For further information on the financial assets, please see note 13.

Subsequent measurement

Subsequent measurements of financial assets are contingent on their classification, as follows:

Financial assets at fair value through profit or loss

The group of financial assets at fair value through profit or loss contains the financial assets held for trading, as well as financial assets designated on initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they were acquired for the purpose of selling or repurchasing them in the near term. This category comprises the Group's derivative financial instruments which, pursuant to IAS 39, are not designated hedging instruments in a hedge. Derivatives, including separately measured embedded derivatives, are also classified as held for trading unless they are designated and effective hedging instruments. Financial assets at fair value through profit or loss are recognized at fair value in the statement of financial position, and changes in their fair value are recognized in the income statement under finance income or finance costs.

The Group has not designated any financial assets on initial recognition as at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Upon initial recognition, such financial assets are subsequently measured at amortized cost using the effective interest method less any impairments. Amortized costs include premiums or discounts on acquisition, as well as all fees or points that are an integral part of the effective interest rate. Income from amortization resulting from the application of the effective interest method is reported in the income statement under finance income. Impairment losses are recognized in the income statement under finance costs.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are designated as financial investments held to maturity if the Group has the positive intention and ability to hold them to maturity. Upon initial recognition, held-to-maturity financial investments are recognized at amortized cost using the effective interest method. This method is based on the effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset. Gains and losses are recognized in the consolidated income statement if the financial investments are derecognized or impaired, as well as through the amortization process.

The Group did not have any held-to-maturity financial investments as of the financial years ending, respectively, on December 31, 2012, and December 31, 2011.

Available-for-sale financial assets

Available-for-sale (AfS) financial assets contain debt and equity instruments. Equity instruments designated as available for sale concern those not designated as held for trading nor as at fair value through profit or loss. The debt instruments in this category concern those that shall be held for an indefinite period and that may be sold in response to liquidity needs or changes in market rates or risks.

Upon initial measurement, available-for-sale financial assets are measured at cost and are subsequently measured at fair value. Unrealized gains or losses are recognized as other comprehensive income in the provisions for available-for-sale financial assets. The cumulative gain or loss is reclassified to other operating income on derecognition of such an asset. If an asset is impaired, the cumulative loss is recognized through profit or loss under finance costs and derecognized from the provisions for available-for-sale financial assets. In case of a negative difference between purchase price and fair value of an AfS financial asset at acquisition date, this difference will be recorded in profit or loss as a “day 1 loss”.

The Group assessed whether its ability and intention to dispose of its available-for-sale financial assets in the near term still applies. If the Group cannot trade these financial assets because there is no active market for them and if there is a fundamental change in management's intention to sell them in the foreseeable future, the Group may decide to reclassify these financial assets in rare circumstances. Reclassification to the category, loans and receivables, is permitted if the financial asset meets the definition of loans and receivables and if the Group has the positive intention and the ability to hold the asset for the foreseeable future or until maturity. They may only be reclassified to the held-to-maturity category if the entity has the ability and the positive intention to hold the financial assets accordingly.

If a financial asset was reclassified out of the available-for-sale category, all earlier gains or losses on this asset that were recognized directly in equity shall be reversed through profit or loss over the term to maturity of the financial investment using the effective interest method. Any differences between the new amortized cost and the expected cash flows shall be reversed over the remaining life of the asset using the effective interest method. If the asset is subsequently impaired, any amount recognized in equity shall be reclassified to profit or loss.

Derecognition

A financial asset (or a part of a financial asset or a part of a group of similar financial assets) is derecognized if one of the following conditions have been met:

- The contractual rights to receive the cash flows of a financial asset have expired.

- The Group has transferred its contractual rights to receive the cash flows of the financial asset to third parties or has assumed a contractual obligation to pay the cash flows to a third party immediately under a contract that fulfills the requirements of IAS 39.19 (so-called transfer contract) and, in that connection, (a) has either transferred substantially all of the risks and rewards of ownership of the financial asset or (b) has neither transferred nor retained substantially all of the risks and rewards of ownership of the financial asset but has not retained control over the asset.

If the Group transfers its contractual rights to cash flows from an asset or enters into a transfer contract pursuant to which it neither transfers nor retains substantially all of the risks and rewards of ownership of this asset but retains control over the asset transferred, the Group shall recognize the asset to the extent of its continuing involvement.

In this case, the Group shall also recognize the associated liability. The transferred asset and the related liability are measured to reflect the rights and obligations that the Group retained. If the Group's continuing involvement takes the form of guaranteeing the transferred asset, the extent of its continuing involvement shall be the lower of the initial carrying amount of the asset and the maximum amount of the consideration received that the Group could have to repay.

2.4.8.2. Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is only considered impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Impairment may be indicated if there are indications that the debtor or a group of debtors are having significant financial difficulties; in case of a default or delinquency in interest or principal payments; if it is probable that the borrower will enter bankruptcy or other financial reorganization; and if observable data indicate that there is a measurable reduction in the expected future cash flows such as adverse changes in the payment status of borrowers or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that impairment has occurred, the amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The asset's carrying amount is reduced by means of an allowance account and the impairment loss is recognized through profit or loss. Interest income is thereafter recognized on the carrying amount for which an impairment loss was recognized using the interest rate that was applied to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized through profit or loss in finance income. Receivables (including any impairment) are derecognized as soon as they are classified as incollectible and all collateral has been used and sold. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases due to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed either directly or by adjusting the allowance account. If a receivable that was written off is designated at a later date as being collectible, the corresponding amount is offset directly against the finance costs.

The present value of estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Available-for-sale financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that an available-for-sale financial asset or a group of available-for-sale financial assets are impaired.

A significant or prolonged decline in the fair value of equity instruments designated as held for sale below their cost is also objective evidence of impairment. The criterion, "significant," is assessed based on the cost of the financial investment and the criterion, "prolonged," based on the period during which the fair value was below cost.

If there is evidence of impairment, the cumulative loss – which is defined as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from equity to profit or loss. Impairment losses on equity instruments cannot be reversed through profit or loss; any subsequent increase in the fair value is recognized in other comprehensive income.

The same criteria that apply to financial assets recognized at amortized cost shall be used to measure any impairment of debt instruments classified as available for sale. However, the amount recognized as the impairment loss is the cumulative loss corresponding to the difference between the amortized cost and the current fair value, less any impairment loss on that instrument previously recognized in profit or loss.

Future interest income is thereafter recognized on the carrying amount for which an impairment loss was recognized using the interest rate that was applied to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in finance income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the amount of the reversal is recognized in profit or loss.

2.4.8.3. Financial liabilities

Initial recognition and measurement

Financial liabilities as defined in IAS 39 are designated as financial liabilities at fair value through profit or loss, as loans or as derivatives that are designated and effective hedging instruments. The Group establishes the classification of its financial liabilities on initial recognition.

Financial liabilities are measured at fair value on initial recognition; in the case of loans, transaction costs directly attributable to them are also accounted for on initial recognition.

The Group's financial liabilities comprise trade and other payables, bank overdrafts, loans and derivative financial instruments.

Subsequent measurement

Subsequent measurements of financial liabilities are contingent on their classification, as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss contain the financial liabilities held for trading, as well as other financial liabilities designated on initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they were acquired for the purpose of selling them in the near term. This category comprises the Group's derivative financial instruments which, pursuant to IAS 39, are not designated hedging instruments in a hedge.

Separately measured embedded derivatives are also classified as held for trading unless they are designated and effective hedging instruments.

Gains or losses from held-for-trading financial liabilities are recognized through profit or loss.

The Group has not designated any financial liabilities as at fair value through profit or loss.

Loans

Following initial recognition, interest-bearing loans are measured at amortized cost using the effective interest method. Gains and losses are recognized through profit or loss if the liabilities are derecognized as well as through the amortization process using the effective interest method.

Amortized costs include premiums or discounts on acquisition, as well as all fees or points that are an integral part of the effective interest rate. Amortization using the effective interest method is reported in the income statement under finance costs.

Derecognition

A financial liability is derecognized upon satisfaction, termination or expiration of the underlying obligation. Any exchange of a financial liability for another financial liability with substantially different terms involving the same lender, or any substantial modification of the terms of an existing liability, is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the respective carrying amounts is recognized through profit or loss.

2.4.8.4. Offsetting financial instruments

Financial assets and financial liabilities are offset against one another and the resulting net amount is shown in the consolidated statement of financial position if the entity has a currently enforceable legal right to set off the recognized amounts and if it intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

2.4.8.5. Fair value of financial instruments

The fair value of financial instruments traded on active markets is measured using the quoted market price on the reporting date or a publicly quoted price (the bid price offered by the buyer for *long* positions and the asking price for *short* positions) without deducting the transaction costs.

The fair value of financial instruments for which no active market exists is determined by applying valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, the use of discounted cash flow methods and option valuation models.

Please see note 13.3 for an analysis of the fair values of financial instruments and further details on the measurement of financial instruments.

2.4.9 Assets classified as held for sale

The Group classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell unless the assets included are not part of the measurement scope as defined in IFRS 5. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

2.4.10. Derivative financial instruments and hedges

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as foreign exchange futures and interest rate swaps to hedge exchange rate and 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 profit or loss, with the exception of the effective portion of a cash flow hedge, which is included in other comprehensive income.

Hedging instruments are classified as follows for hedge accounting purposes:

- as a fair value hedge if the purpose is to hedge the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (excluding currency risk);
- as a cash flow hedge if the purpose is to hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability, or a highly probable forecast transaction or the currency risk of an unrecognized firm commitment;
- as a hedge of a net investment in a foreign operation.

Both the hedging relationship and the Group's risk management objectives and strategies are formally designated and documented with respect to the hedge at its inception. The documentation contains the determination of the hedging instrument, the hedged item or the transaction being hedged as well as the type of risk hedged and a description of how the Company determines the effectiveness of the change in the fair value of the hedging instrument when compensating for risks from changes in the fair value of or the cash flows from the hedged item caused by the hedged risk. Such hedging relationships are considered highly effective in compensating for risks from fair value or cash flow changes. Continuous assessments are made to determine whether or not they actually were highly effective during the entire reporting period for which the hedging relationship was designated.

Hedging transactions that meet the strict criteria to qualify for hedge accounting are accounted for as follows:

Fair value hedges

Any change in the fair value of the derivative interest rate hedging instrument is recognized in profit or loss under finance income. Changes in the fair value of the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and also be recognized in profit or loss under finance income.

When hedging the fair value of hedged items measured at cost, the adjustment of the carrying amount is recognized in profit or loss over its remaining life until maturity. Amortization using the effective interest method may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognized, the fair value not carried at cost is immediately recognized in profit or loss.

When an unrecognized firm commitment is classified as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss.

The Group did not use any fair value hedges in the 2011 and 2012 financial years.

Cash flow hedges

The effective portion of the gain or loss on a hedging instrument is recognized in other comprehensive income under the provisions for cash flow hedges while the ineffective portion is recognized in profit or loss immediately.

The amounts recognized in other comprehensive income are reclassified to profit or loss in the period during which the hedged transaction has an impact on the profit or loss for the period, e.g. when hedged financial income or expenses are recognized or when an expected sale is executed. If a hedge results in the recognition of a non-financial asset or a non-financial liability, the amounts recognized in other comprehensive income are allocated to the acquisition-date cost of the non-financial asset or the non-financial liability.

However, if the forecast transaction or the firm commitment is no longer expected to occur, the cumulative gains or losses recognized in other comprehensive income shall be reclassified to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without resulting in its replacement or rollover into another hedging instrument, or if the hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses on the hedging instrument that have been recognized in other comprehensive income shall remain in other comprehensive income until the forecast transaction or the firm commitment has an impact on the profit or loss.

The Group has interest rate swaps that are used to hedge its exposure to changes in the interest expense associated with a variable interest rate loan. For further disclosures/details, please see note 13.4.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including monetary items that are recognized as a part of the net investment, are recognized like cash flow hedges. Gains or losses from the hedging instruments that are attributable to the hedging instrument's effective portion, are recognized in other comprehensive income while gains or losses attributable to the hedging instrument's ineffective portion are recognized in the income statement. The cumulative value of such gains or losses that have been recognized in equity are reclassified to profit or loss on the disposal of the foreign operation.

<u>Designation as current and non-current</u>

Derivative financial instruments that are not designated and effective hedging instruments are classified as current or non-current or disaggregated into a current and a non-current portion based on an assessment of the facts and circumstances (i.e. the underlying contractual cash flows).

- If the Group holds a derivative for more than 12 months after the reporting date for hedging purposes (and does not account for it as a hedging relationship), the derivative is designated as non-current in accordance with the designation of the underlying position (or disaggregated into a current and a non-current portion).

- Embedded derivatives not closely related to their host contracts are designated in accordance with the cash flows of the host contract.

- The classification of derivative financial instruments that are designated and effective hedging instruments corresponds to that of the underlying hedged item. Derivative financial instruments are disaggregated into a current and a non-current portion only if they can be reliably classified.

2.4.11. Property, plant and equipment

Property, plant and equipment is measured at cost less cumulative depreciation and/or cumulative impairment losses.

Straight-line depreciation is based on the underlying assets' useful lives:

Buildings: 30 years

Technical equipment: 3 to 6 years

Operating equipment: 3 to 6 years

Office equipment: 3 to 10 years

Property, plant and equipment is derecognized either on disposal or when no economic benefit is expected from the continuing use or sale of the recognized asset. Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognized in profit or loss in the period in which the asset is derecognized.

The residual values, useful lives and depreciation methods applied to assets are reviewed at the end of each financial year and adjusted prospectively as necessary.

2.4.12. Leases

Determining whether an arrangement contains a lease is based on the substance of the arrangement at the time it is made and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or specific assets and whether the arrangement conveys a right to use the asset.

The Group as lessee

In finance leases where substantially all risks and rewards of ownership of the leased asset are transferred to the Group, the leased item is capitalized at the commencement of the lease term. The leased asset is measured at the lower of its fair value or the present value of the minimum lease payments. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the lease liability over the term of the lease. Finance costs are recognized in profit or loss.

Leased assets are depreciated over their useful life. If there is no reasonable certainty that the Group will obtain ownership of the leased item by the end of the lease term, it is fully depreciated over the shorter of the expected useful life and the lease term.

Lease payments under operating leases are recognized as an expense in the income statement on a straight-line basis over the term of the lease.

2.4.13. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are recognized as an expense in the period in which they are incurred. Borrowing costs are interest and other costs incurred by an entity in connection with the borrowing of funds.

As in the financial year 2011 and 2010, the Group did not capitalize any borrowing costs because in the 2012 financial year, they were not directly attributable to the production of qualifying assets.

2.4.14. Intangible assets

Intangible assets that are not acquired in a business combination are measured at cost on initial recognition. The cost of intangible assets acquired in a business combination is its fair value at the acquisition date. In subsequent periods, the intangible assets are recognized at cost less cumulative amortization and any cumulative impairment losses. With the exception of capitalized development costs, the costs of internally generated intangible assets are not capitalized and are recognized in profit or loss in the period in which they are incurred.

Intangible assets are divided into those with finite useful lives and those with indefinite useful lives.

Intangible assets with finite useful lives are amortized over their useful life and tested for impairment if there is any indication of impairment. Both the amortization period and the amortization method applied to intangible assets with finite useful lives are reviewed at least at the end of each financial year. Any changes in the amortization method or amortization period resulting from changes in the asset's expected useful life or the way in which the asset's economic benefits are expected to be consumed are treated as estimates. Amortization of intangible assets with finite useful lives is recognized in the income statement under amortization and impairment losses.

Intangible assets with indefinite useful lives are tested for impairment at least once a year either at the level of the individual asset or at the level of the cash- generating unit. These intangible assets are not amortized. The useful life of an intangible asset is reviewed once a year to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively.

Gains or losses arising from derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognized in profit or loss when the asset is derecognized.

Film rights

Capitalized film rights concern non-current licenses classified as fixed assets. These are older movies from the time before the Company expanded into inflight entertainment that are no longer being marketed as part of the Group’s operating business. The Company owns the master tapes and may bar third parties from using them.

The film rights assets are measured at cost less amortization and impairment losses. The useful life of film rights with finite useful lives corresponds to the respective licensing period. Amortization is recognized in line with the sales generated at the respective stage of exploitation in the respective period. Each film right is tested for impairment at least once a year pursuant to IAS 36. Considering the marketability of the given film right, an impairment loss is recognized as necessary. If the discounted surplus revenues from the forecast future benefit are lower than its carrying amount as of the reporting date, an impairment loss to the lower value is recognized. Impairment losses are also shown under the item, amortization and impairment losses. If the marketability test reveals that the discounted surplus revenues from the forecast future benefit of a film right exceed its carrying amount as of the reporting date, a write-up to no more than the amortized cost is recognized in the income statement.

Certain film rights in the Company’s portfolio may be used in perpetuity. These film rights with indefinite useful lives are tested for impairment at least once a year in accordance with the aforementioned criteria. For further disclosures, please see note 11.

Research and development costs

Research costs are recognized as an expense in the period in which they are incurred. Development costs associated with a single project are capitalized as an intangible asset only if the Group can demonstrate the following:

- the technical feasibility of completing the intangible asset so that it will be available for use internally or sale;
- the Group's intention to complete the intangible asset and to use or sell it;
- how the intangible asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the Group's ability to reliably measure the expenditure attributable to the intangible asset during its development.

After initial recognition, development costs are accounted for using the cost model less any accumulated amortization and any accumulated impairment losses. They are amortized upon completion of the development phase and from the date on which the asset can be used. The amortization is taken over the period for which future economic benefits are expected. An impairment test is conducted annually during the development phase.

2.4.15. Inventories

Inventories shall be measured at the lower of cost and net realizable value.

The measurement of work in progress is based on the directly attributable costs of materials and production as well as on appropriate portions of production overheads not including borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The film distribution rights for the airline sector that are acquired for a period exceeding a defined customer's onboard cycle, are also shown under inventories. They consist of minimum guarantees or flat fees already paid to the licensors, as well as the film rights identified in connection with the purchase price allocation. Film rights shall be measured according to IAS 38 as well as IAS 36. The resulting cost of materials is recognized in accordance with the sales revenue generated through the licenses and reported in the consolidated income statement.

2.4.16. Impairment of non-financial assets

The Group assesses at each reporting date or in case of a triggering event whether there is an indication that non-financial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or a CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. A suitable valuation technique is used to determine the asset's fair value less costs to sell.

Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset in the Company.

Assets other than goodwill are assessed at each reporting date to determine whether there is any indication that a previously recognized impairment loss may no longer exist or may have decreased. If such indication exists, the Group estimates the recoverable amount of the asset or CGU. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

The following criteria must be also taken into account for specific assets:

Goodwill

Goodwill is tested for impairment once a year (as of December 31) and also if there is any indication that the asset may be impaired.

Impairment losses are calculated by determining the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill is allocated. If the recoverable amount of the cash-generating unit is lower than this unit's carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill may not be reversed in a subsequent period.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment at least once a year as of December 31. This test is performed at the level of individual assets or the cash-generating unit and also if there is any indication that the asset may be impaired.

2.4.17. Cash and cash equivalents

The item, cash and cash equivalents, in the statement of financial position comprises cash on hand, bank balances, checks as well as short-term investments with an original term of less than three months.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the cash defined above; overdraft credit lines used are not deducted.

2.4.18. Provisions

Provisions are recognized if the Group has a present obligation (legal or constructive) as a result of a past event; if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and if a reliable estimate can be made of the amount of the obligation. If the Group expects to be reimbursed for some or all of the expenditure (e.g. under an insurance contract), the reimbursement is recognized as a separate asset only to the extent that it is virtually certain. The expense relating to the recognition of the provisions is recognized in the income statement net of the reimbursement. If the interest effect resulting from discounting is significant, provisions are discounted before taxes using an interest rate that reflects the risks specific to the liability. In case of discounting, the increase in the provisions over time is recognized in finance costs.

3. Decisions involving considerable judgment, estimates and assumptions

Judgments

The preparation of the consolidated financial statements requires the Management Board to make judgments and assumptions, as well as perform estimates, that have an impact on the Group's earnings, expenses, assets and liabilities as well as on the disclosure of its contingent liabilities. The uncertainty associated with these assumptions and estimates, however, may give rise to outcomes that might lead to substantial adjustments to the carrying amounts of the given assets or liabilities in future periods.

Estimates and assumptions

The key assumptions concerning the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

Impairment of non-financial assets

Impairment is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. The fair value less cost to sell is determined based on available data from binding sale agreements in arm's length transactions between independent partners involving similar assets or observable market prices less the costs directly attributable to the disposal of the asset.

The Group's impairment tests of goodwill and intangible assets with indefinite useful lives are based on calculations of their value in use applying the discounted cash flow method. The cash flows are derived from the financial plan for the next three years; they do not include restructuring measures the Group has not yet undertaken, nor material future investments that will boost the performance of the tested cash-generating unit. The recoverable amount largely depends on the discount rate used when applying the discounted cash flow method as well as on the estimated future cash flows and the growth rate used for purposes of extrapolation. The basic assumptions underlying the determination of the recoverable amount of the different cash-generating units, including a sensitivity analysis, are disclosed in greater detail in note 13.

Share-based payment transactions

Groupwide, the costs of awards of equity instruments to employees are measured at the fair value of the given equity instruments at the time they are granted. The valuation technique most suitable to awards of equity instruments shall be used to estimate the fair value of share-based payment transactions; it is contingent on the conditions of the award. This also requires determining suitable data — including, in particular, probable maturity, volatility and dividend yield, as well as relevant assumptions — that flow into this valuation technique. The assumptions and procedures used to estimate the fair value of share-based payment transactions are disclosed in note 20.

Taxes

There are uncertainties regarding the interpretation of complex tax regulations as well as the amount of future taxable earnings and the date on which they may arise. Given the large range of international business relationships and both the long-term nature and the complexity of existing contractual arrangements, differences between actual results and the assumptions made, or future changes in such assumptions, might necessitate adjustments of the tax income and tax expense previously recognized. Using reasonable assumptions, the Group recognizes provisions for the potential effects of field audits in countries where it does business. The amount of these provisions is contingent on a variety of factors such as experiences from earlier field audits and the divergent interpretations of the tax regulations by the Company liable for the taxes and the responsible tax authority. Such divergent interpretations may arise from a multitude of different factors depending on prevailing conditions in the given Group company's country of domicile.

Deferred tax assets are recognized for all tax loss carryforwards not utilized inasmuch as it is likely that taxable income will be available to that end so that the loss carryforwards can actually be used. Determining the amount of the deferred tax assets that can be recognized requires considerable judgments by management regarding the estimated date on which the future taxable income will be earned and its amount, as well as future tax planning strategies.

The Group has corporate income tax loss carryforwards of EUR 2,321 thousand (previous year: EUR 46,624 thousand). In determining deferred tax assets, the Group takes EUR 1,553 thousand in loss carryforwards that may be utilized for a period of three years into account (2011: EUR 6,191 thousand; 2010: EUR 4,396 thousand). The difference of EUR 767 thousand (2011: EUR 40,433 thousand; 2010: EUR 61,634 thousand) was not considered as realizable.

For further details on the deferred taxes, please see note 7.

Fair value of financial instruments

The fair value of the financial assets and financial liabilities recognized in the statement of financial position shall be determined using valuation techniques (including the discounted cash flow method) if it cannot be determined based on data from an active market. To the extent possible, the input parameters that go into the model are based on observable market data. Absent this option, determining the fair values will be a matter of judgment to a certain extent. These judgments concern input parameters such as liquidity risk, credit risk and volatility. Changes in the assumptions regarding these factors could have an impact on the fair values recognized for the financial instruments.

Development costs

Development costs are capitalized in accordance with the accounting policies described in note 2.4.13. Initial capitalization of the costs is based on management's assessment of the extent to which a project's technical and economic feasibility have been demonstrated; this is usually the case once a product development project has achieved a specific milestone in an existing project management model. Management makes assumptions about the amount of the estimated future cash flows from the project, the discount rates to be used and the period during which the Group expects to receive the expected benefits in the future. The carrying amount of the capitalized development costs, which related solely to the proprietary development work of the Group companies, DTI Software, DTI Solutions Inc., Montreal, Canada, and DTI Software FZ-LLC., Dubai, United Arab Emirates, as of December 31, 2012, was EUR 4,663 thousand (previous year: EUR 3,994 thousand).

4. Business combinations

Acquisitions in 2012

Acquisition of Inflight Management Development Centre (IMDC) Limited

Effective April 6, 2012, AIA AG acquired 100 % of the voting shares in Inflight Management Development Centre (IMDC) Limited ("IMDC"), whose registered office is in the UK.

IMDC is a small UK-based consulting firm specialized in inflight entertainment. It was founded more than 12 years ago and provides inflight entertainment consulting services to numerous international carriers. Its portfolio of consulting services covers the following core areas: strategy; business planning & reporting; product evaluation; market research and analysis; executive training as well as project and interim management. The company has a staff of five and generated revenue of less than EUR 1 million in 2011. The main objective of the acquisition is to support the new strategic orientation of the AIA Group and build up additional consulting expertise.

The transaction was accounted for using the acquisition method. The earnings of IMDC for the period of nine months from the acquisition date are included in the consolidated financial statements.

The preliminary acquisition-date fair values of the identifiable assets and liabilities of IMDC and the corresponding carrying amounts immediately before the acquisition date thus are as follows:

Items in the statement of financial position	Fair value as of the acquisition date
	EUR
Assets	
Intangible assets	1,009,713
Property, plant and equipment	5,133
Trade receivables	117,311
Other assets	227,858
Cash and cash equivalents	475,818
Total assets	**1,835,833**
Liabilities	
Trade payables	-8,259
Other current liabilities	-125,182
Deferred tax liabilities	-223,156
Total liabilities	**-356,597**
Total identifiable net assets at fair value	1,479,237
Goodwill from acquiring the company	154,240
Total compensation	**1,633,477**

The total acquisition costs of GBP 1,362 thousand (equivalent to EUR 1,633 thousand) comprise a cash payment of GBP 839 thousand (equivalent to EUR 1,006 thousand), the assumption of a liability of the seller in the amount of GBP 134 thousand (equivalent to EUR 161 thousand), a purchase price component in the discounted amount of GBP 146 thousand (equivalent to EUR 175 thousand) to be paid in installments over 36 months, as well as forecast earn-out payments totaling GBP 243 thousand (equivalent to EUR 292 thousand). Possible earn-out payments range from GBP 233 thousand to GBP 349 thousand. The earn-out payments relate to percentage shares of revenue for the period from April 6, 2012, to April 5, 2015, which are due on a quarterly basis when revenues are generated in new and specifically defined regions for the AIA Group. The transaction costs of EUR 45 thousand were expensed and are reported under other operating expenses in the consolidated income statement and under cash flows from operating activities in the consolidated statement of cash flows.

Cash outflow due to the business acquisition	EUR
Cash acquired with the subsidiary	475,818
Cash outflow	-1,006,322
Actual cash outflow on the day of initial consolidation	**-530,504**

The fair value of trade receivables amounts to EUR 117,311. The gross amount of trade receivables is EUR 124,013. One receivable was written down by EUR 6,702.

IMDC has contributed EUR 270 thousand to consolidated sales and EUR -168 thousand to consolidated earnings since the acquisition date. Had the business combination taken place at the start of the year, the net profit for the period relating to continuing operations would have been EUR 5,016 thousand and sales revenue from continuing operations would have been EUR 130,480 thousand.

The acquisition of IMDC was recognized in accordance with the provisions of IFRS 3 and IAS 27. The purchase price was allocated to all identifiable assets, liabilities and contingent liabilities. This approach resulted in the identification of the intangible assets, “customer relationships" and “non-compete clause." These assets were recognized at their fair values. They are amortized over a period of 5 years using the straight-line method. These assets developed as follows from the date of initial consolidation to December 31, 2012:

Purchase price allocation	**EUR**
Customer relationships	578,007
Non-compete clause	431,706
As of April 6, 2012	**1,009,713**
Customer relationships	502,022
Non-compete clause	374,954
As of December 31, 2012	**876,976**

The recognized goodwill arises from the synergies and other benefits that the combination of the assets and activities of IMDC with those of the Group is expected to generate. The Company assumes that the recognized goodwill will not be tax deductible.

Acquisitions in 2011

Acquisition of Emphasis Video Entertainment Ltd., Hong Kong

Effective June 1, 2011, AIA AG acquired 100% of the voting shares in Emphasis Video Entertainment Ltd. („Emphasis" or „EVE“), Hong Kong.

Emphasis has been the global leader in the inflight entertainment licensing of content in Asian languages for decades and services more than 50 carriers with a library of Asian films and TV shows.

In addition, Emphasis also acts as a service provider to carriers for Asian content. With its presence in Hong Kong and the contacts it has established over the years with the most important Chinese producers, the Company is in an excellent position to benefit from China's expanding airline industry in the future.

The transaction in 2011 was accounted for using the acquisition method. The earnings of Emphasis for the seven-month period from the acquisition date are included in the 2011 consolidated financial statements.

The fair values of the identifiable assets and liabilities of Emphasis at the acquisition date thus were as follows:

Items in the statement of financial position	**Fair value as of the acquisition date**
	EUR
Assets	
Intangible assets	3,918,459
Property, plant and equipment	50,934
Trade receivables	1,238,825
Other assets	161,263
Cash and cash equivalents	559,847
Total assets	**5,929,328**
Liabilities	
Trade payables	-329,787
Other current liabilities	-1,727,208
Non-current liabilities	-9,475
Deferred tax liabilities	-529,650
Total liabilities	**-2,596,120**
Total identifiable net assets at fair value	3,333,208
Goodwill from acquiring the company	6,835,340
Total compensation	**10,168,548**

The acquisition cost totaling CHF 12,500 thousand (corresponding to EUR 10,169 thousand) was paid in cash. There were also transaction costs of EUR 194 thousand.

Cash outflow due to the business acquisition	**EUR**
Cash acquired with the subsidiary	559,847
Cash outflow	-10,168,548
Actual cash outflow	**-9,608,701**

The fair value of trade receivables at the acquisition date was EUR 1,238,825. The gross amount of trade receivables was EUR 1,244,125. One receivable was written down by EUR 5,300.

Emphasis Video Entertainment Ltd. has contributed EUR 4,349 thousand to consolidated sales and EUR 390 thousand to consolidated earnings since the acquisition date.

The acquisition of Emphasis was recognized in accordance with the provisions of IFRS 3 and IAS 27. The purchase price was allocated to all identifiable assets, liabilities and contingent liabilities. This approach resulted in the identification of the intangible assets, "customer relationships," "brand name," and "film licenses." These assets were recognized at their fair values. They are amortized over periods of 6 months to 15 years. These assets developed as follows from the date of initial consolidation to December 31, 2012:

Purchase price allocation	**EUR**
Customer relationships	1,801,880
Brand name	792,620
Film licenses	615,498
As of June 1, 2011	**3,209,998**
Customer relationships	1,595,961
Brand name	775,401
Film licenses	0
As of December 31, 2012	**2,371,362**

The recognized goodwill arises from the synergies and other benefits that the combination of the assets and activities of EVE with those of the Group is expected to generate and from the position gained through this acquisition in this high-growth market. The Company assumes that the recognized goodwill will not be tax deductible.

Acquisition of Entertainment in Motion Inc., Los Angeles, USA

The Group acquired all voting shares in Entertainment in Motion Inc. ("Entertainment in Motion" or "EIM"), Los Angeles, USA, effective June 1, 2011.

EIM was established in 1988 and is the leading independent inflight entertainment licensing company for English-language films and TV shows. Its active customer base includes more than 75 airlines.

The transaction was accounted for using the acquisition method . The earnings of EIM for the seven-month period from the acquisition date are included in the consolidated financial statements 2011.

The acquisition-date fair values of the identifiable assets and liabilities of EIM were as follows:

Items in the statement of financial position	Fair value as of the acquisition date
	EUR
Assets	
Goodwill	612,658
Intangible assets	11,825,892
Property, plant and equipment	24,242
Trade receivables	4,311,435
Other assets	383,685
Cash and cash equivalents	1,566,170
Total assets	**18,724,082**
Liabilities	
Trade payables	-268,154
Other current liabilities	-8,698,548
Non-current liabilities	-3,235,237
Deferred taxes	-2,657,488
Total liabilities	**-14,859,427**
Total identifiable net assets at fair value	3,864,655
Goodwill from acquiring the company	3,267,571
Total compensation	**7,132,226**

The total acquisition cost of USD 10,254 thousand (corresponding to EUR 7,132 thousand) comprises a cash payment of USD 6,840 thousand (corresponding to EUR 4,758 thousand), as well as discounted anticipated earn-out payments of USD 3,414 thousand (corresponding to EUR 2,638 thousand). Possible earn-out payments range from USD 1,998 thousand to USD 4,149 thousand. The earn-out payments for the 2011 through 2014 financial years will be due and payable if the EBIT targets defined for EIM for the given financial years are surpassed. There were also transaction costs of EUR 89 thousand.

Cash outflow due to the business acquisition	EUR
Cash acquired with the subsidiary	1,566,170
Cash outflow	-4,757,599
Actual cash outflow	**-3,191,429**

The fair value of the trade receivables and the gross amount of the trade receivables are EUR 4,311,435. The fair value of a loan and the gross loan amount are EUR 100,000. Neither the trade receivables nor the loan were impaired, and the full contractual amount is likely to be recoverable.

Entertainment in Motion has contributed EUR 12,204 thousand to consolidated sales and EUR 86 thousand to consolidated earnings since the acquisition date.

The acquisition of EIM was recognized in accordance with the provisions of IFRS 3 and IAS 27. The purchase price was allocated to all identifiable assets, liabilities and contingent liabilities. This approach resulted in the identification of the intangible assets, "film licenses," "customer relationships" and "non-compete clause." These assets were recognized at their fair values. With the exception of the non-compete clause, they are amortized over periods of 11 months to 10 years. The non-compete clause is fully written off over a period of 18 months from its effective date. These assets developed as follows from the date of initial consolidation to December 31, 2012:

Purchase price allocation	**EUR**
Film licenses	2,415,664
Customer relationships	2,171,524
Non-compete clause	546,707
As of June 1, 2011	**5,133,895**
Film licenses	0
Customer relationships	1,991,574
Non-compete clause	642,793
As of December 31, 2012	**2,634,367**

The recognized goodwill arises from the synergies and other benefits that the combination of the assets and activities of EIM with those of the Group is expected to generate. The Company assumes that the recognized goodwill will not be tax deductible.

Had the two business combinations taken place at the start of 2011, the net profit for the period would have been EUR 6,019 thousand and sales revenue would have been EUR 130,606 thousand.

Additional information on the prior-year acquisition

The consideration transferred in connection with the acquisition of EIM included contingent consideration. The management uses accepted valuation techniques to determine the fair value of the earn-out liability. The key model inputs are weighted (worst, middle and best case) EBIT projections, which are discounted with a risk adjusted interest rate. The recorded liability changed from EUR 2,638 thousand in 2011 to EUR 1,662 thousand in 2012, since EUR 894 thousand were paid. Discounting effects, foreign exchange translation effects and reversals due to adjustments for missed earnings targets for 2012 amounted to a reduction of EUR 82 thousand. The probable outcomes of EBIT projections for 2013 and 2014 didn't change significantly.

5. Segment reporting

Segmentation follows the management approach in accordance with IFRS 8 (Operating Segments). Thereunder, both the delineation of the segments and all related disclosures must fulfill the criteria the management uses for purposes of allocating resources and evaluating the performance of the Group's components. The segment reporting below follows this definition.

In the CSP segment, the AIA Group, in concert with its subsidiaries, focuses primarily on making content available for inflight entertainment systems and all associated services. The AIA Group's services range from selection, purchase, production and technical adjustment of content all the way to customer support in connection with the integration and servicing of inflight entertainment programs. The content mainly comprises audio and video programs (feature films, TV programs, news, sports etc.), as well as electronic games. Our services also include the development of graphical user interfaces (GUI) for a variety of inflight entertainment applications; database management related to the overall management of inflight entertainment; as well as both technical integration and operation of the respective on-board systems. For quite some time now, the AIA Group has also been developing applications for the next generation of inflight entertainment systems — particularly through its Canadian subsidiary DTI — that carriers will use to offer their passengers additional services above and beyond "conventional" entertainment such as electronic menus and magazines, or even the option of purchasing all kinds of products.

In the Content segment, the AIA Group, again in concert with its subsidiaries, focuses on marketing film distribution rights. Here, the main focus is on all activities associated with the procurement and marketing of content for inflight entertainment. The acquisition of Emphasis and EIM — two leading marketers in their respective area of inflight entertainment licenses for both film and TV productions — enabled the AIA Group in mid-2011 to substantially expand its positioning in the Content segment. Thanks to these two acquisitions, the AIA Group now has major holdings of own distribution rights for inflight entertainment content.

All other activities, which basically encompass substantive and technical services, are combined in the CSP segment.

Management monitors each unit's operating profit separately in order to make decisions concerning the allocation of resources and determine each unit's profitability. Each segment's development is assessed based on its operating profit. The Group's financing (including finance cost and income), as well as corporate income taxes, are managed Groupwide; they are not allocated to individual operating segments.

Intragroup pricing between the operating segments is determined at market rates as if in arms' length transactions. The operating segments were combined as follows to form the reportable operating segments.

IFP Germany, IFEL, DTI Software, IMDC and Inflight Productions, along with their respective subsidiaries, have been combined to form the CSP segment.

Fairdeal Multimedia, Fairdeal Studios as well as EIM and EVE comprise the Content segment.

Key segment figures are:

Segments 2012	**CSP**	**Content**	**Total Segments**	**Holding Other & consolidation**	**Group**
	EUR thousand	**EUR thousand**	**EUR thousand**	**EUR thousand**	**EUR thousand**
Revenue	102,419	34,643	137,063	-6,782	130,281
External revenue	102,295	27,986	130,281	0	130,281
Intersegment revenue	124	6,657	6,782	-6,782	0
Segment operating profit	8,977	2,086	11,063	-1,116	9,947
Segment investments	2,540	220	2,760	51	2,811
Carrying amount of segment assets	106,952	40,454	147,406	-3,152	144,254
Depreciation/amortization of segment assets	-3,576	-719	-4,295	-84	-4,379
Impairment losses on segment assets	-260	0	-260	0	-260
Finance income	421	57	478	-247	231
Finance costs	-165	-4	-169	-1,374	-1,544
Income taxes	-1,680	-377	-2,057	-1,486	-3,543

Segments 2011	**CSP**	**Content**	**Total Segments**	**Holding Other & consolidation**	**Group**
	EUR thousand	**EUR thousand**	**EUR thousand**	**EUR thousand**	**EUR thousand**
Revenue	107,781	18,513	126,293	-4,713	121,580
External revenue	107,684	13,895	121,580	0	121,580
Intersegment revenue	96	4,617	4,713	-4,713	0
Segment operating profit	6,597	825	7,422	-879	6,543
Segment investments	1,475	147	1,622	0	1,622
Depreciation/amortization of segment assets	-2,764	-454	-3,218	-75	-3,293
Impairment losses on segment assets	-666	0	-666	0	-666
Finance income	489	21	510	-387	122
Finance costs	-225	-8	-233	-535	-768
Income taxes	-1,276	-233	-1,509	18	-1,491

Segments 2010	**CSP**	**Content**	**Total Segments**	**Holding Other & consolidation**	**Group**
	EUR thousand	**EUR thousand**	**EUR thousand**	**EUR thousand**	**EUR thousand**
Revenue	110,194	1,361	111,555	-441	111,114
External revenue	110,154	960	111,114	0	111,114
Intersegment revenue	41	401	441	-441	0
Segment operating profit	9,653	159	9,812	-1,399	8,413
Segment investments	3,011	5	3,016	0	3,016
Depreciation/amortization of segment assets	-3,232	-156	-3,389	-89	-3,478
Impairment losses on segment assets	-493	0	-493	0	-493
Finance income	639	0	639	-502	137
Finance costs	-243	-3	-246	-716	-962
Income taxes	-2,095	-28	-2,123	27	-2,096

Reconciliation of the result	2012 EUR thousand	2011 EUR thousand	2010 EUR thousand
Segment operating profit	11,063	7,422	9,812
Result, Group holding company AIA AG	-1,057	-1,192	-1,378
Result, other non-operating entities	10	201	14
Consolidation	-69	113	-36
Consolidated net profit	**9,947**	**6,543**	**8,413**

Information about geographical areas	2012 EUR thousand	2011 EUR thousand	2010 EUR thousand
External revenue			
Germany	4,504	7,679	10,801
Rest of Europe	37,587	39,290	35,828
USA	39,599	36,894	31,221
Canada	7,400	6,177	6,177
Dubai	26,622	21,532	21,190
Rest of world	14,569	10,007	5,898
Total	**130,281**	**121,580**	**111,114**

The foregoing disclosures on segment revenue are broken down by the companies' domicile. In the CSP segment, sales revenue in excess of 10% totaling EUR 17,078 thousand and EUR 13,715 thousand, respectively, was generated from two customers. In the previous year, one customer exceeded 10% of sales revenue, totaling EUR 14,424 thousand. In financial year 2010, no sales revenue in excess of 10 percent was generated from a single customer.

Information about geographical areas - non-current assets	2012 EUR thousand	2011 EUR thousand	2010 EUR thousand
Non-current assets:			
Germany	1,472	2,792	3,013
Rest of Europe	10,258	9,835	9,879
USA	8,600	7,758	427
Canada	29,153	29,566	30,846
Dubai	671	756	804
Rest of world	11,335	11,946	2,015
Total	**61,489**	**62,593**	**46,984**

The non-current assets shown here comprise intangible assets and property, plant and equipment.

6. Other income and expenses as well as adjustments

6.1. Other operating income

Other operating income consists of the following items:

Other operating income	2012 EUR thousand	2011 EUR thousand	2010 EUR thousand
Income from the disposal of fixed assets	986	0	56
Gain from adjustment to earn-out liability	345	0	0
Reversal of allowances on receivables	85	4	5
Rental income	49	28	6
Income from non-cash benefits	27	50	47
Currency gains	0	594	9
Derecognition of liabilities	0	91	18
Reversal of provisions	25	71	173
Other	88	98	35
	1,605	**936**	**349**

Income from the disposal of fixed assets resulted from the sale of an apartment at the Group company IFP. The gain from adjustment to earn-out liability is related to the adjustment through profit or loss of the earn-out liabilities from the acquisition of EIM 2011, because earnings targets were missed.

6.2. Other operating expenses

Other operating expenses are comprised as follows:

Other operating expenses	**2012**	**2011**	**2010**
	EUR thousand	**EUR thousand**	**EUR thousand**
Advertising, entertainment, representation, travel	2,958	2,198	1,831
Rent, cleaning, heating and electricity, maintenance	2,834	2,577	2,511
Legal and consulting costs	2,353	1,936	1,690
Annual financial statements and tax consultancy	810	657	675
IT costs	751	569	914
Freight, post, telecommunication	623	584	554
Other staff costs	409	398	244
Compensation of Supervisory Board members	348	191	260
Office supplies	237	153	192
Investor relations, public relations	211	184	127
Insurance, levies	182	167	187
Bank fees	175	142	133
Currency losses	166	0	0
Impairment losses on assets	156	737	368
Annual General Meeting	73	100	80
Other	472	396	172
	12,758	**10,989**	**9,938**

Travel related to the growth of the Group, the various acquisition projects and customer meetings in connection with tenders accounts for most of the increase in expenses for advertising, entertainment, representation and travel. The increase in legal and consulting fees is related to the acquisitions during the financial year and to the change in the group of shareholders. The slight increase in IT costs from EUR 569 thousand to EUR 751 thousand is essentially due to the expenses incurred in connection with Group-wide software projects.

After insolvency proceedings were started for a major customer in the previous year, the impairment losses recognized in the current financial year returned to a low level again.

Just as in the 2011 financial year, in the 2012 financial year currency gains of EUR 4,438 thousand (previous year: EUR 6,451 thousand; 2010: EUR 7,137 thousand) and currency losses of EUR 4,604 thousand (previous year: EUR 5,857 thousand; 2010: EUR 7,128 thousand) were reported on a net basis. The net loss of EUR 166 thousand (previous year: net gain of EUR 594 thousand; 2010: net gain of EUR 9 thousand) is reported in other operating expenses (previous year: other operating income; 2010: other operating income).

6.3. Finance costs

The items included in finance costs are as follows:

Finance costs	2012 EUR thousand	2011 EUR thousand	2010 EUR thousand
Interest on loans	686	644	805
Change in fair value of available for sale assets	386	0	0
Unwinding of discount for non-current liabilities	271	0	0
Interest on bank overdrafts and other finance costs	151	45	26
Reclassification amount from cash flow hedges	50	79	131
	1,544	**768**	**962**

The expenses from change in fair value of available for sale assets resulted from the "day 1 loss" in connection with the acquisition of interest in GuestLogix Inc.

6.4. Finance income

The items included in finance income are as follows:

Finance income	2012 EUR thousand	2011 EUR thousand	2010 EUR thousand
Interest income on bank balances	45	41	42
Income from the fair value measurement of derivatives	186	81	95
	231	**122**	**137**

6.5. Employee benefit expenses

Staff costs are comprised as follows:

Employee benefit expenses	2012 EUR thousand	2011 EUR thousand	2010 EUR thousand
Wages and salaries	21,194	21,843	18,152
Social security contributions	2,847	2,796	2,846
Other post-employment benefits	242	2,852	804
Share-based payment costs / income	14	-43	77
	24,297	**27,448**	**21,879**

In the previous year, post-employment benefits included termination benefits amounting to EUR 2,578 thousand. These amounted to EUR 35 thousand in the current financial year (2010: EUR 489 thousand).

6.6. Cost of materials

Cost of materials are comprised as follows:

Cost of materials	2012 EUR thousand	2011 EUR thousand	2010 EUR thousand
Expenses for the purchase of film and audio licenses	69,867	64,710	62,755
Other cost of materials	8,184	7,782	2,145
Inventory write-down	1,214	0	0
Production costs data media	819	742	2,305
Customs duties and freight	161	172	91
	80,245	**73,406**	**67,296**

Cost of materials are recognized for realizing minimum guarantees and flat fees. Producers' fees exceeding minimum guarantees are also shown under expenses for the purchase of film and audio licenses.

The line Inventory write-downs contains impairment losses of EUR 1,214 thousand (previous year: EUR 0 thousand; 2010: EUR 0 thousand) on film assets. The impairments arise from the adjustments of the carrying amounts to the estimated discounted surplus revenues from individual film rights. EUR 689 thousand belong to the segment Content and EUR 525 thousand to the segment CSP.

6.7. Depreciation, amortization and impairment losses

Depreciation, amortization and impairment losses on intangible assets and on property, plant and equipment split up as follows:

Depreciation, amortization and impairment losses	2012 EUR thousand	2011 EUR thousand	2010 EUR thousand
Amortization and impairment losses on film rights			
- Amortization	10	7	17
- Impairment losses	10	53	141
	20	**60**	**158**
Amortization and impairment losses on other intangible assets			
- Amortization			
- Customer base (4-20 years)	1,339	990	788
- Games library and technology (6-10 years)	914	854	859
- Capitalized development costs (10 years)	865	337	530
- Trademark rights and non-competition agreements (3-10 years)	199	131	124
- Software and similar rights (3-5 years)	222	150	144
- Impairment losses			
- Capitalized development costs (10 years)	250	613	156
- Customer base (4-20 years)	0	0	195
	3,788	**3,075**	**2,796**
Depreciation and impairment losses on property, plant and equipment	**831**	**824**	**1,017**
	4,639	**3,959**	**3,971**

The increase in the amortization of customer bases is due mainly to the customer bases taken over in connection with the acquisition of EIM and EVE. In the previous year, these were taken into account only on a pro-rated basis (acquisition in June).

Impairment losses of EUR 10 thousand (previous year: EUR 53 thousand; 2010: EUR 141 thousand) on the film assets arise from the adjustments of the carrying amounts to the forecast discounted surplus revenues from the individual film rights.

An impairment loss of EUR 250 thousand (previous year: EUR 613 thousand; 2010: EUR 156 thousand) was recognized for electronic games (the development of which was discontinued in 2012 due to new market assessments) based on the impairment test of development costs that must be capitalized at DTI (segment CSP), which was carried out as of December 31, 2012.

6.8. Research and development costs

In the 2012 financial year, DTI Software and DTI Solutions Inc., Montreal, Canada, were the only Group companies to incur research and development costs, specifically, EUR 4,450 thousand (previous year: EUR 3,944 thousand; 2010: EUR 4,999 thousand). Of this amount, a total of EUR 1,515 thousand in expenses were capitalized (previous year: EUR 629 thousand; 2010: EUR 2,127 thousand). Tax grants in the amount of EUR 879 thousand (previous year: EUR 640 thousand; 2010: EUR 1,522 thousand) were deducted from capitalized development costs. The remaining research and development costs of EUR 2,327 thousand (previous year: EUR 2,675 thousand; 2010: EUR 1,350 thousand) were recognized in profit or loss.

7. Income taxes

Income tax expense for the 2012, 2011 and 2010 financial years comprises the following material elements:

Income tax expense	**2012 EUR thousand**	**2011 EUR thousand**	**2010 EUR thousand**
Consolidated income statement			
Current income taxes:			
Current income tax expense	-4,053	-3,448	-2,516
Adjustment of current income tax paid in the previous year	203	59	-359
Deferred income taxes:			
Origination and reversal of temporary differences	307	1,898	779
Income tax expense shown in the consolidated income statement	**-3,543**	**-1,491**	**-2,096**
Consolidated statement of other comprehensive income			
Deferred income taxes on items recognized in other comprehensive income:			
Net loss from the remeasurement of available-for-sale assets	29	0	0
Net loss from the remeasurement of cash flow hedges	13	13	-43
Income tax expense charged directly to other comprehensive income	**42**	**13**	**-43**

The numerical reconciliation between the income tax expense shown and expected for the 2012, 2011 and 2010 financial years is as follows:

Tax reconciliation	**2012 EUR thousand**	**2011 EUR thousand**	**2010 EUR thousand**
Profits before taxes	**8,634**	**5,898**	**7,589**
Anticipated tax expense	-2,847	-1,946	-2,503
Change in the valuation allowance on loss carryforwards	-1,516	232	131
Effects from tax rate changes	265	0	930
Effects from tax rate differences	930	1,745	0
Prior-period tax income/expense	203	59	-359
Tax effect from expenses/income not affecting taxes	348	-1,117	157
Ineligible foreign withholding tax	-1,010	-513	-485
Other	84	49	33
Income tax expense	**-3,543**	**-1,491**	**-2,096**

Deferred taxes

Deferred tax assets and liabilities as of December 31 of the given year are as follows:

Deferred taxes	2012 EUR thousand	2011 EUR thousand
Deferred tax liabilities		
Non-current assets		
Intangible assets	5,046	7,210
Property, plant and equipment	89	149
Financial assets	37	180
Current assets		
Inventories	604	0
Financial assets	431	58
Other assets	12	180
Non-current liabilities		
Financial liabilities	46	46
Current liabilities		
Financial liabilities	34	457
Other liabilities	10	0
	6,309	**8,280**
Deferred tax assets		
From loss carryforwards	385	2,051
Non-current assets		
Property, plant and equipment	125	57
Financial assets	8	218
Current assets		
Financial assets	261	395
Other assets	121	214
Non-current liabilities		
Financial liabilities	40	77
Current liabilities		
Financial liabilities	4	58
Other liabilities	215	360
	1,159	**3,430**
Deferred tax liabilities, net	**5,150**	**4,850**
Shown in the statement of financial position		
Deferred tax assets	78	1,945
Deferred tax liabilities	5,228	6,795
Deferred tax liabilities, net	**5,150**	**4,850**

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

The corporate income loss carryforwards of the AIA Group as of December 31, 2012, were EUR 2,321 thousands (in prior year: EUR 46,624 thousand; 2010: EUR 66,030 thousand).

As of December 31, 2011, AIA had reported deferred tax assets of EUR 1,516 thousand in its IFRS consolidated financial statements in connection with existing loss carryforwards. As part of the voluntary public takeover offer, PAR Investment Partners L.P., which had already acquired 29.03% of the Subscribed Capital of AIA AG as of August 10, 2011, increased its stake in AIA AG to over 50 %. PAR Investment Partners L.P. thus announced on August 13, 2012, that it now held a total of 80.53 % of the share capital of AIA AG. This acquisition constitutes an adverse acquisition of equity under Section 8c German Corporate Income Tax Act (Körperschaftsteuergesetz - KStG); as a result, the tax loss carryforward extant at the time of said acquisition was reduced in the full amount. As a consequence, the Company had already fully derecognized its IFRS deferred tax assets of EUR 1,516 thousand as of June 30, 2012.

As of December 31, 2012, the Group did not recognize deferred tax liabilities for untransferred profits of certain subsidiaries. The Group has decided not to distribute the previously undistributed profits of these subsidiaries in the foreseeable future. The temporary differences in connection with equity interests in subsidiaries for which no deferred tax liabilities were recognized, amount to EUR 18,971 thousand (in prior year: EUR 28,591 thousand). For subsidiaries, for which dividend distribution is planned, the Group recorded deferred tax liabilities in an amount of EUR 37 thousands.

Current tax liabilities	**2012**	**2011**
	EUR thousand	**EUR thousand**
Corporate income tax, municipal trade tax and solidarity surcharge	55	224
Foreign income tax liabilities	475	881
Withholding tax	2,702	1,312
	3,232	**2,417**

Current tax assets	2012	2011
	EUR thousand	EUR thousand
Corporate income tax, municipal trade tax and solidarity surcharge	8	7
Foreign income tax assets	3,766	2,553
Withholding tax	8	6
	3,782	**2,566**

Taxes paid or owed on income and earnings as well as deferred and prepaid tax items, are reported in the income statement under “Income taxes.”

In the 2012 financial year, the parent company’s combined income tax rate was 33% (previous year: 33%; 2010: 33%).

The deferred tax rate for the domestic corporations was calculated based on the tax rates applicable to the period in which the relevant asset will be realized or liability will be met, taking into account the trade earnings tax, the corporate income tax, as well as the solidarity surcharge. These calculations are based on combined tax rate of 33% (previous year: 33%; 2010: 33%).

The tax rates customary for the respective country were used for the Group's foreign subsidiaries (16.5 - 39.8%).

8. Components of other comprehensive income

Please see the statement of comprehensive income for the components of other comprehensive income.

9. Earnings per share

Basic earnings per share are determined by dividing the profit for the year attributable to the owners of the parent’s ordinary shares by the weighted average number of ordinary shares outstanding during the reporting year.

Diluted earnings per share are determined by dividing the profit for the year attributable to the owners of the parent’s ordinary shares by the weighted average number of ordinary shares outstanding during the reporting year as well as by the weighted average number of ordinary shares that would arise from conversion of all potential ordinary shares with dilutive potential into ordinary shares.

The following table shows the amounts used to calculate the basic and diluted earnings per share:

Reconciliation of earnings per share	**2012**	**2011**	**2010**
	EUR	**EUR**	**EUR**
Net profit for the period	5,090	4,406,657	5,492,612
Average number of shares outstanding in the financial year	20,302,356	15,705,759	14,500,000
Basic earnings per share	**0.25**	**0.28**	**0.38**
Average number of shares outstanding taking into account dilution	20,381,090	15,823,436	14,542,729
Diluted earnings per share	**0.25**	**0.28**	**0.38**

Calculation of the weighted average number of shares outstanding	**2012**	**2011**	**2010**
Average number of shares outstanding in the financial year, weighted by days:	20,302,356	15,705,759	14,500,000
Effect of including options when calculating the average number of shares outstanding	78,734	117,677	42,729
Average number of shares outstanding in the financial year (diluted)	20,381,090	15,823,436	14,542,729

Earnings per share are calculated by dividing the net profit or loss for the period by the average number of shares. The number of shares after the capital increase was as follows in the reporting period:

Number of shares	**2012**	**2011**	**2010**
Number of shares on January 1	16,688,091	14,500,000	14,500,000
Number of shares on December 31	23,914,159	16,688,091	14,500,000
Weighted average number of shares (basic)	20,302,356	15,705,759	14,500,000
Number of weighted stock options	78,734	117,677	42,729
Weighted average number of shares (diluted)	20,381,090	15,823,436	14,542,729
Profit for the period	5,090,403	4,406,657	5,492,612
Basic EPS	0.25	0.28	0.38
Diluted EPS	0.25	0.28	0.38

As of the reporting date, a total of 371,669 stock options had been issued to one member of the Company's Management Board and to members of the management of AIA AG's associates. Subsequently, the shares to be included were determined pursuant to IAS 33 by considering the respective exercise prices, holding periods and extrapolated share price performance as well as future staff costs.

10. Property, plant and equipment

Property, plant, and equipment encompasses land, rights equivalent to land, and buildings with a carrying amount of EUR 161 thousand (previous year: EUR 757 thousand), as well as operating and office equipment in the amount of EUR 1,459 thousand (previous year: EUR 1,497 thousand). A property owned by the subsidiary IFP UK was sold in January 2012. This generated an accounting profit of EUR 705 thousand. Please see the separate consolidated statement of changes in non-current assets in regards to the development of property, plant and equipment and the relevant depreciation in the 2012 financial year.

11. Intangible assets

Film rights

The intangible assets include non-current film rights with a total carrying amount of EUR 37 thousand (previous year: EUR 57 thousand). By definition, the assumptions used to measure the film rights are subject to estimation uncertainty that are reflected in the currently expected discounted cash flows from the relevant film rights. The non-current film assets comprise film rights with finite and indefinite useful lives. In the 2012 financial year, total amortization of EUR 10 thousand (previous year: EUR 7 thousand; 2010: EUR 17 thousand), as well as impairment losses of EUR 10 thousand (previous year: EUR 53 thousand; 2010: EUR 141 thousand), were recognized on the non-current film assets. Amortization and impairment losses were attributable exclusively to film rights with finite useful lives. No impairment losses were recognized on film rights with indefinite useful lives (previous year: EUR 0 thousand; 2010: EUR 0 thousand). Please see note 14.2 with respect to the impairment test for film rights with indefinite useful lives.

Goodwill

The goodwill shown in the statement of financial position as of December 31, 2012, was EUR 38,090 thousand (previous year: EUR 37,963 thousand). It was allocated to the cash-generating units, IFP Germany, IFEL, IFP Group, Fairdeal Group, DTI Group, EIM, EVE and IMDC. The change in the carrying amount is essentially due to the acquisition of IMDC.

The impairment tests to be conducted at least once a year did not trigger any impairment losses in regards to any of the cash-generating units. The impairment test was conducted by comparing the expected future discounted cash flows allocable to goodwill with the assets of the cash-generating unit as of the reporting date. Please see note 14.1 for additional disclosures.

Other intangible assets

The other intangible assets comprise the value of the customer databases, non-current contracts and the catalog of games in the amount of EUR 14,168 thousand (previous year: EUR 15,579 thousand) that was determined at the time IFP Germany, IFP, DTI Software, Fairdeal, EIM, EVE and IMDC were acquired, as well as the value of software, non-competition agreements, brands and similar rights in the amount of EUR 7,574 thousand (previous year: EUR 6,741 thousand). The customer bases, brands as well as DTI Software's catalog of games are amortized over a period of up to 20 years using the straight-line method, and the non-competition agreements over a period of 18 to 36 months using the same method. Contracts are also amortized using the straight-line method over different periods depending on the type of contract. An impairment loss was identified for the capitalized software during the annual impairment test. For details, please see note 6.8.

Please see the separate consolidated statement of changes in non-current assets for changes in the intangible assets during the 2012 and 2011 financial years.

12. Assets classified as held for sale

The financial assets classified as held for sale include the minority investment in Row 44 Inc. and the fair value of warrants to purchase additional shares in Row 44 Inc. These shares will be transferred within an exchange pursuant to IFRS 5.10 in the first quarter of fiscal year 2013 (please see also note 27). The investment is not allocated to the operating segments of the Group.

The measurement of the shares and the warrants (classified as available for sale financial instrument) for the year ending 2012 is performed in accordance with IAS 39. As no active market for Row 44 Inc. shares or warrants exist. The Group established fair value by using valuation techniques of Level 3 within the fair value hierarchy. Therefore the fair value of the shares is estimated using a discounted cash flow model, which includes some assumptions that are not supportable by observable market prices or rates.

In determining the fair value of the shares, an earnings growth factor in the terminal value of 2.0 % and a risk adjusted discount factor of 15.71 % are used as well as a minority discount of 10 %. For sensitivity analysis please refer to note 26.7.

In determining fair value of the warrants, an expected volatility of 37.82%, a share price of USD 0.33, a riskfree interest rate of 0.52% and a dividend yield of 8% was used. For sensitivity analysis please refer to note 26.7.

A reconciliation of the beginning and closing balances including movements is summarized below:

Financial assets classified as held for sale	**Row 44**
	EUR thousand
1 January 2012	0
Purchases of shares in Row 44	19,436
Purchases of warrants in Row 44	713
Total gains and losses recognized in OCI	1,733
Total gains recognized in income	178
31 December 2012	**22,060**

13. Other financial assets and financial liabilities

13.1 Financial assets

The financial assets consist of the following items:

Financial assets	December 31, 2012	December 31, 2011
	EUR thousand	EUR thousand
Financial assets, non-current		
Available-for-sale financial assets (Guestlogix)	4,476	0
Restricted cash	144	0
	4,620	**0**
Financial assets, current		
Loan receivable (current)	17	17

The item “Available-for-sale financial assets” includes an equity investment in GuestLogix Inc. in the amount of EUR 2,411 thousand. The shares in Guestlogix Inc. were initially recorded in August 2012. According to IAS 39, the difference between the transaction price and the stock market price at the acquisition date (EUR 386 thousand) was directly recognized in the consolidated statement of income as a “day 1 loss”. As of the reporting date, the fair value of the shares increased by EUR 2,451 thousand. All fair value changes resulting from the subsequent measurement of available-for-sale assets were directly recorded in accumulated other comprehensive income (IAS 39).

13.2. Financial liabilities

The Group uses futures to hedge a portion of its transaction risks, as well as to minimize the risk of increases in variable interest rates. Other liabilities of EUR 121 thousand (previous year: EUR 153 thousand) from interest rate swaps were recognized as of the reporting date; of these, the total amount was non-current (December 31, 2011: EUR 119 thousand, non-current and EUR 34 thousand, current).

The changes in non-current financial liabilities were as follows:

Non-current financial liabilities	2012 EUR thousand	2011 EUR thousand
Earn-out liability	1,544	1,784
Producer fees	1,534	684
Derivatives (interest rate swaps)	121	153
Purchase price installments, liabilities	84	0
Interest, banks	2	34
	3,285	**2,655**

The changes in current financial liabilities were as follows:

Current financial liabilities	2012 EUR thousand	2011 EUR thousand
Earn-out liability	435	854
Purchase price installments, liabilities	59	0
Interest, banks	12	34
	506	**888**

Contingent compensation was agreed as part of the purchase agreement with the former owners of EIM and IMDC. This compensation was dependent on the operating and financial performance indicators of the purchased companies. Under this agreement, the amount to be paid for the earn-out period 2012 was determined on February 28, 2013.

Interest-bearing loans

<u>Bank overdrafts</u>

The bank overdrafts are secured by a portion of the current assets of the Group's local subsidiaries.

<u>Bank loan with an initial nominal value of EUR 11,000,000</u>

In June 2011, AIA AG took out an unsecured four-year loan of EUR 11,000 thousand from UniCredit Bank AG, Munich, Germany, to finance a portion of the acquisitions of EIM and EVE. The loan is subject to initial repayment of EUR 500 thousand and thereafter regular half-yearly repayments of EUR 1,500 thousand, no prepayment penalties and variable interest based on the six-month Euribor plus 2.35%. In order to avoid any exposure to the risk from rising interest rates associated with variable interest obligations, also in June 2011 a portion of the variable interest payments was converted into fixed interest obligations by means of interest rate swaps over the term of the loan.

Under the terms of the loan agreement, mandatory special loan payments are agreed under certain conditions. Due to an additional clarification agreement in the third quarter 2012 regarding the calculation method to apply, the Group has to pay a special loan payment of EUR 1,000 thousand for fiscal year 2011 that will be due on December 31, 2012. Based on the current estimate of the earnings for 2012, the provision regarding mandatory special loan payments will probably be applied again and result in a mandatory special loan payment of EUR 1,000 thousand, payable as of June 30, 2013. As a result, the repayment period and thus the loan will now end six months earlier than originally envisaged. These special loan payments result in a reclassification of the amount of the special loan payments to the current portion of the loan.

As of December 31, 2012, the non-current portion of the loan amounts to EUR 2,527 thousand and the current portion amounts to EUR 3,910 thousand (December 31, 2011: EUR 7,475 thousand non-current and EUR 2,844 thousand current).

Subordinated bank loan with an initial nominal value of EUR 2,000,000

The non-current financial liabilities include liabilities of nominally EUR 2,000 thousand from taking up mezzanine capital through a financing program of Capital Efficiency Group AG, Zug, Switzerland. This financing program has a term of seven years and runs until March 7, 2014. The interest is 8.8% per annum. A payment of 1% p.a. must be made each year and interest of 7.8% on the principal must be paid every quarter. The liability's carrying amount as of December 31, 2012, was EUR 1,992 thousand (December 31, 2011: EUR 1,974 thousand).

Mortgage with an initial nominal value of GBP 250,000

In 1999, Inflight Productions Limited, London, UK, obtained a mortgage for initially GBP 250,000 from HSBC, London, UK, to finance real property. The mortgage initially ran until December 31, 2014, and had an interest rate of 3% above the base rate of the Bank of England. The remaining balance was discharged ahead of schedule in January 2012 in connection with the sale of the property. No prepayment penalty was incurred thereby. As of December 31, 2011, the entire debt (EUR 82 thousand) was classified as current.

Annuity loan for originally EUR 727,524

In December 2007, AIA AG signed a loan agreement for up to EUR 800 thousand with HVB Investitionsbank GmbH, Munich, to finance investments in hardware for the technical services of The Lab.Aero, a subsidiary of Inflight Productions Inc., Los Angeles, USA. This loan has a term of five years, which started with the first installment payment once absolutely all purchase contracts for the individual pieces of equipment were closed in August 2008. The total remaining balance of EUR 159 thousand is current. (December 31, 2011: EUR 159 thousand, non-current and EUR 142 thousand, current).

13.3. Fair value

The following table shows both the carrying amounts and the fair values of all financial instruments recognized in the consolidated financial statements:

Fair value of financial instruments	**December 31, 2012**		**December 31, 2011**	
	Carrying amount	Fair value	Carrying amount	Fair value
	EUR thousand	**EUR thousand**	**EUR thousand**	**EUR thousand**
Financial assets:				
AfS financial assets	25,677	25,677	0	0
Trade receivables	22,930	22,930	19,844	19,844
Other current assets	1,927	1,927	2,231	2,231
Cash and cash equivalents	16,310	16,310	15,960	15,960
Financial liabilities:				
Non-current financial liabilities	7,807	7,807	12,271	12,271
Trade payables	34,362	34,362	34,272	34,272
Interest-bearing loans, current	4,069	4,069	3,061	3,061
Other current liabilities	4,983	4,983	5,598	5,598

The fair values of the financial assets and financial liabilities are recognized at the price at which the respective instrument could be exchanged between knowledgeable, willing parties in a current arm's length transaction (excepting mandatory sale or liquidation).

The following methods and assumptions were used to determine the fair values:

- The fair values of cash and cash equivalents, trade receivables, trade payables and other current liabilities are very close to their carrying amounts because the maturities of these instruments are very short.

- The Group applies different yet relevant parameters to the measurement of non-current receivables and loans subject to fixed and variable interest rates. Allowances are recognized based on this measurement to account for any expected losses on these receivables. As of December 31, 2012, the carrying amounts of these receivables less allowances were not different from their computed fair values.

- The fair values of unquoted instruments, bank loans and other financial liabilities as well as other non-current financial liabilities is estimated by discounting the future cash flows using current market interest rates for borrowings or similar instruments with comparable maturities or interest rates based on US Government bonds.

- The Group enters into derivative financial instruments with banks with an investment grade (IG) rating. The determination of the fair values of derivative financial instruments depends on the type of the financial instrument:

    - Derivative interest contracts: The fair values of derivative interest contracts (such as interest rate swaps) are determined by discounting the future expected cash flows using current market interest rates and interest yield curves over the remaining maturity of the instrument.

    - Foreign exchange futures: The fair values of foreign exchange futures are based on forward exchange rates.

Net losses from loans payable

A total net loss of EUR 821 thousand (previous year: EUR 700 thousand; 2010: EUR 946 thousand) was generated from loans payable in 2012. The net losses comprised the following:

Net losses from loans payable	**2012**	**2011**	**2010**
	EUR thousand	**EUR thousand**	**EUR thousand**
Interest	-686	-645	-804
Fees	-135	-55	-142
	-821	**-700**	**-946**

13.4. Hedge accounting and derivatives

Cash flow hedges

AIA AG entered into an interest rate swap with HypoVereinsbank AG, Munich, on June 9, 2011, in connection with the loan for the acquisitions. The interest rate swap stipulates a fixed interest rate of 2.50% on EUR 5,500 thousand in lieu of variable interest payments in order to preclude any risk from rising short-term interest rates.

The terms of the interest rate swap were negotiated in accordance with the terms of the underlying loan. The fixed-interest payments are tailored to the structure of the underlying loan agreement such that the initially stipulated half-yearly variable interest payments were partially replaced by defined fixed interest payments. The hedge of the cash flows from expected future interest payments deemed to be highly effective until June 30, 2012.

Due to the mandatory special loan payments, which shortened the term of the loan, the interest rate swap no longer satisfies the conditions for hedge accounting set out in IAS 39, which means this will have to be abandoned. As a result, the unrealized losses previously recognized in equity will have to be reclassified to profit or loss. In accordance with the expected cash flows from the hedged item, this reclassification will be made over the remainder of the loan term.

Of the hedging instruments, unrealized losses of EUR 50 thousand as of December 31, 2012 were thus reclassified from equity to profit or loss in the income statement, taking deferred tax liabilities of EUR 17 thousand into account. The remaining unrealized losses in the amount of EUR 78 thousand, which were recognized in other components of equity until June 30, 2012, are reclassified to the consolidated income statement over the remaining life of the loan, using the digital method.

The derivative was also designated as measured at fair value through profit or loss from the date on which the hedge accounting ended.

The following overview reflects the performance of the derivatives:

Derivatives	**Assets Dec. 31, 2012**	**Liabilities Dec. 31, 2012**	**Assets Dec. 31, 2011**	**Liabilities Dec. 31, 2011**
	EUR thousand	**EUR thousand**	**EUR thousand**	**EUR thousand**
Fair value of the derivatives	-	121	-	153

Derivatives not designated as hedging instruments

Now and again, the Group uses foreign exchange futures to hedge a portion of its transaction risks from its operating business. These derivatives do not qualify for hedge accounting. No such contracts were made in 2011. In 2012, the Group acquired warrants as part of its purchase of Row 44 Inc. (see note 12) which qualify as derivatives. The derivative was measured at fair value through profit or loss for the period and amounted to EUR 178,149. See note 12 for the assumptions in determining fair value for the warrants.

Hedge of a net investment in a foreign operation

As in the previous year, in 2012 no foreign currency loans were obtained to hedge a net investment in a foreign operation.

Fair value hierarchy

All financial instruments recognized at fair value are allocated to one of the three categories defined below:

Level 1 - Listed market prices

Level 2 - Valuation techniques (input parameters based on observable market data)

Level 3 - Valuation techniques (input parameters not based on observable market data)

As of December 31, 2012, the Group was holding the following financial instruments recognized at fair value:

Financial assets measured at fair value:

	December 31, 2012	**Level 1**	**Level 2**	**Level 3**
	EUR thousand	**EUR thousand**	**EUR thousand**	**EUR thousand**
Available-for-sale financial assets (Guestlogix)	4,476	4,476		
Assets classified as held for sale (Row 44 shares and warrants)	22,060			22,060

Financial liabilities measured at fair value:

Financial liabilities at fair value	December 31, 2012	Level 1	Level 2	Level 3
	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Interest rate swap - no hedge	121		121	

There were no reclassifications between Level 1 and Level 2 in the period from January 1 until December 31, 2012, and no reclassifications from or into Level 3, nor were there any reclassifications between the individual levels of the fair value hierarchy in the same period the previous year. There were no changes in the purpose of the financial assets, which would have triggered a change in their respective classification.

14. Impairment tests on goodwill and intangible assets with indefinite useful lives

14.1. Impairment of goodwill

The goodwill with indefinite useful lives acquired as part of business combinations was allocated to the following cash-generating units for the purpose of testing it for impairment:

IFP Germany
IFEL
IFP Group
DTI Group
Fairdeal Group
EIM
EVE
IMDC

The cash-generating units IFP Germany, IFEL, IMDC, IFP Group, Fairdeal, DTI Group, EIM and EVE are all allocated to the CSP segment. Die cash-generating units EIM, EVE and Fairdeal Group are allocated to the Content segment.

The carrying amounts of the goodwill allocated to the cash-generating units:

	IFP Germany		IFEL		IFP Group	
	Dec. 31, 2012	**Dec. 31, 2011**	**Dec. 31, 2012**	**Dec. 31, 2011**	**Dec. 31, 2012**	**Dec. 31, 2011**
	EUR thousand	**EUR thousand**	**EUR thousand**	**EUR thousand**	**EUR thousand**	**EUR thousand**
Carrying amount of goodwill	496	496	689	689	8,805	8,653
Impairment loss	-	-	-	-	-	-
Discount rate	18,55%	12,36%	17,50%	12,82%	19,18%	14,34%
Growth rate	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

	DTI Group		Fairdeal Group		EIM	
	Dec. 31, 2012	**Dec. 31, 2011**	**Dec. 31, 2012**	**Dec. 31, 2011**	**Dec. 31, 2012**	**Dec. 31, 2011**
	EUR thousand	**EUR thousand**	**EUR thousand**	**EUR thousand**	**EUR thousand**	**EUR thousand**
Carrying amount of goodwill	15,323	15,241	916	967	4,228	4,311
Impairment loss	-	-	-	-	-	-
Discount rate	9,80%	6,68%	12,41%	7,84%	14,51%	9,67%
Growth rate	1,00%	1,00%	1,00%	1,00%	1,00%	1,00%

	EVE		IMDC	
	Dec. 31, 2012	**Dec. 31, 2011**	**Dec. 31, 2012**	**Dec. 31, 2011**
	EUR thousand	**EUR thousand**	**EUR thousand**	**EUR thousand**
Carrying amount of goodwill	7,476	7,606	158	-
Impairment loss	-	-	-	-
Discount rate	10,56%	7,14%	11,10%	
Growth rate	1,00%	1,00%	1,00%	

The changes in the carrying amounts of goodwill shown above resulted exclusively from foreign currency effects.

Values in use of the cash-generating units

The recoverable amount of each individual cash-generating unit was determined by calculating its value in use based on the discounted cash flow method. Cash flow forecasts authorized by management were applied. While the cash flow forecasts for the cash generating units of the Content segment and the DTI Group are based on a horizon of three years and a perpetual annuity starting from the fourth year, the cash flow projections for the cash generating units of the CSP segment, with the exception of the DTI Group, are based on a planning horizon of 30 years. The assumed average useful life of an inflight entertainment system was posited as the planning horizon. A discount rate before taxes pursuant to the foregoing table was used to compute the value in use. The weighted total capital cost rate that was utilized is based on a risk-free interest rate of 2.5% (base rate) as well as risk premiums of 6.5% for the equity (market risk premium). To determine the perpetual annuity, the discount rate was lowered by one percent for growth weighted by the equity ratio. A beta factor derived from the given peer group, as well as the capital structure of this peer group, were also taken into account. The interest rate on borrowing costs (after taxes) is 3.7% and was calculated based on a peer group average. The tax rate of 33% applicable to the Group was taken into account.

Key assumptions used in the determination of the values in use

The determination of the values in use is subject to estimation uncertainty regarding the following assumptions:

gross profit margins;

discounting rates; and

growth rates underlying the extrapolation of the cash flow forecasts above and beyond the three-year budgeting period.

Gross profit margins

The gross profit margins are determined based on historical values; they are forecast for the next three years taking into account macroeconomic developments and the specific forecasts for the aviation industry.

Discount rates

The discount rates reflect the current market assessments regarding the specific risks to be allocated to each cash-generating unit. The discount rate was estimated using the average weighted total capital cost rate.

Estimates of the growth rates

Industry-specific market surveys, as well as our own analyses, are used to estimate the potential growth rates. Allowing for the current economic situation and major uncertainties regarding the development of the global economy in the medium term — in particular, the development of air traffic — a growth rate of just 1% was assumed for the cash-generating units in the Content segment for the time after the end of the three-year planning period. This growth rate was taken into account in the calculation of the perpetual annuity.

Sensitivity of the assumptions made

In the Company's view, no single change reasonably believed possible in any one of the basic assumptions underlying the determination of the value in use of the cash-generating units could cause the carrying amounts of the cash-generating units to exceed their values in use.

Results of the impairment tests

The impairment test performed as of December 31, 2012, of the goodwill acquired did not result in any need to recognize impairment losses on the cash generating units in the CSP and Content segments.

Nor did different measurement scenarios (using changed discounting rates or changed growth rates) that were applied show any need to recognize impairment losses on the goodwill.

14.2 Impairment of the intangible assets with indefinite useful lives

The Group's intangible assets include a portfolio of more than 750 film rights, among other things. Some of these film rights may be used in perpetuity.

The annual impairment test pursuant to IAS 36 of the film rights that may be used in perpetuity showed that they were not impaired as of December 31, 2012 (previous year: no impairment either; 2010: no impairment). As of December 31, 2012, the Group thus recognized a residual carrying amount of EUR 8 thousand (previous year: EUR 8 thousand; 2010: EUR 8 thousand) for film rights that may be used in perpetuity.

14.3 Impairment of short term film rights

The Group's film rights for the airlines are classified as short term and shown within inventories (see note 6.6. and 15).

The annual impairment test pursuant to IAS 36 of the film rights showed that parts of them were impaired as of December 31, 2012 (previous year: no impairment; 2010: no impairment). The Group thus recognized impairment on these film rights in an amount of EUR 1,214 thousands.

15. Inventories

Inventories as of December 31, 2012, contain goods valued at EUR 1,165 thousand (previous year: EUR 800 thousand), as well as EUR 290 thousand (previous year: EUR 953 thousand) in prepayments on goods. The film rights for the airline sector that are acquired for a longer period of time than a defined customer's "onboard cycle," are also shown here. As of the reporting date, they were EUR 9,586 thousand (previous year: EUR 9,948 thousand).

16. Trade receivables

Trade receivables	**2012**	**2011**
	EUR thousand	**EUR thousand**
Trade receivables	22,930	19,844

Please see note 24 regarding the terms of receivables from related parties.

Trade receivables do not bear interest and usually have a term of up to 90 days.

Trade receivables with a nominal value of EUR 1,230 thousand (previous year: EUR 1,642 thousand) were impaired as of December 31, 2012. Changes in the allowance account are presented as follows:

	Impaired	**Portfolio-based valuation allowances**	**Total**
	EUR thousand	**EUR thousand**	**EUR thousand**
Balance on January 1, 2011	868	75	943
Business combination	5	0	5
Additions through profit and loss	809	0	809
Reclassifications	0	0	0
Foreign currency effects	68	2	70
Utilization	-107	0	-107
Reversal	-68	-10	-78
Balance on December 31, 2011	**1,575**	**67**	**1,642**
Balance on January 1, 2012	1,575	67	1,642
Business combination	7	0	7
Additions through profit and loss	154	2	156
Reclassifications	0	0	0
Foreign currency effects	7	1	8
Utilization	-496	-2	-498
Reversal	-84	-1	-85
Balance on December 31, 2012	**1,163**	**67**	**1,230**

The aging structure of the not impaired trade receivables as of December 31, 2012, is as follows:

	Total	Neither past due nor impaired	Past due but not impaired < 30 days	30-60 days	60-90 days	90-120 days	> 120 days
	EUR thousand	**EUR thousand**	**EUR thousand**	**EUR thousand**	**EUR thousand**	**EUR thousand**	**EUR thousand**
2012	22,930	11,203	6,636	2,195	1,376	330	1,190
2011	19,844	10,516	5,728	2,355	552	298	395

Trade receivables are written off in full Groupwide if they are expected to be incollectible. If not, (indirect) individual write-downs or portfolio-based write-downs are made. They are subject to percentage-based valuation allowances depending on their aging structure.

A net loss of EUR -379 thousand (previous year: net gain of EUR 58 thousand; 2010: net loss of EUR 427 thousand) was generated from trade receivables in 2012. This net loss consists of the following:

	2012	**2011**	**2010**
	EUR thousand	**EUR thousand**	**EUR thousand**
Currency gains/losses	-225	867	-63
Valuation allowances	-154	-809	-364
	-379	**58**	**-427**

16.1. Other assets

	2012 EUR thousand	2011 EUR thousand
Prepayments	1,036	1,057
Miscellaneous non-financial assets	891	1,174
	1,927	**2,231**

Prepayments comprise rent, software licenses and general prepayments. Miscellaneous non-financial assets comprise mainly security deposits.

17. Cash and cash equivalents

Bank balances have variable interest rates for on-demand deposits. Current investments are made for different time periods ranging from one day to three months depending on the Group's given cash flow needs. These current investments have market interest rates for short-term investments.

As of December 31, 2012, EUR 490 thousand (previous year: EUR 4,093 thousand) in unused credit lines were available to the Group; all conditions applicable to drawdowns from them had already been fulfilled.

Please see the statement of cash flows for disclosures on changes in cash and cash equivalents and the reasons for the changes. Cash and cash equivalents comprise the following:

Development of cash and cash equivalents	2012 EUR thousand	2011 EUR thousand
Cash at banks	15,707	15,715
Restricted bank accounts	497	232
Cash-in-hand	17	13
Time deposits	89	0
	16,310	**15,960**

The cash and cash equivalents generated a net loss of EUR 165 thousand (previous year: EUR 113 thousand; 2010: EUR 109 thousand) in 2012. This net loss consists of the following:

	2012	2011	2010
	EUR thousand	**EUR thousand**	**EUR thousand**
Currency gains/losses	0	4	-1
Bank fees	-175	-142	-133
Interest	10	25	25
	-165	**-113**	**-109**

18. Statement of cash flows

The statement of cash flows shows the changes in the Group's cash and cash equivalents from cash inflows and outflows during the financial year. IAS 7 (Statement of Cash Flows) requires distinguishing between cash flows from operating, investing and financing activities.

The amounts of cash that are analyzed in the statement of cash flows comprise all cash and cash equivalents reported in the statement of financial position — i.e. cash on hand, checks and bank balances — to the extent that these funds are freely available within three months. Changes in the Group's cash and cash equivalents from foreign exchange rates were EUR -1,862 thousand (previous year: EUR -62 thousand; 2010: EUR 1,124 thousand).

The cash flows from investing and financing activities are determined based on payments. In contrast, the cash flows from operating activities are derived from the consolidated net profit for the year using the indirect method. Under the indirect method, changes in items in the statement of financial position related to operating activities are adjusted for effects from both currency translation and changes in the basis of consolidation. Such changes in the relevant items of the statement of financial position thus cannot be reconciled to the corresponding figures based on the published consolidated financial statements.

19. Subscribed capital and reserves

19.1. Subscribed capital

The Company's subscribed capital as of December 31, 2012, was EUR 23,914,159.00 (2011: EUR 16,688,091.00; 2010: EUR 14,500,000.00). It is denominated in 23,914,159 no-par bearer shares (2011: 16,688,091; 2010:14,500,000). These shares have been fully issued and paid in. There are no preferences or restrictions attached to the shares.

The number of shares outstanding changed as follows during the reporting period.

The Management Board resolved on May 29, 2012, with the approval of the Supervisory Board, to increase the Company's share capital from then EUR 16,688,091.00 by up to EUR 1,854,232.00 to a maximum of EUR 18,542,323.00 through the issuance of up to 1,854,232 new no-par bearer shares with a pro-rata interest of EUR 1.00 per share in the Company's share capital ("New Shares") in return for cash contributions. All of the new shares were issued at an offer price of EUR 3.00 share. The capital increase was recorded in the appropriate German Commercial Register on June 26, 2012. The new shares were listed on June 27, 2012.

A total of 116,666 stock options were exercised in the first half of the 2012 financial year. The shares underlying the stock options were issued by drawing on Contingent Capital 2007/I.

The capital increase against contributions in kind of EUR 5,255,170.00 resolved on May 29, 2012, as part of the acquisition of a minority stake in Row 44 Inc., involving the issuance of 5,255,170 new shares, was entered in the relevant commercial register on July 2, 2012. This increases the share capital of AIA AG to EUR 23,914,159.00 as of July 2, 2012. The new shares from the capital increase against contributions in kind will be admitted to trading in the Regulated Market (General Standard) on the Frankfurt Stock Exchange at a later date. For the development of equity we refer to the separate statement of changes in equity.

19.2. Reserves

Capital reserves

Capital reserves are recognized in accordance with requirements of the law. Capital reserves comprise the premium received from capital increases after deducting the costs for the equity transaction.

Capital reserves as of December 31, 2012, amounted to EUR 30,438 thousand (previous year: EUR 12,059 thousand; 2010: EUR 8,871 thousand).

Retained earnings

Retained earnings totaling EUR 24,119 thousand (previous year: EUR 21,210 thousand; 2010: EUR 18,543 thousand) are comprised as follows:

Development of retained earnings	EUR thousand
Brought forward as of December 31, 2010	18,543
Dividend paid	-1,740
Net profit for 2011	4,407
Balance as of December 31, 2011	**21,210**
Brought forward as of December 31, 2011	21,210
Dividend paid	-2,002
Net profit for 2012	5,090
Balance as of December 31, 2012	**24,298**

Other components of equity

The accumulated other comprehensive income as of December 31, 2012, was EUR 3,892 thousand (previous year: EUR 1,712 thousand; 2010: EUR 3,936 thousand).

Provisions for cash flow hedges

Until June 30, 2012, the effective portion of the gains or losses on hedging instruments used to hedge cash flows from the June 2011 loan were recognized under the provisions for cash flow hedges. Since the hedging relationship has ended, this amount is now reclassified to the income statement over the hedged item's term to maturity (see note 13.4). As of December 31, 2012, the remaining unrealized loss from interest rate swaps (cash flow hedge) of EUR 52 thousand (previous year: EUR 80 thousand; 2010: EUR 53 thousand) reduced the other equity.

Provisions for currency translation differences

Provisions for currency translation differences serve to recognize differences from the translation of foreign subsidiaries' financial statements. They also serve to recognize the effects from hedges of a previous net investment in a foreign operation. The provisions for currency translation differences were EUR 940 thousand (previous year: EUR 1,231 thousand; 2010: EUR 507 thousand) as of December 31, 2012.

19.3. Authorized capital

Authorized Capital 2011

The Management Board was authorized by resolution of the Annual General Meeting on June 10, 2011, subject to the approval of the Supervisory Board, to increase the Company's share capital until June 09, 2016, once or repeatedly, by a total of up to EUR 7,250,000.00 by issuing up to 7,250,000 new no-par bearer shares in exchange for contributions in cash and/or in kind. The shareholders must be granted a subscription right. Such subscription right may also be granted to shareholders such that the new shares may be purchased by a bank or another company working in the field under Section 53 (1) sentence 1, Section 53b (1) sentence 1, or Section 53b (7) of the German Banking Act, with the proviso that the shares must be offered to the shareholders for subscription. The Management Board is authorized to exclude shareholders' subscription rights in full or in part with the consent of the Supervisory Board and to determine the rights accruing to the shares in the future and the conditions for issuing shares. A total of EUR 7,109,402 was used by the capital measures executed in 2012, as a result of which only EUR 140,598 are still available.

19.4. Contingent capital

19.4.1. Contingent Capital (2011) – Convertible bonds and/or bonds with warrants

By resolution of the Annual General Meeting on June 10, 2011, the Management Board was authorized to issue bearer convertible bonds and/or bonds with warrants with the approval of the Supervisory Board until June 9, 2016, once or repeatedly, for a total par value of up to EUR 20,000,000.00 (hereinafter jointly referred to as “Bonds”) and maturities of no more than 20 years and to grant to the holders of these Bonds conversion rights to or options on new Company shares with a pro rata interest of up to EUR 2,139,675.00 in its share capital, subject to the conditions of the convertible bonds or options. The Bonds may be issued once or repeatedly, in toto or in separate amounts, as well as simultaneously in different tranches.

Creation of Contingent Capital 2011

The share capital will be contingently increased by up to EUR 2,139,675.00 by issuing up to 2,139,675 no-par bearer shares (Contingent Capital 2011). This contingent capital increase serves to grant shares issued in accordance with the foregoing Authorization to the holders of convertible bonds or bonds with warrants. The contingent capital increase shall be executed only insofar as the holders of convertible bonds and/or bonds with warrants that the Company issues until June 9, 2016, in accordance with the authorization of the Annual General Meeting on June 10, 2011, exercise their conversion right or option or conversion obligations under such bonds are fulfilled and provided no other types of fulfillment are used to service these bonds. The new shares shall participate in the Company's profit from the start of the financial year in which they are created through the exercise of conversion rights and/or options or through the fulfillment of conversion obligations. The Management Board is authorized to fix all other details of the execution of the contingent capital increase with the approval of the Supervisory Board. The Supervisory Board is authorized to amend the wording of the Articles of Association to reflect the degree to which the contingent capital has been utilized.

Authorization to issue convertible bonds and/or bonds with warrants

The shareholders shall have the right to subscribe to the Bonds. The statutory subscription right may also be granted such that the Bonds are taken over by one or more credit institutions with the obligation to offer them to the shareholders for subscription. However, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude, in whole or in part, the right of the Company's shareholders to subscribe to the Bonds entailing conversion rights to or options on the Company's shares,

- if the issue price for one Bond is not substantially less than the theoretical market value of the Bonds that is determined using standard mathematical methods. The total number of shares to be issued based on the Bonds under this Authorization pursuant to Section 186 (3) sentence 4 German Stock Corporation Act (in return for cash contributions subject to exclusion of shareholders' subscription right), along with other shares issued or sold pursuant to or in accordance with the foregoing statutory provision while this Authorization is in effect, may not exceed 10% of the respective share capital, specifically, neither at the time the Authorization takes effect nor at the time it is exercised;

- in order to grant to the holders of conversion rights to and/or options on Company shares, for the purpose of offsetting dilution, subscription rights in the scope to which they would be entitled after exercising these rights; and

- in order to exclude fractional shares that arise in consequence of the subscription ratio from shareholders' subscription right.

If convertible bonds are issued, the holders of such convertible bonds shall be granted the right to convert them into shares of Advanced Inflight Alliance AG in accordance with the conditions of the convertible bonds. The pro-rata portion of the share capital represented by the shares to be issued in connection with the conversion may not exceed the par value of the convertibles. The conversion ratio is determined by dividing the par amount of a convertible bond by the previously fixed conversion price for Advanced Inflight Alliance AG shares. The conversion ratio may also be obtained by dividing the convertible bond's issue price, which is less than the nominal amount, by the previously established conversion price for one share of the Company. The terms may also provide for a variable conversion ratio and that the conversion price shall be established within a range that is contingent on the development of the share price during the maturity of the convertibles or a specific period of time during their maturity. The conversion ratio may be rounded in any case. An additional cash payment to be made may also be established. For the rest, the terms and conditions may also provide for combining and/or offsetting fractional amounts in cash.

If bonds with warrants are issued, one or more warrants, which entitle the holder to subscribe to shares of Advanced Inflight Alliance AG in accordance with the option conditions to be fixed by the Management Board, shall be attached to each individual bond with warrant. The pro rata interest in the share capital of the shares to be subscribed per bond with warrant may not exceed the par value of the bonds with warrants.

The respective Bond conditions may also provide for a conversion obligation either at maturity or at an earlier point in time. Finally, the Bond conditions may permit the Company to pay to the holder of the conversion right or option the equivalent value in cash upon exercise of the conversion rights and/or options in lieu of issuing shares. Furthermore, the respective Bond conditions may stipulate that the Company may also grant treasury shares when a conversion right or option are exercised.

Even in case of a variable conversion ratio or price, the price to be paid for one share of Advanced Inflight Alliance AG based on a conversion right and/or option (subscription price) must correspond to either (a) at least 80% of the price of one share of Advanced Inflight Alliance AG in XETRA trading (or a functionally comparable successor system that has taken the place of the XETRA system) on the ten trading days immediately prior to the date of the Management Board's resolution on the issuing of convertible bonds or bonds with warrants or (b) at least 80% of the closing auction price of the Company's share in XETRA trading (or a functionally comparable successor system that has taken the place of the XETRA system) during those days (excepting the last two subscription right trading days) on which the subscription rights are traded on the Frankfurt Stock Exchange. This shall not affect Section 9 (1) and Section 199 (2) German Stock Corporation Act.

If the economic value of the extant conversion rights or options is diluted during the term of a Bond and if no compensation in the form of subscription rights is granted therefor, the given conversion rights or options shall be adjusted in ways preserving their value — irrespective of the lowest issue price pursuant to Section 9 (1) German Stock Corporation Act — unless such adjustment already is subject to mandatory German law. At any rate, the pro rata interest in the share capital of the bearer shares to be subscribed per Bond may not exceed the par value per Bond.

In lieu of adjusting the option or conversion price, the conditions governing the bonds with warrants and/or convertible bonds may also provide for payment in cash of the corresponding amount by the Company upon exercise of the option or conversion right or upon fulfillment of the option or conversion obligation. The conditions of the Bond may also provide for adjustments of the option and/or conversion rights and/or obligations in the event of a decrease in capital or other extraordinary measures or events.

The Management Board is authorized, subject to the approval of the Supervisory Board, to establish additional details in regards to the issuance of the convertible bonds and/or bonds with warrants and their terms and conditions — in particular, interest rates; issue price; maturity and denomination; conversion and/or exercise price; and conversion and/or exercise period.

19.4.2. Contingent Capital 2009/I - Stock Option Plan

The Annual General Meeting resolved on June 12, 2009, to authorize the Management Board, with the approval of the Supervisory Board, to establish an Employee Stock Option Plan 2009 that grants options on shares in Advanced Inflight Alliance AG to members of the Company's Management Board and to senior management of AIA AG's affiliates, in addition to creating (new) Contingent Capital 2009 I and executing the corresponding amendment of the Articles of Association, subject to the following requirements:

Creation of Contingent Capital 2009/I

The Company's share capital shall be contingently increased by up to EUR 310,000 (in words: three hundred and ten thousand euros) by issuing up to 310,000 (in words: three hundred and ten thousand) new no-par bearer shares ("Contingent Capital 2009/I"). Contingent Capital 2009/I shall serve to issue stock options on shares issued by Advanced Inflight Alliance AG pursuant to the authorization of its Annual General Meeting on June 12, 2009, under the Stock Option Plan 2009 between the date on which Contingent Capital 2009/I is recorded in the Commercial Register and June 11, 2014. This contingent capital increase shall be executed only insofar as stock options are issued and the holders of these options exercise their right to subscribe to shares of the Company. Shares from Contingent Capital 2009/I shall be issued at the exercise price fixed in item b) number 5 of agenda item 8 of the Annual General Meeting on June 12, 2009. The new no-par shares issued by Advanced Inflight Alliance AG upon exercise of the stock options shall participate in profits from the start of the financial year in which they are issued.

Authorization to issue stock options on shares of Advanced Inflight Alliance AG

The Management Board was hereby authorized, with the approval of the Supervisory Board, to issue up to 310,000 (in words: three hundred and ten thousand) stock options on shares of Advanced Inflight Alliance AG until June 11, 2014, having terms of up to five years, in one or several tranches, in accordance with the Stock Option Plan 2009 (hereinafter: "SOP 2009") and subject to the additional requirements set forth below, with the provision that each stock option grants the right to purchase one share in Advanced Inflight Alliance AG. Only members of the Management Board of Advanced Inflight Alliance AG, as well as senior management of Advanced Inflight Alliance AG's affiliates, shall be entitled to purchase these stock options. This authorization shall be limited to the Supervisory Board inasmuch as stock options are granted to members of the Management Board of Advanced Inflight Alliance AG. There shall be no subscription right on the part of the Company's shareholders.

19.4.3. Contingent Capital 2008/I - Stock Option Plan

The Annual General Meeting resolved on July 01, 2008, to authorize the Management Board, with the approval of the Supervisory Board, to establish an Employee Stock Option Plan 2008 that grants options on shares in Advanced Inflight Alliance AG to members of the Company's Management Board and to senior management of AIA AG's affiliates, in addition to creating (new) Contingent Capital 2008/I and executing the corresponding amendment of the Articles of Association, subject to the following requirements:

Creation of Contingent Capital 2008/I

The Company's share capital shall be contingently increased by up to EUR 340,000 (in words: three hundred and forty thousand euros) by issuing up to 340,000 (in words: three hundred and forty thousand) new no-par bearer shares ("Contingent Capital 2008/I"). Contingent Capital 2008/I shall serve to issue stock options on shares issued by Advanced Inflight Alliance AG pursuant to the authorization of its Annual General Meeting on July 01, 2008, under the Stock Option Plan 2008 between the date on which Contingent Capital 2008/I is recorded in the Commercial Register and June 30, 2013. This contingent capital increase shall be executed only insofar as stock options are issued and the holders of these options exercise their right to subscribe to shares of the Company. Shares from Contingent Capital 2008/I shall be issued at the exercise price fixed in item b) number 5 of agenda item 6 of the Annual General Meeting on July 01, 2008. The new no-par shares issued by Advanced Inflight Alliance AG upon exercise of the stock options shall participate in profits from the start of the financial year in which they are issued.

Authorization to issue stock options on shares of Advanced Inflight Alliance AG

The Management Board was hereby authorized, with the approval of the Supervisory Board, to issue up to 340,000 (in words: three hundred and forty thousand) stock options on shares of Advanced Inflight Alliance AG until June 30, 2013, having terms of up to seven years, in one or several tranches, in accordance with the Stock Option Plan 2008 (hereinafter "SOP 2008" and subject to the additional requirements set forth below, with the proviso that each stock option grants the right to purchase one share in Advanced Inflight Alliance AG. Only members of the Management Board of Advanced Inflight Alliance AG, as well as senior management of Advanced Inflight Alliance AG's affiliates, shall be entitled to purchase these stock options. This authorization shall be limited to the Supervisory Board inasmuch as stock options are granted to members of the Management Board of Advanced Inflight Alliance AG. There shall be no subscription right on the part of the Company's shareholders.

19.4.4. Contingent Capital 2007/I - Stock Option Plan

Based on a resolution of the Annual General Meeting on July 02, 2007 - and of the Annual General Meeting on July 01, 2008 regarding a change of the performance targets (item 6) - the Management Board was authorized, with the approval of the Supervisory Board, to establish a Stock Option Plan 2007 that grants options on shares in Advanced Inflight Alliance AG to members of the Company's Management Board and to senior management of AIA AG's affiliates, in addition to creating (new) Contingent Capital I and executing the corresponding amendment of the Articles of Association, subject to the following requirements:

Creation of Contingent Capital I

The Company's share capital shall be contingently increased by up to EUR 800,000 (in words: eight hundred thousand euros) by issuing up to 800,000 (in words: eight hundred thousand) new no-par bearer shares ("Contingent Capital I"). Contingent Capital II shall serve to issue stock options on shares issued by Advanced Inflight Alliance AG pursuant to the authorization of its Annual General Meeting on July 02, 2007, under the Stock Option Plan 2007 between the date on which Contingent Capital I is recorded in the Commercial Register and July 01, 2012. This contingent capital increase shall be executed only insofar as stock options are issued, the holders of these options exercise their right to subscribe to shares of the Company, and the Company does not grant treasury shares in fulfillment of these options. Shares from Contingent Capital I shall be issued at the exercise price fixed in item b) number 5 of agenda item 7 of the Annual General Meeting on July 02, 2007. The new no-par shares issued by Advanced Inflight Alliance AG upon exercise of the stock options shall participate in profits from the start of the financial year in which they are issued.

Authorization to issue stock options on shares of Advanced Inflight Alliance AG:

The Management Board was hereby authorized, with the approval of the Supervisory Board, to issue up to 800,000 (in words: eight hundred thousand) stock options on shares of Advanced Inflight Alliance AG until July 01, 2012, having terms of up to seven years, in one or several tranches, in accordance with the Stock Option Plan 2007 (hereinafter "SOP 2007" and subject to the additional requirements set forth below, with the proviso that each stock option grants the right to purchase one share in Advanced Inflight Alliance AG. Only members of the Management Board of Advanced Inflight Alliance AG, as well as senior management of Advanced Inflight Alliance AG's affiliates, shall be entitled to purchase these stock options. This authorization shall be limited to the Supervisory Board inasmuch as stock options are granted to members of the Management Board of Advanced Inflight Alliance AG. The stock options may also be purchased by a bank, subject to the obligation to transfer them, pursuant to the instructions of Advanced Inflight Alliance AG and in accordance with the provisions of item 2 below, to those optionees who alone are entitled to exercise them. There shall be no subscription right on the part of the Company's shareholders.

A total of 116,666 stock options were exercised in the 2012 financial year. The shares underlying the stock options were issued by drawing on Contingent Capital 2007/I. Following this drawdown, Contingent Capital 2007/I was EUR 566,671 as of December 31, 2012.

19.5. Treasury shares

Authorization to purchase own shares

The Company and its Management Board were authorized by resolution of the Annual General Meeting on June 7, 2010, to purchase own shares in accordance with the following provisions:

a) in accordance with Section 71 (1) no. 8 German Stock Corporation Act, the Company is authorized to repurchase — until June 6, 2015 — own shares representing up to a total of ten% of the Company's share capital. This authorization may be exercised, in whole or in part, once or repeatedly, and in connection with one or several purposes. This authorization may not be used by the Company for the purpose of trading treasury shares.

b) such purchases of own shares may be made on the stock exchange or by means of a public purchase offer to all of the Company's shareholders, subject to the principle of equal treatment under Section 53a German Stock Corporation Act.

(1) If the shares are purchased on the stock exchange, the price per share paid by the Company (excluding ancillary purchase costs) may not be more than 10 % above or below the share's price on the stock exchange as determined in the opening auction of the trading day in XETRA trading on the Frankfurt/Main Stock Exchange (or any successor system that has taken its place).

(2) If the shares are purchased by way of a public offer to all of the Company's shareholders, the share price offered or the upper and lower end of the offer spread per share (excluding ancillary purchase costs) may not be more than 10 % above or below the mean closing price of the share in XETRA trading on the Frankfurt/Main Stock Exchange (or any successor system that has taken its place) on the ten trading days prior to publication of the offer. If the shares are oversubscribed, acceptance shall be based on quotas. In this case, provisions may be made for preferred acceptance of small lots of up to 100 shares per shareholder. The provisions of the German Securities Acquisition and Takeover Act must be complied with, inasmuch as and to the extent that they apply.

c) The Management Board is authorized to resell the Company’s treasury shares that are purchased under the foregoing authorization by offering them to the shareholders or on the stock exchange, subject to compliance with the principle of equal treatment under Section 53a German Stock Corporation Act.

d) The Management Board is authorized, with the approval of the Supervisory Board, to use own shares that are purchased under the foregoing authorization for the purpose of

(1) offering them to third parties as consideration in connection with business combinations; the acquisition of companies, equity interests in companies or business units; as well as the acquisition of receivables against the Company;

(2) to sell them to third parties in return for contributions in cash. The price at which the Company's treasury shares are sold to third parties may not be substantially lower than the stock market price of the shares on the date of sale. The exclusion of shareholders' subscription right under other authorizations pursuant to Section 186 (3) sentence 4 German Stock Corporation Act shall be taken into account when using the present authorization;

(3) to retire them such that neither the retirement nor its implementation require another resolution of the Annual General Meeting. The retirement may be limited to a portion of the treasury shares purchased. This retirement authorization may be utilized repeatedly. The retirement will reduce the share capital. In a deviation herefrom, the Management Board may determine, subject to the approval of the Supervisory Board, that such retirement of treasury shares shall not affect the share capital but instead shall raise the interest of all other shares in the share capital in accordance with Section 8 (3) German Stock Corporation Act. The Management Board is authorized in such cases to adjust the number of shares set forth in the Articles of Association.

e) the foregoing authorizations may be utilized once or repeatedly, individually or in conjunction with each other, and in regards to all or portions of the own shares purchased. Shareholders' subscription right to such own shares purchased shall be excluded insofar as these shares are used in accordance with the authorization set forth above in items d) (1) and (2). The Management Board will inform the Annual General Meeting in each case of the reasons for and the purpose of the purchase of own shares, the number of shares purchased and their proportion of the share capital as well as the amount paid for the shares.

f) The extant authorization that the Annual General Meeting granted to the Company on June 12, 2009, until December 11, 2010, to purchase or use own shares is voided from the date on which the new authorization takes effect, to the extent that it has not yet been utilized.

20. Dividends paid and proposed

AIA AG paid a dividend for the 2011 financial year in 2012 and for 2010 financial years in 2011. The dividend of EUR 0.12 per share (2011: EUR 0.12 per share) for an absolute distribution of EUR 2,003 thousand (2011: EUR 1,740 thousand) was resolved and paid during the financial year.

The Management Board will propose to the Supervisory Board and the Annual General Meeting to pay a dividend of EUR 0.09 per share for the 2012 financial year. Based on the current number of 23,914,159 shares, this corresponds to a total dividend payment of EUR 2,152 thousand (the dividend was not recognized as a liability as of December 31, 2012).

21. Share-based payment

The expenses arising from the stock option program amounted to EUR 14 thousand in the 2012 financial year. In the previous year, a total of EUR 43 thousands in income from stock options was recognized during the year because a number of optionees resigned from the Group and thus their options lapsed. Expenses/income recognized for services received during the financial year solely comprise expenses/income from equity-settled share-based payment transactions (2010: expense of EUR 77 thousand).

The share-based payment arrangements are disclosed below.

Stock option plan for executives

On May 15, 2008, 400,000 stock options were granted to Management Board members and the managing directors of subsidiaries as well as its present or future associates, pursuant to the Stock Option Plan 2007. The options' exercise price of EUR 2.03 corresponded to the average of the opening and closing prices of the shares of Advanced Inflight Alliance AG in XETRA trading on the last five trading days before the relevant stock option was issued.

The stock options may be exercised only if the average of the opening and closing prices of the shares of AIA AG in XETRA trading (or a successor system that has taken its place) on the last five trading days prior to the onset of the given exercise period have risen by at least 20% over the exercise price for the first third (option terms and conditions, item 5.1 sentence 2) of the options granted in a tranche, by at least 30% over the exercise price for the second third (option terms and conditions, item 5.1 sentence 3) of the options granted in a tranche, and by at least 40% over the exercise price for the final third (option terms and conditions, item 5.1 sentence 4) of the options granted in a tranche.

On May 8, 2009, a further 400,000 stock options were granted to the members of the Management Board and to managing directors of subsidiaries under this stock option plan. The options' exercise price of EUR 2.32 corresponded to the average of the opening and closing prices of the shares of Advanced Inflight Alliance AG in XETRA trading on the last five trading days before the relevant stock option was issued. All other terms and conditions of the option plan remained unchanged.

The resignation of Management Board members in 2010 caused the 200,000 stock options granted to them to lapse. The total equivalent value for these stock options of EUR 74 thousand reported under staff costs until the stock options lapsed was adjusted through profit or loss as of December 31, 2010.

A total of 116,663 stock options were exercised in the 2011 financial year. Furthermore, a total of 228,334 stock options lapsed due to the resignation of the stock option holders. Hence a total of 255,003 stock options were outstanding as of December 31, 2011.

A total of 116,666 stock options were exercised in the 2012 financial year. Hence a total of 138,337 stock options were outstanding as of December 31, 2012. Thereof 108,337 stock options are already exercisable. The average stock price for the options exercised during 2012 was EUR 4.42.

The stock options granted under Stock Option Plan 2007 may be exercised only if the average of the opening and closing prices of the shares of Advanced Inflight Alliance AG in XETRA trading (or a successor system that has taken its place) on the last five trading days prior to the onset of the given exercise period have risen by at least 20% p.a. over the exercise price for the first third (option terms and conditions, item 5.1 sentence 2) of the options granted in a tranche, by at least 30% p.a. over the exercise price for the second third (option terms and conditions, item 5.1 sentence 3) of the options granted in a tranche, and by at least 40% p.a. over the exercise price for the final third (option terms and conditions, item 5.1 sentence 4) of the options granted in a tranche.

The fair value of the stock options was estimated at the time they were granted using a binomial model and taking the conditions at which the options were granted into account.

The term of the options granted is governed by item 5.4 of the option terms and conditions. The term of a stock option shall begin on the date it is granted and end upon expiration of five years for the first third of the options granted in a tranche, upon expiration of six years for the second third of the options granted in a tranche, and upon expiration of seven years for the final third of the options granted in a tranche. A cash settlement is excluded. The Group has not executed any share-based payments entailing cash settlements in the past.

The following table contains the assumptions underlying the measurement of the plan for the 2012 and 2011 financial years:

Measurement parameters, stock options	**Tranche 2009**	**Tranche 2008**
Dividend yield	3.22%	0.00%
Expected volatility	60%	64%
Risk-free interest rate	1.230%	4.021%
Anticipated life of the option (years)	5.00	5.00
Weighted average share price (EUR)	2.370	2.030
Weighted average remaining life	3.16	2.38
Model applied		
for the distribution of share prices	Monte Carlo	Monte Carlo
for determining the option value	Binominal	Binominal

The anticipated maturity of the stock options is based on historical data and does not necessarily correspond to the optionees' actual exercise behavior. The expected volatility is based on the assumption that future trends may be derived from the historical volatility over a period similar to that of the stock options; however, the actual volatility may deviate from the assumptions made.

The present stock option plan is an equity-settled plan such that the fair value is determined at the grant date.

22. Provisions

Provisions as of the reporting date were EUR 373 thousand (previous year: EUR 446 thousand). They developed as follows in the 2012 financial year:

	Provisions					
	Onerous contracts	Dismantling obligation	Capital market requirements	Restruc-turing	Other	Total
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Balance on January 1, 2012	0	178	155	43	70	**446**
Addition	0	49	92	0	4	**144**
Utilization	0	0	-107	-45	-72	**-223**
Reversal	0	0	0	0	0	**0**
Interest cost added back	0	0	0	0	0	**0**
Foreign currency effect	0	4	0	2	0	**6**
Balance on December 31, 2012	**0**	**231**	**140**	**0**	**2**	**373**
Of which in 2012						
Current	0	0	140	0	2	**142**
Non-current		231	0	0	0	**231**
	0	**231**	**140**	**0**	**2**	**373**
Balance on January 1, 2011	29	159	110	0	50	**348**
Addition	0	13	155	41	66	**275**
Utilization	0	0	-110	0	-50	**-160**
Reversal	-29	0	0	0	0	**-29**
Interest cost added back	0	0	0	0	0	**0**
Foreign currency effect	0	6	0	2	4	**12**
Balance on December 31, 2011	**0**	**178**	**155**	**43**	**70**	**446**
Of which in 2011						
Current	0	0	155	43	70	**268**
Non-current	0	178	0	0	0	**178**
	0	**178**	**155**	**43**	**70**	**446**

Capital market requirements

The provisions include the costs of the annual report and the Annual General Meeting and are based on costs incurred in the past. These provisions will be used up during 2013.

Contingent losses

This concerned a provision for unoccupied rental property in the previous year. Subletting the space enabled the Group to reverse the provision.

Dismantling obligation

One Group company is obligated to dismantle leasehold improvements at the end of the lease's term. The amount is based on the estimate of the costs involved.

23. Trade payables and other liabilities (current)

Liabilities	2012	2011
	EUR thousand	EUR thousand
Trade payables	34,362	34,272
Other liabilities	4,983	5,598
	39,345	**39,870**

Terms of the current liabilities enumerated above:

- Trade payables do not bear interest and usually have a term of up to 90 days.
- Other liabilities do not bear interest and have terms of six months on average. Interest is generally paid on a quarterly basis.
- Please see note 24 regarding the terms of liabilities to related parties.

Net gain from trade payables

A net gain of EUR 11 thousand (previous year: net gain of EUR 61 thousand; 2010: net loss of EUR 218 thousand) was generated from trade payables in 2012. This net gain is comprised as follows:

	2012	2011	2010
	EUR thousand	EUR thousand	EUR thousand
Income from derecognition	0	91	18
Currency gains/losses	11	-30	-236
	11	**61**	**-218**

Other liabilities

The other liabilities are due within less than one year. They comprise the following items:

Other current liabilities	2012 EUR thousand	2011 EUR thousand
Vacation pay and other staff costs	2,514	3,158
Prepayments received	1,032	608
Wage tax	360	646
Costs for preparing the annual financial statements	414	380
Liabilities related to social security	215	210
Liabilities related to wages and salaries	97	252
Value-added tax	15	131
Other	336	213
	4,983	**5,598**

Interest-bearing loans

The AIA Group had the following interest-bearing loans as of December 31, 2012:

	2012 EUR thousand	2011 EUR thousand
Current Interest-bearing loans	4,069	3,061
Non-current Interest-bearing loans	4,521	9,616
	8,590	**12,677**

24. Related party disclosures

The following related party transactions were entered into in the reporting period:

During the reporting period, the Group company Inflight Productions Inc., Los Angeles, USA, occasionally rented an apartment from 13029 Mindanao #5 Inc., Los Angeles, USA, (“13029 Mindanao”) to accommodate employees and customers, Rent equivalent to EUR 3 thousand (previous year: EUR 7 thousand) was paid for this office space in the reporting period. The owners of 13029 Mindanao are current and former managing directors of Inflight Productions Limited, London, United Kingdom. As of December 31, 2012, there were unpaid rent liabilities due to 13029 Mindanao equivalent to EUR 0 thousand (December 31, 2011: EUR 1 thousand).

The Group company, Inflight Productions Ltd, London, UK, received consulting services from Inflight Management Development Centre (IMDC) Limited, Derbyshire, UK, during the reporting period and before being a member of the AIA Group. The shareholder/managing director of this entity also served as the interim manager of Inflight Productions Ltd, London, UK, at that time. The equivalent of EUR 72 thousand (prior-year period: EUR 70 thousand) were paid in consulting fees for the aforementioned services. There were no unpaid liabilities as of the reporting dates.

AIA AG acquired IMDC from a person, who is now member of the Group’s key management. Resulting from this transaction, AIA AG still shows a liability from acquisition price installments in an amount of EUR 143 thousand as well as an estimated earn-out liability amount of EUR 318 thousand.

The Group company Inflight Productions Ltd, London, UK, received consulting services from Ganymede Media Technologies Inc, Hmovil, Israel, during the reporting period. The shareholder/managing director of this entity also serves as an advisor for the AIA Group and is a member of the Group's Executive Management Committee (EMC). The equivalent of EUR 67 thousand were paid in consulting fees for the aforementioned services. There were no unpaid liabilities as of December 31, 2012. No transactions of this kind took place in the previous year.

The Group company Inflight Productions Ltd, London, UK, received consulting services from Mr. Mica Lawrence, during the reporting period. Mr. Lawrence also serves as an advisor for the AIA Group and is a member of the Group's Executive Management Committee (EMC). The equivalent of EUR 134 thousand were paid in consulting fees for the aforementioned services. As of December 31, 2012, there were EUR 27 thousand in liabilities outstanding thereunder. No transactions of this kind took place in the previous year.

In the reporting period, the Group company Fairdeal Multimedia rented office space belonging to the company's managing director, for which it paid rent equivalent to EUR 22 thousand (prior-year period: EUR 23 thousand; 2010: EUR 25 thousand). As of December 31, 2012, there were unpaid rent liabilities equivalent to EUR 3 thousand (December 31, 2011: EUR 0 thousand).

In the reporting period, the Group company Fairdeal Studios rented office space belonging to the company's managing director, for which it paid rent equivalent to EUR 13 thousand (prior-year period: EUR 14 thousand; 2010: EUR 11 thousand). As of December 31, 2012, there were no unpaid rent liabilities equivalent (December 31, 2011: EUR 0 thousand).

In the reporting period, the Group company Entertainment in Motion rented office space belonging to a company in which the company's managing directors have a stake. Rent equivalent to EUR 187 thousand was paid for this office space in the reporting period (prior-year period: EUR 86 thousand; 2010: EUR 0 thousand). There were no unpaid lease liabilities as of December 31, 2012 (2011: EUR 0 thousand). EIM also made a loan to the managing director. As of December 31, 2012, the outstanding balance on the loan was the equivalent of EUR 17 thousand (December 31, 2011: EUR 17 thousand). Additionally there is a deposit related to the rental of the building in an amount equivalent to EUR 21 thousand.

The Management Board of AIA AG resolved on May 29, 2012, with the approval of the Supervisory Board, to acquire a minority stake in Row 44 Inc., Westlake Village, California, USA. After the preparation of the final contract documents was completed on June 8, 2012, the Management Board of AIA AG signed the corresponding agreements for the acquisition of 84,695,034 shares (corresponding to an investment of around 11.6 percent). The interests in Row 44 Inc. were sold by the major shareholder PAR Investment Partners L.P. To finance the transaction, the Management Board of AIA AG also resolved on May 29, 2012, with the approval of the Supervisory Board, to increase the Company's share capital by EUR 5,255,170.00 by way of a capital increase against contributions in kind through the issuance of 5,255,170 new shares (using some of the authorized capital and excluding shareholders' subscription rights). All of the new shares created through the capital increase against contributions in kind were subscribed by PAR Investment Partners L.P. The new shares carry dividend rights from January 1, 2012. As compensation for the new shares of AIA AG, PAR Investment Partners L.P. transferred the 84,695,034 interests in Row 44 Inc. to AIA AG. These interests in Row 44 Inc. were valued at USD 25,000,000 as of the acquisition date.

Compensation of the Group’s key management personnel

	2012	2011	2010
	TEUR	TEUR	TEUR
Short-term employee benefits	1,598	1,316	1,212
Post-employment pension and medical benefits	27	143	189
Share-based payment transactions	5	5	5
Termination benefits	0	1,767	400
Total compensation paid to key management personnel	**1,629**	**3,231**	**1,806**

Please see item 28.4 and 28.5, "Further disclosures," for detailed disclosures on the compensation of AIA AG’s key management personnel.

25. Contingent liabilities and other financial obligations

The following other financial obligations existed as of December 31, 2012:

Other obligations	Due within one year	Due within one to five years	Due after more than five years
	EUR thousand	EUR thousand	EUR thousand
Medium-term purchasing contracts	16,696	11,771	188
Rent	1,786	2,532	0
Leasing	71	76	0
	18,553	**14,379**	**188**

The lease agreements concern the lease of office equipment and vehicles. These leases constitute operating leases because the economic risk thereunder was not transferred to the Group, with the result that the relevant items are not recognized as assets and liabilities of the Group but rather as current lease expenses.

There are also medium-term purchasing contracts in place with film studios and other licensors, from which payment obligations of approximately EUR 28,655 thousand (previous year: EUR 21,604 thousand) result within the next years.

In prior year the financial obligations were like follows:

Other obligations	Due within one year	Due within one to five years	Due after more than five years
	EUR thousand	EUR thousand	EUR thousand
Medium-term purchasing contracts	9,635	12,259	193
Rent	2,062	4,839	0
Leasing	102	131	0
	11,799	**17,229**	**193**

Contingent liabilities

If it is likely that fulfillment will entail the possibility of an outflow of resources embodying economic benefits, the risk to which the Company is exposed is taken into account accordingly in the consolidated financial statements by means of provisions. In case of a possible but unlikely outflow as defined in IAS 37.86, its financial effects shall be disclosed instead in the notes as a contingent liability.

Currently, claims for repayment are being brought against the Group in connection with payments it received in the 2008 financial year. The Group estimates that the likelihood of being held liable is less than 50% and thus has not set up provisions to that end. It is not making any additional disclosures on this matter pursuant to IAS 37.92 because it has come to the conclusion that any such disclosures might adversely affect the outcome of the matter.

26. Objectives and methods of financial risk management

Financial risk management aims to enable the AIA Group to detect all substantial risks to which it might be exposed early on so that it can initiate suitable countermeasures.

The potential risks incurred by the AIA Group in connection with financial instruments include currency risks resulting from activities in different currency regions, default risks involving non-fulfillment of contractual obligations by contracting partners, interest rate risks, where fluctuations in the market interest rate lead to a change in the fair value of a financial instrument, interest-related cash flow risks, which lead to a change in the future cash flow of a financial instrument because of changes in market interest rates, and liquidity risks.

With the exception of derivative financial instruments, the main financial liabilities of the AIA Group comprise interest-bearing loans, trade payables and other liabilities. These financial liabilities are used primarily to fund the AIA Group's operating business. The AIA Group has trade and other receivables, as well as cash and current investments that arise directly from its operating business. It also enters into derivative financial transactions. The Group is exposed to market, interest rate, credit and liquidity risks. Derivative financial instruments are used solely to minimize the AIA Group's risks. Any such transactions on the part of subsidiaries of Advanced Inflight Alliance AG must first be coordinated with and approved by the finance department of Advanced Inflight Alliance AG in accordance with Groupwide guidelines on transactions requiring approval.

26.1. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. It comprises three types of risk — Foreign currency risks, interest rate risks as well as other price risks such as share price risks. Financial instruments exposed to market risk comprise interest-bearing loans, deposits, available-for-sale financial assets and derivative financial instruments, among other things.

Each of the sensitivity analyses discussed in the following sections concerns the status as of December 31, 2012, or December 31, 2011.

The sensitivity analyses were prepared based on both the existing hedges as of December 31, 2012, and the assumption that net liabilities, the ratio of fixed to variable interest rates on liabilities and derivatives as well as the share of financial instruments in foreign currencies remain constant. Effects of changes in market variables on the carrying amounts of the provisions, as well as the non-financial assets and liabilities of foreign operations, are not considered in the analyses.

The sensitivity analyses were made on the basis of the following assumptions:

- The sensitivity of the statement of financial position concerns derivatives, assets and debt instruments.
- The sensitivity of the given item in the income statement reflects the effect of the assumed changes in the respective market risks. Based on the financial assets and financial liabilities (including the effect of the hedges) held as of December 31, 2012, and December 31, 2011.
- The sensitivity of the equity is calculated by remeasuring the fixed-income financial assets held for sale (including the effect of any related hedges) and swaps designated as cash flow hedges, as of December 31, 2012, allowing for assumed changes in interest rates. The sensitivity of the equity is determined in the light of the remaining maturity of the asset or the swaps. It is based on the assumption that shifts in the interest rate curve run parallel while the analysis shows the sensitivity in connection with non-parallel changes, allowing for residual maturities.

26.2. Interest rate risks

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk of fluctuations in market interest rates to which the AIA Group is exposed stems largely from the non-current loan subject to variable interest rates.

The AIA Group has entered into interest rate swaps to minimize its interest rate risk. Thereunder, the AIA Group swaps the difference between amounts subject to fixed interest rates and variable interest rates with its counterparty at fixed intervals; the difference is determined by reference to a nominal amount stipulated ahead of time. These interest rate swaps serve to hedge the underlying obligation. As of December 31, 2012, allowing for interest rate swaps about 68 percent (previous year: about 59 percent) of the AIA Group's borrowings were at fixed interest rates.

Calculation of interest rate sensitivity

As of the reporting date, the AIA Group was exposed to interest rate risks because EUR 2,750 thousand (previous year: EUR 5,250 thousand; 2010: EUR 4 thousand) in interest-bearing loans are subject to variable interest rates. The following table shows the sensitivity of consolidated earnings before taxes (because of the changes in the fair values of the interest-bearing loans) relative to a change in the six-month Euribor by 100 basis points, all other variables remaining constant. The effect on equity corresponds to the effect on the earnings before taxes.

	Change in the 6-month Euribor	**Effects on earnings before taxes**
		EUR thousand
2012	+1%	-28
	-1%	28
2011	+1%	53
	-1%	-53

26.3. Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The AIA Group is always exposed to foreign currency risks, especially on account of both its operating activities — if sales revenue and/or expenses are in a currency other than the functional currency of the AIA Group — and net investments in foreign subsidiaries.

Most of the Group's operating business is settled in US dollars, with the balance being settled in euros, Canadian dollars or British pounds. Most other expenses are also incurred in US dollars, as well as in euros, Canadian dollars and British pounds. In sum, there is a slight US dollar surplus for structural reasons, which must be changed into euros, Canadian dollars and British pounds over the course of the year. The resulting latent currency risk is hedged whenever possible and appropriate using derivative hedging instruments.

Calculation of the sensitivity of changes in foreign exchange rates

The following table shows the sensitivity of consolidated earnings before taxes (because of the changes in the fair values of the financial assets and liabilities) relative to a change in the US dollar and British pound exchange rates deemed possible based on reasonable assumptions, all other variables remaining constant.

	Exchange rate development of USD	Effects on earnings before taxes
		EUR thousand
2012	+10%	2,675
	-10%	-2,675
2011	+10%	-63
	-10%	63

	Exchange rate development of GBP	Effects on earnings before taxes
		EUR thousand
2012	+10%	-504
	-10%	504
2011	+10%	-689
	-10%	689

The change in earnings stems from a change in the fair value of financial assets and financial liabilities denominated in US dollars or British pounds, to the extent that the
US dollar or the British pound is not the Company's functional currency.

This has no effect on equity because no borrowings in foreign currencies were granted to hedge net investments in foreign subsidiaries.

In contrast, foreign currency risks that do not affect the AIA Group's cash flows or income statement — i.e. risks arising from translation of foreign subsidiaries' assets and liabilities into the Group currency at consolidation — are not hedged.

The AIA Group's risk from changes in the foreign exchange rates of all other currencies is negligible.

26.4. Credit risk and default risk

Credit risk is the risk that a business partner does not fulfill its obligations under a financial instrument or a basic customer agreement, resulting in a loss. Given the nature of its operating business, the AIA Group is exposed to default risks, risks from financing activities (including risks from deposits with banks and financial institutions) as well as risks from foreign exchange transactions and other financial instruments.

The Group is exposed to default risks only in connection with trade receivables. Sufficient allowances have been recognized to make provisions for the estimated default risk. Receivables are not insured, given the generally good credit ratings of the Group's customers. The maximum default risk is always equivalent to the nominal amount of the receivables less loss allowances. Additional allowances on assets related to trade receivables amounting to EUR 154 thousand (previous year: EUR 809 thousand) had to be recognized in the reporting year. However, the trade receivables do not contain substantial concentrations of individual customers. The other financial liabilities are not exposed to any default risks.

26.5. Liquidity risk

The AIA Group is faced with liquidity risks if its existing liquidity or corresponding credit lines do not cover its payment obligations. The AIA Group aims to maintain a balance between covering its funding needs on an ongoing basis and ensuring its flexibility by recourse to bank overdraft credit lines and bank loans. It continuously monitors the risk of a potential liquidity bottleneck using an internal liquidity overview.

The financial liabilities of the AIA Group have the following maturities, as shown below. These disclosures are made based on the payments reported in the statement of financial position.

Financial year ended on December 31, 2012	**daily**	**up to 3 months**	**3 to 12 months**	**1 to 5 years**	**more than 5 years**	**Total**
	EUR thousand	**EUR thousand**	**EUR thousand**	**EUR thousand**	**EUR thousand**	**EUR thousand**
Interest-bearing loans	0	0	4,069	4,521	0	8,590
Trade and other payables	0	34,362	0	0	0	34,362
Earn-out payments	0	0	435	1,544	0	1,979
Financial derivatives	0	0	0	121	0	121
	0	**34,362**	**4,504**	**6,186**	**0**	**45,052**

Financial year ended on December 31, 2011	**daily**	**up to 3 months**	**3 to 12 months**	**1 to 5 years**	**more than 5 years**	**Total**
	EUR thousand	**EUR thousand**	**EUR thousand**	**EUR thousand**	**EUR thousand**	**EUR thousand**
Interest-bearing loans	82	0	2,979	9,616	0	12,677
Trade and other payables	0	34,272	0	0	0	34,272
Earn-out payments	0	0	855	1783		2,638
Financial derivatives	0	0	0	153	0	153
	82	**34,272**	**3,834**	**11,552**	**0**	**49,740**

26.6. Capital management disclosures

Equity consists of the subscribed capital and provisions. The AIA Group’s capital management aims, first and foremost, to maintain a high credit rating and a good equity ratio to support its operating business and maximize shareholder value.

The Group manages its capital structure and makes adjustments, allowing for changes in economic conditions. To maintain or adjust its capital structure, the AIA Group may adjust dividend payments to its shareholders, repurchase and retire treasury shares, make repayments of capital to its shareholders or issue new shares.

There were no changes in the objectives, guidelines and procedures as of December 31, 2012, and December 31, 2011. The AIA Group monitors its capital using, among other things, its gearing ratio (which corresponds to the ratio of net financial liabilities to the sum of equity and net financial liabilities) and its equity ratio (which indicates the ratio of equity to total assets). The equity ratio as of December 31, 2012, was 57.8 percent (previous year: 43.7 percent).

The loan agreement with UniCredit Bank AG, Munich, contains two covenants; the AIA Group monitors compliance with them on an annual basis. For one, the free cash flow is considered relative to interest expense and regular loan payments. For another, adjusted EBIT (earnings before interest and taxes) are compared to gross revenue for the period.

Both of these key performance indicators are monitored as part of the monthly reporting. There was no risk of non-fulfillment of the covenants in the 2012 financial year.

26.7. Equity price risk

The Group’s listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. Reports on the equity portfolio are submitted to the Group’s senior management on a regular basis. The Group’s Board of Directors reviews and approves all equity investment decisions.

At the reporting date, the exposure to unlisted preferred shares at fair value was EUR 21,201 thousand. The valuation technique includes some key assumptions (please see note 12). If these inputs to the valuation model were 10% higher/ lower while all other variables were held constant, the carrying amount of the shares would decrease/ increase by approximately EUR 1,500 thousands. The decrease would be reflected within the profit or loss or equity attributable to the Group, depending on whether the decline is significant or prolonged. An increase would only impact equity, but would not have an effect on profit or loss.

As of December 31, 2012 the exposure resulting from Row 44 warrants was EUR 858 thousand. Based on variation of some key assumptions the sensitivity would be as follows:

Sensitivity analysis

		Share price (in EUR)		
December 31, 2012		**-5%**		**+5%**
		0.238	**0.250**	**0.263**
Expected volatility		**TEUR**	**TEUR**	**TEUR**
-5%	**35.93%**	681	790	915
	37.82%	743	858	985
+5%	**39.72%**	806	926	1.054

At the reporting date, the exposure to listed equity securities at fair value was EUR 4,476 thousand. A decrease of 10 % in the Toronto stock exchange market index could have an impact of approximately EUR 448 thousand on the income or equity attributable to the AIA, depending on whether the decline is significant or prolonged. An increase of 10 % in the value of the listed securities would only impact equity, but would not have an effect on profit or loss.

27. Reconciliation of IFRS to U.S. GAAP

The consolidated financial statements of the AIA Group have been prepared in accordance with IFRS, which vary in certain respects from accounting principles generally accepted in the United States of America (U.S. GAAP).

The application of U.S. GAAP would have affected net income and earnings per share for each of the years ended December 31, 2012, 2011 and 2010 and shareholders' equity as of December 31, 2012 and 2011 to the extent described below.

Reconciliation of net income from IFRS to U.S. GAAP:

	Notes	For the years ended December 31, 2012 EUR thousand	2011 EUR thousand	2010 EUR thousand
Profit for the period as reported in the consolidated financial statements under IFRS (2012 restated)		**5,090**	**4,407**	**5,493**
Capitalized development costs	a)	(669)	297	(1,803)
Cash flow hedges	b)	41	(40)	132
Termination benefits	c)	(399)	399	0
Financial assets transaction costs	d)	(296)	0	0
Deferred tax effect on U.S. GAAP adjustments		396	(198)	450
Profit for the period as reported under U.S. GAAP (2012 restated)		***4,163***	***4,865***	***4,272***
Basic earnings per share under U.S. GAAP (in EUR) (2012 restated)		***0.21***	***0.31***	***0.29***
Diluted earnings per share under U.S. GAAP (in EUR) (2012 restated)		***0.20***	***0.31***	***0.29***

Reconciliation of shareholders' equity from IFRS to U.S. GAAP:

	Notes	As of December 31, 2012 EUR thousand	December 31, 2011 EUR thousand
Shareholders' equity as reported in the consolidated financial statements under IFRS (2012 restated)		**83,693**	**51,108**
Capitalized development costs	a)	(4,664)	(3,995)
Termination benefits	c)	0	399
Financial assets transaction costs	d)	(296)	0
Subsequent measurement of investments	e)	(1,733)	0
Deferred tax effect on U.S. GAAP adjustments		1,381	943
Shareholders' equity reported under U.S. GAAP (2012 restated)		***78,381***	***48,455***

Component of stockholders' equity in accordance with U.S. GAAP:

	As of December 31, 2012 EUR thousand	December 31, 2011 EUR thousand
Issued capital	23,914	16,688
Share premium	30,438	12,059
Retained earnings	20,639	18,477
Other components of equity	3,390	1,231
Total	***78,381***	***48,455***

(a) Intangible assets – capitalization of development cost

The AIA Group, through its subsidiaries DTI Software and DTI Software Solutions, Inc., incurred development costs in connection with the development of online games and applications.

Under IFRS, research costs are recognized as an expense in the period in which they are incurred. Product development costs associated with a single project are capitalized as an intangible asset under IAS 38 if certain criteria are met. After initial recognition, development costs are accounted for using the cost model less any accumulated amortization and any accumulated impairment losses. They are amortized upon completion of the development phase and from the date on which the asset can be used. The amortization is taken over the period for which future economic benefits are expected. An impairment test is conducted annually during the development phase.

Under U.S. GAAP capitalization of product development costs under ACS 985-20 is permitted only upon having demonstrated that the technological feasibility of the product is established and is ceases upon the product being available for general release of the product. As a result, for U.S. GAAP purposes, development costs were expensed as incurred.

The net income adjustments in 2012, 2011 and 2010 reflect development costs capitalized under IFRS but expenses for U.S. GAAP as well as the reversal of amortization of capitalized development costs recorded under IFRS as well as the reversal of impairment charges recorded on capitalized development costs under IFRS. The shareholders' equity adjustments as of December 31, 2012, December 31, 2011, and December 31, 2010, reflect the cumulative effect of the reversal of capitalization, amortization and impairment losses on development costs for each respective period end.

The following table summarizes the total research and development costs charged to expense for the financial years 2012, 2011, and 2010:

For the years ended December 31,	2012 EUR thousand	2011 EUR thousand	2010 EUR thousand
R&D costs	1,515	669	2,561

(b) Hedge Accounting

The AIA Group has historically entered into various interest rate payer-swap agreements to hedge against interest rate risk due to variable benchmark interest rates in its loan agreements. AIA designated the respective swaps as hedging instruments in cash flow hedges under IFRS (IAS 39).

Two payer-swaps were entered into during fiscal year 2008. Both were designated as hedging instruments to hedge a loan agreement. The hedging relationship was discontinued on January 1, 2010 due to prospective ineffectiveness. The cumulative gains and losses on the hedging instruments that have been recognised in other comprehensive income during the period when the hedge was effective were amortized over the remaining life of the hedged item. Both swaps matured as of December 31, 2012.

A third payer-swap was entered into during fiscal year 2011. It was designated as hedging instrument to hedge a new loan agreement. The hedging relationship was discontinued on July 1, 2012 due to prospective ineffectiveness. The cumulative gains and losses on the hedging instrument that have been recognized in other comprehensive income during the period when the hedge was effective were amortized over the remaining life of the hedged item.

Under U.S. GAAP these derivative instruments do not meet the criteria for hedge accounting due to the underlying hedge documentation. As such, the unrealized gains and losses recorded in other comprehensive income for IFRS purposes must be recorded for U.S. GAAP purposes in the income statement. The *net income* adjustments in 2012 and 2011 also include the reversal relating to the amortization of gains and losses recognized in other comprehensive income relating to instruments where the hedging relationship was discontinued.

(c) Termination benefits

In December 2011, the AIA Group recorded an IAS 37 onerous contract provision relation to the termination of a managing director. For U.S. GAAP an adjustment was recorded in FY 2011 in order eliminate the recognition of the termination benefit and expense. Under U.S. GAAP the termination benefit is recognized in FY 2012, at the point in time the Company communicated the termination to the employee.

(d) Financial Instruments (transactions costs)

During the year ended December 31, 2012, the AIA Group capitalized under IFRS transactions costs amounting to EUR 296 thousand within non-current financial assets relating to its acquisition of a minority stake in Row 44 Inc. which was completed in July 2012.

Under U.S. GAAP, as the transaction consideration is the shares of AIA AG, cost of the investment is the fair value of the AIA AG stock, the transaction costs are not capitalizable. As a result, the Company expensed transaction costs incurred during the years period ended December 31, 2012 in the amount of EUR 296 thousand reducing the carrying amount of the investment. These costs are reflected in "other operating expenses".

(e) Subsequent measurement of investments

For IFRS purposes, the investment in Row 44 Inc. is accounted for according to IAS 39 which requires that an available-for-sale financial asset is recognized initially at fair value plus transactions costs that are directly attributable to the acquisition (see section (d) above). Subsequent changes in the fair value are recognized in other comprehensive income.

Under U.S. GAAP, the equity investment in Row 44 Inc. is recognized as a cost method investment according to ASC 325-20 given that the equity security does not have a readily determinable fair value. Due to the difference in subsequent measurement under U.S. GAAP, the investment is lower by EUR 1,766 thousand, equity is lower by EUR 1,737 thousand and deferred tax liabilities are lower by EUR 29 thousand.

Classification differences

Under IAS 1 (Presentation of Financial Statements) the Company is required to classify deferred tax assets and liabilities as non-current. U.S. GAAP requires that an entity separates deferred tax liabilities and assets into a current amount and a non-current amount. The current amount of these line items is EUR 571 thousand (DTA current), EUR 934 thousand (DTL current) and EUR 3,406 thousand (DTL non-current) for December 31, 2012 and EUR 200 thousand (DTA current), EUR 0 (DTL current) and EUR 4,083 thousand (DTL non-current) for December 31, 2011, respectively. These amounts include the adjustments for the deferred tax effects of the U.S. GAAP adjustments, to the extent they affect current deferred tax assets and liabilities.

Under IAS 39 (Financial Instruments: Recognition and Measurement) the Company is required to deduct transactions costs from the carrying value of financial liabilities that are not carried at fair value through income. Under U.S. GAAP, such transaction costs are deferred as an asset. The amount of transaction costs relating to financial liabilities that are not carried at fair value through income amounted to EUR 88 thousand and EUR 208 thousand as of December 31, 2012 and December 31, 2011, respectively.

Under IFRS, the Company classifies film rights for the airline sector that are acquired for a longer period of time then a customer's "onboard cycle," within inventories. Under U.S. GAAP, such film rights are classified as a separate line item on the balance sheet. Short term film rights amounted to EUR 9,586 thousand and EUR 9,948 thousand, as of December 31, 2012 and December 31, 2011 respectively.

Under IFRS 5 (Non-current assets held for sale and discontinued operations) the investment and the warrants in Row 44 Inc. are classified as held for sale as of December 31, 2012. According to ASC 360-10-15-5 such a classification is not allowed under U.S. GAAP.

Additional U.S. GAAP Disclosures

(a) Income Taxes

The group had total corporate income tax loss carryforwards of EUR 2,321 thousand as of December 31, 2012 (2011 EUR 46,624 thousand); of this amount, loss carryforwards as of December 31, 2012 of EUR 767 thousand (2011 EUR 40,433) were not recorded as it was not considered probable that they will be realized. Income tax loss carryforwards in the amount of EUR 1,553 thousand as of December 31, 2012 (2011 EUR 6,191 thousand) were measured at the respective applicable tax rate and shown in the statement of financial position.

The entity's deferred tax liabilities on outside basis differences amounted to EUR 37 thousand and EUR 48 thousand as of December 31, 2012 and 2011, respectively.

The total valuation allowance recognized for deferred tax assets as of 2012 and 2011 amounts to EUR 275 thousand and EUR 13,214 thousand. The following table summarizes the change in the valuation allowance:

	As of December 31,	
	2012 EUR thousand	**2011 EUR Thousand**
Beginning balance	**13,214**	**20,110**
Additions	0	0
Reduction	12,939	6,896
Other	0	0
Ending balance	***275***	***13,214***

The following table summarizes the amounts and expirations dates of operating loss and tax credit carryforwards for tax purposes as of 2012 and 2011.

	As of December 31, 2012	
	Expiration date	**EUR thousand**
Canada 2011	2031	1,385
Total loss and tax credit carryforwards		***1,385***

	As of December 31, 2011	
	Expiration date	**EUR thousand**
Canada 2009	2029	243
Canada 2010	2030	37
Canada 2011	2031	1,505
Total loss and tax credit carryforwards		**1,785**

In accordance with German tax law, tax loss carryforwards are eliminated by a change of ownership. In accordance with German tax law tax loss carryforwards do not expire. As a result of the tender offer of PAR Investment Partner L.P., Boston, Massachusetts, USA, and having acquired voting shares in excess of 50 percent, led to the elimination of the tax loss carryforwards of AIA AG and thus inevitably to the reversal of the deferred tax assets recognized thereon.

The following table shows the domestic and foreign components of income before income taxes:

	As of December 31,		
	2012	**2011**	**2010**
	EUR thousand	**EUR thousand**	**EUR thousand**
Components of income before income taxes			
Domestic	10,918	4,967	3,639
Foreign	9,556	15,712	7,851
Consolidation	(11,840)	(14,781)	(3,901)
Total income before income taxes	***8,634***	***5,898***	***7,589***

(b) Financial Instruments

The fair value of GuestLogix Inc., which is classified as available-for-sale under both IFRS and U.S. GAAP, is EUR 4,475,908 as of December 31, 2012, with total gains of EUR 2,451,106 recognized in accumulated other comprehensive income.

The carrying amount of the investment in Row 44 Inc., which is recognized as a cost method investment, is EUR 19,139 thousand. The fair value of the investment, used under IFRS as of December 31, 2012, is EUR 21,169 thousand. The fair value of the warrants under both IFRS and US GAAP is EUR 891 thousand.

The financial liabilities of the AIA Group have the following maturities:

	As of December 31, 2012				
	1 year EUR thousand	**2 years EUR thousand**	**3 years EUR thousand**	**4 years EUR thousand**	**5 years EUR thousand**
Interest bearing loans	4,521	4,069	0	0	0
Trade payables and other payables	34,362	0	0	0	0
Earn-out payments	435	850	694	0	0
Financial derivatives	0	121	0	0	0
Total	**39,318**	**5,040**	**694**	**0**	**0**

The following table provides the assets of the Group's local subsidiaries pledged as securities.

	As of December 31,	
	2012 EUR thousand	**2011 EUR thousand**
Leasehold property	92	830
Receivables	677	5,827
Total	***769***	***6,657***

The weighted interest rate on short term borrowings in 2012 and 2011 states to 1.05% and 4.2%. The weighted interest rate on short term borrowings in 2011 was mainly influenced by the two bridge loans, which do not exist anymore in 2012.

Risk concentration

AIA group continue to focus on customers from the airline industry. Therefore, AIA is facing similar risks like the airline industry. There are airlines that generate losses each year and face significant pressure on their margins. There are also airlines that are endangered in their existence. Another risk the airline industry is currently facing, is the high oil price that is generating additional cost pressure. Another risk that is highly related to the airline industry is the risk of a terrorist attack that could lead to revenue losses for AIA.

In General, there is high cost pressure within the airline industry which could lead to negative effects for AIA, especially since different airlines try to enforce discounts for AIA's products.

Another risk is related to the technical progress like new technologies and processes for airline board entertainment systems, which could lead to new competitors and lower entry barriers in the market.

Interest rate swaps and foreign currency forwards are valued based on the discounted cash flow method using actual market data.

(c) Equity

The following table provides for each class of common shares the number of shares issued or outstanding, the Euro amount of each share and if the shares are convertible.

	As of December 31, 2012		
	Number	**EUR thousand**	**Convertible**
Common stock			
shares authorized	140,598	141	0
shares issued and outstanding	23,914,159	23,914	0
Additional paid-in capital	0	30.438	0
Total	**24,054,757**	**54,493**	**0**

(d) Leasing

Operating lease

Beneficial ownership of a lease is attributed to the lessor if this is the party to which all the substantial risks and rewards incidental to ownership of the asset are transferred. AIA Group's obligations arising from non-cancellable operating leases are mainly related to long-term rental or lease agreements for office space, office equipment and vehicles. All leases constitute operating leases under IFRS. The lease arrangements for office space generally have a lease term of three to five years, with a renewal option up to five years. AIA also has one office lease agreement with a lease term of 25 years, ending in 2016, without renewal option. For leased office equipment, the Company generally has no purchase options and renewal options are generally at market rates. Vehicle lease agreements contain purchase options and renewal options that are generally at fair value.

The operating lease expenses recognized in profit or loss as of amounts to EUR 2,375 thousand as of the end of 2012 (2011: EUR 2,140 thousand; 2010: EUR 2,091 thousand). The following table provides a breakdown of the amounts of future operating lease liabilities:

The following table shows the future minimum lease payments for 2012 through 2017.

	2013	2014	2015	2016	2017	Total
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Future minimum rental payments	1,858	1,530	833	238	8	4466

The total of minimum rentals to be received in the future under non-cancellable subleases as of 2012 amounts to EUR 69 thousand (2011: EUR 109 thousand).

(e) Share based Payments

Supplemental disclosures regarding AIA Groups stock compensation plans are as follows:

	Weighted-Average Grant-Date Fair Value in EUR	Intrinsic value of options exercised in EUR	Total Fair Value of shares vested in EUR
2009	300,001	0	0
2010	0	0	36,630
2011	0	179,329	50,950
2012	0	288,746	69,034

At December 31, 2012 the total unrecognized compensation expense for nonvested equity awards granted under SOP 2007 was EUR 2 thousand (2011: EUR 26 thousand). This expense is expected to be recorded over a weighted-average period of 0.41 years (2011: 0.75 years).

The outstanding options as of December 31, 2012 were 138,341 (2011: 255,006). No options were expired during 2012 (2011: 116,663). Moreover, no options were forfeited during this period (2011: 111,668). 116,665 options were exercised during 2012 (2011: 116,663).

The following table summarizes information for fully vested share options and share options expected to vest at December 31, 2012:

	Outstanding	Currently exercisable
Number of Options	108,341	108,341
Weighted-Average exercise price in EUR	1.92	1.92
Aggregate intrinsic value in EUR	3.28	3.28
Weighted-Average remaining contractual term of options outstanding	1.61	1.61

(f) Segment reporting

The following table summarizes information concerning the revenue attributable to the enterprise's country of domicile:

	For the years ended December 31,		
	2012 EUR thousand	2011 EUR thousand	2010 EUR thousand
Germany	4,504	7,679	10,801

Sales to external customers are assigned to the location of the Group's entities.

The following table summarizes information concerning the long-lived assets attributable to the enterprise's geographical areas:

	As of December 31,	
	2012 EUR thousand	2011 EUR thousand
Germany	1,472	2,792
Rest of Europe	10,258	9,835
USA	8,600	7,758
Canada	29,153	29,566
Dubai	671	756
Rest of World	11,335	11,953
Total	***61,489***	***62,660***

The Group's geographical segments are based on the location of the Group's assets.

The following table summarizes information concerning the total of the reportable segments' assets to the enterprise's consolidated assets:

	As of December 31,	
	2012	**2011**
	EUR thousand	**EUR thousand**
CSP	106,952	121,166
Content	40,454	39,828
Sum of segments	147,406	160,994
Holding, other and consolidation	(3,152)	(44,137)
Group	***144,254***	***116,857***

(g) Inventories

Inventories, except film licensing rights, are removed from inventory by using the "first-in-first-out" (FIFO) method, and are valued at the lower of cost or market value.

(h) Defined contribution benefit plans

The following table summarizes the consolidated contributions to defined contribution plans.

	For the years ended December 31,		
	2012	**2011**	**2010**
	EUR thousand	**EUR thousand**	**EUR housand**
Defined contribution	**208**	**274**	**315**

(i) Weighted Average useful life of Intangible Assets

	As of December 31	
	2012 EUR thousand	**2011 EUR thousand**
Prepayments for goods & film rights	9,708	10,901
Other prepayments	1,036	1,174
Total	***10,744***	***12,075***

Weighted average useful life of intangible assets is 60 months in 2012 (2011: 29 months).

(j) Prepayments

In IFRS financial statements, prepayments for inventory as well as film rights were disclosed under balance sheet line item "Inventory". Other prepayments were grouped under "Other assets".

(k) Fiscal year

Within the group there are two subsidiaries with a different fiscal year end. FairDeal Multimedia Pvt. Ltd., Mumbai, India and Fairdeal Studios Pvt. Ltd., Mumbai, India have a fiscal year ended March 31, 2012, March 31, 2011 and March 31, 2010 respectively. For consolidation purposes the subsidiaries prepare interim financial statements.

(l) Undrawn credit facilities

	As of December 31,	
	2012 EUR thousand	**2011 EUR thousand**
Undrawn credit facilities	490	4,093

All undrawn credit facilities are short term.

(m) Intangible assets

The following table provides the split of other intangible assets.

	As of December 31,	
	2012 EUR thousand	2011 EUR thousand
Customer relationships	10,782	11,531
Games catalogue	3,386	4,049
Technology	216	429
Other	2,695	2,318
Total	***17,079***	***18,327***

The following table provides the estimated aggregated amortization expense for 2013 till 2017.

	2013 EUR thousand	2014 EUR thousand	2015 EUR thousand	2016 EUR thousand	2017 EUR thousand	Total EUR thousand
Future estimated amortization expense	2,774	2,511	2,321	2,453	1,743	11,802

(n) Impairments

Impairment losses of EUR 1,474 thousand in 2012 (2011: EUR 53 thousand, 2010: EUR 141 thousand) on film assets are due to the decrease in the forecasted discounted surplus revenues from the acquired film rights. Therefore, the fair value was determined by using the discounted cash flow method.

In 2010, there was also impairment on customer base as of EUR 195 thousand (2012: EUR 0, 2011: EUR 0).

(o) Goodwill for new acquisitions

Goodwill capitalized as a result of business combinations during the year is as follows:

	As of December 31,	
	2012 EUR thousand	2011 EUR thousand
Content	0	11,918
CSP	154	0

(p) Material change in common stock

On May 29, 2011, the group's Board of Directors decided to increase the group's common stock. On May 31, 2012, the offering was published in the German "Bundesanzeiger" and was active from June 1 until June 14, 2012. The registration date was June 26, 2012. On June 27, 2012, 1,854,232 new shares went public on the Frankfurt stock exchange.

On May 29, 2012, the management board of AIA AG decided to acquire a minority stake in Row 44 Inc., Westlake Village, California, USA. The acquisition was signed and completed on June 8, 2012. In order to finance the transaction, the Company increased its share capital by EUR 5,255,170.00 against contributions in kind. Those shares were subscribed by PAR Investment Partners L.P. in exchange for 84,695,034 interests in Row 44 Inc. The capital increase was entered in the relevant commercial register on July 2, 2012.

(q) Business combinations

The following unaudited pro forma financial information reflects the consolidated results of operations of the AIA AG as though the acquisition of Emphasis Video Entertainment Ltd., Hongkong and Entertainment in Motion Inc., Los Angeles, USA, had taken place on January 1, 2011 and 2010. The pro forma information is not necessarily indicative of the results of operations as it would have been had the transactions been effected on the assumed date.

	For the years ended December 31,	
	2011	**2010**
	EUR thousand (unaudited)	**EUR thousand (unaudited)**
Revenue	130,606	137,929
Net profit after tax	6,019	8,314

The following unaudited pro forma financial information reflects the consolidated results of operations of the AIA AG as though the acquisition of Inflight Management Development Centre (IMDC) Limited, Watersmead, UK had taken place on January 1, 2012 and 2011. The pro forma information is not necessarily indicative of the results of operations as it would have been had the transactions been effected on the assumed date.

	For the years ended December 31,	
	2012	2011
	EUR thousand (unaudited)	EUR thousand (unaudited)
Revenue	130,748	122,235
Net profit after tax	5,164	4,625

(r) Classification of interest and penalties

Interest and penalties are classified as interest expense when the tax law requires interest to be paid on an underpayment of income taxes.

(s) New U.S. GAAP Standards adopted in 2012

In September 2011, the FASB issued guidance under ASC 350, Testing Goodwill for Impairment that provides the option to first assess qualitative factors to determine if the annual two-step test of goodwill for impairment must be performed. If, based on the qualitative assessment of events or circumstances, an entity determines it is not more likely than not that the goodwill fair value is less than its carrying amount, then it is not necessary to perform the two-step impairment test. However, if an entity concludes otherwise, then the two-step impairment test must be performed to identify potential impairment and to measure the amount of goodwill impairment, if any. Adoption of this guidance did not have any impact on our consolidated financial statements for fiscal year 2012.

In July 2012, the FASB issued guidance under ASC 350, Testing Indefinite-Lived Intangible Assets for Impairment, which provides the option to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the second, quantitative impairment test. If, based on the qualitative assessment of events or circumstances, an entity determines it is not more likely than not that the indefinite-lived intangible asset's fair value is less than its carrying amount, then it is not necessary to perform the quantitative impairment test. However, if an entity concludes otherwise, then the quantitative impairment test must also be performed to identify and measure any potential impairment amount. We did not have an impact from this guidance on our annual indefinite-lived intangible asset impairment testing for fiscal year 2012.

In October 2012, the FASB issued guidance for performing an impairment assessment of unamortized film costs. This Update eliminates the rebuttable presumption that the conditions leading to the write-off of unamortized film costs after the balance sheet date existed as of the balance sheet date. The amendments also eliminate the requirement that an entity incorporate into fair value measurements used in the impairment tests the effects of any changes in estimates resulting from the consideration of subsequent evidence if the information would not have been considered by market participants at the measurement date. The amendments are effective for impairment assessments performed on or after December 15, 2012. We did not have an impact from this guidance on our impairment assessment of unamortized film costs for fiscal year 2012.

28. Events after the reporting period

On January 31, 2013, Global Eagle Acquisition Corp. ("Global Eagle") informed AIA AG that the contract announced in November 2012 for acquisition of the 20,464,581 shares of AIA AG held to date by PAR Investment Partners L.P. ("PAR") has been executed. Global Eagle's shareholders' meeting issued final approval for the acquisition. Global Eagle will acquire the AIA AG shares held by PAR in exchange for 14,368,233 shares of non-voting common stock of Global Eagle. As Global Eagle additionally noted, the exchange is based on a valuation of around EUR 5.15 per share of AIA AG. The difference between the calculated price of approximately EUR 5.15 per share now fixed and the calculated price of EUR 5.50 per share announced on November 8, 2012 is due to changes in the exchange rate between the US dollar and the euro between the signing date and the closing date, according to Global Eagle. With the expected transfer of 20,464,581 shares of AIA AG to Global Eagle Entertainment GmbH, a subsidiary of Global Eagle, this company will hold the approximately 86-percent share of AIA AG held by PAR to date and therefore become the new major shareholder of the Company.

The aforementioned transaction is closely related to the US merger of Global Eagle and Row 44. In June 2012, AIA AG had acquired a minority interest of 11.6 percent in Row 44 and paid approximately USD 25 million in AIA AG shares (capital increase against contributions in kind). Global Eagle's shareholders' meeting also approved the merger between Global Eagle and Row 44 on January 31, 2013. As a result, AIA AG is expected to receive 3,053,634 shares of Global Eagle with a market value of around USD 30.4 million (the equivalent of about EUR 22.3 million) in exchange for its interest in Row 44. According to Global Eagle, the number of shares is a provisional calculation since differences could still arise subsequent to the closing due to adjustment rules in line with the transaction's terms and conditions. If the number of shares granted in the exchange were to remain the same, AIA AG would generate an accounting profit in the neighborhood of USD 5.4 million (equivalent to around EUR 4 million) from said transaction.

Also on January 31, 2013, Supervisory Board Chairman Edward L. Shapiro stepped down from his position as a member and chairman of the Supervisory Board of AIA AG with immediate effect. Mr. Shapiro's resignation is connected with the sale of PAR's interest in AIA AG to Global Eagle.

On February 5, 2013, Global Eagle Entertainment GmbH – which is currently still trading under the name Blitz F12-sechs-acht GmbH – informed AIA AG that by acquiring 20,464,581 shares on February 5, 2013 it now holds a controlling interest in AIA AG in accordance with Section 35 (1) in conjunction with Section 29 (2) German Securities Acquisition and Takeover Act (WpÜG). Pursuant to section 35 (2) WpÜG, Global Eagle Entertainment GmbH would make an offer to all shareholders of AIA AG to take over all of their bearer shares in the Company once the Federal Financial Supervisory Authority has approved publication of the offer document. According to the announcement, the offer document will be published on the Internet at www.globaleagle.de/aia-angebot.

On March 19, 2013, Global Eagle Entertainment GmbH issued a mandatory offer for the acquisition of all bearer shares of AIA AG after approval for this step was given by the Federal Financial Supervisory Authority. The offer document was published on the Internet at www.globaleagle.de/aia-angebot. The takeover offer covers the acquisition of all bearer shares of AIA AG in return for payment of compensation of EUR 5.50 per share in cash (cash offer). The offer period ran from March 19 to April 19, 2013. On March 26, 2013, the Management Board and Supervisory Board of AIA AG published their joint statement in accordance with Section 27 WpÜG regarding the mandatory offer issued by Global Eagle Entertainment GmbH to the shareholders of AIA AG on March 19, 2013. In the statement, the Management Board and Supervisory Board concluded that the offer price of EUR 5.50 per AIA AG share was appropriate. The Management Board and Supervisory Board therefore recommended that AIA AG's shareholders accept the offer. On April 4, 2013, a supplement was issued to the statement in accordance with Section 27 WpÜG. On April 25, 2013, Global Eagle Entertainment GmbH announced on the takeover offer for a total of 823,325 shares of AIA AG had been accepted. Global Eagle Entertainment GmbH thus now holds a total of 22,598,078 shares of AIA AG, which corresponds to an interest of 94.07 percent.

Mr. Robert William Reding was appointed to the Supervisory Board of AIA AG by the Munich Registration Court effective March 6, 2013. This appointment was made at the request of the Management Board after one member of the Company's Supervisory Board stepped down on January 31, 2013, effective immediately. As a result, the Supervisory Board has been a fully constituted three-member body that has a quorum since March 6, 2013. At its conference call on March 11, 2013, the Supervisory Board constituted itself and elected Mr. Robert William Reding Chairman of the Supervisory Board and Mr. Jörgen Chidekel its Vice Chairman.

In April 2013, AIA AG sold all of its shares of GuestLogix Inc. AIA AG had acquired 8.5 percent of the shares of GuestLogix Inc. in August 2012 for the equivalent of approximately USD 3 million. The sale generated proceeds of USD 6 million for AIA AG for a gain from sale of USD 3 million.

On July 30, 2013, Global Entertainment AG (currently still trading under the name Blitz 13-260 AG) notified Advanced Inflight Alliance AG of its intention to merge Advanced Inflight Alliance AG as the transferring entity with Global Entertainment AG as the receiving entity and proposed to enter into negotiations regarding the conclusion of a merger agreement. In this context it demanded that, in connection with the merger, the other shareholders (minority shareholders) of Advanced Inflight Alliance AG be excluded pursuant to Section 62 (5) sentence 1 German Reorganization and Transformation Act (Umwandlungsgesetz - UmwG) in conjunction with Section 327a et seq. German Stock Corporation Act (Aktiengesetz - AktG) (so-called merger-related squeeze-out); this measure would have to be approved by a General Meeting. Global Entertainment AG holds approx. 94.07 percent of the share capital of Advanced Inflight Alliance AG and therefore is the main shareholder as defined in Section 62 (5) sentence 1 UmwG. The Management Board of Advanced Inflight Alliance AG intends to enter into negotiations regarding the conclusion of a merger agreement, which is to entail a squeeze-out of the minority shareholders of Advanced Inflight Alliance AG.

Advanced Inflight Alliance AG

Munich, August 8, 2013

Louis Bélanger-Martin	Wolfgang Brand
CEO	CFO