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

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2017
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM __________ TO ________

COMMISSION FILE NUMBER 001-35176

GLOBAL EAGLE ENTERTAINMENT INC.

(Exact name of registrant as specified in its charter)

Delaware	27-4757800
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

6100 Center Drive, Suite 1020	
Los Angeles, California	90045
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes o No þ
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No þ
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	o	Accelerated filer	þ	Non-accelerated filer	o	Smaller reporting company	o	Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
(Class)

	(Outstanding as of 1/22/2018)
COMMON STOCK, $0.0001 PAR VALUE	90,782,791 SHARES*

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

Table of Contents

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

TABLE OF CONTENTS

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

Table of Contents

INTRODUCTORY NOTE

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

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

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

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

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

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

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

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

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Table of Contents

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

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

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

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

4

Table of Contents

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

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

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

Table of Contents

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

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

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

Table of Contents

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

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

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

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

Table of Contents

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

	Three Months Ended March 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(125,611)	$(2,412)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization of property, plant, equipment and intangibles	20,720	10,549
Amortization of content library	4,622	1,395
Non-cash interest expense, net	1,212	256
Change in fair value of derivatives	(2,920)	(5,865)
Stock-based compensation	1,852	2,069
Impairment of goodwill	78,000	—
Gain on sale of investments	—	(40)
Loss (gain)on disposal of fixed assets	452	(1)
Loss on extinguishment of debt	14,389	—
Earnings from equity method investments	(1,539)	—
Distributions from equity method investments	2,445	—
Provision for bad debts	595	363
Deferred income taxes	(351)	(1,317)
Other	(734)	—
Changes in operating assets and liabilities:		
Restricted cash	(124)	1,438
Accounts receivable	(6,581)	4,490
Inventories	(6,099)	(3,900)
Prepaid expenses and other current assets	5,668	119
Content library	(6,405)	(3,618)
Other non-current assets	(4,484)	(5,084)
Accounts payable and accrued liabilities	(10,515)	3,889
Deferred revenue	381	(639)
Other current liabilities	(471)	(91)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(35,498)	1,601
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(20,182)	(3,336)
Purchase of investments	—	(3,702)
Net proceeds from sale of available for sale securities	—	3,742
Issuance of loan to related party	—	(2,500)
NET CASH USED IN INVESTING ACTIVITIES	(20,182)	(5,796)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of debt, net of $15,000 discount	485,000	—
Issuance costs	(12,313)	—
Repayments of EMC indebtedness	(412,400)	—
Proceeds from borrowings on line of credit	50,000	—
Repayments of long-term debt	(171)	(212)
Proceeds from Exercise of common stock options and warrants	—	170
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	110,116	(42)

Effects of exchange rate changes on cash and cash equivalents	250	(133)
Net increase (decrease) in cash and cash equivalents	54,686	(4,370)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	50,686	223,552
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$105,372	$219,182
SIGNIFICANT NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Purchase consideration for equipment included in accounts payable	$28,500	$4,900

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

GLOBAL EAGLE ENTERTAINMENT INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Note 1. Business

Global Eagle Entertainment Inc. is a Delaware corporation headquartered in Los Angeles, California. Global Eagle (together with its subsidiaries, "Global Eagle" or the "Company") is a leading provider of satellite-based connectivity and media to fast-growing, global mobility markets across air, land and sea. Global Eagle offers a fully integrated suite of rich media content and seamless connectivity solutions that cover the globe. As of March 31, 2017, its business was comprised of three operating segments: Media & Content, Aviation Connectivity and Maritime & Land Connectivity. See Note 13. Segment Information for further discussion on the Company's reportable segments.

Prior to the Company's acquisition (the "EMC Acquisition") of Emerging Markets Communications ("EMC") on July 27, 2016 (the "EMC Acquisition Date"), the Company's business consisted of two operating segments: Content and Connectivity. (EMC was a communications services provider that offered land-based sites and marine vessels globally a multimedia platform delivering communications, Internet, live television, on-demand video, voice, cellular and 3G/LTE services. See Note 3. Business Combinations.) Following the EMC Acquisition, the acquired EMC business became a third operating segment, which the Company called Maritime & Land Connectivity, and the Company renamed its other two segments as Media & Content and Aviation Connectivity. In the second quarter of 2017, the Company reorganized its business from three operating segments back into two operating segments—Media & Content and Connectivity. Notwithstanding the transition in the second quarter 2017 to two operating segments, these condensed consolidated financial statements and associated Notes—which speak as of March 31, 2017 unless otherwise indicated—present the Company's business as three operating segments (i.e., the operating segments as they existed at the end of the first quarter of 2017), and the financial results reported herein do not reflect the subsequent changes to the Company's operating segments. See Note 13. Segment Information for a further discussion of our reportable segments.

Media & Content

The Media & Content segment curates, manages, provides post-production and distributes wholly-owned and licensed media content, video and music programming, advertising, applications and video games to the airline, maritime and other "away from home" non-theatrical markets.

Aviation Connectivity and Maritime & Land Connectivity

The Aviation Connectivity and Maritime & Land Connectivity segments were distinguished primarily based on the type of customers they serve. These operating segments provided their customers, including their passengers and crew, with (i) Wi-Fi connectivity via C, Ka and Ku satellite transmissions that enabled access to the Internet, live television, on-demand content, shopping and travel-related information and (ii) operational solutions that allowed customers to improve the management of their internal operations.

The former Maritime & Land Connectivity segment commenced operations following the closing of the EMC Acquisition. As described above in this Note, this former segment became part of our Connectivity segment in the second quarter of 2017.

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

The following is a summary of the significant accounting policies consistently applied in the preparation of the accompanying condensed consolidated financial statements.

Basis of Presentation

The accompanying interim condensed consolidated balance sheet as of March 31, 2017, the condensed consolidated statements of operations and the condensed consolidated statements of comprehensive income (loss) for the three months ended March 31, 2017 and 2016, the condensed consolidated statements of cash flows for the three months ended March 31, 2017 and 2016, and the condensed consolidated statement of stockholders' equity for the three months ended March 31, 2017, are unaudited.

In the opinion of the Company's management, the unaudited interim condensed consolidated financial statements have been prepared on the same basis as the Company's audited consolidated financial statements for the year ended December 31, 2016, and include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of the Company's condensed consolidated balance sheet as of March 31, 2017, its condensed consolidated statements of operations for the three months ended March 31, 2017 and 2016 and its condensed consolidated statements of cash flows for the three months ended March 31, 2017 and 2016. The results for the three months ended March 31, 2017 are not necessarily indicative of the results expected for the full 2017 year. The consolidated balance sheet as of December 31, 2016 has been derived from the Company's audited financial statements included in the Company's Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC") on November 17, 2017 (the "2016 Form 10-K").

The interim unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions to SEC Form 10-Q and Article 10 of SEC Regulation S-X. They do not include all of the information and footnotes required by GAAP for complete financial statements. Therefore, these financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's 2016 Form 10-K.

These financial statements have been prepared on the basis of the Company having sufficient liquidity to fund its operations for at least the next twelve months from the issuance of these consolidated financial statements in accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification Topic 205-40 (“ASC Topic 205-40”), Presentation of Financial Statements—Going Concern. The Company’s principal sources of liquidity have historically been its debt and equity issuances and its cash and cash equivalents (which cash and cash equivalents amounted to $105.4 million as of March 31, 2017, and $50.7 million as of December 31, 2016, respectively). The Company’s internal plans and forecasts indicate that it will have sufficient liquidity to continue to fund its business and operations for at least the next twelve months in accordance with ASC Topic 205-40.

The assessment by the Company’s management that the Company will have sufficient liquidity to continue as a going concern is based on underlying estimates and assumptions, including that the Company: (i) remains in compliance with SEC public-reporting rules and regulations; (ii) services its indebtedness and complies with the covenants (including the financial reporting covenants) in the agreements governing its indebtedness; and (iii) remains listed on The Nasdaq Stock Market (“Nasdaq”). Under the terms of its credit agreement (as modified) and waivers related thereto, the Company was required to furnish its Quarterly Reports on Form 10-Q for the quarters ended March 31, June 30 and September 30, 2017 to its lenders on or before January 31, 2018. In addition, under the terms of an extension that Nasdaq granted the Company, the Company was required to file these Quarterly Reports on or before January 31, 2018. Upon filing this Form 10-Q and the Quarterly Reports on Form 10-Q for the quarters ended June 30, 2017 and September 30, 2017, the Company has regained compliance with its SEC periodic reporting obligations, met the requirements of its credit-agreement waivers, and has satisfied the terms of its Nasdaq extension, subject to Nasdaq confirmation of the same (which the Company expects to receive in the next several days following the filing of this Form 10-Q).

If the Company is unable to service its indebtedness or satisfy the covenants (including the financial reporting covenants) in the agreements governing its indebtedness (or obtain additional waivers (if needed)), then its lenders and noteholders have the option to immediately accelerate all outstanding indebtedness, which the Company may not have the ability to repay. The Company intends to satisfy its current debt service obligations with its existing cash and cash equivalents. However, the Company may not have sufficient funds or may be unable to arrange for additional financing to pay the future amounts due under its existing debt instruments in the event of an acceleration event or repurchase event (as applicable, in the event that the Company is delisted from Nasdaq in the future). In this event, funds from external sources may not be available on acceptable terms, if at all.

Reclassifications

10

Certain reclassifications have been made to the consolidated financial statements of the prior year and the accompanying notes to conform to the current year presentation.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned, majority-owned and controlled subsidiaries. Intercompany balances and transactions have been eliminated in consolidation. The results of acquired businesses are included in the unaudited condensed consolidated financial statements from the date of acquisition. Earnings or losses attributable to any non-controlling interests in a Company subsidiary are included in Net loss in the Unaudited Condensed Consolidated Statements of Operations. Any investments in affiliates over which the Company has the ability to exert significant influence but does not control and with respect to which it is not the primary beneficiary are accounted for using the equity method. The Company has two such equity affiliates. See Note 7. Equity Method Investments. Investments in affiliates for which the Company has no ability to exert significant influence are accounted for using the cost method of accounting.

Use of Estimates

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

Restricted Cash

The Company maintains letters of credit agreements with some of its customers that are secured by the Company’s cash for periods of up to three years.

As of March 31, 2017 and December 31, 2016, the Company had restricted cash of $18.0 million and $18.0 million, respectively. Included in this restricted cash as of March 31, 2017 and December 31, 2016, was $16.0 million of cash held in an escrow account for EMC’s acquisition of Maritime Telecommunications Network (“MTN”) (which EMC consummated prior to the Company’s acquisition of EMC). Subsequent to March 31, 2017 $15.5 million of this restricted cash was released to the former stockholders of MTN in June 2017 and the remaining $0.6 million was returned to the Company.

Inventories

Equipment inventory, which is classified as finished goods, is comprised of individual equipment parts and assemblies. Subsequent to the Company’s adoption of ASU 2015-11, effective January 1, 2017, inventory is accounted for using the first-in, first-out method of accounting and is stated at the lower of cost or net realizable value. 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 net realizable

value, based upon assumptions about future demand; and is charged to the provision for inventory, which is a component of cost of sales. At the point of the write-down 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.

The Company generally is not directly responsible for warranty costs related to equipment it sells to its customers. The vendors that supply each of the individual parts, which comprise the assemblies sold by the Company to customers, are generally responsible for the equipment warranty directly to the customer.

Property, Plant and Equipment, net

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Depreciation is recorded on a straight-line basis over the underlying asset's useful life. The estimated useful life of technical and operating equipment is three to ten years. Leasehold improvements are amortized on the straight-line method over the shorter of the remaining lease term or estimated useful life of the asset. Buildings are depreciated on the straight-line method over 30 years. Repairs and maintenance costs are expensed as incurred.

In 2013, the Company capitalized the costs of certain connectivity equipment (in which the Company retains legal title) installed on aircraft of a single customer to facilitate expanded services over a five-year use period. The Company is amortizing this equipment over its five-year useful life period.

The Company installs connectivity equipment under agreements entered into with customers. Under these agreements, generally, legal title of the equipment is transferred upon delivery but sales are not recognized for accounting purposes because the risks and rewards of ownership are not fully transferred due to the Company's continuing involvement with the equipment, the term of the agreement with the customer and restrictions in the agreement regarding the customers' use of the equipment. The assets are recorded as Property, plant and equipment, net, on the Condensed Consolidated Balance Sheets. The Company begins depreciating the assets when they were ready for their intended use over the 7-15 year term of the agreement, which approximates the expected useful life of the equipment.

Valuation of Goodwill and Intangible Assets

The Company performs valuations of assets acquired and liabilities assumed on each acquisition accounted for as a business combination, and allocates the purchase price of each acquired business to its respective net tangible and intangible assets and liabilities. Acquired intangible assets principally consist of technology, customer relationships, backlog and trademarks. Liabilities related to intangibles principally consist of unfavorable vendor contracts. The Company determines the appropriate useful life by performing an analysis of expected cash flows based on projected financial information of the acquired businesses. Intangible assets are amortized over their estimated useful lives using the straight-line method, which approximates the pattern in which the majority of the economic benefits are expected to be consumed. Intangible liabilities are amortized into cost of sales ratably over their expected related revenue streams over their useful lives.

Goodwill represents the excess of the cost of an acquired entity over the fair value of the acquired net assets. The Company does not amortize goodwill but evaluates it for impairment at the reporting unit level annually during the fourth quarter of each fiscal year (as of October 1 of that quarter) or when an event occurs or circumstances change that indicates the carrying value may not be recoverable. During the first quarter of 2017, the Company adopted ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment. Under the then newly adopted guidance, the optional qualitative assessment, referred to as "Step 0", and the first step of the quantitative assessment ("Step 1") remained unchanged versus the prior guidance. However, the requirement to complete the second step ("Step 2"), which involved determining the implied fair value of goodwill and comparing it to the carrying amount of that goodwill to measure the impairment loss, was eliminated. As a result, Step 1 will be used to determine both the existence and amount of goodwill impairment. An impairment loss will be recognized for the amount by which the reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of goodwill in that reporting unit.

The Company periodically analyzes whether any indicators of impairment have occurred. As part of these periodic analyses, the Company compares its estimated fair value, as determined based on its stock price, to its net book value. During the fourth quarter of 2016, due to a continuing significant decline in its stock price and other indicators of impairment that arose during the fourth quarter of 2016, the Company deemed it more appropriate to assess goodwill impairment as of December 31, 2016, rather than the historical testing date of October 1.

In conjunction with the events occurring in the fourth quarter of 2016, and for purposes of its annual impairment testing at December 31, 2016, the Company updated its long-term business plan, which was used as the basis for estimating the future cash flows of its reporting units. That plan considered then current economic conditions and trends, estimated future operating results, the Company's views of growth rates and then-anticipated future economic and regulatory conditions.

The Company determined that the fair value of the Media & Content and Aviation Connectivity reporting units exceeded their carrying values, but that the fair value of the Maritime & Land Connectivity reporting unit was below its carrying value. Therefore, the Company conducted step two of the impairment test for the Maritime & Land Connectivity reporting unit and determined the carrying value of goodwill in the Maritime & Land Connectivity reporting unit exceeded its implied fair value, resulting in an impairment charge of $64.0 million. This was as a result of reduced financial projections for the Maritime &

Land Connectivity reporting unit, due to, among other things: lower than expected actual financial results from this business due to margin compression resulting from competition in the Company's cellular backhaul land business in Africa, resulting in diminished financial performance relative to its original expectations; delayed new deal executions and slower than anticipated installations and upgrades, also resulting in diminished financial performance relative to its original expectations; and operational challenges in integrating a legacy EMC acquiree in 2015 into this reporting unit, resulting in delayed acquisition synergies. Given the foregoing, the Company determined there was greater uncertainty in achieving its prior financial projections and so applied a higher discount rate for purposes of its goodwill impairment analysis. The higher discount rate negatively affected the fair value of the Maritime & Land Connectivity reporting unit. At December 31, 2016, the Company's remaining amount of goodwill was $327.8 million, of which $146.4 million was associated with the Maritime & Land Connectivity reporting unit.

In addition, for the quarter ended March 31, 2017, the Company identified a triggering event due to a significant decline in the market capitalization of the Company. Accordingly, the Company assessed the fair value of its three reporting units as of March 31, 2017 and as a result the Company recorded an additional goodwill impairment charge of $78.0 million related to its Maritime & Land Connectivity reporting unit. This additional impairment was primarily due to lower than expected financial results of the reporting unit during the three months ended March 31, 2017 due to delays in new maritime installations, slower than originally estimated execution of EMC Acquisition-related synergies and other events that occurred in the first quarter of 2017. Given these indicators, the Company determined at that time that there was a higher degree of uncertainty in achieving its financial projections for this unit and as such, increased its discount rate, which reduced the fair value of the unit.

Investments in Equity Affiliates

Wireless Maritime Services, LLC ("WMS")

In connection with the EMC Acquisition, the Company acquired a 49% equity interest in WMS, which interest EMC owned at the time of the EMC Acquisition. The remaining 51% equity interest in WMS is owned by an unaffiliated U.S. company (the "WMS third-party investor"), which is the managing member of WMS and is responsible for its day-to-day management and operations. Certain matters, including determination of capital contributions and distributions and business plan revisions, require approval of WMS's board of directors, which consists of five voting members, three of which are appointed by the WMS third-party investor and two of which are appointed by the Company. Profits and losses for any fiscal year are allocated between the Company and the WMS third-party investor in proportion to their respective ownership interests, after giving effect to any special allocations made pursuant to the WMS operating agreement. EMC's carrying value of the investment in WMS was adjusted to fair value as a result of the EMC Acquisition. The excess of the fair value over the underlying equity in net assets of WMS is primarily comprised of amortizable intangible assets and nonamortizable goodwill. The Company's carrying value in its investment in WMS was subsequently adjusted for contributions, distributions and net income (loss) attributable to WMS, including the amortization of the cost basis difference associated with the amortizable intangible assets.

Santander Teleport S.L. ("Santander")

Also in connection with the EMC Acquisition, the Company acquired an equity interest in a teleport in Santander, Spain, which provides various telecommunication services, including teleport and terrestrial services. (EMC owned this interest at the time of the EMC Acquisition). The Company holds a 49% equity interest in Santander and the remaining 51% is held by an unaffiliated Spanish company (the "Santander third-party investor"). The Santander third-party investor is responsible for the day-to-day management and operations of Santander. Some matters—such as the determination of capital contributions, capital expenditures over budget and distributions—require approval of Santander's board of directors, which consists of five voting members, three of which are appointed by the Santander third-party investor and two of which are appointed by the Company. Profits and losses for any fiscal year are allocated between the Company and the Santander third-party investor in proportion to their respective ownership

interests. The carrying value of the Company's investment in Santander approximated its fair value on the date the Company acquired EMC and was subsequently adjusted for contributions, distributions, and net income (loss) attributable to Santander.

On a periodic basis, the Company assesses whether there are any indicators that the value of its investments may be impaired, in accordance with FASB Accounting Standards Codification ("ASC") 323, Investment—Equity Method and Joint Ventures. When circumstances indicate there may have been a reduction in the value of an equity method investment, we evaluate the equity method investment and any advances made for impairment by estimating our ability to recover our investment from future expected cash flows. If we determine the loss in value is other than temporary, we recognize an impairment charge to reflect the equity investment and any advances made at fair value. We did not identify any such circumstances during the three months ended March 31, 2017.

Derivative Financial Instruments

The Company recognizes all of its derivative instruments as either assets or liabilities at fair value in the Condensed Consolidated Balance Sheets. The accounting for changes in the fair value of a derivative instrument depends upon whether the derivative has been formally designated as (and qualifies as part of) a hedging relationship under the applicable accounting standards and, further, on the type of hedging relationship. The Company's derivatives that are not designated (and so do not qualify) as hedges are adjusted to fair value through current earnings.

The Company's warrants issued in its initial public offering in 2011 to its non-sponsor shareholders ("Public SPAC Warrants") and its contingently issuable shares issuable in partial consideration for its Sound-Recording Settlements (as described in Note 9. Commitments and Contingencies qualify as derivatives. These derivatives are not designated (and do not qualify) as hedges. As a result, the Company accounts for such derivatives as liability instruments that are fair valued at each reporting period. Changes in fair value of such derivatives are recognized in earnings.

Foreign Currency Translation

The Company translates the assets and liabilities of its non-U.S.-dollar-functional-currency subsidiaries into U.S. dollars using exchange rates in effect at the end of each period. Revenue and expenses for these subsidiaries are translated using rates that approximate those in effect during the period. Gains and losses from these translations are recognized in foreign currency translation included in Accumulated other comprehensive loss in the Condensed Consolidated Balance Sheets. The Company's subsidiaries that use the U.S. dollar as their functional currency re-measure monetary assets and liabilities at exchange rates in effect at the end of each period, and re-measure inventories, property and nonmonetary assets and liabilities at historical rates.

Income Taxes

Deferred income tax assets and liabilities are recognized for temporary differences between the financial statement carrying amounts of assets and liabilities and the amounts that are reported in the income tax returns. Deferred taxes are evaluated for realization on a jurisdictional basis. The Company records valuation allowances to reduce deferred tax assets to the amount that is more likely than not to be realized. In making this assessment, management analyzes future taxable income, reversing temporary differences and ongoing tax planning strategies. Should a change in circumstances lead to a change in judgment about the realizability of deferred tax assets in future years, the Company will adjust related valuation allowances in the period that the change in circumstances occurs, along with a corresponding increase or charge to income.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities based on the technical merits of the Company's position. The tax benefit recognized in the financial statements for a particular tax position is based on the largest benefit that is more likely than not to be realized. The amount of unrecognized tax benefits (UTBs) is adjusted as appropriate for changes in facts and circumstances, such as significant amendments to existing tax laws, new regulations or interpretations by the taxing authorities, new information obtained during a tax examination, or resolution of an examination. The Company recognizes both accrued interest and penalties associated with uncertain tax positions as a component of Income tax (benefit) expense in the Condensed Consolidated Statements of Operations.

In December 2017, the United States enacted new U.S. federal tax legislation known as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act significantly revises the U.S. corporate income tax regime by, among other things, lowering corporate income tax rates, implementing a territorial tax system and imposing a repatriation tax on deemed repatriated earnings of foreign subsidiaries.

We have performed preliminary analyses of the impacts of the Tax Act using information known or knowable at this time. Under these preliminary analyses, we estimate that we will record additional GAAP tax benefits in the fourth quarter of 2017 in a range of $5 million to $8 million related to a decrease in the valuation of our deferred tax liabilities. The impact of the Tax Act may however differ from our preliminary estimate due to, among other things, changes in interpretations and assumptions we have made, U.S. Internal Revenue Service and Treasury Department guidance that may be issued and actions we may take. Our management is still evaluating the effects of the Tax Act provisions, and this preliminary assessment above does not purport to disclose all changes of the Tax Act that could have material positive or negative impacts on our current or future tax position.

Fair Value Measurements

The accounting guidance for fair value establishes a framework for measuring fair value and establishes a three-level valuation hierarchy for disclosure of fair value measurement. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1: Observable quoted prices in active markets for identical assets and liabilities.
- Level 2: Observable quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3: Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models, and similar techniques.

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

The following tables summarize our financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2017, and December 31, 2016, respectively (dollar values in thousands, other than per-share values):

	March 31, 2017	Quotes Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Liabilities:				
Earn-out liability [(1)]	$ 1,991	$ —	$ —	$ 1,991
Liability Warrants [(2)]	35	—	—	35
Contingently issuable shares [(3)]	2,022	—	—	2,022
Total	$ 4,048	$ —	$ —	$ 4,048

	December 31, 2016	Quotes Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Liabilities:				
Earn-out liability [(1)]	$ 1,987	$ —	$ —	$ 1,987
Liability Warrants [(2)]	433	—	—	433
Contingently issuable shares [(3)]	4,545	—	—	4,545
Total	$ 6,965	$ —	$ —	$ 6,965

(1) Represents aggregate earn-out liabilities for the Company’s acquisitions of WOI, RMG, navAero and masFlight assumed in business combinations for the year ended December 31, 2015.

(2) Includes 6,173,228 Public SPAC Warrants outstanding at March 31, 2017 and December 31, 2016.

(3) In connection with the Sound-Recording Settlements, (as described below in Note 9. Commitments and Contingencies) the Company is obligated to issue to UMG (as defined in that Note) 500,000 shares of its common stock when and if the closing price of the Company's common stock exceeds $10.00 per share and an additional 400,000 shares of common stock when and if the closing price of the Company’s common stock exceeds $12.00 per share. Such contingently issuable shares are classified as liabilities and are re-measured to fair value each reporting period.

Public SPAC Warrants. Through the quarter ended September 30, 2016, the fair value of the outstanding Public SPAC Warrants issued in the Company's initial public offering in 2011 (which were recorded as derivative warrant liabilities) was determined by the Company using the quoted market prices for the Public SPAC Warrants traded over the counter. During the quarter ended December 31, 2016, the Company determined that there was a significant decrease in transaction volume and level of trading activity for the Public SPAC Warrants. As a result, the Company transferred the Public SPAC Warrants from Level 1 to Level 3 of the valuation hierarchy and determined the fair value using the Black-Scholes option pricing model at the end of the reporting period. For the three months ended March 31, 2017 and March 31, 2016, due to the change in the fair value of these warrants, the Company recorded income of $0.4 million and $5.9 million, respectively. The Public SPAC Warrants are included in Accounts Payable and Accrued Liabilities on the Condensed Consolidated Balance Sheets. The change in value of these Public SPAC warrants is included in Change in fair value of derivatives in the Condensed Consolidated Statements of Operations.

The following table presents the fair value roll-forward reconciliation of Level 3 assets and liabilities measured at fair value basis for the three months ended March 31, 2017 (in thousands):

	Liability Warrants	Contingently Issuable Shares	Earn-Out Liabilities
Balance as of December 31, 2016	$ 433	$ 4,545	$ 1,987
Change in value	(398)	(2,523)	4
Balance as of March 31, 2017	$ 35	$ 2,022	$ 1,991

The following table shows the carrying amounts and the fair values of our long-term debt in the condensed consolidated financial statements at March 31, 2017 and December 31, 2016, respectively (in thousands, except as stated in footnote 2 to the table below):

	March 31, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Senior secured first lien term loan facility, due July 2021 (*)(1)	$ —	$ —	$ 256,004	$ 260,020
Senior secured revolving credit facility, due July 2020 (*)(1)	—	—	53,891	52,932
Senior secured second lien term loan facility, due July 2022 (*)(1)	—	—	88,082	88,780
Senior secured term loan facility, due January 2023 (+)(1)	474,548	461,250	—	—
Senior secured revolving credit facility, due January 2022 (+)(1)	50,000	46,125	—	—
2.75% convertible senior notes due 2035 (1) (2)	69,197	42,488	69,024	67,444
Other debt (3)	3,457	3,457	3,299	3,299

(*) In connection with the EMC Acquisition, the Company assumed legacy EMC credit-agreement indebtedness, including this facility. This legacy EMC indebtedness was subsequently replaced by the 2017 Credit Agreement (as described in Note 8. Financing Arrangements).

(+) This facility is a component of the 2017 Credit Agreement.

(1) The estimated fair value is classified as Level 2 financial instrument and was determined based on the quoted prices of the instrument in a similar over-the-counter market.

(2) The fair value of the 2.75% convertible senior notes due 2035 is exclusive of the conversion feature therein, which was originally allocated for reporting purposes at $13.0 million, and is included in the condensed consolidated balance sheets within "Additional paid-in capital" (see Note 11. Common Stock, Stock-Based Awards and Warrants).

The principal amount outstanding of the 2.75% convertible senior notes due 2035 was $82.5 million as of March 31, 2017, and the carrying amounts in the foregoing table reflect this outstanding principal amount net of debt issuance costs and discount associated with the equity component.

(3) The estimated fair value is considered to approximate carrying value given the short-term maturity and is classified as Level 3 financial instruments.

Based on an assessment of its accounting policies and the underlying judgments and uncertainties affecting the application of those policies, the Company believes that its condensed consolidated financial statements fairly present in all material respects the financial position, results of operations and cash flows as of and for the periods presented in this Form 10-Q. However, this does not mean that other general risk factors, such as those discussed within our 2016 Form 10-K, as well as

changes in its growth objectives or performance of operating segments, could not adversely impact its consolidated financial position, results of its operations and its cash flows in future periods.

Adoption of New Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2017-04, Intangibles—Goodwill and Others (Topic 350): Simplifying the Test for Goodwill Impairment, which eliminated Step 2 from the goodwill impairment test. Under these amendments, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This pronouncement is effective for the annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for any impairment tests performed after January 1, 2017 and we elected to early adopt this new guidance in the first quarter of 2017. During the three months ended March 31, 2017 we recorded an impairment of goodwill in the amount of $78.0 million related to our Maritime & Land reporting unit. See Note 5. Goodwill.

In October 2016, the FASB issued ASU 2016-17, Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control, which amended the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (“VIE”) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. This pronouncement is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. We adopted this guidance effective January 1, 2017. The adoption of this standard did not have an impact on our Condensed Consolidated Financial Statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 781), Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”), which amends and simplifies the accounting for share-based payment awards in three areas; (1) income tax consequences, (2) classification of awards as either equity or liabilities, and (3) classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. We adopted this standard effective January 1, 2017. The adoption of this standard resulted in a cumulative-effect adjustment of $0.3 million to accumulated deficit and additional paid-in capital as of March 31, 2017.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory (“ASU 2015-11”). ASU 2015-11 requires that inventory measured using any method other than last-in, first out (“LIFO”) or the retail inventory method to be subsequently measured at the lower of cost or net realizable value, rather than at the lower of cost or market value. Under this ASU, subsequent measurement of inventory using the LIFO and retail inventory method is unchanged. ASU 2015-11 is effective prospectively for fiscal years, and for interim periods within those years, beginning after December 15, 2016. We adopted this standard effective January 1, 2017. The adoption of this standard did not have a material impact on our consolidated financial statements.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”). This update will require lease assets and lease liabilities to be recognized on the balance sheet and disclosure of key information about leasing arrangements. ASU 2016-02 must be adopted using a modified retrospective transition, and provides for certain practical expedients. We have decided to adopt ASU 2016-02 effective in the first quarter of 2019. We are currently evaluating the impact of this standard on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”), which will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of the guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. Further, the guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing and uncertainty of revenue that is recognized. The original effective date for ASU 2014-09 would have required us to adopt this standard beginning in the first quarter of 2017. In July 2015, the FASB voted to amend ASU 2014-09 by approving a one-year deferral of the effective date as well as providing the option to early adopt the standard on the original effective date.

Accordingly, the Company will adopt the standard effective the first quarter of 2018.

During 2017 we dedicated significant resources to the ASU 2014-09 transition project, including engaging third-party service providers to assist in the evaluation and implementation. We are currently analyzing representative contracts from each of our reportable segments and revenue streams. Based on our current assessment to date;

- We will be required to assess the number of performance obligations in our contracts with customers. We may identify additional performance obligations as compared with deliverables and separate units of account previously identified as a result of the new guidance.
- We will be required to use a variable consideration model which requires us to estimate (and constrain) variable service revenue, and allocate total contract consideration among all performance obligations. Additionally, estimates used in the recognition of revenue under the new standard will be updated as new facts and circumstances warrant, which may cause differences in the trend of revenue recognition as compared to that reported under the current standard.
- The timing of recognition for games & apps contracts may be accelerated because the new standard changes the requirement for vendor-specific objective evidence, resulting in earlier recognition as the standard no longer allows revenue to be recognized ratably over the service period.
- Costs to obtain or fulfill a contract with a customer, including costs incurred to service contracts and sales commissions may require capitalization and amortization over the anticipated service period.

We are still assessing the impact of these, and other potential changes, to our consolidated financial statements. We expect the adoption to result in additional disclosures in our notes to the unaudited Condensed Consolidated Financial Statements. The Company intends to design and implement processes and internal controls related to the adoption of ASU 2014-09 prior to the filing of its Quarterly Report on Form 10-Q for the period ending March 31, 2018.

We expect to adopt the standard under the modified retrospective method with the cumulative effect of adoption being reflected as an adjustment to beginning retained earnings in the Quarterly Report on Form 10-Q for the period ending March 31, 2018.

Note 3. Business Combinations

2017 Acquisitions

The Company did not consummate any acquisitions or business combinations during the three months ended March 31, 2017.

2016 Acquisition

Emerging Markets Communications

On July 27, 2016, the Company completed the EMC Acquisition. The acquisition date fair value consideration transferred to the EMC seller totaled approximately $166.3 million. This acquisition was intended to provide growth opportunities by expanding into a complementary maritime market in order to realize synergies by leveraging infrastructure and suppliers to achieve efficiencies and cost savings. We believed that these efficiencies and savings would result from removing overlap in existing network infrastructure, reducing bandwidth costs, lowering our development expenses and integrating our internal operations with EMC’s. The acquisition was also intended to achieve cross-selling opportunities for the Company’s content, digital media and operations solutions products into the maritime market.

The consideration for the EMC Acquisition consisted of the following (in thousands, except amounts in the footnotes to the table):

	Amount
Cash consideration paid to seller [1]	$100,454
Issuance of 5,466,886 shares of Company common stock [2]	40,607
Deferred consideration [3]	25,000
Settlement of pre-existing relationship	228
Total	$166,289

(1) In June 2017, the Company finalized the working capital adjustments with the EMC seller, resulting in the release to the Company of $1.3 million from a working-capital adjustment escrow.

(2) The fair value of the Company's common stock issued as consideration in the EMC Acquisition was measured based on the common-stock price upon closing of the transaction on July 27, 2016, less a 7.5% discount thereon for restriction on transferability.

(3) On July 27, 2017, the Company elected to pay this amount in 5,080,049 newly issued shares of its common stock, which the Company issued to the EMC seller.

The following is a summary of the purchase price allocation to the estimated fair values of the identifiable assets acquired and the liabilities assumed at the EMC Acquisition date (dollars in thousands):

	Weighted Average Useful Life (Years) [(2)]	Preliminary
Cash and cash equivalents		$ 8,208
Restricted cash		16,257
Other current assets		60,625
Property, plant and equipment		82,220
Equity method investments [(1)]		152,700
Intangible assets:		
Completed technology	3.4	18,500
Customer relationships	8.0	47,700
Backlog	3.0	18,300
Trademarks	5.0	1,000
Other non-current assets		2,321
Accounts payable and accrued liabilities		(68,864)
Debt, including current		(371,990)
Unfavorable vendor contracts, including current		(13,500)
Deferred tax liabilities, net		(71,954)
Deferred revenue, including current		(4,602)
Other non-current liabilities		(9,479)
Fair value of net assets acquired		(132,558)
Consideration transferred		166,289
Goodwill		$ 298,847

(1) Represents 49% investments held by the Company in WMS and Santander.

(2) The weighted average useful life in total is 5.9 years.

Goodwill arising from the EMC Acquisition was allocated primarily to the Maritime & Land Connectivity reporting unit, and the remainder was allocated to the Media & Content reporting unit and Aviation Connectivity reporting unit based on management's belief that these latter two reporting units would realize synergies as a result of the EMC Acquisition. See Note 5. Goodwill for the amount allocated to each reporting unit. The allocation of fair value resulted in tax deductible goodwill of $74.9 million.

For the three months ended March 31, 2016, $0.8 million of transaction costs related to the EMC Acquisition, primarily consisting of legal and advisory fees, were classified as general and administrative in the Condensed Consolidated Statements of Operations. The Company did not incur any transaction costs during the three months ended March 31, 2017.

The following unaudited pro forma summary presents consolidated information of EMC for the three months ended March 31, 2016 assuming the EMC Acquisition had occurred on January 1, 2016. The most significant pro forma adjustments were to reflect the (net of tax) impact of: (i) amortization expenses related to intangibles; and (ii) interest expense on the then existing EMC indebtedness (taking into account the fair value adjustment to the debt as of the date of the EMC Acquisition). The unaudited pro forma financial information is an estimate for informational purposes only and does not reflect the actual results on

Table of Contents

the Company's operations had the EMC Acquisition been consummated on January 1, 2016. These pro forma amounts are not designed to represent the future expected financial results of the Company.

(Dollars in Thousands)	Three Months Ended March 31, 2017 Actual	2016 Pro forma
Revenue	$152,592	$158,914
Net loss	(125,611)	(16,448)

Note 4. Property, Plant and Equipment, net

Property, plant and equipment, net consisted of the following (in thousands):

	March 31, 2017	December 31, 2016
Leasehold improvements	$6,335	$ 5,737
Furniture and fixtures	1,647	1,332
Equipment	110,780	86,339
Computer equipment	9,300	8,002
Computer software	21,167	18,207
Automobiles	328	325
Buildings	7,039	7,039
Albatross (aircraft)	425	425
Satellite transponder	65,989	62,131
Construction in-progress	10,599	8,380
Total property, plant and equipment	233,609	197,917
Accumulated depreciation	(40,712)	(31,868)
Property, plant and equipment, net	$192,897	$ 166,049

Depreciation expense, including software amortization expense, by classification consisted of the following (in thousands):

	Three Months Ended March 31, 2017	2016
Cost of sales	$6,214	$1,183
Sales and marketing	831	265
Product development	577	495
General and administrative	2,701	1,202
Total depreciation expense	$10,323	$3,145

Note 5. Goodwill

The changes in the carrying amount of goodwill by segment were as follows (in thousands):

	Former Aviation Connectivity Segment	Former Maritime & Land Connectivity Segment	Media & Content	Total
Balance as of December 31, 2016				
Gross carrying amount	$ 98,037	$ 210,380	$ 83,419	$ 391,836
Accumulated impairment loss	—	(64,000)	—	(64,000)
Balance at December 31, 2016, net	98,037	146,380	83,419	327,836
Impairment loss	—	(78,000)	—	(78,000)
Foreign currency translation adjustments	—	—	27	27
Balance as of March 31, 2017				
Gross carrying amount	98,037	210,380	83,446	391,863
Accumulated impairment loss	—	(142,000)	—	(142,000)
Balance at March 31, 2017, net	$ 98,037	$ 68,380	$ 83,446	$ 249,863

As of March 31, 2017, we assessed our goodwill for impairment and identified a triggering event due to a significant decline in the market capitalization of the Company. Accordingly, the Company assessed the fair value of its three reporting units as of March 31, 2017 and as a result the Company recorded an additional goodwill impairment charge of $78.0 million related to its Maritime & Land Connectivity reporting unit. This additional impairment was primarily due to lower than expected financial results of the reporting unit during the three months ended March 31, 2017 due to delays in new maritime installations, slower than originally estimated execution of EMC Acquisition-related synergies and other events that occurred in the first quarter of 2017. The Company determined that there was a higher degree of uncertainty in achieving its financial projections for this unit and as such, increased its discount rate, which reduced the fair value of the unit. As of March 31, 2017 our Maritime & Land reporting unit, which is now included in our Connectivity segment, had negative carrying amounts of assets. As of March 31, 2017, remaining goodwill allocated to this reporting unit was $68.4 million.

Note 6. Intangible Assets, net

As a result of historical business combinations, the Company acquired finite-lived intangible assets that are primarily amortized on a straight-line basis and the values of which approximate their expected cash flow patterns. The Company's finite-lived intangible assets have assigned useful lives ranging from 2.0 to 10.0 years (weighted average of 6.8 years).

Intangible assets, net consisted of the following (dollars in thousands):

		March 31, 2017		
	Weighted Average Useful Lives (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Existing technology -- software	4.8	$43,019	$ 12,433	$30,586
Existing technology -- games	5.0	12,331	10,276	2,055
Developed technology	8.0	7,317	3,201	4,116
Customer relationships	7.9	170,716	67,474	103,242
Backlog	3.0	18,300	4,067	14,233
Other	4.5	3,608	2,225	1,383
Total		$255,291	$ 99,676	$155,615

		December 31, 2016		
	Weighted Average Useful Lives (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Existing technology -- software	4.8	$43,019	$ 9,842	$33,177
Existing technology -- games	5.0	12,331	9,659	2,672
Developed technology	8.0	7,317	2,973	4,344
Customer relationships	7.9	170,716	61,579	109,137
Backlog	3.0	18,300	2,542	15,758
Other	4.5	3,702	2,070	1,632
Total		$255,385	$ 88,665	$166,720

We expect to record amortization of intangible assets as follows (in thousands):

Year ending December 31,	Amount
2017 (remaining nine months)	$32,985
2018	38,486
2019	28,691
2020	22,307
2021	13,826
Thereafter	19,320
Total	$155,615

We recorded amortization expense of $11.0 million and $7.4 million for the three months ended March 31, 2017 and 2016, respectively.

Note 7. Equity Method Investments

In connection with the EMC Acquisition, the Company acquired 49% equity interests in each of WMS and Santander (which interests EMC owned at the time of the EMC Acquisition). These investments are accounted for using the equity method of accounting, under which our results of operations include our share of the income of WMS and Santander in Income from equity method investments in our Condensed Consolidated Statements of Operations. Following is (1) the summarized balance sheet information for these equity method investments on an aggregated basis as of March 31, 2017 and December 31, 2016, and (2) results of operations information for these equity method investments on an aggregated basis for the three months ended March 31, 2017 (in thousands):

	March 31, 2017	December 31, 2016
Current assets	$34,083	$ 30,837
Non-current assets	20,156	21,822
Current liabilities	19,648	20,455
Non-current liabilities	1,260	1,307

	Three Months Ended March 31, 2017
Revenue	$34,429
Net income	6,449

The carrying values of the Company's equity interests in WMS and Santander for the three months ended March 31, 2017 and 2016 were as follows (in thousands):

	March 31, 2017	December 31, 2016
Carrying value in WMS	$153,695	$154,614
Carrying value in Santander	1,928	1,913

As of March 31, 2017 there was an aggregate difference of $139.6 million between the carrying amounts of these investments and the amounts of underlying equity in net assets in these investments. The difference was determined by applying the acquisition method of accounting in connection with the EMC Acquisition and is being amortized ratably over the life of the related acquired intangible assets. The weighted-average life of the intangible assets at the time of the EMC Acquisition in total was 14.9 years.

Note 8. Financing Arrangements

A summary of our outstanding indebtedness as of March 31, 2017 and December 31, 2016 is set forth below (in thousands):